

Directors' Review

(Un-audited) for the quarter ended March 31, 2010

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank for the three months period ended March 31, 2010.

Financial Highlights

	(Rupees in million)		Growth
	Quarter ended March 31,		
	2010	2009	
Profit after tax	1,777	1,448	22.72%
Un-appropriated profits brought forward	12,198	8,537	42.88%
Transfer from surplus on revaluation of fixed assets – net of tax	7.7	8.1	-4.94%
Profit available for appropriation	13,983	9,993	39.93%
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	(355)	(290)	22.41%
Un-appropriated profits carried forward	12,206	9,057	34.77%
Earning Per Share (EPS) for three months	2.27	1.85	22.70%

Economic Overview

Pakistan's economy on its way to moderate recovery is confronted with major challenges that may have an impact on the overall growth and stability prospects. Large Scale manufacturing has shown growth since October 2009 after contraction for almost 20 months but the nascent recovery remains fragile. Inflation was at 8.9% in October 2009 and has been recorded at 12.9% in March 2010, indicating the persistence of inflationary pressures.

The balance of payments has shown notable improvement as external current account deficit dropping from 6.8 percent of GDP in Jul-Feb FY09 to 2.2 percent of GDP in Jul-Feb FY10, with most of the improvement concentrated in first quarter of the fiscal year. The weak fiscal position, owing to increasing requirement for security related expenditures, severe energy crisis and shortfalls in revenues, present another formidable challenge. Meanwhile, uncertainty is also attached with the financing mix of the fiscal deficit as the external financing for the budget, mainly the official foreign inflows, have not materialized as expected. As a consequence of weak fiscal position, the Government Borrowing from SBP has increased notably in Q3 FY10.

The banking sector's system resources remain under pressure owing to less than expected retirement of credit availed by the government for commodity operations and continued borrowings by the Public Sector Enterprises, partly because of the energy sector's circular debt. Although credit to the private sector has picked up, the cautious and the risk averse

stance by banks continued during the period owing to the difficult credit environment. Given the risk of inflationary pressures and other uncertainties in the operating environment, the State Bank of Pakistan after reducing the policy rate by a cumulative 250 basis points during CY09 kept it unchanged at 12.5% in succeeding months.

Financial Review

Your bank while remaining prudent under the circumstances continued to emphasize on improving cost effective deposit mix, building risk weighted assets by ensuring quality and optimizing costs to pursue its strategy of maintaining steady growth. Deposits of the bank stood at Rs. 317,742 million as at March 31, 2010, which grew by 11.6% over corresponding period last year with CASA mix increased to 56% as against 54.3% and 52.6% compared to December 31, 2009 and March 31, 2009, respectively. In view of prevailing business conditions Your Bank remained cautious in lending. Gross advances thus depicted a modest decrease of around 4% from Rs. 249,887 million as at December 31, 2009 to Rs. 240,359 million as at March 31, 2010. Gross Advances as at March 31, 2010, however, remained higher by Rs. 36,770 million or 18% from March 31, 2009 level, leading to increase in Loans to Deposit Ratio to 75.6% as at March 31, 2010. The balance sheet size of Your Bank increased to Rs. 399,837 million as at March 31, 2010 while the equity of the bank increased to Rs. 30,250 million compared to Rs. 29,960 million as at December 31, 2009.

Profit Before Tax of Your Bank increased by 19.9% to reach Rs. 2,683 million during three months period ended March 31, 2010 compared to Rs. 2,239 million in the corresponding period of March 31, 2009. Profit After Tax also rose by 22.7% to Rs. 1,777 million compared to Rs. 1,448 million in the corresponding period. Resultantly, the EPS of Your Bank increased to Rs. 2.27 during three months ended March 31, 2010 compared to Rs. 1.85 in the corresponding period of previous year.

During the three months period ended March 31, 2010, the Mark-up/Interest income grew by 6.9% over the corresponding period, attributable to higher average volume growth in earning assets which offset the impact of lower yields due to fall in market interest rates. Meanwhile, the improvement in deposit mix contributed towards 5.9% reduction in Mark-up/Interest expense, which declined to Rs. 5,566 million during the three months period ended March 31, 2010 compared to the corresponding period. Deposit cost thus decreased from 6.87% in corresponding Quarter of 2009 to 5.51% in 1st Quarter 2010. As a consequence, the net mark-up/interest income of Your Bank grew by 24.3% to Rs. 5,368 million compared to the corresponding period of previous year.

Non-Mark up/Interest Income of Your Bank increased to Rs. 1,571 million during the three months period ended March 31, 2010 compared to Rs. 1,210 million in the corresponding period of previous year, a growth of 29.8%. The increase was primarily led by higher fee income, dividend income and capital gains. The Operating Expenses increased to Rs. 2,937 million during the three months period ended March 31, 2010 as compared to Rs. 2,227

million in the corresponding period of last 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 18.7%. Remaining prudent, Your Bank recognized general provision of Rs. 100 million and the provision coverage against NPLs improved to 78.6% at March 31, 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:

Higher inflation, liquidity crunch and inevitable rupee depreciation may pose pressure on the country's operating environment, unless flows from IMF and other multilateral agencies start pouring in and international oil prices come down. Under these circumstances tightening of monetary policy by SBP in upcoming review started gaining weight. Your Bank being cautious of the prevailing economic conditions would continue with its strategy of achieving steady growth by taking exposure in selected avenues following stringent risk management policies, proactive monitoring of the credit portfolio, focusing on further improving the deposit mix and optimizing cost efficiencies.

Change in Directors:

The Government has replaced its Nominee Director Mr. Farrakh Qayyum with Chairman Federal Board of Revenue (FBR). However, the Chairman FBR has expressed his inability to accept the position. As a consequence, the position is still vacant.

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: April 24, 2010
Place: Lahore