

Directors' Review

(Un-audited) for the half year ended June 30, 2010

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank for the half-year ended June 30, 2010.

Financial Highlights

	(Rupees in million)		
	Half year ended June 30,		
	2010	2009	Growth
Profit After Tax	3,620	3,061	18.26%
Unappropriated profits brought forward	12,199	8,536	42.91%
Transfer from surplus on revaluation of fixed assets - net of tax	15	16	-6.25%
Profit available for appropriation	15,834	11,613	36.35%
Final cash dividend for the year ended December 31, 2009 (2009: year ended December 31, 2008) at Rs. 2 per share (2008: Re.1 per share)	(1,422)	(646)	120.12%
Transfer to Statutory Reserves	(724)	(612)	18.30%
Un-appropriated profits carried forward	13,688	10,355	32.19%
Earning Per Share (EPS) for six months	4.63	3.91	18.41%

The Board is pleased to announce an interim cash dividend of Rs. 2 per share for the half-year ended June 30, 2010 (2009: Rs. 2 per share)

Economic Overview

Pakistan's economy continues to face major challenges emanating from persistent inflationary pressures, weak fiscal position, sensitive security situation in the country and structural bottlenecks, mainly severe power shortage. Although external current account deficit and economic growth have shown improvement in FY 2010, the overall recovery remains fragile. Meanwhile, the uncertainty attached with global economic outlook also adds to the difficulties. The recent catastrophic flooding in major parts of the country, leading to huge loss of lives, displacement of a large segment of population and extensive damage to infrastructure, presents another formidable challenge.

The provisional estimates show that the real GDP grew by 4.1% during FY 2010 as compared with GDP growth of 1.2% (revised) in FY 2009. The agriculture sector grew an estimated 2% against previous year's growth rate of 4%. While the crops sub-sector declined 0.4% over the previous year, livestock posted a healthy rise of 4.1%. Industrial sector output expanded by 4.9%, led by recovery in Large Scale Manufacturing. Meanwhile, services sector grew by 4.6% as compared to 1.6% in FY 2009. The external current account deficit narrowed to USD 3.5 billion or 2% of GDP in FY 2010, while State Bank of Pakistan's (SBP) foreign exchange reserves increased to USD 13 billion by end-June 2010 from USD 9.1 billion at end-June 2009. However, the sustainability of external account improvement remain exposed to the risks of imports outpacing the exports, forecast of higher international commodity prices and delays or shortfall in receipt of official foreign inflows.

With recovery in domestic aggregate demand, rise in energy and fuel charges and increasing volatility in prices of food items, the year-on-year (YoY) CPI inflation has risen to 12.7% in June 2010 from 10.5% in December 2009 and the inflationary pressures are likely to persist this year also. Another major challenge for the economy is the weak fiscal position wherein fiscal deficit has outgrown the revised target of 5.1% set for FY 2010. The higher deficit together with less than projected external inflows for budgetary support led to rise in government's borrowings from SBP, while the overall debt of the country also kept soaring. Considering the challenges in hand, SBP

has raised the Discount Rate by 50bps in its recently announced Monetary Policy Statement in July 2010, which was kept constant at 12.5% during 2H FY 2009.

Broad Money (M2) grew by 12.5% during FY 2010 as compared to 9.6% in FY 2009. This was on account of expansion of Rs. 4877 billion in Net Domestic Assets (NDA) and Rs. 152 billion of increase in Net Foreign Assets (NFA) of the banking system. Although credit to private sector has picked up during FY 2010, the government's increasing need for budgetary support, large outstanding stock of commodity financing and credit to PSEs, partly because of energy circular debt, consumed a major portion of the banking systems' resources. Meanwhile, the banking industry continues to adopt a risk-averse behavior in extending fresh credit to the private sector in the current difficult operating environment. The accumulation in bank's NPLs does not seem to be decelerating as the NPLs ratio has increased from 11.5% in June 2009 to 13.1% in March 2010.

Financial Review

Your Bank, cognizant of the difficult operating conditions, is consistently pursuing its strategy of maintaining steady growth, while at the same time gearing up efforts to further fortify risk management systems and improve asset quality. Deposits of the bank increased to Rs. 352,615 million as at June 30, 2010, a growth of 7.2% over December 31, 2009 and 12.74% over June 30, 2009. Importantly, due to focus in achieving a more favorable deposit mix in terms of cost, the share of Current and Savings Deposits in the total deposits has increased to 56.90% as at June 30, 2010 compared to 54.29% at December 31, 2009. In view of prevailing business conditions, Your Bank remained vigilant in extending fresh credits. Gross advances thus depicted a marginal decrease of around 0.7% from Rs. 249,887 million as at December 31, 2009 to Rs. 248,220 million as at June 30, 2010. Gross Advances as at June 30, 2010 were, however, higher by Rs. 24,466 million or 10.9% from June 30, 2009 level. As a result Gross Investments have increased to Rs. 112,655 million as at June 30, 2010, a growth of 16.2% over December 31, 2009 and 274% over June 30, 2009. The balance sheet size of Your Bank stands at Rs. 432,674 million as at June 30, 2010, while the equity of the bank as at June 30, 2010 registered a strong growth of 19.03% over June 30, 2009 level to reach at Rs. 31,444 million.

Profit Before Tax of Your Bank increased by 19.3% to reach Rs. 5,518 million during half year ended June 30, 2010 as compared to Rs. 4,627 million in the corresponding period of previous year. After Tax Profit also rose by 18.3% to 3,620 million compared to Rs. 3,061 million in the corresponding period. Resultantly, the EPS of Your Bank increased to Rs. 4.63 during half-year ended June 30, 2010 compared to Rs. 3.91 in the corresponding period of previous year.

Mark-up / Interest income during half-year ended June 30, 2010 grew by 9.2% over the corresponding period in previous year, attributable to higher average volume growth in earning assets which offset the impact of lower average KIBOR prevailing during the period compared to the corresponding period. On the other hand, the Mark-up / Interest expense registered a modest decline of 0.4% over the corresponding half year attributable largely to the improvement in deposit mix. As a consequence, the net mark-up / interest income of Your Bank grew by 21.8% to Rs. 10,580 million compared to the corresponding period of previous year.

Non-Mark up / Interest Income of Your Bank during 1H 2010 was Rs. 2,621 million. The decline over corresponding period of previous year was attributable to lower YoY FX revenue and income from equity investments. Due to limited growth of project financing activity in the country during the period, the contribution of advisory and investment banking fee income in the total fee income has also reduced from previous year. The Operating Expenses increased to Rs. 5,645 million during 1H 2010 as compared to Rs. 4,816 million in the corresponding period of previous year. However, expenses for the current period include one-off expense against Voluntary Retirement Scheme offered by the bank. Excluding its impact, the actual growth in expenses is 11.1%. This when compared with inflationary trends and increasing outlays on system up-gradation reflects effectiveness of the management strategies for cost control. Your Bank recognized an additional general provision of Rs. 200 million in addition to Rs. 100 million provided in the first quarter of 2010. Meanwhile, the provision coverage against NPLs (excluding general provisions) improved to

80.8% at June, 30 2010 as compared to 76.9% at December 31, 2009. No benefit of FSV has been taken while determining the provision against NPLs as allowed under BSD Circular No. 10 of 2009 dated October 20, 2009.

Future Outlook:

The macroeconomic outlook remains unstable owing to slippages in fiscal deficit and government borrowings against the target. Such fiscal developments are inconsistent with the objectives of macroeconomic stability. Thus aggravating expectations of rising inflation have kept an upward pressure on interest rates. As a result sustainability of credit to private sector seems uncertain. In these challenging times, the asset quality of the banking industry is likely to remain under pressure.

Your Bank being watchful of the economic conditions would continue with its strategy of achieving steady growth by maintaining quality of earning assets and optimizing efficiencies to reduce cost. Meanwhile, Your Bank's focus would remain on providing state of the art banking services to its large customer base and aim for higher customers' satisfaction levels by further improving service quality. In this regard Your Bank is continually upgrading the technological infrastructure and delivery systems and proactively enhancing the skill set of field functionaries. Through concerted efforts of its team, the implementation of a world class core banking software application at the branches is progressing well.

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 rating of TFC Issue of Rs. 3,000 million (Issue Date: August 28, 2009) has also been maintained at AA- (Double A Minus). The ratings denote very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. Meanwhile, the bank's earlier TFC Issue of Rs. 2,500 million (Issue Date: December 06, 2006) also carries rating of AA- (Double A Minus) assigned by JCR-VIS Credit Rating Company.

Corporate Governance Rating

The bank has a Corporate Governance rating of CGR-8, assigned by JCR-VIS, which denotes a high level of corporate governance.

Asiamoney Award

Your bank won the 'Best Domestic Bank in Pakistan - 2010' award by Asiamoney in view of its superior performance, corporate strategy and improvement in financial strength.

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.

For and on behalf of the Board,

Khalid A. Sherwani
Chief Executive Officer

Mohammad Naeem Mukhtar
Chairman

Date: August 12, 2010

Place: Lahore