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, 2006.

Financial Highlights

	(Rs. in million)
Profit before taxation	10,487
Taxation	(3,580)
Profit after taxation	6,907
Un-appropriated profit brought forward – January 01, 2006	7,351
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	71
Profit available for appropriation	14,329
Transfer to statutory reserve	(1,381)
Cash dividend paid to shareholders – 2005	(1,295)
Bonus shares declared – 2005	(1,295)
Un-appropriated profit carried forward – September 30, 2006	10,358
	(Rupees)
Basic / Diluted Earnings per share	10.67

Financial Overview

The Bank achieved a profit before tax of Rs. 10.5 billion for the first nine months of 2006, which represents a 62% growth from the same period last year. Net income at Rs. 6.9 billion is up 82% against the same period last year, with Earnings per Share at Rs. 10.67 (September 2005 Rs. 5.87).

Net markup/ interest income after provisions came in at Rs 13.4 billion compared to Rs. 8.9 billion for the same period last year owing to an increase in volumes and improved spreads on advances. Non-funded income increased by 37% to Rs. 4.6 billion, with commission income on consumer loans, fee income on collection of utility bills and increase in dividend income being the main contributors.

Administration expenses showed a 35 % increase over the same period last year. The main reasons for this are: a) an increase in staff to support the growth in the international franchise and consumer business, b) higher variable costs linked to the consumer business including commissions, promotions and loyalty programs and c) investment in employee retention and motivation programs. However, for the quarter ended September '06 compared to that ended in June '06, administration expenses have remained flat.

Total assets grew by Rs. 41 billion in the last nine months at Rs. 388 billion, with gross advances increasing by 14% to Rs. 250 billion and deposits by 7% to Rs. 308 billion.

Economic Review

The economic performance in the first quarter of FY07 remained mixed. While food inflation hovered around the 11% mark, other inflation indicators: fuel, transport and housing depicted a downward trend bringing the core inflation for September at around 6.2%. Consequently the Consumer Price Index is expected to come down from 8% in FY06 to 7% by June 2007. The trade deficit for the first quarter, however, came in at USD 3.2B (up 32% above the same period last year) owing to import growth of 13% far outstripping the 3% growth in exports. However, with the tapering off in oil prices, the import growth for the next three quarters is expected to slowdown leading to a trade deficit estimate of USD 12-13B for FY 07.

SBP continued tightening monetary policy with a 50bp increase in the discount rate to 9.5%. This coupled with the increase in the Statutory Liquidity Requirement (SLR) from 15% to 18% and frequent open market operations resulted in decelerating the growth in money supply M2. Private credit off-take for FY06 came in at Rs. 401B down from Rs. 428B in FY 05. However, keeping the GDP growth objective in mind, analysts are not predicting a further increase in interest rates going further.

Key Developments

International Business Initiatives
In order to expand the overseas franchise, UBL established its representative office in Almaty, Kazakhstan in September 2006. The representative office will focus on capturing increased trade and investment flows between Kazakhstan and UBL franchise countries and is expected to act as a hub for operations in other CIS countries.

Other initiatives include the signing of a Memorandum of Understanding between UBL and China Development Bank to establish a cooperative partnership to promote bilateral trade between Pakistan, China and the Middle East. UBL has also obtained approval from SBP for a possible representative office to be established in Beijing.

In the Middle East, the bank continued to focus on its core Commercial Banking strength with investments in infrastructure projects, oil and gas development, real estate and contracting. Initiatives for the Middle East include renovation of branches, expansion of the ATM network, launch of a competitive Mortgage Finance product and introduction of Debit Cards.

Issuance of Third Sub-Debt
The Bank completed the issuance of the third subordinated debt in the form of listed, rated and unsecured Term Finance Certificates amounting to Rs. 2 billion. The TFCs have been issued for a period of 8 years with a floating rate at 170bps above 6 month Kibor rate. The issuance of the third sub-debt will enhance the capital adequacy in order to support the projected increase in consumer and corporate lending.

Consumer Business
UBL became the first Pakistani bank to offer its products abroad by launching its Home Financing product "Address Mortgage" for Pakistanis living in the UK. Launched in collaboration with United National Bank UK, the facility will enable non-resident Pakistanis to buy, build or renovate residential properties in Pakistan. Introduced in five cities in the UK, the facility is designed with flexible financing plans and repayment options to offer customers a plan best suited to their requirements.

The consumer business portfolio reached Rs. 43 billion by the end of the September with UBL Auto maintaining its market leader position with a portfolio of Rs. 20 billion. With UBL Visa Card, Businessline and Cashline also performing strongly, the consumer business has contributed significantly to the profitability of the Bank.

Establishment of UBL Insurers Limited
UBL Insurers seeks to bring banking and insurance together in offering a complete financial solution to customers. The insurance sector is expected to show substantial growth (in excess of 20% p.a.) over the next five years driven by a strong banking sector, direct foreign investment flows and manufacturing sector growth. Set up as a non-life insurance company (auto, marine, fire and general), UBL insurers is expected to take over UBL's captive insurance business that is currently being outsourced, as well as tap into the growing demand for general insurance.

The business is expected to start operations by the end of 2006 and plan to open six branches in the first year of operations. The company is 70% owned by the Abu Dhabi Group and Bestway Group and 30% by UBL.

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

Lahore
Date: November 8, 2006