DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present to you the consolidated financial statements of the Bank for the nine-months ended September 30, 2009.

Financial Highlights

	(Rs. In millions)
Profit before taxation	10,577
Taxation	(3,639)
Profit after taxation	6,938
Share of minority interest	(12)
Un-appropriated profit brought forward – January 01, 2009	17,703
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	191
Profit before appropriations	24,820
Transfer to statutory reserve	(1,273)
Cash dividend paid to shareholders – 2008 (Rs 1/share)	(1,012)
Bonus shares issued – 2008 (10%)	(1,012)
Un-appropriated profit carried forward – Sep 30, 2009	21,523
	(Rupees)
Earnings per share (fully diluted)	6.22

UBL posted a consolidated profit before tax of Rs. 10.6 billion for the nine-month period ending September 30th 2009 which is 25% lower from the same period last year. The decline was primarily owing to higher provision on advances and provision required on impairment for investments. The Bank followed a deliberate strategy of reducing high cost deposits while concerted efforts were aimed at strengthening low cost deposits. This resulted in increasing our domestic CASA (current and saving accounts) ratio from 68% at December 31, 2008 to 75% at September 30, 2009. Low cost deposits increased by 5% in the nine months to September while expensive deposits declined by 20%. Consequently, total deposits of the bank are down 6% to Rs. 464 billion.

Consolidated profit after tax at Rs. 6.9 billion translates into diluted earnings per share of Rs. 6.22 (September 2008: Rs. 8.06). Higher provisioning has significantly impacted results as is evident from a pre-provision operating profit increase of 10% over the same period last year.

Net interest income before provisions grew by 15% on account of higher Kibor rates and a 9% increase in average advances. However, non interest income (incl. associates income) came in 5% lower than the corresponding period last year at Rs 9.1 billion mainly on account of lower commission on consumer loans and reduced foreign exchange earnings. Operating revenue for the nine months to September came in higher by 9% at Rs 34 billion compared to the same period last year.

Net interest margins (NIMs) remained strong at 6.4% owing to higher interest rates and attractive returns on the investment portfolio. However, NIMs on a year on year basis were impacted by an increase in the cost of deposits as a result of SBP regulation of 5% minimum rate of return on saving deposits which came into effect in June 2008.

Net interest income after provisions came in 13% down from the same period last year at Rs 15.2 billion. Provisions are up by Rs. 5.5 billion to Rs 9.6 billion this year owing to the on-going stress on the domestic and the Middle East loan portfolios. However, the provision charge taken this quarter is lower than that of last quarter which is an indication of the reduction in new NPL formation. The charge taken this quarter further consolidates the provisioning taken on our existing non performing portfolio. The provisioning expense also includes Rs. 853 million charged on account of impairment loss taken on the equities portfolio.

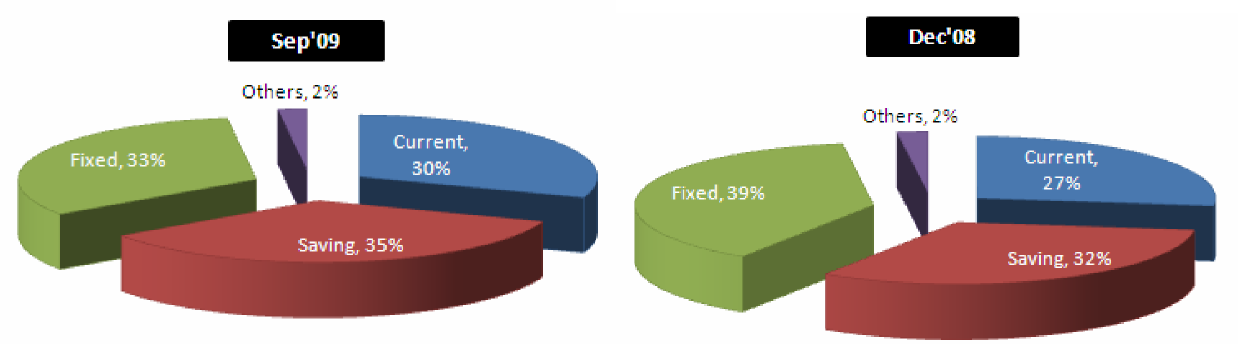
Non-interest income at Rs. 9.1 billion is 5% down over the same period last year largely as a result of the slowdown in local and global economic activity and reduction in trade volumes across the board. Fee income is down due to reduced investment and acquisition financing activity in the corporate sector. Commissions on consumer loans declined by 35% owing to net attrition in the lending portfolio given the high risk and sluggish market conditions. Exchange income is down by 61% due to reduced volatility in the Pak rupee and reduction in trade volumes as compared to that of last year.

Administrative expenses increased by only 8% over the same period last year which is partly due to the devaluation of the rupee (YTD Sep'08 average at Rs. 67/USD, Sep'09 at Rs. 81/USD) which impacted the expenses of the international operations. Excluding devaluation, administrative expenses are only up by 5%. In spite of high inflationary pressures, we have managed to improve cost efficiency across the bank and to limit operating costs from increasing sharply. The Bank achieved a stabilized cost/average asset ratio of 2.7% on a year on year basis despite a reduction in total assets.

Total assets of the consolidated bank have decreased by Rs. 6 billion to Rs. 614 billion during the first nine months of the year mainly owing to advances declining by Rs. 16 billion to Rs. 362 billion.

Improvement in low cost deposits

The Bank has continued with its strategy of strengthening its low cost deposit base. This is reflected in the Bank's robust improvement in CASA ratio and reduction in high cost term deposits. The Bank has also placed strong emphasis on efficiency improvement and cost rationalization. Low cost deposits have continued to grow and increased by 5% to Rs 274 billion despite liquidity constraints and increased competition from high yielding National Saving Schemes. The increase in deposits has come mainly from current deposits which grew by 6% to Rs 142 billion while we have shed high cost fixed deposits by 20% to Rs 153 billion. This reduction in expensive deposits has resulted in cost of deposits declining from 5.4% in June 2009 to 5.0% in September 2009. Consequently CASA for the bank has also improved from 59% to 65% in September 2009.



Strengthening e-banking platform

UBL Global Net Banking initiative aims to lay down an Internet Banking Platform to cater to the needs of customer segments in all geographical locations which includes retail, SME and Corporate Customers of local and international branches.

Global net banking will be launched with a new simple interface to ensure ease of use for the Customer. Currently, retail customers are able to perform all the routine banking transactions online including bills payment, funds transfer, and balance and statement enquiries. Global net banking will make all these facilities available to corporate and SME clients as well as offer new features including budget and expense management. In addition corporate and SME clients will be able to define financial limits and parameters for approval authorities which will ensure that users can only perform transaction to authorized limits.

In the subsequent phases we will introduce cross border transactions between different international branches of UBL, Foreign Currency Transactions and Trade Finance for corporate customers.

IT infrastructure initiatives

At UBL, we are always striving to improve the way we work. In a rapidly changing economic and regulatory environment this is especially important as it makes us more efficient, reduces costs in the long run, enhances our ability to service our customers and provides us an edge over our competitors. The main IT infrastructure initiatives that were completed recently are as follows:

- *Launch of AML:* Implementation of a state-of-the-art and world class AML (Anti money laundering) system was not only a regulatory requirement but also a business need to protect the Bank from money laundering activities. This software provides an automated, comprehensive and consistent surveillance of accounts/correspondents across all business lines and monitors any unusual and/or out of pattern transactions/activities which may relate to money laundering.

- *Oracle HR Applications:* This quarter also saw the successful implementation of Oracle E-business Suite Human Resource Management System and Oracle Payroll. This will significantly enhance the ability of HR to service the Bank and streamline their processes.

- *UBL Ameen* (Islamic Bank) account holders can now seamlessly perform online transactions across the UBL Pakistan-wide online branch network. These transactions include cash withdrawals, cash deposits, cheque clearing and account to account transfers. This will improve our ability to service our UBL Ameen customers as they will be able to enjoy the benefit of UBL's large online branch network.

Looking ahead

The effects of the global recession and the slowdown in domestic economic activity have impacted growth and corporate earnings in Pakistan. While there are signs of improvement in key macroeconomic indicators, significant challenges remain. The State Bank of Pakistan is cognizant of domestic structural constraints and their likely adverse impact on the economy. The challenge is to strike a balance between stabilization and sustainable recovery in an uncertain environment. To give further impetus to the stimulus provided by the IMF program, SBP decided to cut the policy rate further by 100 basis points to 13 percent in August 2009.

Other positives include the upgrading of the sovereign credit rating by the international credit rating agencies. Standard & Poor's raised Pakistan's sovereign rating by one notch to B-minus, citing improvements in its external liquidity and reduction in its fiscal deficit. The rating outlook assigned has now changed from negative to stable. This was a result of the IMF (International Monetary Fund) loan agreement and donor commitment, which helped reduce the risk of near-term external payment difficulties faced by the country. Moody's Investors Service also raised Pakistan's ratings on its foreign currency denominated sovereign debt from B3 with 'negative' outlook to B3 with 'stable' outlook. This proves to be a strong sign that conditions are expected to improve for the industry.

The main challenge for the bank's earnings remains high provision charges which have impacted profitability significantly. Even though provisions on a year on year basis remain high, the reduction in charge from that of the last quarter denotes that new additions to the non performing portfolio are now declining. We believe that the declining interest rates should also help ease pressure on corporate and retail borrowers which coupled with the push of our restructuring and recovery efforts should lead to an improvement in asset quality in the coming quarters.

Looking ahead, the key focus areas for UBL are:

- Acquisition of low cost deposits
- Identifying and acquiring quality assets
- Controlling costs and improving efficiencies
- Right sizing the consumer business
- Restructuring and recovery of distressed assets
- Investing in our own people

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
October 26, 2009