

Directors' Review

First Quarter Ended March 31, 2007

On behalf of the Board of Directors, we are pleased to present the financial results of the Bank for the three months ended March 31, 2007.

	Quarter ended March 31		
	(Rupees in million)		
	2007	2006	Growth
Profit after tax	1,351	1,077	25%
Un-appropriated profits brought forward	5,608	2,732	105%
Transfer from surplus on revaluation of fixed assets – net of tax	4.6	4.7	(2%)
Profit available for appropriation	6,964	3,814	83%
Final cash dividend for the year ended December 31, 2006 (Rs.2.5 per ordinary share)	1,122	–	100%
Transfer to Statutory Reserves	270	109	148%
Un-appropriated profits carried forward	5,571	3,705	50%
Earnings per share	2.51	2.00	26%

Our Bank continued its growth momentum with sustainable profits. Innovative customer solutions, enhanced services, alignment with market conditions, online & internet banking have been instrumental factors towards our growth.

Profit after tax during the first quarter of 2007 registered an appreciable growth of 25% to reach Rs. 1,351 million over the corresponding quarter of 2006. Operating profit improved to Rs. 2,160 million or 17%. Provision/charge for non performing assets decreased by 40% to Rs. 151 million.

The markup/interest income of the Bank grew by Rs. 1,466 million or 39% to Rs. 5,190 million as a result of increased average advances and improved loan pricing. Our Bank was able to strategize its assets portfolio so as to be responsive to the changing market scenario.

With an improved average deposit mobilization and higher rates on deposit caused significant increase in cost of funds by 127 basis points to 4.33% which translates to an aggregate cost of Rs. 2,313 million for the quarter, depicting a rise of 79% over comparable quarter of 2006. However, the Bank managed its deposits mix so as to maintain the spread at 5.3%. As a result, net markup/interest income increased to Rs. 2,877 million or 18%.

Our Bank's assets rose by 4.5% to Rs. 263 billion over December 2006 despite a modest decline of 3% in advances compared to industry's decline of 1% over December 2006. Average advances of the Bank for March 2007 grew by 6% compared to December 2006. Non performing advances were maintained at Rs. 10.5 billion with NPLs ratio maintained at around 7%. Simultaneously, net infection ratio decreased slightly from 1.96% to 1.94%

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with loan loss coverage ratio increasing marginally from 73% to 74%. Investments grew by 32% to Rs. 61.8 billion over December 2006 which was mainly due to the increase in Treasury Bills portfolio. Deposits grew by 5.3% to reach Rs. 217 billion over Rs. 206 billion, as at December 2006.

Focusing on the strategic priorities, our Bank will continue investing in human resources, technology & enhanced facilities. As a measure of its improved services, the Bank has an honor of achieving the largest ATM network of 350 ATMs spread over 125 cities across Pakistan.

We would like to express our gratitude to our customers and shareholders for their trust and patronage, State Bank of Pakistan and other regulatory bodies for their continued support, and employees for hard work and dedication.

Khalid A. Sherwani
President

Mohammad Naeem Mukhtar
Chairman

Dated: April 27, 2007
Place: Lahore