

# Directors' Report

## Dear Shareholders

On behalf of the Board, we are pleased to present the annual report of your Bank for the year ended December 31, 2010.

The operating results and appropriations, as recommended by the Board are included in the table:

The Board of Directors has proposed a final cash dividend of Rs. 2 per share (aggregate cash dividend of Rs. 4 per share including interim dividend) and to issue bonus shares in the proportion of 1 share for every 10 shares held, i.e., 10% for the year 2010. This, together with the interim dividend declared during 2010 will be approved in the forthcoming annual general meeting.

## Performance Review

Your bank posted pre-tax profit of Rs. 12,343 million during 2010 compared to Rs. 10,536 million in previous year, registering a healthy YoY growth of 17.2%. The profit after tax also rose by 15.5% from previous year to Rs. 8,225 million during 2010. Resultantly, the EPS of your bank increased to Rs. 10.52 during 2010 as compared to Rs. 9.11 during 2009. The profitability ratios measured in terms of ROA and ROE also remain healthy at 1.89% and 28.83%, respectively, for 2010.

The balance sheet size of your bank registered a YoY growth of 7.5% to reach Rs. 449,932 million as at December 31, 2010. The growth was mainly achieved in less risky quality avenues considering the prevailing operating environment. Core equity of the bank also expanded to Rs. 31,166 million, a healthy growth of 20.4% on the back of improved profitability. The bank achieved a CAR of 13.84% as at December 31, 2010 (December 31, 2009: 13.47%). Deposits of your bank increased to Rs. 371,284 million as at December 31, 2010 compared to Rs. 328,875 million in previous year, a YoY growth of 12.9%. Meanwhile, the gross advances rose to Rs. 268,530 million at December 31, 2010, a YoY rise of 7.5%.

Net Mark-up/Interest Income of your bank increased by 20.7% to reach Rs. 22,565 million; mainly led by growth in average earning asset and improving deposit mix towards low cost core deposits. Meanwhile, the contribution of Non-Markup/Interest Income remained at around one-fifth of the total Gross Income despite lower YoY forex revenue and limited avenues for generating Investment Banking Fee Income. The bank's operating expenses (excluding the impact of Voluntary Retirement Scheme offered to employees during the year of Rs. 294 million) increased by 16.1% to Rs. 11,273 million. This when compared with inflationary trends and increasing outlays on infrastructure strengthening reflects effectiveness of the cost rationalization strategies adopted by the management. The Provision against financing and investments reduced by Rs. 414 million to Rs. 4,083 million during 2010 compared to the previous year. The provision coverage against advances, however, remained strong at 82.5% at December 31, 2010. 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.



Regional Headquarter, Faisalabad

	Rs. In million		Growth %
	2010	2009	
Profit after tax for the year	8,225	7,122	15.49
Accumulated profits brought forward	12,199	8,537	42.90
Transfer from surplus on revaluation of fixed assets - net of tax	36	32	12.5
Profit available for appropriation	20,460	15,691	30.39
Interim cash dividend for the year ended December 31, 2010 at Rs. 2 per share (2009: Year ended December 31, 2009 at Rs. 2 per share)	(1,564)	(1,422)	9.99
Final cash dividend for the year ended December 31, 2009 at Re. 2 per share (2009: Year ended December 31, 2008 at Rs. 1 per share)	(1,422)	(646)	120.12
Bonus shares for the year ended December 31, 2009 @ 10% (2009: Year ended December 31, 2008 @ 10%)*	-	-	-
Transfer to statutory Reserves	(1,645)	(1,424)	15.52
Accumulated profits carried forward	15,829	12,199	29.76
Earning Per Share (EPS) (Rs.)	10.52	9.11	15.48

\* Appropriation out of Share Premium Account

# Directors' Report

## Calendar of Major Events

Incorporation of Australasia Bank Limited	1942
Nationalization and merger of other three Banks i.e. Pak Bank Limited, Lahore Commercial Bank Limited and Sarhad Bank Limited with and into Australasia Bank Limited and its renaming as Allied Bank of Pakistan Limited	1974
Privatization under ESOP	1991
Reconstruction of Allied Bank of Pakistan Limited and handing over of its management to Ibrahim Group	2004
Change of the name from Allied Bank of Pakistan Limited to Allied Bank Limited	2005
Listing on all the three Stock Exchanges of Pakistan	2005

## Financial Calendar - 2010

1st Quarter Results issued on	April 26, 2010
2nd Quarter Results issued on	August 12, 2010
3rd Quarter Results issued on	October 18, 2010
Recommendation of Annual Results by the BOD	February 11, 2011
65th AGM Scheduled for Approval of Annual Results	March 16, 2011

## - 2009

1st Quarter Results issued on	April 25, 2009
2nd Quarter Results issued on	August 11, 2009
3rd Quarter Results issued on	October 24, 2009
Recommendation of Annual Results by the BOD	February 17, 2010
64th AGM held for Approval of Annual Results	March 26, 2010

## Statement under Code of Corporate Governance

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report that:

- The financial statements, prepared by the management of the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed in the Annual Accounts.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Performance highlights for the last six year is attached.
- The book value of investment of



Pension Fund, Provident Fund and Gratuity Fund is Rs. 5,367 million, Rs. 3,328 million and Rs. 759 million, respectively, as per audited accounts of these funds for the year ended December 31, 2010.

- Pattern of Shareholding, complying with the requirements prescribed by the code is annexed.
- Statement of Compliance with Code of Corporate Governance is included in the Annual Report.
- We have criteria for nomination of Bank's executives on the Boards of other companies where Allied Bank is an investor company. The Human Capital Committee of the Board decides these nominations.
- The committees of Board of Directors along with their terms of reference/charter have been separately disclosed in the annual report.
- The details of Board & Board's Committees meetings held during the year and attendance by each director have been separately disclosed in the Annual Report.

### Change in the Board of Directors

During 1Q2010, the Government replaced its Nominee Director Mr. Farrakh Qayyum with the then Chairman Federal Board of Revenue (FBR). However, he expressed his inability to accept the position. The position is still vacant.

The Board places on record its sincerest appreciation for Mr. Farrakh Qayyum to whom we are indebted for his prudent, professional and diligent guidance.

### Chief Executive Officer's Review

The Directors of your bank fully endorse the Chief Executive Officer's Review on the bank's performance for the year ended December 31, 2010.

### Statement of Internal Controls

The Board is pleased to endorse the statement made by management relating to internal control. The Management's Statement on Internal Control is included in the Annual Report.

### Risk Management Framework

The Bank manages risk through a framework of sound risk principles which includes an optimum organizational structure, risk assessment and monitoring processes. The Risk Management Group (RMG) is mandated to implement this framework as a function independent of commercial lines of business, working under the guidance of Board's Risk Management Committee (BRMC). RMG took several steps in 2010 to further strengthen the Risk Management Framework. Some of the major initiatives carried out were:

- Launched the Operational Risk Framework as a step to comply with the Basel II Operational Risk Standardized Approach. Initiated implementation of the Operational Risk Monitor; a state of the art software solution that will automate the requirements of the Operational Risk Framework.
- Implemented the newly devised Market Risk Management Framework with the assistance of an internationally reputed consultant. Comprehensive reports and analytics are now prepared for the management and the Board to efficiently manage the liquidity and market risk.

# Directors' Report

- Completed the development work on an automated Basel II Capital Calculator for Credit Risk Standardized Approach, which at present is undergoing design validation. This will meet the regulatory requirements as set out by the State Bank of Pakistan for Basel II reporting.
- Launched an internally developed Loan Origination System (LOS) with an embedded risk rating engine to evaluate borrowers with enhanced efficiency and improved credit assessment process.

The Bank devotes considerable resources in managing the risks to which it is exposed. The momentum attained will be continued in the future through significant investments in human resources, technology and training.

## Entity Ratings

The Pakistan Credit Rating Agency (PACRA) has assigned "Positive Outlook" to the ratings of Allied Bank Limited [current ratings: long-term: AA and short-term: A1+]. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. The Positive outlook acknowledges Allied Bank's consistent robust performance, emanating from sustained growth and sound asset quality.

## TFCs Issues

JCR-VIS Credit Rating Company has maintained rating of AA- (Double A Minus) assigned to your Bank's 1st TFC Issue (issue date: December 06, 2006). This rating denotes high credit quality. The rating of your bank's second TFC Issue (Issue date: August 28, 2009) of Rs. 3,000 million has also been maintained at AA- (Double A Minus) by PACRA. The rating denotes a very strong capacity for timely payment of financial commitments.

## Corporate Governance Rating

Corporate Governance Rating (CGR) is meant to indicate the relative level to which an organization accepts and follows the codes and guidelines of corporate governance practices. JCR-VIS Credit Rating Company Limited has "Upgraded" the CGR rating of Allied Bank to "CGR 8+" during the year from "CGR 8" which denotes 'high level of corporate governance'. The

rating action takes into account improvement in areas of internal audit and compliance, risk management, customer service, IT including the progress towards implementation of new core banking system, and the strengthening of the overall control environment.

## Auditors

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants and Messers Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants retire and being eligible offer themselves for re-appointment.

The Board of Directors, on the recommendation of the Audit Committee, has recommended Messers Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, and Messrs KPMG Taseer Hadi & Co., Chartered Accountants, for the next term.

## Events after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements, except those which have already been made or disclosed.

## Acknowledgements

On behalf of the Board and management, we would like to express our sincere appreciation to our customers and shareholders for their patronage, State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory bodies for their continuous guidance and support, and employees for all their continued dedication, enthusiasm and loyalty.

For and on behalf of the Board,

Khalid A. Sherwani  
Chief Executive Officer

Dated: February 11, 2011  
Place: Lahore

