Directors' Report

On behalf of the Board of Directors, it gives me great pleasure to present the financial statements of the Group for the quarter ended March 31, 2008.

Financial Highlights

	(Rs. in million)
Profit before taxation	4,727
Taxation	(1,569)
Profit after taxation	3,158
Un-appropriated profit brought forward – January 01, 2008	16,728
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	80
Profit available for appropriation	18,635
Transfer to statutory reserve	(580)
Cash dividend paid to shareholders – 2007	(2,428)
Bonus shares declared – 2007	(2,023)
Un-appropriated profit carried forward – March 31, 2008	14,907

	(Rupees)
Basic Earnings per share (pre-bonus)	3.87
Diluted Earnings per share	3.09

Financial Overview

The Group achieved a profit before tax of Rs. 4.7 billion for the quarter ended March 31, 2008 which is 1% higher than the same period last year. Profit after taxat Rs. 3.1 billion translates into Basic Earnings per Share of Rs. 3.87 (March 2007: Rs. 3.88).

Net interest income before provisions was up 10% at Rs 6.5 billion compared to Rs. 5.9 billion for the same period last year. However, net interest income after provision at Rs. 5.4 billion is 4% lower than the same period last year. The higher provision charge this quarter is due in part to the removal of FSV which accounted for Rs. 260 M of the total charge. The quarterly charge also includes provisions and write-offs with respect to our consumer portfolio which is on-going due to the significant buildup of the last three years. We have also taken an additional charge on the corporate and commercial portfolios given the adverse macro-economic environment prevailing in the country. However, more stringent risk management policies and tighter controls should reduce this charge going forward.

Non interest income increased significantly by 45% to Rs. 3.2 billion. Fee and commission income grew solidly by 31% backed by strong corporate finance fees, higher commissions on trade and gains on our derivatives portfolio.

Administration expenses showed a 21% increase over the same period last year. 41% of this increase is owing to investments in upgrading and renovating our local and international branch network and the addition of 36 new branches. Higher focus on retention and incentive programs for the staff attributed to a further 33% of the increase. However, administration expenses have remained flat compared to the previous quarter.

Total assets grew by Rs. 8 billion to Rs. 555 billion in the last three months with gross advances increasing by 6% to Rs. 346 billion and deposits by 1% to Rs. 417 billion.

Economic Outlook

Domestic instability and external shocks are expected to impact all key indicators negatively including GDP growth, trade deficit and inflation. The State Bank of Pakistan has lowered the real GDP growth projection from 6.6-7% to 6-6.5% for the fiscal year ending June 2008. The primary reasons have been poor agricultural performance and slowing LSM growth of 4.2% for 1HFY08 compared to 8.4% for the same period last year. While the services sector continued to perform strongly, it has been unable to compensate for the depressed performance of the other main sectors.

Rising international commodity prices have severely impacted the trade deficit which crossed USD 7.8bn for 1HFY08 compared to USD 6.2bn for the same period last year. This has resulted in SBP raising the projected current account deficit from 5.2% to 6%.

The government has continued to finance Pakistan's growing fiscal deficit by borrowing from the SBP which has caused bank borrowings to reach Rs. 229bn in 1HFY08 against Rs. 31bn in the same period last year. As a result, monetary growth and inflation targets have both been revised upwards to approximately 17% and 9% respectively.

Consequently SBP has kept tightening the monetary policy with an increase of 50 bps in the discount rate to 10.5% and in the Cash Reserve Requirements from 7% to 8%. While the policy has been necessitated in order to control M2 growth and inflation, it is expected to impact the growth targets for all key economic sectors.

Key Developments

Retail Bank

We launched the UBL Capital Protected Fund (UCPF) in February 2008 which is the first joint investment product by UBL and UBL Fund Managers aiming to create cross functional synergies within the bank. UCPF has been exclusively designed for UBL and is a closed end mutual fund offering 100% capital protection with returns linked to the stock market. It features a fixed income segment with 80% of the funds invested in UBL CODs in order to protect the capital and the remaining invested in the equity market to give high returns. The product has been marketed aggressively and is expected to help widen our customer base.

We have continued with our business process re-engineering strategy with over 170 branches having completed phase one of implementation by March 2008. Under phase one, a comprehensive capacity planning exercise was carried out which resulted in realigning the teller and customer service functions. This is helping us deliver a superior standard of service which is key in enabling us to compete effectively. We expect our 400 top branches to have completed phase one of implementation by July 2008.

Under phase two of the implementation we have begun to centralize back end processes including inward and outward clearing and issuance of cheque books and ATM cards into our central processing facility. Approximately 170 branches would have completed phase two of implementation by July 2008.

Consumer Business

The consumer industry has been directly impacted by the prevailing tight monetary policy both in terms of credit offtake and asset quality. Rising inflation and high interest rates have increased consumer debt burdens which have led to a rise in delinquencies industry wide. Credit approval rates have also come down with the full implementation of the positive credit bureau which now provides more accurate information regarding consumer debt exposures.

Our focus has remained on re-aligning our policy parameters which include revisions in minimum income requirements, debt burden assessments and more stringent credit verifications. In response to initiatives taken last quarter, collection and recoveries have also shown a marked improvement.

We remain confident that the strengthening of risk management systems and internal controls will ensure the consolidation of our consumer portfolio this year and equip us to show strong quality growth in 2009.

Looking ahead

In the backdrop of a trying macroeconomic environment, increasing competition, high inflation and tight monetary policy, we expect 2008 to be a challenging year for the banking sector. Consumer financing will show slow growth this year which will, however, be offset by high corporate sector demand on the back of committed off take in power, fertilizer and telecom sectors. Continuing international growth will also help in achieving fairly strong overall loan growth this year.

Improving asset quality will remain a key focus with greater resource deployment in the recovery and collection functions. Our Credit Risk Environmental and Monitoring system which is in its final stages of implementation is expected to assist us in more effective post disbursement monitoring. We expect our efforts in this area to show positive results in the coming months.

We believe that our business process reengineering initiative supported by our customized core banking technology platform will also help us to compete more effectively in the changing landscape of the Pakistani banking sector.

Acknowledgements

We would like to express our sincere thanks and gratitude to our customers for their patronage and the State Bank of Pakistan and the Government of Pakistan for their continued support. We also take the opportunity to thank 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
April 26, 2008