

Directors' Report

Dear Shareholders

On behalf of the Board, we are pleased to present the annual report of your Bank for the year ended December 31, 2009.

The operating results and appropriations, as recommended by the Board are included in the table:

The Board of Directors has proposed a final cash dividend of Rs. 2 per share (aggregate cash dividend of Rs. 4 per share including interim dividend) and to issue bonus shares in the proportion of one share for every 10 shares held, i.e., 10% for the year 2009. This, together with the interim dividends declared during 2009 will be approved in the forthcoming annual general meeting.

	Rs. In million	
	2009	2008
Profit after tax for the year	7,122	4,157
Accumulated profits brought forward	8,537	6,971
Transfer from surplus on revaluation of fixed assets - net of tax	32	18
Profit available for appropriation	15,691	11,146
Interim cash dividend for the year ended December 31, 2009 at Rs. 2 per share (2008: year ended December 31, 2008 at Rs. 1.5 per share)	(1,422)	(970)
Final cash dividend for the year ended December 31, 2008 at Re. 1 per share (2008: year ended December 31, 2007 at Rs. 1.5 per share)	(646)	(808)
Bonus shares for the year ended December 31, 2008 @ 10% (2008: year ended December 31, 2007 @ 20%)*	-	-
Transfer to statutory Reserves	(1,424)	(831)
Accumulated profits carried forward	12,199	8,537
Earning Per Share (EPS) (Rs.)	10.02	5.85

* Appropriation out of Share Premium Account



Performance Review

Your bank posted pre-tax profit of Rs. 10,536 million during 2009 compared to Rs. 6,121 million in previous year, an impressive growth of 72.1%. The after tax profit also rose by 71.4% from previous year to Rs. 7,122 million during 2009. As a result, the ROA & ROE of your bank increased to 1.81% and 30.50% during 2009 from 1.21% and 21.2% in previous year.

The balance sheet size of your bank stands at Rs. 418,374 million as at December 31, 2009, while the equity of your bank registered a strong growth of 34% to reach Rs. 29,960 million. Deposits of your bank increased to Rs. 328,875 million as at December 31, 2009 compared to Rs. 297,475 million in previous year, a growth of 10.6%. Meanwhile, the gross advances rose to Rs. 249,887 million at December 31, 2009, a YoY rise of 11.74%.

Net Mark-up/Interest Income of your bank increased by 40.6% to reach Rs. 18,700 million; mainly led by growth in average earning asset and improving deposit mix towards low cost core deposits. Non-Mark up income rose to Rs. 5,958 million, a growth of 21.7%. The bank's operating expenses increased by 13.9% to Rs. 9,609 million, with cost to revenue ratio declining appreciably to 38.9% in 2009 from 46.3% in previous year. In addition to substantial growth in revenue, the effective cost control measures adopted during the year restricted the growth in cost.

Impairment on Available for Sale Listed Equity Investments

In accordance with SBP BSD Circular No. 4 dated February 13, 2009 the management of Allied Bank, based on its estimate and exercising prudence,

recognized impairment loss of Rs. 1,686.635 million during 2008 through profit and loss account, out of the total impairment loss of Rs. 3,545.891 million as at December 31, 2008. With markets registering upsurge during the year 2009, a major portion of this loss classified under equity has been recovered. Resultantly, the impairment of Rs. 379.390 million is recognized in the Profit and Loss Account for the year-ended December 31, 2009.

Statement under Code of Corporate Governance

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report that:

- The financial statements, prepared by the management of the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed in the Annual Accounts.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Bank's ability to continue as a going concern.

Financial Calendar 2009

1st Quarter Results issued on	April 25, 2009
2nd Quarter Results issued on	August 11, 2009
3rd Quarter Results issued on	October 24, 2009
Recommendation of Annual Results by the BOD	February 17, 2010
64th AGM scheduled for & Approval of Annual Results	March 26, 2010
20% cash dividend & 10% bonus shares to be issued by	Within 30 days of AGM 2009
1st Quarter Results issued on	April 26, 2008
2nd Quarter Results issued on	August 20, 2008
3rd Quarter Results issued on	October 29, 2008
Recommendation of Annual Results by the BOD	February 27, 2009
63rd AGM held for Approval of Annual Results	March 27, 2009
10% cash dividend & 10% bonus shares to be issued by	Within 30 days of AGM

- There has been no material departure from the best practices of corporate governance.
- Performance highlights for the last six year is attached.
- The book value of investment and accrued profit on investment of Pension Fund, Provident Fund, Gratuity Fund and Welfare Fund is Rs. 4,418 million, Rs. 2,345 million, Rs. 296 million, and Rs. 109 million respectively, as per audited accounts of the funds for the year ended December 31, 2008.
- Pattern of Shareholding, complying with the requirements prescribed by the code is annexed.
- Statement of Compliance with Code of Corporate Governance is included in the Annual Report.
- We have criteria for nomination of Bank's executives on the Boards of other companies where Allied Bank is an investor company. The Human Capital Committee of the Board decides the nominations.
- The committees of Board of Directors along with their terms of reference/charter has been separately disclosed in the annual report.

- The details of Board & Board's Committees meetings held during the year and attendance by each director have been separately disclosed in the Annual Report.

Change in the Board of Directors

The Board places on record its sincerest appreciation to the outgoing Directors, Mr. Tasneem M. Noorani, and Mrs. Nazrat Bashir to whom we are indebted for their prudent, professional and diligent guidance.

Chief Executive Officer's Review

The Directors of your bank fully endorse the Chief Executive Officer's Review on the bank's performance for the year ended December 31, 2009.

Statement of Internal Controls

The Board is pleased to endorse the statement made by management relating to internal control. The Management's Statement on Internal Control is included in the Annual Report.

Directors' Report cont'd

Risk Management Framework

The Bank manages risk through a framework of sound risk principles which includes an optimum organizational structure, risk assessment and monitoring processes. **The Risk Management Group (RMG) is mandated to implement this framework as a function independent of commercial lines of business, working under the guidance of Board's Risk Management Committee (BRMC).**

In addition, a Management Committee comprising members of senior management deliberates on major risk issues. The Committee also recommends risk policies prepared by RMG following review in its periodic meetings to the BRMC and the Board for approval.

During 2009, RMG took several steps to further strengthen the Risk Management Framework, for example:

- Completed the Basel II Implementation phase for the Credit Risk Standardized Approach with assistance of a reputable advisory firm, and initiated efforts to subsequently migrate to Credit Risk Foundation Internal Ratings Based Approach. Further, the Operational Risk Framework was designed to comply with the Operational Risk Standardized Approach. Various sub-projects are underway, that will be executed over a time span of two years, to bring the bank in compliance with the Basel II approaches. This is an important step in the alignment of regulatory and economic capital requirements.



- Completed the development of Market Risk Management Framework with assistance of an internationally reputed Bank's Risk Advisory Services. The Bank is currently implementing the newly devised framework so that it can efficiently manage liquidity and market risk.
- Deployment of a suite of Risk Management Solutions from one of the leading global firms is in progress. The solutions would enable the bank to automate the risk reporting for credit, market and operational risk as well as to meet the regulatory requirements as set out by the State Bank of Pakistan for Basel II reporting.
- In order to align with the present day's requirements and to improve the risk rating evaluation of obligors, as a first step the Risk Rating System of corporate banking relationship has been upgraded to ensure proper evaluation of each & every corporate banking relationship. This risk rating system has been embedded in a newly developed Loan

Origination System (LOS) to enhance efficiency and improve credit assessment process. This would automate credit origination and approval process. On successful implementation, RMG plans to develop LOS for retail banking relationships.

The Bank devotes considerable resources in managing the risks to which it is exposed. The momentum attained thus far will be continued in the future through significant investments in human resources, technology and training.

Entity 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.

TFCs Issue I

JCR-VIS Credit Rating Company has maintained rating of AA- (Double A Minus) assigned to your Bank's 1st TFC Issue (issue date: December 06, 2006). This rating denotes high credit quality.

TFCs Issue II

During the year, your Bank raised funds through a second TFC Issue (Issue date: August 28, 2009) of Rs. 3,000 million. The TFC Issue is rated AA- (Double A Minus) by PACRA. The rating denotes a very strong capacity for timely payment of financial commitments.

Corporate Governance Rating

Corporate Governance Rating (CGR) is meant to indicate the relative level to which an organization accepts and follows the codes and guidelines of corporate governance practices. In this context, JCR-VIS Credit Rating Company Limited has reaffirmed corporate governance rating of 'CGR-8' of your bank, which denotes 'high level of corporate governance' and is only two notches away from the highest level of CGR.

Auditors

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible offer themselves for re-appointment. Messrs M. Yousuf Adil Saleem and Co., Chartered Accountants retire in pursuance of the Code of Corporate Governance after completion of a term of five years.

The Board of Directors, on the suggestion of the Audit Committee, has recommended Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants., and Messrs KPMG Taseer Hadi & Co., Chartered Accountants, for the next term.

Events after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements, except those which have already been made or disclosed.

Acknowledgements

On behalf of the Board and management, we would like to express our sincere appreciation to our customers and shareholders for their patronage, State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory bodies for their continuous guidance and support, and employees for all their continued dedication, enthusiasm and loyalty.

For and on behalf of the Board,

Mohammad Aftab Manzoor
Chief Executive Officer

Dated: February 17, 2010
Place: Lahore