

## Directors' Report

On behalf of the Board of Directors, it gives me great pleasure to present the financial statements of the Bank for the first quarter ended March 31, 2006.

### Financial Highlights

	<b>(Rs. in million)</b>
Profit before taxation	3,508
Taxation	<u>(1,248)</u>
Profit after taxation	2,260
Un-appropriated profit brought forward – January 01, 2006	7,350
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	<u>24</u>
Profit available for appropriation	9,634
Transfer to statutory reserve	(452)
Cash dividend paid to shareholders – 2005	(1,295)
Bonus shares declared – 2005	<u>(1,295)</u>
Un-appropriated profit carried forward – March 31, 2006	<u>6,592</u>
	<b>(Rupees)</b>
Basic / Diluted Earnings per share	<u>3.49</u>

### Financial overview

The Bank achieved a profit before tax of Rs. 3.5 billion in the quarter ended March 31, 2006 which represents a 107% growth from the same period last year. This translates in a strong earnings per share (post bonus issue) of Rs. 3.49 (March 2005: Rs. 1.56). Net markup/ interest income after provision came in at Rs 4.2 billion compared to Rs. 2.6 billion for the same period last year which was due to a significant increase in advances and improved yields. Non funded income also registered an impressive growth of 55% at Rs. 1.5 billion with fee, commission and brokerage income doubling from the corresponding period last year. Administration expenses increased by 32 % owing to the strong growth in the consumer business which has resulted in an increase in commissions and other volume related variable expenses.

Total assets grew by Rs. 11.9 billion at Rs. 359 billion with gross advances at Rs. 223 billion. Despite a reduction in the expensive deposits this quarter, the bank maintained total deposits at Rs. 289 billion by increasing low cost deposits.

### Economic outlook

The GDP growth for the current fiscal year 2006 (Jul 05 – June 06) is expected at 6.5% against target growth of 7%. The primary reason behind this is that growth in agriculture is expected to be lower than anticipated: two major crops (cotton and sugarcane) have not met targets. In addition, large scale manufacturing (LSM) has grown by 12% in first five months against target of 14.5%. Major contributors were textiles, leather, pharmaceutical and automobile which registered double digit growth while growth in food, paper and petroleum was below 10%. However, the rapid growth in the services sectors of banking, telecom and trade is expected to remain high in FY 2006.

Soaring oil prices have severely impacted the trade deficit which has crossed USD 8.6B in the first nine months of the year (against USD 4.2B in the same period last year). Even though exports grew by 18% in the first nine months, the import bill will likely cause the trade deficit to cross USD 10B for the full year.

The Central Bank's monetary policy reflects the balance which SBP has tried to maintain between controlling inflation and encouraging growth. Overall, monetary policy has remained tight, with no increases in benchmark interest rates. Monetary expansion for the first six months of FY 2006 was Rs. 235 billion (against Rs. 380 billion budgeted for the full FY 2006) mainly due to high credit off-take by the private sector reflecting investor confidence and improving macroeconomic conditions of the country.

### **Consumer Business**

The consumer business portfolio crossed Rs. 33 billion at the end of the first quarter. UBL Auto loan launched in May 2004 is positioned as the most innovative auto financing product in the country and has achieved a 27% market share. UBL Businessline – running finance facility – is the biggest player in this product segment with a portfolio that crossed Rs. 5 billion within the first 11 months of its launch.

UBL Visa Credit Card continues to grow aggressively despite being a late entrant in the market due to several unique features and attractive spend based reward options. The “Road Miles” reward program designed in collaboration with fuel companies has been the most popular promotion with customers and a major contributor to the increase in card spend.

UBL Address home loan remains the fastest growing product since its inception in August 2004 with the number of loan bookings and the average loan size increasing steadily. UBL home loan continues to be a significant revenue contributor due to a competitive pricing strategy, quick processing turnaround time and attractive discounts offered through corporate alliances.

### **Key Developments**

Due to the increasing profitability of the international operations and the growing opportunities in the markets where UBL is currently operating, the group has been strengthening its overseas network further. The Bank will be increasing the number of branches in countries where the group already has a presence and expanding into new markets through representative offices with a view of commencing banking operations in those countries in the second phase.

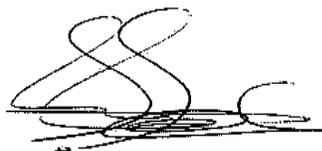
UBL Fund Managers Limited (UBLFM) has shown strong growth with funds under management increasing to over Rs. 5 billion at the end of the first quarter 2006. The company currently manages two fixed income open end funds: United Money Market Fund (UMF) and United Growth and Income Fund (UGIF). UGIF was opened for public subscription in the first quarter 2006 and the company also obtained approval from the SECP this quarter to launch two more funds.

Overall, the Bank continued to perform strongly in the first quarter of 2006 with all business units meeting or exceeding targets.

### **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 the 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,



**Nahayan Mabarak Al Nahayan**

Chairman  
Abu Dhabi

Date: April 19, 2006