

Directors' Review  
for the Nine Months ended September 30, 2008

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the consolidated financial results of Allied Bank Limited (the bank) and its Subsidiary Company for the nine months ended September 30, 2008.

**Financial Highlights**

	(Rupees in million)		Growth
	Nine months ended September 30,		
	2008	2007	
Profit after tax	3,723	4,150	-10.3%
Un-appropriated profits brought forward	6,973	5,608	24.3%
Transfer from surplus on revaluation of fixed assets - net of tax	13.2	13.8	-4%
Profit available for appropriation	10,709	9,772	9.6%
Final cash dividend for the year ended December 31, 2007 (2007: year ended December 31, 2006) at Rs.1.5 per share (2007: Rs.2.5 per share)	(808)	(1,122)	-28%
Interim cash dividend for the year ending December 31, 2008 (2007: year ended December 31, 2007) at Rs. 1.5 per share (2007: Rs.1.5 per share)	(970)	(808)	20%
Transfer to Statutory Reserves	(748)	(830)	-9.9%
Un-appropriated profits carried forward	8,184	7,012	16.7%
Earnings Per Share (EPS) for nine months	5.76	6.42	-10.3%

**Economic and Financial Overview**

The country is confronted with various challenges emanating from the ongoing global macro and micro economic scenario. Mounting inflationary pressures, rising trade and fiscal deficits have drastically affected the momentum of business growth. As a result, GDP growth target of 5.5% for fiscal year 2008-09 is unlikely to be achieved.

In this challenging economic environment, your bank has achieved a consolidated operating profit of Rs 6.796 billion, excluding unusual items and Workers Welfare Fund charges, for the period ended September 30, 2008 compared to Rs 6.792 billion during corresponding period last year. Consolidated profit before and after tax stood at Rs 5.732 billion and Rs 3.724 billion compared to Rs 6.325 billion and Rs 4.150 billion during nine months ended September 30, 2008.

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Markup income grew by 33% driven primarily due to volumetric growth and improved yield on earning assets.

Cost of funds grew by 56% during nine months period ended on September 30, 2008, which can be attributed towards interest rate pressure as well as volumetric growth. Due to the recent SBP regulation, your bank was required to pay a minimum of 5% on all PLS deposits, which is one of the major constituents of the bank's deposits. Furthermore, rates offered on various deposit schemes were also aligned with the market which contributed toward increase in cost of deposits, which was up by approximately 80 basis points during nine months period ended on September 30, 2008.

Net interest income grew by 14.1% during nine months period ended on September 30, 2008. However, this has significantly improved during third quarter of 2008 showing a rise of 35.80% over the corresponding period of 2007. Interest rate spread of the bank for the period ended on September 30, 2008 inched up to approximately 5.50%.

The loan book of your Bank grew by 7.2% over December 2007 with average volume increasing by over 25% during nine months period ended on September 30, 2008. Deposits grew to Rs. 279 billion, up by almost 6% over December 2007 primarily contributed by over 13% growth in non remunerative current account deposits and over 7% growth achieved under low cost saving account deposits.

The consolidated assets grew by 4.5% to Rs. 334 billion, whereas consolidated equity increased by 7.3% over December 2007 to reach Rs. 21.3 billion.

### **Launch of Allied Bank Mutual Fund**

Your bank's wholly owned subsidiary, ABL Asset Management Company, announced the launch of its first mutual fund - ABL Income Fund, during third quarter of 2008. The fund is an open ended fixed income fund with no direct exposure to the stock market. The objective of the fund is to earn superior risk adjusted rate of return by investing in a blend of short, medium, and long-term instruments, both within and outside Pakistan. This will enable it to become a major fund in Pakistan's mutual fund industry.

### **Deal of the Year Award 2008 by 'The Banker' - UK**

Your bank has been awarded the Deal of the Year Award 2008 for Pakistan by The Banker magazine - United Kingdom. This was awarded in recognition of Balance Sheet Restructuring & Debt Re-profiling of Maple Leaf Cement Factory Limited for Rs.13 billion which was the largest ever financing extended to a cement company in Pakistan. As the sole financial advisor and lead arranger, Allied Bank was involved in a well-engineered structure and a timely execution that made the transaction a success.

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**Entity Rating**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating of 'AA' and the short-term rating of 'A1+' of your Bank. This denotes a very low expectation of credit risk, indicates capacity for timely payment of financial commitments and not significantly vulnerable to foreseeable events.

**Upgraded rating assigned to Term Finance Certificate (TFC) - 1st issue**

In July 2008, JCR-VIS Credit Rating Company has upgraded the rating assigned to your Bank's TFC to 'AA-' from 'A+' earlier, with stable outlook.

**Second issue of Term Finance Certificate (TFC)**

In order to ensure that asset growth is well supported by equity, your bank will soon be offering a second issue of TFCs to the public. A Pre-IPO has already been done for a total size of the issue of Rs.4 billion plus green show option of Rs. 1 billion. Pakistan Credit Rating Agency Limited (PACRA) has already assigned a rating of 'AA-' to the proposed listed, unsecured and subordinated second TFC issue. The rating reflects good performance prospects emanating from bank's extensive outreach, sound capital structure and an improving asset quality.

**Outlook**

The recent financial crisis in USA and Europe has jolted the global economy and adversely affected stock markets around the world. The financial turmoil has no direct affect on Pakistan but due to its severe economic problems including depleting foreign reserves, S&P and Moody's has downgraded the credit rating of Pakistan. The financial crisis has suddenly reversed the trends of food and energy prices which were rising in 2007-08. This significant drop might provide some relief to Pakistan and stop outflows from Foreign Currency reserves. Further, resilient financial structure due to timely regulatory measures taken by State Bank of Pakistan provides ample protection from feeling the full impact of the global financial crisis. Your bank is watchful of the present situation and is formulating its strategies accordingly.

**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: October 29, 2008  
Place: Lahore