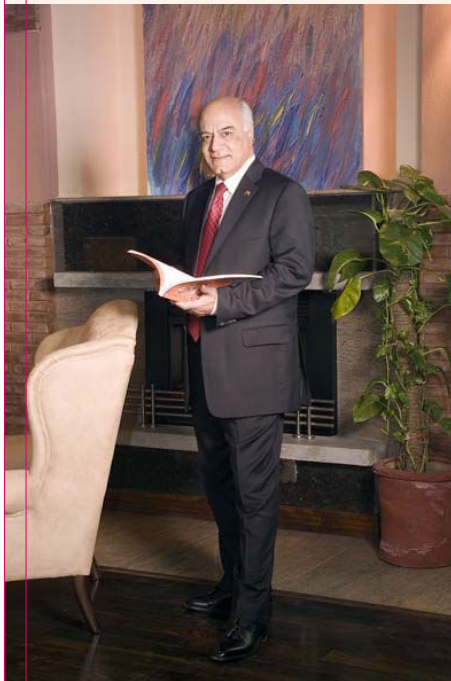


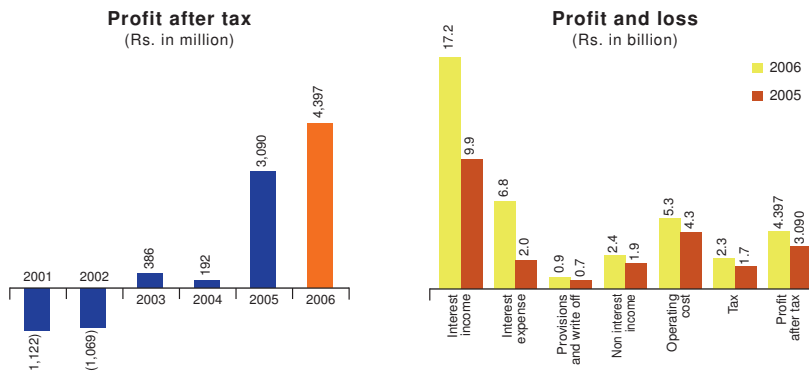
Management Discussion and Analysis



Khalid A. Sherwani
President

Profit

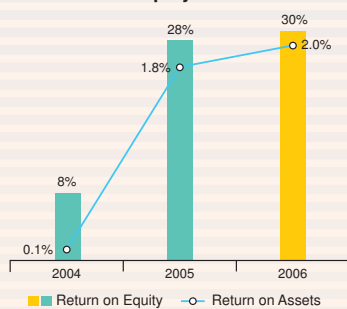
By taking advantage of favorable economic environment complemented by strong branch network and customers' confidence in our bank, we have successfully generated higher revenue, in spite of rising cost of deposits. This resulted in significant bottom line profit growth during 2006.



The after tax profit of the Bank rose significantly to Rs.4,397 million, portraying an impressive growth of 42% over 2005 profit of Rs.3,090 million. The operating profit before provisions and taxes surged by 37% to Rs.7,574 million during the current year. The key driver to this growth was Mark up / Interest income, which rose by 74% over 2005. However, this growth was significantly offset by 236% surge in Mark up / Interest expense. This increase is partially attributed to increased pricing of deposits amid stiff market competition and changing market dynamics.

On the back of strong bottom line growth, Return on Equity improved to 30% from last year's 28%, with Return on Assets improving from 1.78% last year to 1.98% this year.

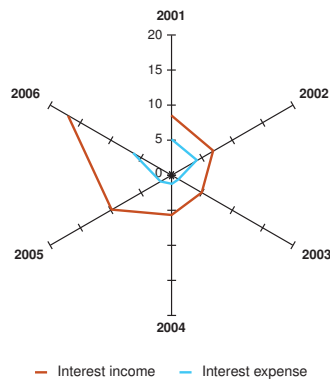
Return on Equity and Assets



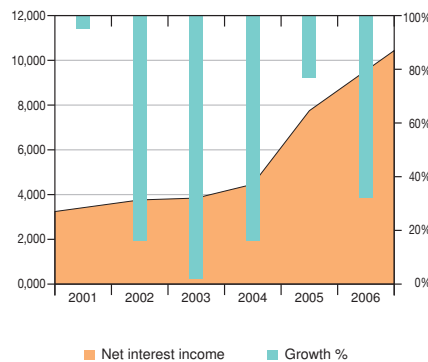
Net Markup / Interest Income

The Bank was able to yet again improve its spread by registering 32% growth in net mark up / interest income to Rs.10.4 billion during 2006. The benefit of yield curve escalation, affecting interest earning assets across the banking industry during the second half of 2006, was significantly offset by the effect of narrower spreads. However, owing to our Bank's continuous efforts to realign its asset portfolio, we have maintained our spread in the vicinity of 5.2% during 2005 as well as 2006.

Interest income and Interest expense (Rs. in billion)



Net interest income (Rs. in million)



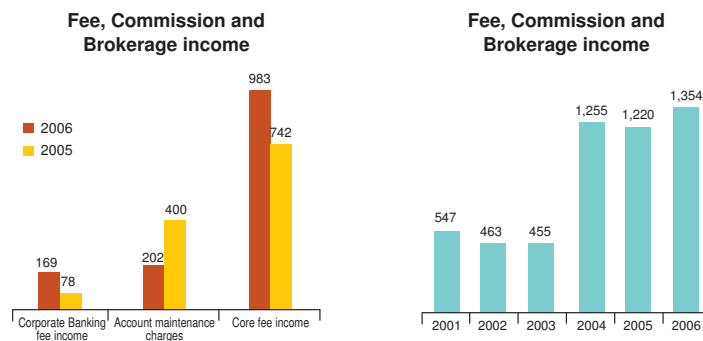
and Analysis

The gross mark up / return income rose by 74% from Rs.9.9 billion in 2005 to Rs.17.2 billion in 2006. This increase is attributable to the increase in average gross advances by 58% (YoY increase is 27%) and surge in yield, mainly during second half of the 2006.

Mark up / interest expense increased significantly to Rs.6.8 billion depicting an increase of 236% over 2005. This increase corresponds to the growth in average deposits by 37% (YoY increase is 28%) and increased pricing. During the current year, the Bank launched two new fixed deposit schemes namely Allied Monthly Income Scheme and Allied Bachat Scheme, offering higher returns to customers. The increase in deposit pricing was principally driven by the changing market scenario and stiff competition. Despite this, the Bank has been able to maintain its cost of deposits below 3.5% during 2006.

Fee, Commission And Brokerage Income

Fee, Commission and Brokerage Income increased by 11% from Rs.1.2 billion during 2005 to reach Rs.1.4 billion. Taking advantage of generally favorable economic and market environment coupled with our aggressive approach in corporate and investment banking, we have managed 116% growth in fee income. This resulted from several large corporate deals in the capacity of Lead Arranger and Advisor. Excluding Account Maintenance Charges, other areas also performed well by marking a growth of 16%, principally due to increased local remittance combined with growing online banking transactions. This growth was achieved despite waiver / reduction of various service charges on certain transactions.



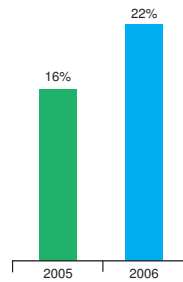
Consistent with the strategy of facilitating our depositors, we waived our charges on minimum balance requirement until the account falls under 'Dormant' status. Account Maintenance Charges have thus reduced by 50% to reach Rs.202 million for 2006.

Capital Gains / Losses and Dividend Income

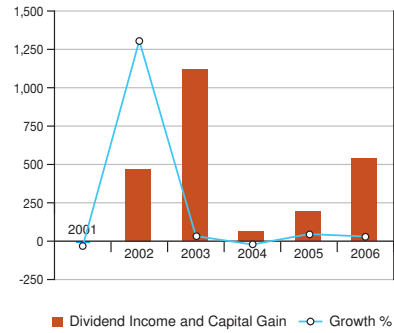
With a view to lessen capital market volatility effects, we focused on wisely diversifying capital market portfolio. We also continued with capitalizing on the opportunities created by buoyant equity market. This has proven its results by attaining 175% growth in capital gain and dividend income to reach Rs.540 million compared to Rs.196 million during 2005. The yield on portfolio thus improved to 22% from last year's 16%.

Management Discussion and Analysis

Average investment yield
on capital market portfolio



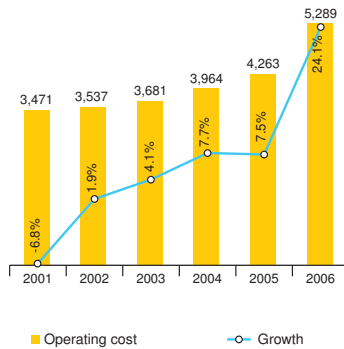
Dividend income and Capital gain



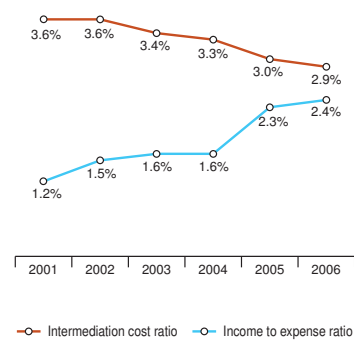
Operating Expenses

Operating expenses experienced a rise of 24% as it aggregated to Rs.5.3 billion in 2006 compared to Rs.4.3 billion in 2005. This increase was mainly driven by 24% surge in staff costs, which were increased strategically to bring employees' remuneration closer to market.

Operating cost



Intermediation cost ratio and Income to expense ratio



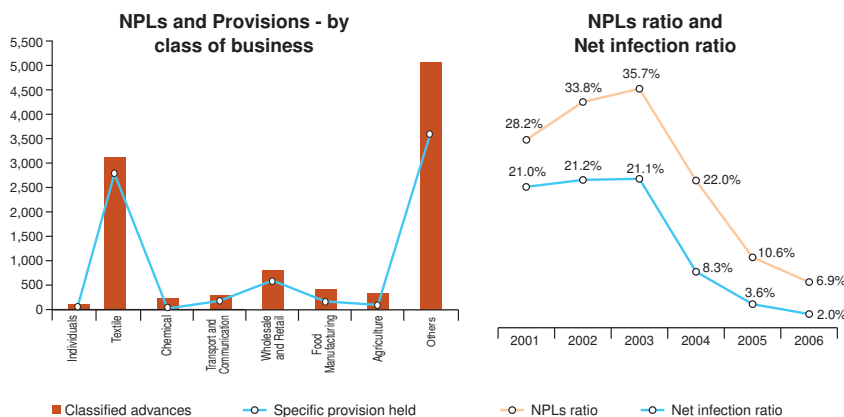
Increased business activities, improving branch infrastructure, growing advertisement needs also led to the increased operating expenses. However, the strong cost control measures resulted in relatively low level of rise in expenses compared to the large increase in operating income. As a result, the income to cost ratio improved to 2.43 times from last year's 2.30, which is a testament of utilizing increased expenses in a productive manner.

Loans Quality Analysis

In determining the classification of loan portfolio, we apply series of criterias that are derived from SBP guidelines. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by five category loan classification.

Rupees in thousands	December 31, 2006		December 31, 2005	
Performing	141,226,829	93.1%	107,166,333	89.4%
Other assets especially mentioned	35,811	0.02%	–	0.0%
Substandard	534,865	0.4%	673,263	0.6%
Doubtful	659,307	0.4%	441,982	0.4%
Loss	9,248,606	6.1%	11,584,093	9.7%
	151,705,418	100%	119,865,671	100%

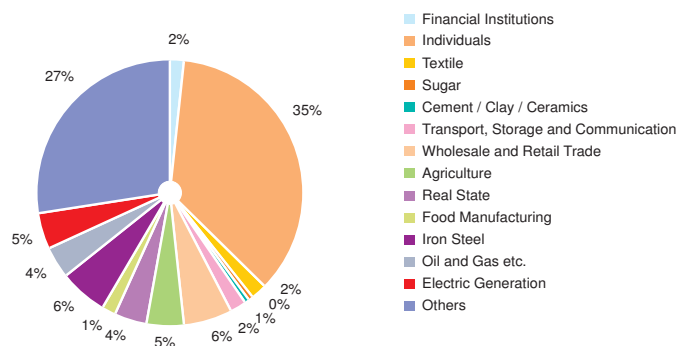
Strengthening credit risk management and internal control resulted in loan quality improvement. This is reflective through decrease of NPL ratio from 11% at the end of 2005 to 7% at the end of 2006. Simultaneously, Net Infection ratio improved impressively from 3.64% at the end of 2005 to 1.96% at the current year end. The Loan Loss Coverage ratio increased from 68% to 73%.



Deposits

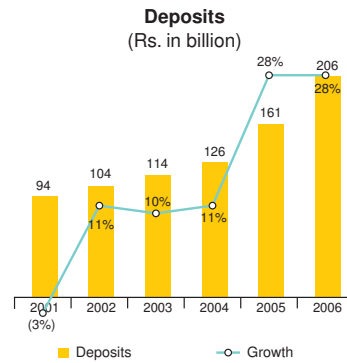
The total deposits increased to Rs.206 billion from last year's Rs.161.4 billion, reflecting a growth of 28% with our market share increasing by 80 basis points to 6.9%. This growth was achieved despite stiff competition for deposit mobilization during FY06.

Deposits - Segment wise business



Management Discussion and Analysis

Deposits continued to be our major source of funding as we maintained an extensive customer base. Continuous expansion in Pakistan's economy, growth in per capita income, and rising interest rates for time deposits were the main reasons for the continued increase in the deposits.

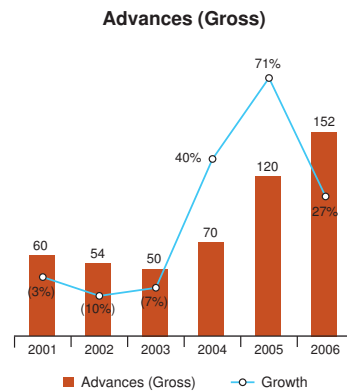


Owing to tight market liquidity, banking industry resorted to costlier deposits. Our Bank was not an exception to this as fixed deposits and remunerative current accounts, in aggregate, rose by 83% to reach Rs.82.7 billion. Despite tough market conditions, we were able to not only maintain our core deposits but posted a growth of 6% to reach Rs.123.4 billion from last year's Rs.116 billion.

Advances

The advances portfolio grew by 27% to Rs.151.7 billion from Rs.120 billion for last year, due to aggressive big ticket quality corporate lending.

Corporate loans are the largest component of our advances portfolio. At year end 2006, corporate loans amounted to Rs.115.4 billion, growing significantly by 45% from last year's Rs.79.6 billion. This strong growth is well diversified among various segments as well as in different tenors.

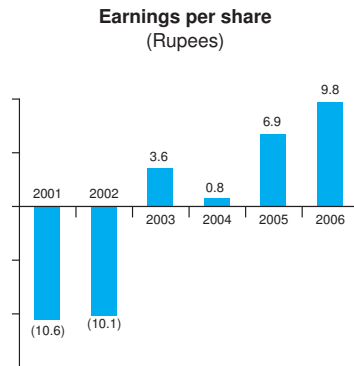


In recognition of persistent endeavor to close creative and challenging investment banking transactions, we were awarded "THE CORPORATE FINANCE HOUSE OF THE YEAR - BANK 2005-06", by CFA Association of Pakistan.

Discussion and Analysis

Earnings Per Share (EPS)

The EPS of the Bank for the year ended 2006 is Rs.9.80 per share, which increased by 42% from last year's Rs.6.88 per share.



Capital Adequacy

The capital adequacy ratio increased to 12.8% as at December 31, 2006 in contrast to 12.17% as at December 31, 2005. This improvement is attributed to the increased retained earnings and Tier II capital.

