

Directors' Report

On behalf of the Board of Directors, it gives me great pleasure to present the financial statements of the Bank for the quarter ended March 31, 2005.

Financial Highlights

	(Rs. in million)
Profit before taxation	1,696
Taxation	<u>(684)</u>
Profit after taxation	1,012
Un-appropriated profit brought forward – January 01, 2005	3,274
Transfer from surplus on revaluation of fixed assets – incremental depreciation	<u>26</u>
Profit available for appropriation	4,312
Transfer to statutory reserve	(202)
Dividend paid to shareholders – 2004	<u>(777)</u>
Un-appropriated profit carried forward – March 31, 2005	<u><u>3,333</u></u>
	(Rupees)
Basic / Diluted Earnings per share	<u>1.95</u>

Financial overview

The Bank achieved 28% growth in profit before tax that stood at Rs 1.7 billion. The Net mark-up / interest income improved by 83% and stood at Rs 2.7 billion, compared with last year, mainly due to the significant increase in advances and improved yields. Fee, commission and brokerage income registered a growth of 51% and stood at Rs 0.5 billion. Administrative expenses as a percentage of total revenue reduced from 52% to 47%, however, the 16% rise in administrative expenses is attributable to the continued investment in consumer business.

Both advances and deposits grew at 7% and closed at Rs 156 billion and Rs 246 billion respectively. Cash recoveries against non-performing advances amounted to Rs. 1.3 billion.

Economic outlook

Pakistan economy is on the constant growth trajectory achieving highest growth level in the last five years, however, the build up of inflationary pressures are posing some concern. The real GDP growth rate for the FY05 is being projected at 7.4% - 7.8% per annum, as against 6.6% per annum target. This growth is mainly on the back of bumper cotton and wheat crops.

The high pace of monetary expansion, led by increasing demand for credit by the private sector and coupled with shortage of liquidity has fueled inflationary trends that have resulted in a revision of the FY 05 CPI change, which is expected to be in the range of 8.2% to 8.8% per annum as against the initial target of 5%. The short-term interest rates have continued their upward movement, with the cut-off rate on government treasury bills increasing by 106 to 185 basis points.

Consumer Product Launches

The Bank continued its drive to introduce a full suite of consumer finance products in the market with the launch of 2 new products; UBL Businessline - a flexible evergreen running finance facility secured against property and the UBL Visa Credit Card - Pakistan's first EMV Chip Card designed to bring innovative rewards and features to the cardholder. The credit card is expected to be the flagship of the Consumer Bank has already generated significant market interest.

UBL Drive auto loan and UBL Address home loan, launched last year, continue to maintain leading market positions and have started contributing smartly to revenues. This has resulted in the Bank achieving advances of over Rs. 10 billion in a remarkably short period of time since launch. With the forthcoming launch of the Personal Installment Loan product in 2Q05, the Bank will have in place complete consumer financing solutions catered to a large number of customers, enabling it to contribute significantly to UBL's profits, which augurs well for the financial results in the coming years.

Our focus on improving customer service continues, further investments were made during the quarter on branch renovation, imparting service quality training and further automation of branch network in addition to installation of ATMs.

Credit Rating

The JCR-VIS Credit Rating Company Limited has assigned a short-term credit rating of "A-1+" to the Bank. This is the maximum rating in the short-term and denotes outstanding short-term liquidity with highest certainty of timely payments. Further, the medium to long-term credit rating assigned is "A+", indicating good credit quality, moderate risk and strong protection factors.

Sub-ordinated debt issue (Term Finance Certificates)

The bank has successfully issued sub-ordinated debt in the form of Term Finance certificates to the tune of Rs 4 billion. The first issue of Rs 2 billion was made in August 2004, whereas, the second issue of Rs 2 billion was completed in March 2005. Both these issues have been rated "A" by the JCR-VIS Credit Rating Company Limited.

Listing of UBL shares

The Privatization Commission has announced that upto 15% of the government held shares would be listed on the stock exchanges and offered to the general public in June 2005.

Acknowledgements

We would like to express our sincere thanks and gratitude to the State Bank of Pakistan, and the Government of Pakistan generally, for the tremendous support they have given to the bank. We also take the opportunity to thank our valued customers for their patronage, the shareholders for their continuous support and the staff for their dedication and commitment to make UBL a success.

On behalf of the Board,



Omar Z. Al Askari
Director

Abu Dhabi – April 27, 2005