

Directors' Review

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank Limited for the three months period ended March 31, 2011.

Financial Highlights

	(Rupees in million)		Growth
	Quarter ended March 31,		
	2011	2010	
Profit After Tax	2,511	1,777	41.31%
Un-appropriated profits brought forward	15,829	12,198	29.77%
Transfer from surplus on revaluation of fixed assets - net of tax	7.3	7.7	-5.19%
Profit available for appropriation	18,347	13,983	31.21%
Final cash dividend for the year ended December 31, 2009 at Rs. 2 per share	-	(1,422)	-100.00%
Transfer to Statutory Reserves	(502)	(355)	41.41%
Un-appropriated profits carried forward	17,845	12,206	46.20%
Earning Per Share (EPS) (Rs.)	3.21	2.27	41.41%

Economic Overview

Pakistan's economy remains under stress and confronted with major challenges impacting the overall growth. Large Scale Manufacturing registered positive growth from December 2010 onwards. However, many industries continue to face operational constraints, gas supply and electricity shortages, hampering full production capacity utilization. Meanwhile, flood supply shocks, though abating lately, rise in global energy prices and monetization of the fiscal deficit continued to exert pressure on prices, keeping inflation in double digits.

The budget deficit increased to 2.9% of GDP from 2.7% in the corresponding period of the previous year. Financing of the fiscal deficit has become more challenging since external funding from IFIs and multinational donors has dried up in view of the suspended IMF program. Pakistan external accounts posted a surplus of USD 1.6 billion during Jul-Feb FY11 compared to a surplus of USD 0.5 billion in the corresponding period of the previous year, owing mainly to the rise in prices of textile and rice in the international markets and continued strong growth in workers' home remittances. However, the external account position remains vulnerable to the risk of spur in oil prices and fall in inflows through the financial account.

Broad money supply (M2) expanded by 7.7% during the first eight months of FY11 as compared to 5.7% in the corresponding period last year. Lending to the private sector gained traction in Q2-FY11. However, government borrowing continued to fuel demand side pressures in the economy and accounted for majority of the increase in Net Domestic Assets (NDA). In the wake of difficult credit environment, the banks continue to follow a risk-averse strategy, deploying increasing proportion of their funds in treasury bills and lending to government or Public Sector Entities (PSEs).

Financial Review

Your Bank, cognizant of the difficult operating conditions, remained committed to its strategy of maintaining growth in carefully selected quality avenues, improving the mix of cost effective CASA deposits and optimizing operational costs. Deposits of the bank grew by 17.2% and stood at Rs. 372,254 million as at March 31, 2011 compared to deposits of Rs. 317,742 million at March 31, 2010. Given the prevailing circumstances, Gross Investments at Rs. 129,919 million constituted much of the Bank's earning assets growth during the period ended on March 31, 2011, which increased by 34.3% over March 31, 2010 level. Gross Advances, keeping in line with prudent lending strategy were Rs. 257,249 million as at March 31, 2011, a growth of 7% over the gross advances of Rs. 240,359 million as at March 31, 2010. The balance sheet size of Your Bank stands at Rs. 450,308 million as at March 31, 2011, while the equity of the Bank as at March 31, 2011 registered a growth of 30.7% over March 31, 2010 level to reach Rs. 39,547 million.

Profit Before Tax of Your Bank increased by 43.5% to reach Rs. 3,851 million during three months period ended March 31, 2011 as compared to Rs. 2,683 million in the corresponding period of previous year. Profit After Tax also rose by 41.3% to Rs. 2,511 million compared to Rs. 1,777 million in the corresponding period. Resultantly, the EPS of Your Bank increased to Rs. 3.21 during three months period ended March 31, 2011 compared to Rs. 2.27 in the corresponding period of previous year. The resolution passed in the last AGM regarding cash dividend and bonus shares has not been implemented as per interim restraining order of the Honourable Sindh High Court.

Mark-up/interest income during three months period ended March 31, 2011 increased to Rs. 12,298 million compared to Rs. 10,934 million in the corresponding period of previous year, a rise of 12.5% attributable mainly to volumetric growth in earning assets. The corresponding YoY increase in mark-up/interest expense was 9.5%, as mark-up/interest expense grew to Rs. 6,094 million during three months period ended March 31, 2011 over corresponding quarter of previous year. As a consequence, the net mark-up/interest income of Your Bank grew by 15.6% to Rs. 6,204 million compared to the corresponding period of previous year. The provision expense declined to Rs. 312 million during three months period ended March 31, 2011 compared to Rs. 1,262 million in the corresponding period of last year.

Non-mark up/interest income during three months period ended March 31, 2011 reduced by 7.9% to Rs. 1,447 million over the corresponding period, attributable to lower FX revenue YoY and lesser contribution of advisory and investment banking fee income in the total fee income due to limited growth of project financing activity in the country. The Administrative Expenses increased to Rs. 3,293 million during three months period ended March 31, 2011 as compared to Rs. 2,811 million in the corresponding period of previous year, a YoY growth of 17.1%. This when compared with inflationary trends and increasing outlays on system up-gradation reflects effectiveness of the management strategies for cost control. In the wake of current difficult credit environment, NPLs showed an increasing trend with NPLs to Gross Advances Ratio increasing to 7.5% as at March 31, 2011. However, Your Bank has adequately provided for the NPLs with provision coverage remaining high at 81.3% at end-March 2011. No benefit of FSV has been taken while determining the provision against NPLs as allowed under BSD Circular No. 02 of 2010 dated June 03, 2010.

Future Outlook

The macroeconomic outlook remains vulnerable to various risks on account of rising inflation, increasing fiscal slippages and drying up of financial inflows. Meanwhile, the uncertainties attached with global outlook, sensitive security situation in the country and severe power shortage would continue to act as impediments for the overall recovery. 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 in avenues prone to less risk 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.

Entity & TFC Ratings

The Pakistan Credit Rating Agency (PACRA) has assigned a Positive Outlook to 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 rating of Bank's earlier TFC Issue of Rs. 2,500 million (Issue Date: December 06, 2006) has been maintained at AA- (Double A Minus) by JCR-VIS Credit Rating Company.

Corporate Governance Rating

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

Best Retail Bank in Pakistan 2011 – The Asian Banker

Your Bank has been adjudged as the Best Retail Bank in Pakistan - 2011 by The Asian Banker. The evaluation for the award was conducted on the basis of transparency in strategy; value of franchise; annual financial performance; sustainability; sales capability; risk management; processes and technology; penetration and efficiency of distribution channels; people skills; and ethical banking.

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

Dated: April 25, 2011
Place: Lahore