DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors, I am pleased to present to you the financial statements of the Group for the half year ended June 30, 2008.

Financial Highlights

	(Rs. In millions)
Profit before taxation	9,210
Taxation	(3,354)
Profit after taxation	5,856
Minority Interest	(58)
Profit after Taxation and minority interest	5,798
Un-appropriated profit brought forward – January 01, 2008	16,728
Transfer from surplus on revaluation of fixed assets – Incremental depreciation	161
Profit available for appropriation	22,687
Transfer to statutory reserve	(1,119)
Cash dividend paid to shareholders – 2007	(2,428)
Bonus shares issued – 2007	(2,023)
Un-appropriated profit carried forward – June 30, 2008	17,117
	(Rupees)
Earnings per share (post bonus)	5.73

Strong financial performance despite weakening macro economic indicators

During a turbulent 1H08 UBL has achieved a profit before tax of Rs 9.2 billion which is 1% higher than the same period last year due to continued advances growth and solid non-interest income performance. Deposits growth of 15% over Dec 2007 was the main balance sheet driver.

Profit after tax and minority interest at Rs. 5.8B translates into basic and diluted earnings per share of Rs. 5.73 (June 2007: 5.63). Higher provisions have significantly impacted the bottom line which is evident from a pre-provision operating profit increase of 19% over the corresponding period last year.

Net interest income before provisions was up 11% to Rs 13.5B from the same period last year. However, net interest income after provision at Rs 11.0 billion declined by 4%. This has been due to higher provisioning charge taken on our corporate and commercial portfolios in addition to the ongoing consumer portfolio charge. However, due to our concerted recovery efforts the quarterly reversal taken this quarter on prior period provisions has been Rs. 356M. Managing credit risk remains the key management challenge for 2008.

Non interest income performed impressively during the period increasing by 52% to Rs. 6.6 billion. Fee and commission income grew by 42% backed by strong corporate finance fees, higher commissions on trade and management fee to mange funds under assets management company. In the first six months of the year our investment banking division closed 21 transactions with a cumulative value in excess of PKR 120 billion generating fee income that has already exceeded the all-time high achieved in 2007. Our derivatives portfolio has performed solidly in the first six months of the year generating an income of Rs.

960M. While we are a major player in the derivatives market in Pakistan, we have not compromised on our stringent risk management parameters and have in place a robust limit structure.

Administrative expenses increased by 19% over the corresponding period last year, with premises cost contributing considerably increase which is mainly owing to addition of 5 new branches, ongoing branch renovations and investments in call centre and core banking facilities. The introduction of the Workers' Welfare Fund in the Finance Act 2008 also plays a part of this increase. Moreover, significant Inflationary pressures on the economy (FY08 CPI at 22%) have also led to an overall increase in personnel and general operating expenses.

Total assets grew by Rs. 45 billion to Rs. 592 billion during the first half of the year with gross advances increasing by10% to Rs. 357 billion and deposits by 15% to Rs. 474 billion.

The Board of Directors is pleased to recommend an interim cash dividend of Rs. 1.5 per share i.e. 15% for the half year ended June 30, 2008.

Trend indicators remain positive (Bank only)

Quarterly P&L - Bank Rs. B	Mar-07	Jun-07	Sep-07 *	Dec-07 *	Mar-08	Jun-08
Net Interest Income	5.8	6.1	6.2	6.0	6.4	6.8
Quarterly growth		4%	2%	-3%	6%	7%
Non Interest Income	2.1	2.2	2.2	2.6	3.0	3.1
Quarterly growth		5%	0%	21%	14%	3%
Pre-Prov.Operating Profit	5.0	4.9	4.9	5.2	5.9	5.9
Quarterly growth		-2%	2%	6%	12%	1%
PBT	**4.6**	**4.4**	**2.0**	**2.0**	**4.4**	**4.5**
Quarterly growth		-4%	-54%	-2%	123%	0%
Total Deposits	**352**	**403**	**381**	**402**	**408**	**466**
Quarterly growth		14%	-6%	5%	1%	14%
Net Advances	**252**	**280**	**280**	**299**	**320**	**329**
Quarterly growth		11%	0%	7%	7%	3%

* PBT affected by additional provisioning of Rs. 3.8 billion due to removal of FSV by SBP taken in 2007.

KEY DEVELOPMENTS

State Bank intervenes with strict policy measures

Deteriorating economic indicators including high trade deficits, increased government borrowings, surging inflation and the weakening rupee forced SBP to further tighten monetary policy. SBP increased the discount rate by 150 bps to 12% and increased the Cash Reserve Requirement and Statutory Liquidity Reserve by 100 bps each to 9% and 19% respectively. SBP also established a minimum rate on all PLS accounts at 5%.

These measures will mean an increase in the cost of deposits and borrowings for banks. However, the loan portfolio will consequently also be revised upwards with the increase in KIBOR. Hence the impact on net interest margins should remain muted. The effect of rising interest rates and economic slowdown has, however, been evident on asset quality. We are aware of this challenge and remain cognizant of the continued focus required in this area. Improving asset quality remains the key management goal for 2008.

Managing risk and delinquencies

Our focus has remained on implementing the policy revisions initiated in the last two quarters. Tighter controls have meant higher quality new acquisitions while our new credit risk and monitoring system is ensuring more effective post disbursement monitoring. Even though provisions remain high, we have nevertheless made headway in collections and recoveries. The trying macro-economic environment will continue to challenge our bottom line due to the impact on asset quality and high provisions. However, we remain confident that we have the resources and the financial strength to weather the economic downturn and that the strengthening of our risk management and monitoring systems will yield positive results.

Deposits growth further strengthens the balance sheet

The balance sheet continued to grow solidly with domestic deposits increasing by Rs. 38 billion in the first six months to Rs. 368 billion. In keeping with our strategy of protecting net interest margins, the focus remained on generating low cost deposits which accounted for 69% of this increase. This is a testament to the remarkable efforts of the field staff especially given the slowdown in the economy. UBL deposit growth outperformed that of the market leading to an increase in our domestic market share from 9.1% in December 2007 to 9.6% in June 2008.

International business continues to deliver

International operations remain a significant revenue and profit driver contributing 19% to the total profitability and 21% to our total assets. The business grew strongly in the first six months of the year with profit before tax increasing by 8% to Rs. 1.7 billion. The balance sheet also strengthened with deposits growing by 37% to 97 billion and advances by 12% to Rs. 72 billion.

Corporate Banking continued to play a pivotal role in contributing towards the bottom-line. While existing relationships were profitably maintained, major inroads were made to the top tier segments in government, contracting, real estate and trading sectors. UAE participated in the Dubai Electricity & Water Authority – Government of Dubai Sukuk issue of USD 750 million.

Retail Banking has grown in the last six months with major focus on secured lending. Our home mortgage product Baitnaa has gained a firm foothold in the UAE market while auto loans have been successfully launched in Qatar and Bahrain.

In line with our strategy to explore new opportunities, we have partnered with China Development Bank (CDB), the largest policy bank in China through a “Development Finance Cooperation Agreement”. We have also signed a Memorandum of Understanding with Banco Itau – the second largest commercial bank in Brazil. This will help to establish a correspondent banking relationship including forex, money market and trade between the two banks with Banco Itau also participating with UBL in projects across Middle East.

Credit rating re-affirmed

The credit rating company JCR-VIS re-affirmed the bank's long-term entity rating at AA+ and the ratings of our four subordinated debt instruments at AA. The short-term ratings remain at A-1+ which is the highest rating denoting the greatest certainty of timely payments by a financial institution.

The re-affirmation of our ratings is based on our diversified and cost effective deposit base, strong international operations and leading corporate and commercial presence in the domestic market. All ratings for UBL have been assigned a Stable outlook.

Looking ahead

Macro economic and political instability, going forward, will continue to impact growth and profitability of the banking sector. We believe that political reconciliation will result in renewed attention to economic management and hence improvement in the operating environment. We believe the bank is well positioned to take advantage of the next economic upturn.

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,

Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman
London
July 25, 2008