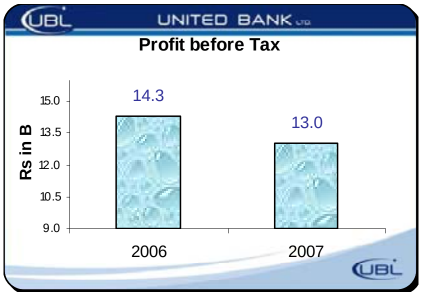
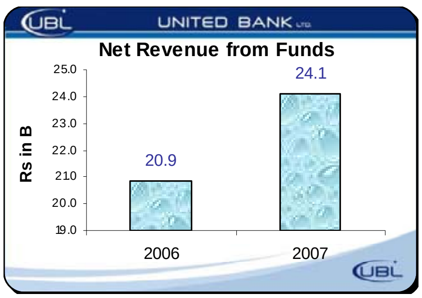
DIRECTORS' REPORT TO THE MEMBERS

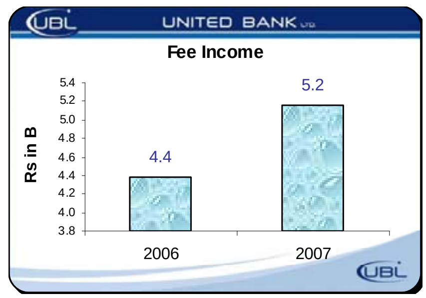
On behalf of the Board of Directors, I am pleased to present to you the 49th Annual Report of United Bank Limited for the year ended December 31, 2007.

FINANCIAL HIGHLIGHTS



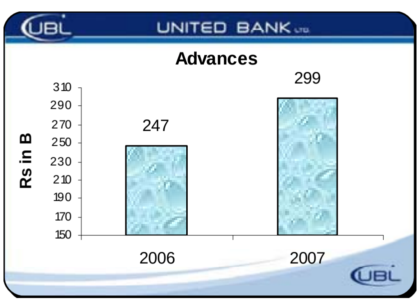
The Bank achieved a profit before tax of Rs. 13 billion in 2007 which is 9% lower than that of last year. The profitability in 2007 was impacted by a change in the Prudential Regulations according to which the benefit of collateral was withdrawn while calculating the provisioning requirements against non-performing loans.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.



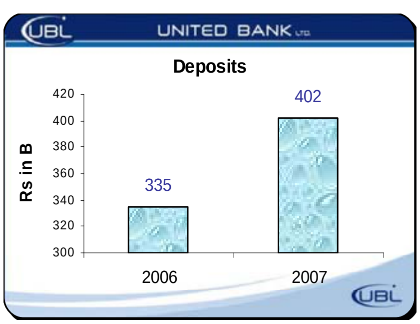


Net interest income increased by 16% to Rs 24.1 billion due to a 21% increase in volume of advances coupled with strong yields on the portfolio. Non fund income increased significantly by 29% to Rs. 9 billion with solid growth in fee income which grew by 16% to Rs 5.2 billion due to increase in trade 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