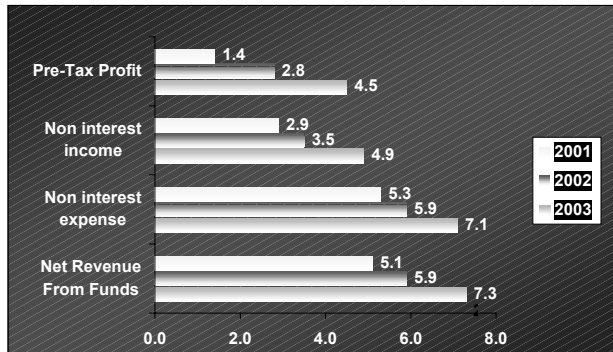


DIRECTORS' REPORT TO THE MEMBERS

It gives me great pleasure to present to you the 45th Annual Report and Financial Statements of United Bank Limited for the year ended December 31, 2003. This was the first complete year as a private bank.

STRONG FINANCIAL RESULTS WITH A PROMISING FUTURE



In 2003, the bank generated a net profit before tax of Rs 4.5 billion which represents a 63% growth from last year. Net revenue from funds (NRFF) and gain on sale of investments were the two major contributors. NRFF increased by 24% to Rs 7.3 billion, despite falling interest rates and gain on sale of investments increased by 381% to Rs 2.1 billion through realization of mark to market gains on Government and other listed securities. Although administrative expenses appear to have increased by 13% to Rs 6.6 billion, they included one offs of Rs 598 million on account of one time

charge for compensated absences and accelerated amortization of deferred cost. Excluding the above one-offs the administrative expenses increased by only 3%. Income from dealing in foreign currencies declined sharply to Rs 471 million as spreads evaporated with the strengthening of the Rupee and the absence of Rs/US\$ volatility.

As a result the profit after tax almost doubled to Rs 2.8 billion giving us the capacity to declare cash dividend of Rs 1.2 billion for the first time in decades and within the first full year of privatization.

The balance sheet further strengthened during the year, with a staggering 45% growth in Performing Advances (Rs 31 billion over last year) to Rs 100 billion, which is one of the highest growth rates amongst the large network banks. Non-performing advances, on the other hand, decreased by Rs 2 billion mainly through cash recoveries. Consequently the Bank's domestic market share of advances jumped to 8.0% at the end of the year (2002: 6.9%)

On the liabilities side, the Customer deposits and other accounts increased by 17% to Rs 190 billion, with over 25% growth from our stable savings accounts which increased to Rs 104 billion. Our field staff was instrumental in achieving this growth as they met their targets successfully.

While these are solid results taking into account tough economic conditions and reducing interest rate spread, we are highly focused on increasing revenue in 2004 in pursuing our long- term goals of a steady annual growth.

ECONOMY AND FUTURE OUTLOOK

Pakistan's economy (GDP) continues to grow with a trajectory of over 5%, higher than anticipated while inflation remained stable at 3.5%. Although the home remittances have declined from all time highs in 2002 of US\$ 4 billion, return of savings from abroad continue to bolster the foreign exchange reserves of more than US\$ 11.5 billion. This in turn resulted in stable Rupee during the year.

While, agriculture output grew at 4.1%, the main engine of growth was large-scale manufacturing, which grew by 8.7% over the financial year. Exports accelerated to US\$11.03 billion partly due to higher quotas given by the EU in 2001 while imports rose due to higher oil prices and rising imports of machinery. The major catalyst to higher economic growth was a commendable monetary stance in the form of lower domestic interest rates. Despite the low interest rates, the global recession and local uncertainties, the credit demand lagged and liquidity continued to accumulate.

However, for Pakistan to sustain the GDP growth momentum and eventually steer back to its historical growth trajectory of 6%, substantive investment will be required largely from the private sector.

Going forward, the squeeze on spreads due to single digit interest rates is pushing the banking system to look towards non-traditional arenas such as personal loans, small business finance, mortgage loans and agriculture lending. Expansion into these new areas of business, though still in its infancy stages, will enable the banks to expand their scope of lending and customer outreach.

ACHIEVEMENTS - OPERATIONAL PERFORMANCE

2003 was the first year of privatization, and the bank achieved major successes in having concluded the most corporate finance transactions, adding several high quality corporate customers and building a stable low cost deposit base.

The Corporate Banking and Financial Institutions Group

Corporate Bank continued to be a key business area for the franchise, providing multi-pronged products and services to both Corporate and Financial Institution customers. CBG in pursuit of its 'house bank' strategy has been relatively successful in building up well-entrenched relationships and a strong market presence during 2003. This strategy would continue with an enhanced vigor as new Corporate Finance, Cash Management and Treasury & Capital Markets products are rolled out providing CBG the product depth it needs to build.

In 2003, the Treasury Unit was renamed "**Treasury and Capital Markets Group**" (TCM) order to reflect the wider range of activity within the group.

TCM has a strong focus on professionalism, innovativeness, execution capabilities and above all a strong client focus. At this point in time, UBL is able to compete effectively with local and international banks, in areas as diverse as fixed income sales and trading, derivatives and structured products, FX sales and trading and many other areas.

TCMs major achievements during the year were:

- **Record revenues** helped by trading income in the PKR fixed income and equity markets and became the single largest contributor to UBL's bottom line.
- Induction as a **Primary Dealer** in Government Securities. This has coincided with an increase in the trading and distribution capabilities of the group. The fixed income desk is now one of the most active market makers in the government securities market.
- Pioneers in launching **the first PKR derivative transaction** in the market, a Forward Rate Agreement with a corporate client. Since then the bank has closed several other derivative transactions.
- Establishment of the **Equities Trading Desk**. Success was immediate and financially rewarding, as the desk substantially outperformed the KSE 100 index.

Commercial Banking serves over 3 million active customers, through more than 1,000 branches, providing comprehensive product offerings.

In 2003, **Commercial Banking** was able to combat shrinking spreads and stiffer competition and delivered a 16% increase in total deposits, which rose to Rs 153 billion by year-end. Performing advances grew by 51%. Considerable improvement was also made in optimizing the mix of low cost to expensive deposits.

During the year the Agriculture division was segregated from the Commercial Banking business to give much greater support. We strongly believe that supervised credit at the farmers' doorstep will greatly improve productivity leading to exportable surplus. There is great appetite in this sector and controlled lending programmes will not only lead to economic growth but will also alleviate poverty and reverse urban deprivation.

The business plans a complete restructuring of the policies and procedures through segmentation of farm loans and non-farm development loans, expansion of seasonal and commodity financing.

The **Investment Banking Group ("IBG")** maintained its leadership in the sector and advised and arranged transactions totaling over Rupees 32 billion. Some of the high profile transactions were, acting as joint arranger of the largest Privately Placed Term Finance Certificate (PPTFC) of Rupees 15 billion for the national airline, and also jointly structured and arranged a Rupees 2.5 billion PPTFC for a mobile telephone company, the largest capital raising in the telecom sector thus far.

During the year IBG structured and arranged Pakistan's first listed and rated Asset Backed Securitization TFC of a mobile operator's present and future receivables worth Rupees 990 million.

IBG is now focusing on the fast emerging Technology, Media and Telecom sector to further strengthen its leadership position.

The **Overseas Operations** continued to build on the core Gulf Business of trade financing, middle tier lending and the profitable personal loans segments in the UAE, Bahrain and Qatar.

OUR VISION – TO BE A WORLD CLASS BANK, WHERE YOU COME FIRST

The vision of the bank commitment to higher customers and its people as our strength, towards a fully integrated and multi product institution, that is more than just a bank – it is a financial partner to its customers.



reflects its standards for both its employees. With our we are moving

During the year, a comprehensive and far reaching review was undertaken to develop a vision and strategic plan for the bank. This has helped lay the foundation for the development of a dynamic financial institution. Some significant initiatives included:

Corporate Image – In August 2003, UBL launched its new corporate identity, signifying its new vision and consistent with its revamped strategy. Following this, signages were changed at branches both in and outside Pakistan depicting the Bank’s new logo.

Working environment at the Bank – A comprehensive program of branch renovation has been initiated and work on 5 model branches has begun. Based on the experience and analysis, fast track renovation of 40 key branches is planned for completion by December 2004. This would not only enhance the image of the bank but also provide appropriate business environment for both customers and employees.

Call Center – A 24 x 7 call center has been launched to improve the quality of service to the customer.

Human Resource – We have taken cognizance of the importance of the human resource development. Improved compensation, training and accountability at each level are being introduced to increase motivation and productivity, which in turn would lead to development of quality personnel with leadership attributes to face the challenges ahead. The management of the bank has been further strengthened through recruitment of managers with proven professional records and market credibility. They will not only provide the required leadership to the bank but also act as ‘Agents of Change’ to improve the organizational structure.

UBL plans to launch a full suite of **Consumer Finance** products in 2004, on the back of state-of-the-art systems, high caliber manpower resources and aggressive branding and marketing strategies backed up by best-in-class credit management, service center and debt collection capability. Some of the products planned for launch in the first year include a credit card backed up by VISA and a number of consumer loans, including auto loans and leasing, housing finance, personal loans, mortgages and running finance.

ATM and Debit Card - The Bank will shortly launch an ATM and Debit Card, seen as a key step in improving customer service. To this end, ATM machines are being sourced from a leading global

manufacturer. UBL has also signed an agreement to join 1-Link, which is an ATM sharing agreement between 15 prominent local banks.

Internet Banking – UBL already offers a popular website - UBOonline – to its customers. It now plans to leverage its traditional strength in information technology to offer its customers comprehensive E-banking services. These have been designed with customer requirements and convenience in mind and are expected to be another key step towards customer service and the Bank’s image.

Infrastructure - The bank firmly believes that a strong infrastructure is critical. Consequently, investment in technology, premises and infrastructure will continue in 2004. Best-in-class IT systems are being sourced to facilitate the launch of consumer banking and treasury products. The drive to automate branches will continue and the number of online branches is set to increase significantly in 2004. Substantial investment has been earmarked for premises improvement and the results of branch uplifting will become apparent over the next few months.

BUILDING AND PRESERVING TRUST



We have a strong corporate governance structure, which enables us to manage all aspects of the bank’s business effectively through an integrated process that includes financial control, risk management and strategic planning. In 2003, in the light of guidelines on risk management by the State Bank of Pakistan, we have reinforced our risk management function. We define risk broadly, including not only credit, market and liquidity risk – the traditional corner stones for banks – but also operational risk,

including risk related to systems, processes or an external event, as well as legal, regulatory and reputation risk. Our management processes, structures and policies help us ensure compliance with laws and regulations and provide clear guidance for decision-making and accountability.

However these disciplines represent only one side of corporate governance. The other side, corporate culture which is equally important. It is the corporate culture, championed by leadership and sustained by every employee within the bank, which determines corporate ethics and provides the foundations that generate strong business performance and underpin long-term growth.

STATEMENT UNDER SECTION XIX OF THE CODE OF CORPORATE GOVERNANCE

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 four Committees with defined terms of references.
 - Board Executive Committee
 - Board Credit Committee
 - Board Human Resources & Compensation Committee
 - Board Audit Committee
- A summary of key operating and financial data of the last ten years is annexed to the audited accounts.
- 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 and 36 of the audited financial statements of 2003.

MEETINGS OF THE BOARD

During the year under report, the Board of Directors met four 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 | 02 |
| Sir Mohammed Anwar Pervez, OBE, Hpk, Deputy Chairman | 02 |
| Mr. Omar Z. Al Askari, Director | 04 |
| Mr. Zameer Mohammed Choudrey, Director | 04 |
| Mr. Javed Sadiq Malik, Director | 02 |
| Mr. Muhammad Tahsin Khan Iqbal, Director | 01 |
| Mr. Ahmed Waqar, Director | 03 |
| Mr. Amar Zafar Khan, President and Chief Executive Officer | 04 |

PATTERN OF SHAREHOLDING

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 | Percentage holding |
|--|------------------|--------------------|
| State Bank of Pakistan | 252,194,323 | 48.69 |
| Bestway Group | 132,090,000 | 25.50 |
| Abu Dhabi Group | 132,090,000 | 25.50 |
| Government of Pakistan | 1,419,447 | 0.27 |
| National Bank of Pakistan, Trustee Department | 70,702 | 0.01 |
| State Life Insurance Corporation of Pakistan | 53,262 | 0.01 |
| Sui Southern Gas Company Limited | 50,197 | 0.01 |
| Investment Corporation of Pakistan | 29,260 | 0.01 |
| Metropolitan Steel Corporation | 1,646 | - |
| Privatization Commission | 727 | - |
| Pakistan Reinsurance Company Limited | 435 | - |
| Securities and Exchange Commission of Pakistan | 1 | - |
| | 518,000,000 | 100.00 |

AUDITORS

The present auditor M/s A F Ferguson & Co Chartered Accountants retire and being eligible offer themselves for re-appointment in the forthcoming Annual General Meeting. M/s Ford Rhodes Sidat Hyder & Co Chartered Accountants retire and in pursuance to the code of corporate governance are ineligible for re-appointment, as they have completed more than five years as auditors. The Board of Directors are in the process of identifying and short listing the second joint auditor of the Bank for the year 2004 that shall be communicated to the shareholders in the forthcoming Annual General Meeting for their consideration and appointment as they deem fit in terms of section 252 of the Companies Ordinance, 1984.

CONCLUSION

In the year ahead, our investment in human resource and technology will keep us at the front, delivering improved customer service. The pressure on the margins and tough price competition will make it difficult to repeat the 2003 performance. But we assure all our shareholders, including the Government, our customers and our employees that with their faith in the bank and our commitment towards excellence, UBL shall become the premier institution in the country. The bank has set itself a vision to be a world-class bank. This can only be achieved with dedication and a passion to excel in every activity.

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.



Nahayan Mabarak Al Nahayan
Chairman

Date: February 15, 2004