

# Directors' Review

for the Half Year ended June 30, 2007

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, 2007.

	Half Year ended June 30		Growth
	(Rupees in million)		
	2007	2006	
Profit after tax	2,752	2,261	22%
Un-appropriated profits brought forward	5,608	2,732	105%
Transfer from surplus on revaluation of fixed assets – net of tax	9	10	-10%
Profit available for appropriation	8,369	5,003	67%
Final cash dividend for the year ended December 31, 2006 (2006: year ended December 31, 2005) at Rs.2.5 per share (2006: Rs.2.5 per share)	(1,122)	(1,101)	2%
Transfer to Statutory Reserves	(550)	(226)	143%
Un-appropriated profits carried forward	6,696	3,675	82%
Earnings per share (EPS)	5.11	4.20	22%

During the first half of 2007, your Bank maintained the growth momentum by focusing on its strategic priorities set forth at the beginning of the year. The Bank achieved growth in all its key business areas.

Profit after tax for the first half of 2007 rose by 22% over the corresponding period of last year to Rs. 2.75 billion, translating into an annualized EPS of Rs.10.22. The operating profit witnessed a growth of 14% over corresponding period of last year to reach Rs. 4.62 billion resulting largely from improved net interest income, fee, commission, brokerage income and capital gains on securities.

Mark-up income grew to Rs. 10.61 billion or 31% during the first half year of 2007 owing to higher loan volume and investment in government papers complemented by improved loan pricing and yield on investments. However, this increase was partially offset by 67% rise in cost of funds over corresponding period of 2006 owing to higher deposits and bank borrowing. This increase appears to be higher as the corresponding period of 2006 was not affected by the market reaction caused by subsequent increase in cash reserve and statutory reserve requirements.

Your Bank managed to keep the spread at over 5% to ensure appreciation in growth, albeit tough market conditions resulted from competitive loan pricing and tight monetary stance by the Central Bank.

Non mark-up income grew to Rs. 1.63 billion or 30% contributed mainly by fee, commission and brokerage income, recording a rise of 56%, whereas gain on securities rose by 69% over the first half of 2006.

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for the Half Year ended June 30, 2007

The growth registered in the first half year of 2007 has translated into 11% appreciation in equity of your Bank to Rs. 19.59 billion. Total assets showed a growth of 17% over December 2006 to reach Rs. 294.76 billion. As the economy witnessed a slowdown in credit demand, your Bank not only maintained but grew the loan book by around 6% to Rs. 160.48 billion. Deposits registered a growth of over 12% to Rs. 230.95 billion compared to Rs. 206.03 billion at December 31, 2006. The Bank, as a result, was able to channel greater funds into investments, which rose by 56%.

Although Non Performing Loans marginally increased, NPL ratio improved to 6.6% from 6.9% with net infection ratio improving slightly to 1.95% from 1.96%.

The Bank's credit rating has been upgraded to 'AA-' from 'A+' for medium to long term while short term rating maintained at 'A1+' with outlook of 'Stable' as assigned by JCR-VIS. A similar evaluation was also conducted by Pakistan Credit Rating Agency, which assigned 'AA' for medium to long term and 'A1+' for short term.

In order to provide a wide range of investment products and to complement its banking business, your Bank will shortly launch its Asset Management Company. This initiative will provide the bank's customers an opportunity to invest into equity and fixed income markets of the country.

The management of your Bank believes that in order to sustain growth, continuous investment in human resources, deployment of innovative solutions and upgrading of branch facilities have to be a critical part of your Bank's strategic priorities. The Bank intends to increase investment in these areas in order to maintain long term growth, gain market share and improve penetration, simultaneously increasing returns to shareholders.

The Board is pleased to announce an interim cash dividend @15%.

The Board has in principle approved the appointment of Mr. Mohammad Aftab Manzoor as the new CEO and President of the Bank, subject to the clearance of State Bank of Pakistan. He shall hold the office of CEO for three years from his date of appointment.

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 continuous guidance.

**Khalid A. Sherwani**  
President

**Mohammad Naeem Mukhtar**  
Chairman

Dated: August 10, 2007  
Place: Lahore