

## 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, 2005.

### Financial Highlights

	<b>(Rs. in million)</b>
Profit before taxation	6,464
Taxation	(2,666)
	3,798
Profit after taxation	3,798
Un-appropriated profit brought forward – January 01, 2005	3,274
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	71
	7,143
Profit available for appropriation	7,143
Transfer to statutory reserve	(760)
Dividend paid to shareholders – 2004	(777)
	5,606
Un-appropriated profit carried forward – September 30, 2005	5,606
	<b>(Rupees)</b>
Basic / Diluted Earnings per share	7.33

### Financial overview

The Bank achieved a 111% growth in profit before tax over the same period last year which stood at Rs. 6.4 billion. The net mark-up / interest income improved by 102% at Rs 9.9 billion, mainly due to significant increase in advances and improved yields. Fee, commission and brokerage income registered a growth of 51% at Rs 1.7 billion. Administrative expenses as a percentage of total revenue reduced from 61% to 45%. However, there was a 17% rise in administrative expenses which is attributable to the continued investment in the consumer business and image building campaigns.

Gross advances grew by 18% at Rs. 189 billion, whereas deposits increased by 21% at Rs. 279 billion. Cash recoveries against non-performing advances amounted to Rs. 1.9 billion.

### Economic outlook

Pakistan's economy has performed strongly over the last three years. Real GDP grew, on an average, by 6.5% p.a., exports at USD 14 billion for FY 2005, increased at an average of 13.5% p.a. and the foreign exchange reserves at the end of FY 2005, were at a healthy USD 12.4 billion. The privatization program of the government led to strong direct foreign investment of USD 1.5 billion in FY 2005. The real GDP growth over FY 2006 is projected at 7.0% p.a., however, in the wake of the October earthquake, this growth estimate might have to be revised downwards by about 0.5%.

This strong growth in the economy has fueled inflationary trends that have resulted in the CPI rising to 8.5% in September 2005. A significant contributor to the jump in aggregate demand has been the record growth in credit off-take by the private sector, which surged to Rs 362 billion even before the

close of the third quarter FY 2005 as opposed to Rs 352 billion for the entire FY04. While this clearly aided the acceleration in many sectors of the economy, it has inevitably contributed to the price hike as well.

Rising oil prices remained the second major contributor to the steady increase in the CPI and will also have a resultant impact on Pakistan's trade account deficit. Pakistan, however, should be able to mitigate this by healthy foreign exchange inflows.

In order to check core inflation, SBP tightened its monetary policy with the cut-off rates on government treasury bills increasing by 635 basis points to 8.1 % and discount rates by 150 basis points to 9% in the fifteen months till September 2005.

### **Consumer Business**

The Consumer Bank's range of products continued to perform well and have captured significant market shares. With UBL Visa Credit Card – Pakistan's first EMV chip card, UBL became the first bank to issue 100,000 cards in just the first seven months of the product's launch. This feat is even more impressive considering that UBL's fee based credit card was launched amidst a range of 'life time free card' offerings by competitors.

UBL Drive auto loan and UBL Address home loan, launched last year, continue to maintain leading market positions and are significant revenue contributors. UBL Money – a personal installment loan facility, together with Cashline and Businessline – running finance facilities contributed over Rs. 5 billion towards the Consumer Bank's advance portfolio which crossed Rs. 24 billion at the end of September.

The Consumer Bank was forced to re-price its products, in response to the increase in market interest rates.

### **Key Developments**

In the changing interest rate scenario, UBL responded by launching two new commercial banking products this quarter. Unisaver Plus which is a monthly profit account targeted at rate sensitive corporates and high net-worth individuals and UTTIP (United Treasury Term Investment Product), a Treasury depository, which was re-launched and which focuses on attracting large corporate deposits. These two products are strategic to the bank and will significantly contribute towards strengthening the Balance Sheet.

Further investments were made in the alternate delivery channels, by installation of 60 new ATMs this quarter. This brought up the total ATMs installed by UBL to 113, making it now second only to Habib Bank Limited.

The Bank continues to upgrade its e-banking services with the launch of "Click N Bank", which allows non-resident Pakistanis an online option to open, fund and operate saving accounts at any designated UBL branch by simply registering online. The product will be launched in the media by December 2005.

The Bank's non-funded business areas performed exceptionally well on the back of successful closures of several corporate finance and investment banking deals. This included the execution of the largest leveraged buy-out (LBO) in Pakistan together with UBL acting as financial advisor and arranger for the first floating-rate, listed, preferred shares issue in the country.

### **Credit Rating**

The short-term credit rating for the Bank by JCR-VIS Credit Rating Company Limited remains at “A-1+”. This is the maximum rating in the short-term and denotes outstanding short-term liquidity with highest certainty of timely payments. The Bank’s medium to long-term credit rating of “AA”, indicates good credit quality, moderate risk and strong protection factors. The Bank’s subordinated debt issue (Term Finance Certificates) remains one notch lower than the entity rating and continues at “AA-”.

### **Earthquake Relief Contributions**

In the wake of the devastating earthquake which hit Pakistan’s northern areas and Azad Kashmir on October 8th, UBL has contributed significantly towards the relief and rehabilitation of those affected by this tragedy. During the first few days, UBL set up camps in Muzaffarabad, Battagram, Garhi Habibullah and Abbottabad, the purpose of which was to provide immediate relief supplies for the victims. In order to assist the government in providing longer term assistance and rehabilitation, UBL contributed Rs. 60 million towards the President’s Relief Fund for Earthquake Victims which included a donation equivalent to one-day basic salary of all employees. For those UBL staff that were affected by the earthquake, the Bank announced financial compensation and a commitment for assistance in the long run.

### **Acknowledgements**

We would like to express our sincere thanks and gratitude to the State Bank of Pakistan, and the Government of Pakistan, 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 in making UBL a success.

On behalf of the Board,



Sir Mohammed Anwar Pervez, OBE, HPk  
Deputy Chairman  
Karachi – November 12, 2005