

Directors' Review

for the quarter ended March 31, 2009

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Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank Limited for the three months ended March 31, 2009.

Financial Highlights

	(Rupees in million)		Growth
	Three months ended March 31		
	2009	2008	
Profit after tax	1,448	1,357	6.7%
Un-appropriated profits brought forward	8,537	6,971	22.5%
Transfer from surplus on revaluation of fixed assets – net of tax	8.1	4.4	84.1%
Profit available for appropriation	9,993	8,333	19.9%
Final cash dividend for the year ended December 31, 2008 (2008: year ended December 31, 2007) at Rs.1 per share (2008: Rs.1.5 per share)	(646)	(808)	(20.0%)
Transfer to Statutory Reserves	(290)	(271)	7.0%
Un-appropriated profits carried forward	9,057	7,254	24.9%
Earnings per share (EPS) for three months (Rs.)	2.24	2.10	6.7%

Economic and Financial Overview

The economy of Pakistan has started showing the signs of improvement and almost all the economic indicators show a positive trend. However many milestones have yet to be achieved to put the economy back on the track of stability and growth.

In this challenging scenario the strategy of your bank is to treat 2009 as a year of consolidation and to focus on the quality of assets and improve the deposit mix to reduce cost to ensure steady growth in profit of your bank. At the end of the quarter under review, your bank managed to change the deposit mix by improving its Current Accounts and Saving Accounts (CASA) mix to 52.6% as against 50.5% as on December 31, 2008. Reliance on costly deposits has been further reduced and its share in the total deposit has come down to 47.4% as compared to 49.5% as on December 31, 2008. In line with this strategy the Balance Sheet size of your bank is at Rs. 347,697 million, whereas equity of the bank increased by 11.0% over December 2008 to reach Rs. 24,810 million. The total deposits are at Rs.284,683 million as on March 31, 2009 as against Rs.297,475 million on December 31, 2008. The loan portfolio of your bank stands at Rs.203,542 million as on March 31, 2009 as compared to Rs.223,640 million as on December 31, 2008.

During the quarter under review (Q1'09), markup income grew by 60% led primarily by improved yield on earning assets. Cost of deposits increased by 68% during Q1'09. The major reasons for the increase in cost of deposits are the SBP regulation of paying profit at a minimum of 5%, effective June 1, 2008, on all PLS deposits and the staggered increases of 500 basis points in the SBP's discount rate during year 2008. Net interest income, increased by 49% during Q1'09 to Rs.4,313 million as compared to Rs.2,889 million during the corresponding quarter of the previous year. Due to improved deposit mix, interest rate spread increased to 6.3% as compared to 5.7% during the year 2008.

Your bank has achieved an operating profit of Rs 3,302 million for the Q1'09, up by 38% over corresponding period of last year (Q1'08) and profit after tax of Rs 1,448 million, an increase of 6.7% over Rs. 1,357 million for Q1'08.

Impairment on Available for Sale Listed Equity Instruments

SBP BSD Circular dated February 13, 2009 allowed to follow Securities and Exchange Commission of Pakistan (SECP) notification dated February 13, 2009 allowing that the impairment loss, if any, recognized as on December 31, 2008 due to valuation of listed equity investments held as "Available for Sale" may be shown under the equity. The amount taken to equity including any adjustment/effect for price movements shall be taken to Profit and Loss Account on quarterly basis during the year ending December 31, 2009.

As a prudent policy, your bank opted to charge to the profit and loss account for the year 2008 Rs. 1,687 million of the total impairment amount and carried forward the balance amount of Rs.1,859 million to the year 2009. After the improvement in the Karachi Stock Exchange Index, this has reduced to Rs.503 million as on March 31, 2009. In accordance with guidelines of the SECP and SBP circulars stated above, the first quarter impairment of Rs.126 million is recognized in the Profit and Loss Account and balance of Rs. 377 million is included in the total amount of revaluation surplus/deficit reported under equity as at March 31, 2009.

The full recognition of impairment loss based on the market values as at March 31, 2009 would have had the following effect on these financial statements:

	Rupees in '000
Increase in 'Impairment Loss' in Profit and Loss Account	377,309
Decrease in tax charge for the year	132,058
Decrease in profit for the year - after tax	245,251
Decrease in earnings per share - after tax (basic and diluted) (Rs.)	0.38
Decrease in deficit on revaluation of available for sale securities	377,309
Decrease in un-appropriated profit	245,251

Allied Bank Receives IFC Trade Guarantees for Cleaner and Energy Efficient Equipment

International Finance Corporation (IFC), a member of the World Bank Group, has sanctioned your bank a sustainable finance facility, which issues trade guarantees for cleaner and more energy-efficient equipment. Under this facility, IFC will issue guarantees against Allied Banks' underlying trade transactions, covering payment risk and helping increase Pakistan's global trade volumes. Under the sustainable finance facility, a part of the IFC Global Trade Finance Program, banks can seek coverage for trade transactions involving goods that satisfy IFC's eligibility guidelines for sustainability. As part of the agreement, IFC will also train your bank's human resource regarding the transactions to meet their sustainability guidelines.

International trade is an important component of our strategy and vision of your bank. We are confident that through this alliance with IFC, we will provide our trade customers with greater choices, while ensuring that the bank is better positioned in terms of future growth opportunities.

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Future Outlook

Pakistan has been provided by International Monetary Fund's Stand-by Agreement (SBA) support while the external commodity pressures have also subsided. An amount of US\$3.9 billion under the SBA has also been received which has improved the country's foreign exchange reserves to US\$11,200 million. Global commodity prices have declined by more than 60% ~ 75% from their peak. On the domestic front, there is significant improvement in the macroeconomic indicators i.e. exchange rate, inflation, domestic and external balance. Downward trends are visible in Inflationary aggregates and are expected to witness significant reduction during the coming months.

Under these circumstances, your bank would continue to adhere to its strategy of consolidation and foresees that this will result in increased profits during the year 2009.

Acknowledgment

We take this opportunity to thank our valued customers for their patronage, to our employees for their continued commitment, our shareholders for their trust and confidence and State Bank of Pakistan and other regulatory bodies for their continued guidance.

Mohammad Aftab Manzoor
Chief Executive Officer

Mohammad Naeem Mukhtar
Chairman

Dated: April 25, 2009
Place: Faisalabad