

Directors' Review

for the half year ended June 30, 2009

4

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank Limited for the half year ended June 30, 2009.

Financial Highlights

	(Rupees in million)		Growth
	Half year ended June 30		
	2009	2008	
Profit after tax	3,061	2,508	22.0%
Un-appropriated profits brought forward	8,537	6,971	22.5%
Transfer from surplus on revaluation of fixed assets – net of tax	16	9	77.8%
Profit available for appropriation	11,613	9,488	22.4%
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	(612)	(502)	21.9%
Un-appropriated profits carried forward	10,355	8,178	26.6%
Half - Yearly Earning Per Share (EPS) (Rs.)	4.30	3.53	21.8%

Economic Overview

Pakistan's economy remained under pressure due to trickle down effects of global downturn, witnessed in most of the economies across the globe, as well as severe energy shortage and sensitive security situation in the country. The GDP of our country grew by only 2% during the FY2009 as against 4.1% in FY 2008, mainly contributed by a growth of 3.1% in Services sectors and 4.7% in agricultural sector, whereas manufacturing sector declined by 3.3%.

In this scenario, the banking industry has a challenging time as the slowdown in economy and high inflation impacted the borrowers' repayment capacity, thereby leading to a rising trend in NPLs across the banking sector. Due to shift in the risk appetite and also falling credit demand, the credit to private sector witnessed a contraction during the period, with system liquidity being diverted more towards government securities or lending to public sector entities. Under the circumstances, banking industry has to make huge provision against NPLs and the profitability remained under pressure.

Financial Overview

Under the current challenging circumstances, your Bank is effectively pursuing its strategy of consolidation for the year 2009 and remained focused on the improvement in the quality of assets and achievement of a more favorable deposit mix in terms of cost. In line with this strategy, Your Bank continued to align its risk management framework to improve asset quality and remained prudent in lending. The share of Current and Savings Deposits in the total deposits has increased from 50.5% at December 31, 2008 to 55.2% at June 30, 2009, thereby reducing reliance on costly deposits. Deposits of your Bank increased to Rs. 312,777 million at June 30, 2009 compared to Rs. 297,475 million at December 31, 2008. The loan book maintained the same level attained in December 2008, with average balance increasing by around 14.4 % during 1H09. The Balance Sheet size of your Bank stands at Rs. 385,636 million as at June 30, 2009, while the equity of your Bank registered a growth of 18.2% to reach at Rs. 26,419 million.

Your Bank has been able to increase its pre-tax profit by 21% to Rs.4,627 million and after tax profit of Rs. 3,061 million during half year ended June 30, 2009 as compared to Rs. 2,508 million in the corresponding period last year, reflecting a growth of 22%. Resultantly, the EPS for six months period ended June 30, 2009 stands at Rs. 4.30 compared to Rs. 3.53 in the comparative period last year.

The net mark-up income increased by 45% led primarily by improved deposit mix, as your Bank focused on its strategy to consolidate. The interest rate spread rose to 6.2% during 1H09 from 5.1% registered during corresponding period of last year. Mark-up income grew by 53% during 1H09 over the corresponding period last year, with mark-up expense rising by 59%. While, the mark-up income during 2Q09 increased by 46%, your Bank was able to restrict increase in its cost of funds, which rose by 50% over the corresponding period last year. Resultantly, net mark-up income for 2Q09 was able to grow by 41%.

Your Bank was able to achieve this growth despite State Bank of Pakistan's (SBP) regulation of paying profit at a minimum of 5%, effective June 1, 2008, on all PLS deposits coupled with the staggered increases of 500 basis points in the SBP's Discount Rate during year 2008, though the Discount Rate was cut by 100 basis points by the SBP in April 2009.

Non mark-up income grew to Rs. 3,363 million or 82% over the corresponding period of last year. This growth was led by improved capital market results, increased foreign currency gains and investment banking fee income. Non mark-up expenses increased by 28% during 1H09, however, these have been contained during 2Q09 to 11% over the corresponding period of last year.

Impairment on Available for Sale Liquid Equity Investments

SBP BSD Circular No. 4 dated February 13, 2009 allowed to follow Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150 (1)/2009 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.

The impairment loss as of June 30 2009, based on the above circular and the market values as of that date have been determined at Rs. 254.301 million (December 31, 2008 : Rs 1,859.256 million) after quarterly adjustments as required.

The full recognition of impairment loss based on the market values as at June 30, 2009 would have had the following effect on these financial statements:

	June 30, 2009 Rupees in '000'
Increase in 'Impairment Loss' in Profit and Loss Account	254,301
Decrease in tax charge for the year	89,005
Decrease in profit for the year - after tax	165,296
Decrease in earnings per share - after tax (basic and diluted) (Rs.)	0.23
Increase in net surplus on revaluation of available for sale securities	254,301
Decrease in un-appropriated profit	165,296

Launch of Allied Visa Credit Card and Bancassurance Products

In an effort to offer a complete suite of products and services to our customers, your Bank marked the beginning of its consumer financing portfolio by launching "Allied VISA Credit Card" in June 2009.

Keeping in view the difficult credit environment in hand, your Bank has adopted a cautious approach and implemented strict credit policies and procedures to gradually build quality Credit Card portfolio. Your Bank has also launched two bancassurance products in collaboration with EFU Life Insurance, a leading provider of life insurance in Pakistan. The products include Child Education Plan (I'lm) and Marriage Savings Plan (Anmol Rishtey).

'Corporate Excellence Award' and 'Best Corporate Report Award'

Allied Bank Limited has been awarded the "26th Corporate Excellence Award" in Financial Institutions category by Management Association of Pakistan (MAP). Your Bank was presented this award in recognition of its Corporate Governance and overall management best practices. Your Bank has also won the "Best Corporate Report Award 2008", securing 2nd position for excellence in its publication of timely, informative, factual and reader friendly annual report.

ENTITY & TFC RATINGS

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating of 'AA' (Double A) and the short-term rating of 'A1+' (A One Plus) of your Bank. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

JCR-VIS Credit Rating Company has maintained rating of AA- (Double A Minus) assigned to your Bank's TFC (1st issue). This rating denotes high credit quality.

Corporate Governance Rating

JCR-VIS has reaffirmed the corporate governance rating of your Bank of CGR-8, which denote high level of corporate governance.

Future Outlook:

The macro economic outlook remains difficult particularly energy crisis would continue to hamper industrial growth in the country. In order to bolster the economy, IMF has agreed to extend additional funding to our country under its Stand-By Agreement. Although, inflation has started showing a downward trend, SBP has already announced a reduction in discount rate of 100bps in April 2009, while further cut in discount rate is expected to be announced in the forthcoming monetary policy.

Under the circumstances the banking industry earnings have been adversely affected. While your Bank is watchful of these circumstances, adherence to its strategy of consolidation would continue and foresees a sustained growth in profitability while also ensuring preservation of asset quality during the year 2009.

Acknowledgement

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: August 11, 2009

Place: Lahore