

Directors' Review

(Un-audited) for the nine months ended September 30, 2010

Dear Shareholders,

On behalf of the Board of Directors, we are pleased to present the financial results of Allied Bank Limited for the nine months period ended September 30, 2010.

Financial Highlights

	(Rupees in million)		Growth
	Nine months ended September 30,		
	2010	2009	
Profit after tax	5,849	5,013	16.68%
Un-appropriated profits brought forward	12,198	8,537	42.88%
Transfer from surplus on revaluation of fixed assets – net of tax	23	24	-4.17%
Profit available for appropriation	18,070	13,574	33.12%
Final cash dividend for the year ended December 31, 2009 (2009: year ended December 31, 2008) at Rs. 2 per share (2009: Re. 1 per share)	(1,422)	(6460)	120.12%
Interim cash dividend for the year ending December 31, 2010 (2009: year ended December 31, 2009) at Rs.2 per share (2009: Rs. 2 per share)	(1,564)	(1,422)	9.99%
Transfer to Statutory Reserves	(1,170)	(1,003)	16.65%
Un-appropriated profits carried forward	13,914	10,503	32.48%
Earning Per Share (EPS) for the nine months	748	641	16.69%

Economic Overview

The challenges for Pakistan's economy, which was already passing through a difficult phase, increased manifold due to the recent catastrophic floods having serious implications for macroeconomic stability and growth prospects. The current fiscal year started with concerns over inflationary pressures and weak fiscal position and the risks exacerbated in post-flood scenario.

While an exercise for determining the extent of damage is currently underway, the provisional estimates suggest slowing down of the GDP growth from initial target on account of losses in agriculture and its ensuing impact on related industries and extensive damage caused to the infrastructure. The CPI inflation has shown sharp rise to 15.7% during September 2010, mainly on account of high food inflation caused by loss of agriculture output and disruption of supply chains of food items. While food inflation is expected to normalize in coming months, given the probable increase in electricity prices, induction of reformed GST and increasing reliance of the government on borrowings from SBP for deficit financing, the high inflationary pressures are likely to persist in FY11. Meanwhile, the expectation of widening of external account deficit has increased as growth in imports seems to outpace exports, especially after the floods. There exists heavy dependence on foreign inflows for supporting the overall budget deficit, especially in lieu of increasing spending requirements of the government for relief and reconstruction efforts, and supporting the balance of payments. Considering the challenges to the economic stability, the State Bank of Pakistan raised the Policy Rate consecutively by 50bps each in its past two Monetary Policy announcements in July 2010 and September 2010.

In these circumstances, most of the expansion in broad money in FY11 is expected to be driven by growth in Net Domestic Assets (NDA) of the banking system accompanied by possible decline in the Net Foreign Assets (NFA). Meanwhile, the accumulation in bank's NPLs does not seem to be decelerating and is expected to rise further for banks with large exposure to the agriculture sector. Increasing encroachment of the banking system resources for deficit monetization is inevitable in near to mid-term, leading to crowding out effect of the private sector credit.

Financial Review

Under the current difficult environment, Your Bank continues to follow its strategy of maintaining sustainable growth, pursuing conservative lending policies tilted towards less risky avenues and achieving a more stable and cost effective deposit mix. As a result deposits of Your bank grew by 9% and stood at Rs. 328,575 million as at September 30, 2010 compared to deposits of Rs. 301,588 million over the corresponding period of 2009. Importantly, the share of Non-Remunerative Current Accounts and low cost Savings Accounts in the total deposits mix has improved to 57.7% as at September 30, 2010 compared to 55.7% as at September 30, 2009. Given the prevalent circumstances, Gross Investments of Rs. 124,300 million constituted much of the Bank's earning assets growth during the period ended on September 30, 2010, which increased by 35.4 % over September 30, 2009. The Gross Advances, keeping in line with cautious lending approach were Rs. 236,127 million as at September 30, 2010, a growth of 6% over the gross advances of Rs. 222,690 million as at September 30, 2009. The balance sheet size of Your Bank stands at Rs. 412,482 million as at September 30, 2010, while the equity of the bank as at September 30, 2010 registered a strong growth of 16.3% over September 30, 2009 level to reach at Rs. 32,199 million.

Profit Before Tax of Your Bank increased by 17% to reach Rs. 8,750 million during nine months period ended September 30, 2010 as compared to Rs. 7,476 million in the corresponding period of previous year. Profit After Tax also rose by 16.7% to Rs. 5,849 million compared to Rs. 5,013 million in the corresponding period. Resultantly, the EPS of Your Bank increased to Rs. 7.48 during nine months period ended September 30, 2010 compared to Rs. 6.41 in the corresponding period of previous year.

Mark-up/interest income during nine months period ended September 30, 2010 increased to Rs. 33,254 million compared to Rs. 30,419 million in the corresponding period of previous year, a growth of 9.3%. This was mainly due 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 declined marginally to Rs. 16,704 million compared to Rs. 16,791 million over the corresponding period attributable largely to the improvement in deposit mix. As a consequence, the net mark-up/interest income of Your Bank grew by 21.4% to Rs. 16,550 million compared to the corresponding period of previous year. The provision expense declined to Rs. 3,053 million during nine months period ended September 30, 2010 compared to Rs. 3,669 million in the corresponding period.

Non-mark up/interest income during nine months period ended September 30, 2010 reduced to Rs. 3,656 million over the corresponding period, 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. 8,403 million during nine months period ended September 30, 2010 as compared to Rs. 7,178 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 12.9%. 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 8.02% as at September 30, 2010. However, the bank has adequately provided for the NPLs with provision coverage ratio increasing to 79.8% as at September 30, 2010 (excluding general provisions) 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 fragile and exposed to various risks on account of rising inflation, increasing fiscal slippages and possible pressure on Balance of Payments. Meanwhile, the uncertainties attached with global economic 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 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 rating of Bank's earlier TFC Issue of Rs. 2,500 million (Issue Date: December 06, 2006) has also been maintained at AA- (Double A Minus) 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.

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

Dated: October 18, 2010
Place: Lahore