

Directors' Review  
for the Half Year ended June 30, 2008

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the consolidated financial results of Allied Bank Limited and its Subsidiary Company for the half year ended June 30, 2008.

**Financial Highlights**

|  | (Rupees in million)      |         |        |
|--|--------------------------|---------|--------|
|  | Half Year ended June 30, |         |        |
|  | 2008                     | 2007    | Growth |
| Profit after tax   | 2,509                    | 2,752   | -8.8%  |
| Un-appropriated profits brought forward  | 6,973                    | 5,608   | 24.3%  |
| Transfer from surplus on revaluation of fixed assets - net of tax  | 8.8                      | 9.2     | -5%    |
| Profit available for appropriation   | 9,491                    | 8,369   | 13.4%  |
| Final cash dividend for the year ended December 31, 2007 at Rs.1.5* per share (2007: year ended December 31, 2006 at Rs.2.5 per share) | (808)                    | (1,122) | -28%   |
| Transfer to Statutory Reserves   | (502)                    | (550)   | -8.8%  |
| Un-appropriated profits carried forward  | 8,181                    | 6,696   | 22.1%  |
| Half-Year Earnings Per Share (EPS)   | 3.88                     | 4.26    | -8.9%  |

\* In addition to Rs. 1.5 per share as interim dividend

The Board of the bank is pleased to announce an interim cash dividend of Rs.1.5 per share for the half year ended June 30, 2008 (2007: Rs.1.5 per share).

**Financial Overview**

Currently, pressures are mounting on economies across the globe owing to rising oil prices and Pakistan is not an exception. Our country is confronted with various challenges due to inflationary pressures, rising trade and fiscal deficits, etc.

To arrest the prevailing economic distress of the country, State Bank of Pakistan (SBP) continued to tighten its monetary stance by announcing monetary policy twice during this half year. This, among other things, put pressure on cost of funds that partially affected consolidated results.

In the prevailing scenario, consolidated after tax profit of amounted to Rs.2.51 billion for the half year ended June 30, 2008 (HY08). Operating profit for HY08 amounted to Rs.3.95 billion compared to Rs.4.62 billion during HY07.

Net interest income grew by 3.6% during HY08. However, this growth started inching up as we saw a growth of 5.3% during Q2 over the corresponding period. Markup income grew by 24% driven primarily

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due to higher volume and improved yields on investments and placements. Cost of funds, however, grew by 48% during HY08 mainly due to higher deposit volume & enhanced rates on deposits to align the rates with the market conditions. As part of the interim monetary policy, State Bank directed banks to pay a minimum 5% on all PLS saving deposits, however it did not have major impact on the results as the enhanced rate was effective for the last month only. For the first half year, cost of deposits was up by approximately 40 basis points. This has allowed the management to maintain the interest rate spread in the vicinity of 5%. Non mark up income improved to Rs.1.85 billion or 14%.

Loan book almost maintained the level attained by December 2007 with average volume increasing by over 30% during FY08. Deposits grew to Rs. 294 billion, up by 11.6% over December 2007 primarily contributed by 19.1% growth in non remunerative current account deposits and 12.9% growth achieved under low cost saving account deposits

Vigilant monitoring of asset quality led to reduced charge on non performing assets by over 75% during HY08 while non performing loans improved to Rs.11.04 billion compared to 11.35 billion at December 31, 2007.

Total consolidated assets grew by 7.7% to Rs. 345 billion. With the increase in SBP's cash reserve requirement, growth was diverted from earning to non earning assets. Consolidated equity increased by 9.7% over December 2007 to reach Rs. 21.8 billion.

### **Corporate Finance House of the Year - 2007**

Your bank has been awarded 'Corporate Finance House of the Year (Banks) for the second consecutive year. CFA Association of Pakistan, a member society of CFA Institute - USA, conferred the award on Allied Bank based on the highest value and number of corporate finance transactions concluded during July 2006 - December 2007.

### **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.

### **Entity Rating**

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. AA denotes lowest expectation of credit risk, indicates very strong capacity for timely payment of financial commitments and not significantly vulnerable to foreseeable events. 'A1+' is the uppermost possible rating this category and represents highest capacity for timely repayment.

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

JCR-VIS Credit Rating Company, in July, 2008, upgraded the rating assigned to your Bank's TFC (1st issue) to 'AA-' (Double A Minus) from 'A' (Single A) earlier, with stable outlook. This rating denotes high credit quality.

### **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 TFCs (2nd issue) to the public. A Pre-IPO has already been done for a total size of the issue of Rs.4 billion. Pakistan Credit Rating Agency Limited (PACRA) has already assigned a rating of 'AA-' (Double A Minus) to the proposed listed, unsecured and subordinated second TFC issue. The rating denotes a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

### **Launch of Mutual Fund**

ABL Asset Management Company Limited (ABL AMC), which is 100% owned by your bank, will be entering the Mutual Fund Industry with the launch of its first fund - ABL Income Fund in September this year. With aggressive expansion plans, ABL AMC will be introducing a wide array of products including open end equity fund in the future which will enable it to become a sizeable player in Pakistan's mutual fund industry

### **Outlook**

Instability in political and economic front could affect the business segment, which in turn could have an impact on the banking sector. We are watchful of this condition and are 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.

On behalf of the Board of Directors.

### **Mohammad Aftab Manzoor**

Chief Executive Officer

Dated: August 20, 2008

Place: Lahore