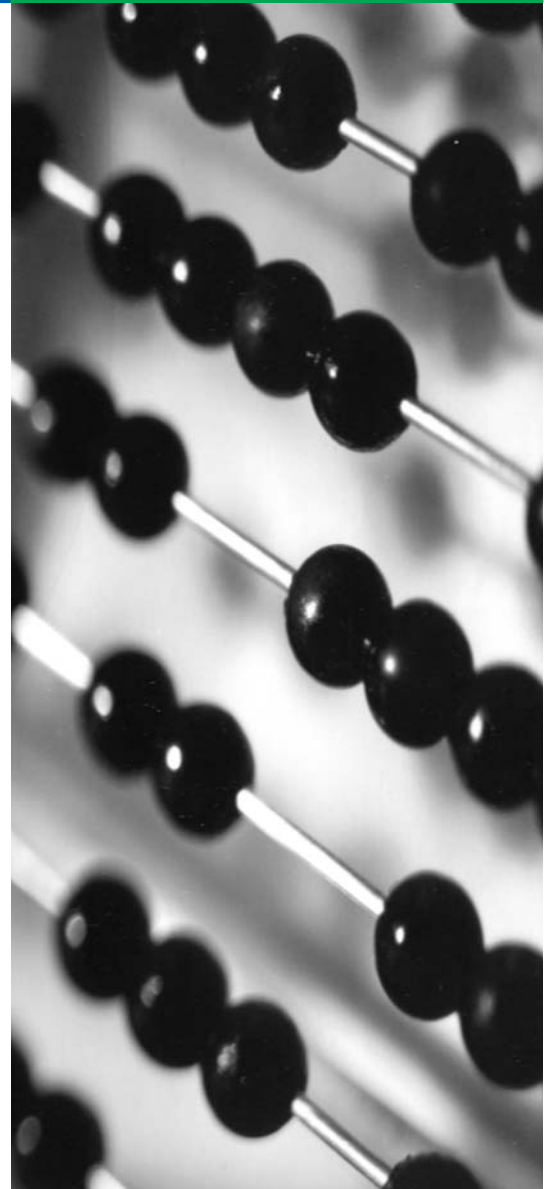


May 2008

BANKS
PAKISTAN

Pakistan Banks



Ahmed Raza Khan
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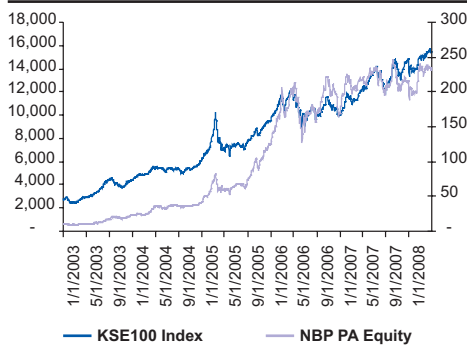
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0800-2-34-34

Recommendation BUY
Fair Value PKR 255

Bloomberg Code NBP PA
Current Price (PKR) 225.00
Average Price (PKR) 216.28
Average Volume 10,685,908
Market Cap (PKRmn) 206,215
Paid-up Capital (PKRmn) 8,969.75
Shares Outstanding (mn) 896.98
KSE100 Index Weightage 4.93%

NBP: Price Performance



Source: Bloomberg

NBP: Financial Highlights

	CY07A	CY08E	CY09E
EPS(PKR)	21.2	23.9	25.9
DPS(PKR)	6.82	7.5	8.5
BVPS(PKR)	129.7	149.5	167.9
PE(x)	10.6	9.4	8.7
PB(x)	1.7	1.5	1.3
ROAA	2.7	2.7	2.6
ROAE	19.2	17.3	16.5

Source: Company Reports & IGI Research

National Bank of Pakistan

Market Position

Despite being the largest bank in terms of capitalization NBP has maintained a dormant position in the market, not fully leveraging excess liquidity on its balance sheet. The ADR ratio at 57% has lagged behind other Tier I banks with industry average estimated at 70% as of Dec07. However, moving forward available leverage provides high growth potential compared to peers. At current levels the scrip is trading at 13% discount to our price objective at 2008E PE and PB multiple of 9.4x and 1.51x respectively. We recommend an overweight stance in NBP.

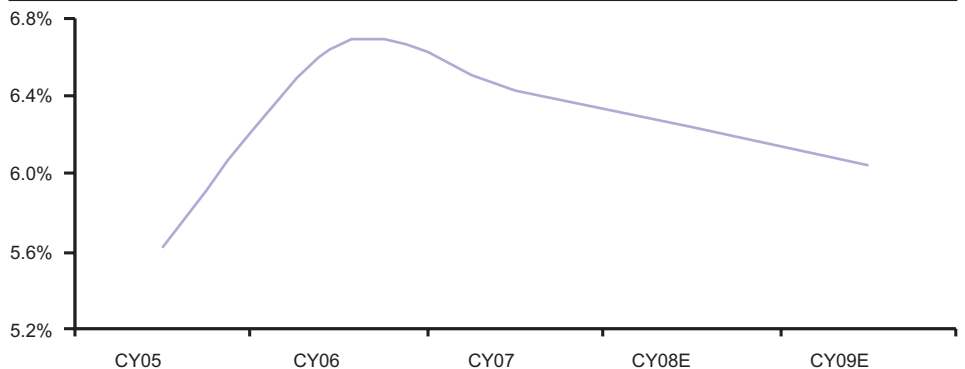
NBP faces a number of challenges in areas of personnel development and a weak technology infrastructure. NBP's restructuring effort has lagged peers and conservative management stance in introducing new products has led to decline in overall market share. During CY07, market share of domestic deposits declined to 14.3% as compared to 16% earlier.

In CY07, NBP's Capital adequacy ratio was reported at 20% as compared to SBP requirement of 8%. The excess capital has led to a compression in ROE and is the lowest amongst Tier I banks. However, in CY07 NBP announced a dividend of PKR 7.5 per share, disbursing excess value to shareholder from its books. Going forward, we expect NBP to maintain high payout aiding in ROE improvement.

NIM remains strong

NBP enjoys one of the highest margins amongst Tier I banks. During CY07, NIM was reported at 6.45% representing a marginal decline of 25bps YoY on account of rising funding costs. However, moving forward this decline is likely to be restrained and we expect NIMs to stabilize around the 6% level.

NBP: Net Interest Margin



Source: Company Reports & IGI Research

On the advances front, NBP has increased its focus towards high yielding consumer segment which bodes well in terms of diversification of business mix and safeguarding NIMs. NBP holds 16% market share in consumer financing with robust growth in advance salary and mortgage financing schemes. As of Dec-2007, NBP had the largest mortgage portfolio amounting PKR 9.35bn. Going forward, we expect NII growth of 13% and advances growth of 15% in CY08E.

Bank Al Jazira Investment

NBP has been trying to offload its 5.83% stake in Bank Al-Jazira (BAJ) for sometime now. However, all attempts to do so have been unsuccessful in getting an attractive price and thus the future of its holding remains uncertain. At current prices and exchange rate divestment will translate into a pre-tax gain of PKR 9.40bn (PKR 10.5 per share). In terms of size, NBP's international assets are comparable to HBL and UBL; however return on international operations has lagged peers.

Issuance of GDR's

The government plans to divest part of its holding in NBP through issue of GDRs on the London Stock Exchange. Initial plans to float GDRs in OCT-07 were delayed due to political turbulence in the country. The GDR issue will increase the free float of the stock and the scrip might witness short-term spike in price.

(All prices are as of April 30, 2008)

MCB Bank Limited

Recommendation **NEUTRAL**
Fair Value **PKR 400**

Bloomberg Code	MCB PA
Current Price (PKR)	415.00
Average Price (PKR)	332.92
Average Volume	4,663,350
Market Cap (PKRmn)	258,850.00
Paid-up Capital (PKRmn)	6,282.77
Shares Outstanding (mn)	628.28
KSE100 Index Weightage	6.18%

MCB is the fourth largest bank in terms of assets and deposits with market share estimated at 8% as of Dec-2007. Over the years, MCB has posted manifold growth in profitability backed by highest NIMs in the industry, captive low cost CASA deposits constituting 88% of total deposits, and the best operating efficiency ratio aided by gains on over-funded pension plan. Moreover, the overall risk profile and asset quality has vastly improved over time with NPL ratio down to 5% as compared to 11% in CY03. However, at current levels we believe all the investment positives have already been discounted by the market and the scrip is trading at 4% premium to our PO at 2008E PE and PB multiple of 14.7x and 4x respectively. At current levels, we maintain a 'Neutral' recommendation on MCB.

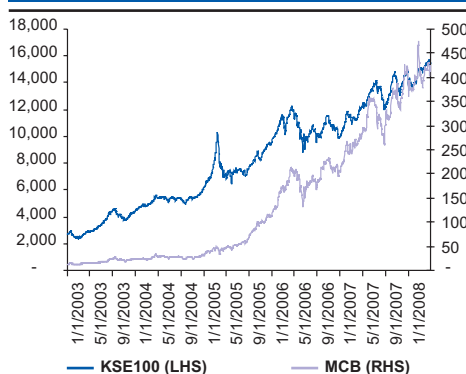
NIM expansion to subside

Over the years, MCB has posted robust NII growth, averaging 54% during CY05-CY07, mainly based on growth in NIM as volumetric growth has lagged peers. The rising yield on earning assets coupled with large low cost CASA deposits (88%) has led NIM to surge to 7.3% as compared to 3.1% in CY04. However, going forward we expect margin outlook to remain flattish as we expect firm trend in rise in cost of funding to offset high asset yield resulting from increased penetration in retail segment. Moving forward we expect NII to grow by 12% in CY08E as compared to 13% in CY07.

Advances and Deposit Mix

On the deposits front, MCB's focus has been to utilize its strong branch network in shoring up low cost deposits base in an effort to safeguard spreads. As a result, MCB has not pursued aggressive deposit mobilization in the form of term deposits. This has resulted in deposit growth to lag peers, growing by 13% in CY07 as compared to industry growth rate estimated at 19%. Going forward tighter inter-bank liquidity could compel banks to offer high rates resulting in rising cost of deposits and pressure on NIMs.

MCB: Price Performance



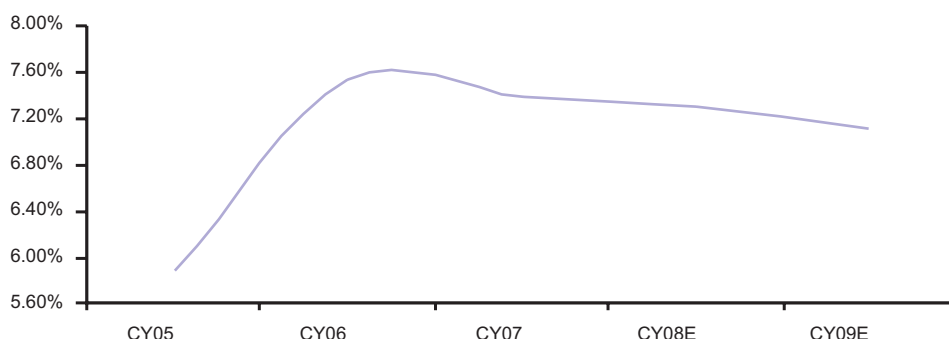
Source: Bloomberg

MCB: Financial Highlights

	CY07A	CY08E	CY09E
EPS(PKR)	24.3	28.23	31.51
DPS(PKR)	12.5	12.5	12.5
BVPS(PKR)	87.7	105	124.2
PE(x)	17.1	14.7	13.2
PB(x)	4.7	4.0	3.3
ROAE	31.82	29.5	27.9
ROAA	4.06	4.06	3.97

Source: Company Reports & IGI Research

MCB: Net Interest Margin



Source: Company Reports & IGI Research

MCB's advance growth has remained buoyant averaging 17% during CY05-CY07. In recent times, MCB has increased penetration in the high margin retail segment. However, key challenges to success in consumer banking include late entry coupled with existing brand equity of players like UBL, declining demand as a result of high interest rate sensitivity, and risk of growth in delinquent loans amidst rising interest rates. Going forward, we expect advances to grow by an average 15% in CY08-CY09E.

Pension Plan Surplus

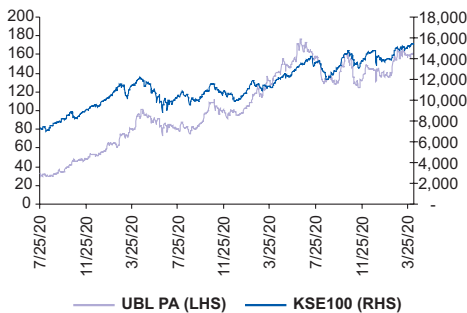
MCB has the most efficient cost-to-income ratio amongst major banks at 18.6% in CY07. However, the ratio is somewhat misleading as the growth in administrative expenditure is netted against gains on pension assets masking the overall impact. During CY07, employee salaries cost surged 24% to PKR 5.8bn as compared to PKR 4.6bn earlier. However, the bank booked 5.5bn in gains on pension plan assets resulting in overall administrative expenditure to decline 23% to PKR 5bn as compared to PKR 6.5bn earlier. Going forward, after the full amortization of unrealized gains, the administrative expenditures are expected to rise significantly.

(All prices are as of April 30, 2008)

Recommendation BUY
Fair Value PKR 190

Bloomberg Code UBL PA
Current Price (PKR) 143.00
Average Price (PKR) 141.22
Average Volume 1,516,846
Market Cap (PKRmn) 1,011.72
Paid-up Capital (PKRmn) 10,117.19
Shares Outstanding (mn) 162,380.90
KSE100 Index Weightage 3.87

UBL: Price Performance



Source: Bloomberg

UBL: Financial Highlights

	CY07A	CY08E	CY09E
EPS(PKR)	8.31	12.69	14.62
DPS(PKR)	2.4	3.5	3.5
BVPS(PKR)	41.9	52.7	64.3
PE(x)	17.2	11.3	9.8
PB(x)	3.4	2.7	2.2
ROAA	1.76	2.3	2.2
ROAE	23.3	26.8	25.1

Source: Company Reports & IGI Research

United Bank Limited

We have revisited our model assumptions after the release of recent results and reiterate our bullish stance on the scrip. Our price objective for UBL is PKR 190 per share based on normalized ROE analysis and 2008E book value. At current levels the stock is trading at 2008E leading PB multiple of 2.7x and at 33% discount to our target price. We make a 'Buy' recommendation on UBL.

Earnings power firmly intact

In CY07, the after-tax profitability slumped in the wake of non-recurring incremental NPL provisioning of PKR 3.8bn. Against this backdrop, UBL reported an EPS of PKR 8.31 representing a 5% decline YoY. However, UBL's operating performance continues to impress with robust top-line and Non-fund income growth. Net Interest Income (NII) grew by an impressive 16% mainly attributable to volumetric expansion. Non-interest income grew by a stellar 29% backed by strong fee income and windfall capital gains on investments. Going forward, we expect NII growth of 15% and non-fund based income growth to rationalize at 16% in CY08E.

Tapping into international markets

A key advantage for UBL is diversification in the form of foreign business portfolio. International operations constitute 25% of overall profits and 20% of total assets. Notwithstanding the downturn in overall credit growth of the domestic banking industry to mere 3%, UBL posted impressive double digit advances growth of 21% in CY07. The overseas loans portfolio registered benign growth of 67%, providing an effective hedge to sluggish credit off-take domestically. Going forward, UBL plans to launch mortgage and auto loans products in the Middle East and explore other untapped avenues in international markets.

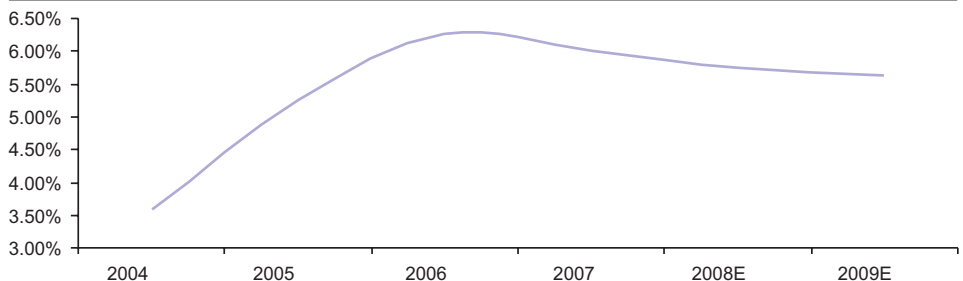
Up-tick in cost-to-income ratio

In CY07, operating costs surged by 22% resulting in an up-tick in the cost-to-income ratio of 100bps to 41.3%. The growth trend in operating expenses, averaging 23% over the past 3 years, was largely incurred as a result of rising employee costs and technology initiatives being put on overdrive coupled with comprehensive brand building effort. Going forward, we expect operating cost to grow by 15-17% in CY08E.

Margin outlook remains flat

We believe the margin outlook is at best likely to be flattish, though we model a marginal decline in our projections for CY08E by 30bps, given the potential continuation of a firm trend of rise in cost of funding. The robust growth in credit book necessitated an expansion of high cost fixed deposits. Since 2004, contribution of low cost CASA deposits have declined whereas proportion of fixed deposits has increased resulting in higher interest expense. However in CY07, amidst the downturn in credit off-take UBL focused on shoring up low cost CASA deposit base which improved by 3.1% to 66.5% of deposit franchise.

UBL: Net Interest Margin

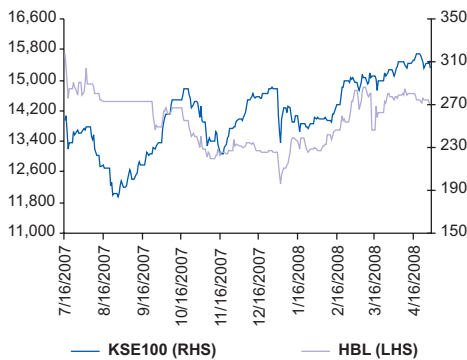


Source: Company Reports & IGI Research

Recommendation BUY
Fair Value PKR 296

Bloomberg Code HBL PA
Current Price (PKR) 269.00
Average Price (PKR) 255.37
Average Volume 2,033,473
Market Cap (PKRmn) 205,689
Paid-up Capital (PKRmn) 7,590
Shares Outstanding (mn) 759
KSE100 Index Weightage 4.92%

HBL: Price Performance



Source: Bloomberg

HBL: Financial Highlights

	CY07A	CY08E	CY09E
EPS(PKR)	10.59	19.18	23.17
DPS(PKR)	3.6	4.0	4.0
BVPS(PKR)	76.34	90.3	106.3
PE(x)	25.4	14.0	11.6
PB(x)	3.5	3.0	2.5
ROAA	1.32	2.08	2.22
ROAE	14.85	22.84	23.04

Source: Company Reports & IGI Research

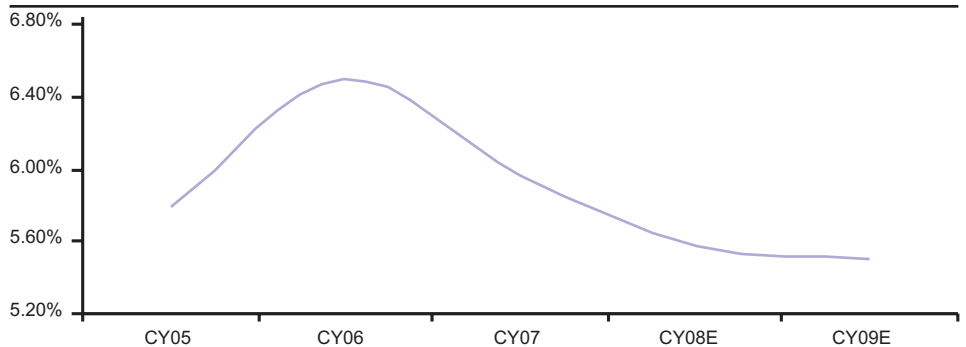
Habib Bank Limited

HBL has a dominant presence in the banking sector with the largest advances portfolio and market share of domestic advances estimated at 12% as at Dec-07. Moreover, a low cost deposit base due to extensive branch network is a key advantage. HBL along with other Tier I banks continues to enjoy favorable interest rate spreads. At current levels, the scrip is trading at 10% discount to our PO at 2008E PE and PB multiple of 14x and 3x respectively. We maintain a 'Buy' recommendation on HBL with a target price of PKR 296 per share based on normalized ROE analysis and 2008E book value.

Earnings to bounce back in CY08

During CY07, the after-tax profitability of most banks declined significantly due to withdrawal of collateral's forced sale value benefit in determining NPL provisioning. HBL had the most adverse pre-impact on earnings of PKR 7.6 per share ensuing in 33% YoY decline in profitability. During CY07, operating income increased by a miniscule 3% YoY mainly attributable to flat interest based income. Net Interest margin declined 53bps to 5.96% as compared to 6.49% as a result of slow advances growth of 8%, lowest amongst Tier I banks. Moreover, high operating expenditure mainly attributed to ongoing restructuring and staff retrenchments cost has restricted bottom-line growth. However, going forward with major infrastructure costs already incurred and no further retrenchments planned bodes well for HBL's bottom-line growth.

HBL: Net Interest Margin



Source: Company Reports & IGI Research

Moving forward we expect HBL's profitability to bounce back with 2008E EPS at PKR 19.18. We expect NII to grow by 11% in 2008E on the back of 16% advances growth, stable NIMs at 5.8% level and improved CASA profile (75%). Our stance is further re-enforced by the recently announced 1Q CY08 results in which HBL posted EPS and NII growth of 30% and 11.8% respectively.

Fee-income expected to rise

HBL's strong group backing (AKFED Foundation) and alliances in related insurance and microfinance business offer attractive opportunities for developing fee based income. HBL has launched a 'Bancassurance' product in collaboration with New Jubilee Life Insurance company. Going forward, HBL will benefit from increased diversification in offerings and we expect non-interest income to grow by 19% in CY08E.

Asset Quality

Asset quality has been a major concern post-privatization with a legacy of NPLs. HBL has actively pursued a policy of provisioning and recovering delinquent loans resulting in a downtrend in NPL-to-Advances ratio. During CY07 the NPL ratio improved to 6.8% as compared to 8% earlier. However, exposure to textile sector increased to 22% as compared to 18% earlier. The dismal performance of textile exports may result in defaults and declining asset quality.

International Operations

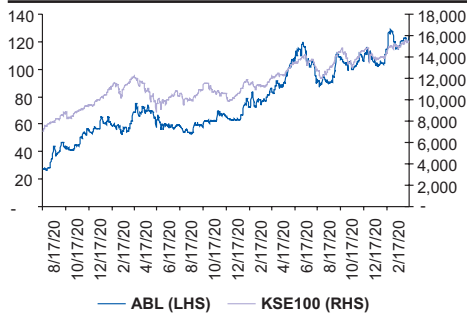
In terms of size, HBL has the largest international operations with 19% assets deployed overseas. During 2007, HBL posted ROAA of 3.5% and ROE of 18%. HBL's return on assets is higher than NBP (1.6%) and comparable to that of UBL (3.6%). Moving forward the bank intends to increase international penetration with focus on Middle East and Africa.

(All prices are as of April 30, 2008)

Recommendation **NEURAL**
Fair Value **PKR 121**

Bloomberg Code **ABL PA**
Current Price (PKR) **118.00**
Average Price (PKR) **97.76**
Average Volume **923,435.00**
Market Cap (PKRmn) **646.36**
Paid-up Capital (PKRmn) **6,463.64**
Shares Outstanding (mn) **80,149.18**
KSE100 Index Weightage **1.89**

ABL: Price Performance



Source: Bloomberg

ABL: Financial Highlights

	CY07A	CY08E	CY09E
EPS(PKR)	6.31	9.4	10.7
DPS(PKR)	2.5	3.5	4
BVPS(PKR)	30.7	37.5	44.3
PE(x)	18.70	12.6	11.0
PB(x)	3.80	3.1	2.7
ROAA	1.4	1.7	1.6
ROAE	21.7	27.6	26.1

Source: Company Reports & IGI Research

Allied Bank Limited

We maintain our 'Neutral' Recommendation on ABL with a target price of PKR 121 per share based on normalized ROE analysis and 2008E book value. At current levels, the scrip is trading at 2008E PE and PB multiple of 12.6x and 3.1x respectively.

Blue chips dominate loan portfolio

Corporate banking activities are the mainstay of ABL's business mix. Nearly 80% of ABL's loan portfolio comprises blue chip corporates. Moreover, ABL has increased penetration into the SME segment to 15% of its loan book. Transaction value of its investment banking operations, in both corporate advisory and capital markets has also increased to PKR 241mn in CY07.

ABL's senior management has already highlighted plans to diversify its asset mix with and increasing focus on consumer banking. However, initial plan to launch credit cards in Feb-Mar CY08 have been delayed. Against this backdrop, with lack of aggressive penetration in the near term we expect consumer banking to remain largely untapped. Going forward, the lack of diversification in terms of sizeable consumer and commercial business portfolio is a key risk facing the bank.

NIM compression on the horizon

During CY07 we saw a compression in NIMs by 90bps to 4.6% on account of rising costs of deposits and marginal decline in average yield of assets. Over the past year, asset yields declined by 30bps to 9.3% whereas deposit rates posted an up-tick of 40bps. Moving forward we expect further NIM compression of 20-30bps as the cost of deposits continues to rise. However this decline is likely to be restrained and we expect NIM to stabilize at 4.3-4.4% level as the proportion of CASA rises in the deposit mix. In CY07, CASA grew by 13% to PKR 191mn representing 72.4% of the deposit franchise.

ABL: Net Interest Margin



Source: Company Reports & IGI Research

Fee Income driving profitability

Since corporate restructuring in August 2004, ABL has generated robust growth in assets and stronger earnings. This is attributed to increase in fee income which grew 52% during CY07, and at a 3yr CAGR of 19% as of Dec07. The key drivers behind this uptrend in non-fund based income are increased penetration in investment banking, trade-related financing and remittances business. Going forward, we expect fee income to grow by 20% in CY08E.

Asset Quality

Since privatization, ABL's management has proactively pursued a declining NPL-to-Advances ratio; down to 6.7% from 7.3% earlier. During CY07, ABL's non-performing loans grew by 8.4% as compared to advances growth of 17%, resulting in a dip in the infection ratio. A key risk facing the banking sector is the rising levels of NPLs which surged to PKR 181.5bn in Dec07 as compared to PKR 169.9bn in 3QCY07. The dismal performance of corporate sector especially textiles might results in defaults and declining asset quality. Against this backdrop, ABL's over-reliance on corporate sector including 22% exposure to textiles might result in rising NPLs and deterioration of asset quality.

(All prices are as of April 30, 2008)

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Analyst Certification

I, Ahmed Raza Khan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject, securities and issuers. I also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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