

Directors' Report to the Shareholders

Dear Shareholders

On behalf of the Board, we are pleased to present the annual report of your Bank for the year ended December 31, 2007.

Economic Review

Pakistan's economy continued its strong performance during FY07 with real GDP growth reaching its target of 7.0%, as compared with 6.6% growth in FY06. Agriculture, industry and services sectors witnessed improved performance over the previous year.

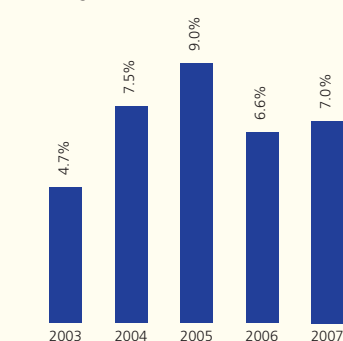
Growth in private consumption increased to 4.1% from 3.3% in FY06. Fixed capital formation increased to 20.6% due to higher FDI inflows and acceleration in public investment as a result of higher PSDP. As a result of the increase in public and private investment, the investment to GDP ratio rose to a record 23.0% in FY07.

Agricultural growth recovered in FY07 to 5%, primarily due to exceptional growth in wheat, sugarcane and livestock sub-sector. The achievement surpassed the target of 4.5% and is an improvement on the 1.6% growth recorded in FY06.

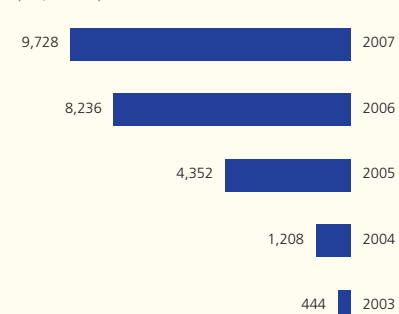
Manufacturing sector growth in FY07 has been 8.4%, decelerating from 10% in FY06 and below the FY07 target of 11%. Although below target, the contribution of this sector made it possible for GDP growth to achieve its target. Large Scale Manufacturing, with target of 13% growth, achieved 8.8% in FY07 due to moderation in demand and input capacity constraints.

The services sector expanded by 8% in FY07, higher than its target of 7.1%, for the second consecutive year. The sustained strong growth by this sector for the last six successive years has contributed to a structural shift in the economy, with services contributing over half of GDP in FY07.

GDP Growth (Percentage)



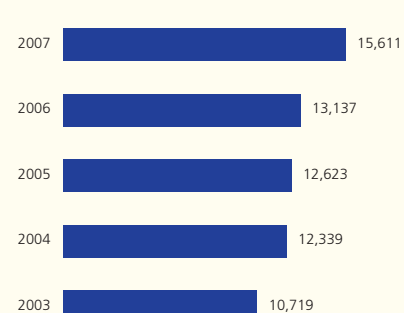
Trade Deficit (US\$ million)



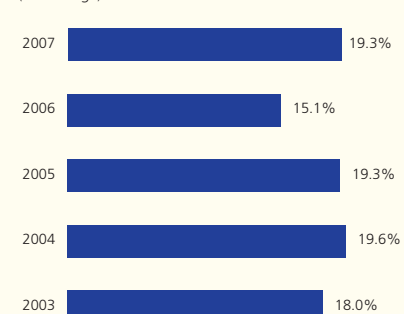
However, CPI Inflation was 7.8% which was significantly higher than the annual target of 6.5%. This was principally due to the unexpected strength of food price inflation during the year, which considerably offset the gains from (1) the demand management policies and (2) the government subsidies that partially cushioned the domestic economy from high international oil prices.

Pakistan's fiscal deficit for FY07 was 4.3% of GDP, slightly higher than the target of 4.2%. The above-target 22.9% increase in tax collection pushed up the tax-to-GDP ratio to 10.2% in FY07, up from 9.9% in the previous year. The strong growth in taxes was caused by an extraordinary growth of 48.2% in direct tax collection during FY07.

Foreign Exchange Reserves (US\$ million)



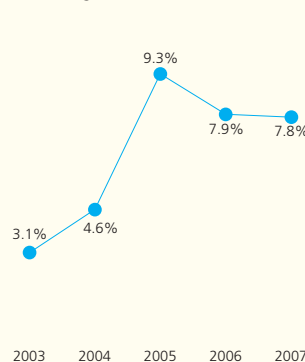
M2 Growth (Percentage)



As a result of a relative slowdown in the growth of the current account deficit and a record increase in investment inflows, Pakistan's external account surplus improved substantially to US\$3.7 billion during FY07 as compared to US\$1.3 billion in FY06.

After persistent widening during last four years, the difference between import and export growth seems to be converging during FY07 on the back of substantial slowdown in import growth, from 38.7% in FY06 to 6.9% in FY07. However, this welcome slowdown in import growth could not help in reducing the trade deficit due to a concurrent slowdown in export growth from an average 15.9% during last four years to 3.4% during FY07.

Consumer Price Index (Percentage)



Nonetheless, the trade deficit as compared to size of economy slightly declined from record high level of 9.46% during FY06 to 9.31% during FY07.

Bank's Financial Review

Continuing with the momentum, your Bank's operating profit increased by 17% to Rs. 8.8 billion during FY07, the highest ever earning in the Bank's history of over 60 years. The profit after tax, however, was down by 7% to Rs. 4.07 billion during FY07 compared to Rs. 4.39 billion for FY06 owing to the stricter provisioning rules introduced by the State Bank of Pakistan later this year. These rules disallowed banks to take into account the Forced Sale Value (FSV) of illiquid assets while calculating the provisioning against NPLs. The Bank has recorded a sum of Rs. 1.91 billion in terms of these rules. If this impact is excluded, the profit after tax would increase by 21%.

However, your Bank will gain from this regulation by expediting recoveries, write-backs and becoming more prudent in credit risk management.

Net interest income grew by over 7% to Rs. 11.2 billion compared to Rs. 10.4

6 Months KIBOR (Year 2007)



billion during FY06 driven by higher volume as well as improved yield. The increased volume backed by rise in yield lead to higher mark-up / return income of over 23% to Rs. 21.2 billion in FY07. Mark-up / interest expense rose to Rs. 10.0 billion depicting a rise of 47%, which is remarkably well below 67% annualized growth registered in June 2007. The growth was driven by a higher contribution from deposits, through a combination of good balance sheet growth and a stable liability margin.

Non mark-up income witnessed an exceptional growth of over 60% to Rs. 3.9 billion in FY07. As a result of our efforts to grow our market share in key segments, the Bank's net fee and commission income now contributes over 23% to total operating income in FY07, 5.5% up from FY06. Capital gain and dividend income grew by 194% owing to increased volume in tax efficient fixed income funds and improved yield.

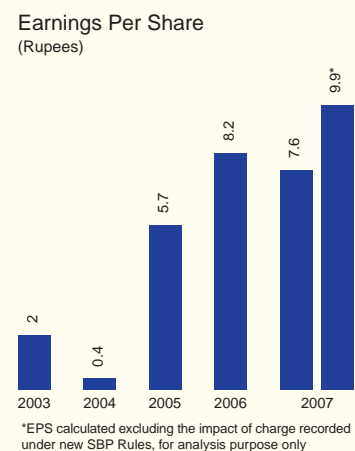
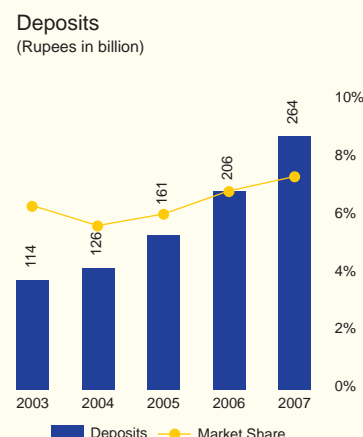
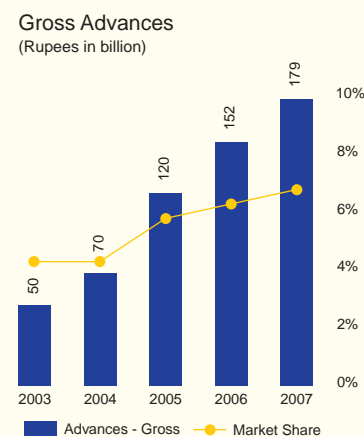
Owing to our planned expansion coupled with inflationary impact, operating expenses increased by 18% to Rs. 6.3 billion. The 17% rise in operating profit was well managed with a modest increase of 9% in human

resources cost. Cost to revenue ratio maintained its last year's level as it was recorded at 41.4% slightly down from last year's 41.1%. However, Intermediation cost ratio improved to 2.7% compared to 2.9% during FY06.

Total assets of your Bank crossed the Rs. 300 billion mark this year as these grew sustainably by 27% to over Rs. 320 billion while tier-I equity improved by over 13% to Rs. 18.4 billion at the year end.

Despite increased dependence of corporates on debt instruments, your Bank was able to grow its loan book by 18% to Rs. 179 billion besides concurrently continuing to exercise effective credit risk management and remained watchful of the impact on capital adequacy. To diversify our loan portfolio, your Bank also registered growth in Small and Medium Enterprises (SME) segment besides expanding corporate loan book with consumer financing being on the horizon for FY08.

Total investment book grew by 79% as the Bank channeled excess funds towards right mix of investments by ensuring balance between risk and effective returns.



Customer deposits increased to Rs. 264 billion from last year's Rs. 206 billion, depicting a growth of over 28%. Despite tough market conditions, your Bank was not only able to maintain its Current and Saving Accounts (CASA) but also grew these by 13%. New schemes attracted favorable customer response as fixed and other remunerative deposits rose by over 51%, reflecting greater reliance on banking with your Bank.

On the market share front, your Bank has managed to increase its market share in deposits by 50 basis points and advances by 40 basis points to reach 7.4% and 6.7% respectively, based on the SBP's provisional data.

Recent economic slow-down, worsening key economic indicators, law and order situation, global financial and economic events and blurred post election scenario of our country entails challenges ahead for the banking industry on the risk management front. Your Bank is not an exception to this, as Non Performing Loans (NPLs) saw a slight increase by over 8% to Rs. 11.4 billion compared to Rs. 10.5 billion last year. However, NPL ratio improved from

last year's 6.9% to 6.4% this year with net infection ratio improved significantly to 0.74% from 1.96% witnessed last year.

Earnings Per Share

The Earnings per Share of your Bank for the year ended 2007 is Rs. 7.57 per share, down by 7.2% from last year's Rs. 8.16 per share.

Appropriations

The Board of Directors has recommended the following appropriations of the profit for the year ended December 31, 2007.

	Rs. in millions
Profit after tax for the year	4,076
Accumulated profits brought forward	5,608
Transfer from surplus on revaluation of fixed assets – net of tax	33
Profit available for appropriation	9,717
Interim cash dividend for the year ended December 31, 2007 (Rs. 1.5 per share @15%)	808
Cash dividend for the year ended December 31, 2006 declared subsequent to the year end (Rs. 2.5 per share @25%)	1,122
Bonus shares for the year ended December 31, 2006 declared subsequent to the year end (Rs. 2.0 per share @20%) *	–
Transfer to Statutory Reserves	815
Accumulated profits carried forward	6,971

* Appropriated out of Share Premium Account

The Board of Directors has proposed a cash dividend of Rs. 1.5 per share and to issue bonus shares in the proportion of one share for every five shares held, i.e., 20%, for the financial year 2007. This will be put up for approval in the forthcoming annual general meeting.

Statement of Internal Control

The Board is pleased to endorse the statement made by the 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 process that are closely aligned with our long term strategy. The Risk Management Group (RMG) is mandated to implement this framework as a function independent of commercial lines of business.

In addition, a Management Committee comprising members of senior management discusses significant risk issues that arise, and recommends risk policies prepared by RMG to the Board Risk Management Committee for approval. This ensures that risk oversight and governance occur at the highest levels of management.

During 2007, RMG took several steps to further strengthen the Risk Management Framework, for example:

- Concluded the Basel II Gap Analysis, and prepared Implementation Plans. Engaged PricewaterhouseCoopers (PwC) in the fourth quarter 2007

to assist the Bank in the Implementation Phase for Credit, and Operational Risks. Various Projects have been identified, that will be executed over a time span of two years, to bring the Bank in compliance with the Basel II approaches. This is an important step in the alignment of regulatory and economic capital requirements.

- Appointed Deutsche Bank Risk Advisory Services, Singapore, in last quarter of 2007 to seek their assistance in establishment of a market risk management framework at ABL so that the Bank can efficiently manage liquidity and market risk. The project is currently underway and expected to be completed by the third quarter of 2008.
- Implemented a new Credit Approval Matrix that complies with the SBP Guidelines on Corporate Governance, and empowers a select group of Bank officials with enhanced credit authorities.
- Evaluated various risk management software to meet the sophisticated data management and reporting requirements under Basel II. The Bank intends to procure appropriate software that would enable the Bank to meet the regulatory requirements as set out by the SBP to achieve compliance with Basel II.

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

Credit Rating

Your Bank's credit rating has been improved to 'AA' for long term, as assigned by Pakistan Credit Rating Agency Limited from 'A+' as assigned by JCR-VIS Credit Rating Company Limited. 'AA' denotes the lowest expectation of credit risk, indicates very strong capacity for timely payment of financial commitments and not significantly vulnerable to foreseeable events.

The short term rating was maintained at 'A1+', which is the uppermost possible rating under this category and represents highest capacity for timely repayment.

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. In this context, JCR-VIS Credit Rating Company Limited has assigned a corporate governance rating of 'CGR-8' to your Bank, which denotes 'high level of corporate governance', which is only two notches away from the highest level of CGR.

CGR is arrived at after evaluating key governance elements of the rated enterprise, which include regulatory compliance, ownership structure, composition and operations of the board of directors and executive management, self-regulation, financial transparency and relationship with stakeholders.



Zia Ijaz, Group Chief - CRBG addressing the prize distribution ceremony of ABL - Career Building Campaign

Mohammad Afraz Manzoor, CEO ABL expressing his views at a conference in Lahore on ABL's 3 years performance

Whistle Blowing Policy

With a view to encourage the employees of the Bank to voice their concerns about suspected fraudulent activities and malpractices that may have an adverse impact on the business or goodwill of the Bank or in some cases, even on the society at large, the Board of Directors of your Bank has approved the Whistle Blowing Policy, providing the basis of an effective whistle blowing arrangement in the Bank. The function is established under direct supervision of the Audit Committee. This initiative provides a transparent working environment in the Bank.

The concern might not only be of a financial nature but it could also be illegal conduct posing a danger to the repute of the Bank.

ABL Asset Management Company Limited – Wholly Owned Subsidiary

In order to provide a wide range of investment products and to complement its banking business, your Bank has launched its wholly owned subsidiary to conduct asset management business. The first Board meeting of the newly incorporated company was held on October 19, 2007.

ABL Asset Management Company will shortly be introducing a range of investment products and services to its customers.

Liquidation of Allied Management Services (Private) Limited (AMSL)

The Board of Directors of the Bank in its meeting held on October 30, 2006 approved the liquidation of Allied

Management Services (Private) Limited (AMSL), a wholly owned subsidiary of the Bank, consequent to the merger of First Allied Bank Modaraba (managed by AMSL) into the Bank. Subsequently, shareholders of Allied Management Services (Private) Limited in Extra Ordinary General Meeting held on April 28, 2007 resolved to wind up the AMSL under the provision of sections 362 to 370 of the Companies Ordinance, 1984 and appointed a liquidator.

During the year, on account of liquidation, the Bank received Rs. 146 million against the holding of 6,248,800 shares (99.99%) valuing Rs. 62 million.

ATM Network

Your Bank continued to maintain its lead of being the top Bank with highest number of ATMs by the end of the year. The number of ATMs increased impressively to 450. This achievement is enhanced with an extended reach – covering 145+ cities, thereby, making

it the widest geographical network for ATM based services amongst all the banks in Pakistan.

Awards and Recognitions

We are pleased to inform you that your Bank has been ranked among the top 1000 banks of the world by UK's 'The Banker', published by Financial Times London. The categories and ranking are as follows.

Rank Categories	Rank in the world
Performance based	
• Profit on average capital	38th
• Return on assets	131st
• Real profit growth	262nd
Soundness based	
• Capital assets ratio	523rd
Size based	
• Assets	833rd
Overall world ranking	932nd

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 from them has been adequately disclosed.

- 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.

- 'Management Discussion & Analysis' gives a detailed overview of the operating results and significant variations.

- There has been no material departure from the best practices of corporate governance.

- A summary of key operating and financial data for last six years is included in this Annual Report.

- The book value of investment and accrued profit on investment of Pension Fund, Provident Fund, Gratuity Fund and Welfare Fund is Rs. 5,058 million, Rs. 1,410 million, Rs. 373 million, Rs. 161 million respectively as per audited accounts of the funds for the year ended December 31, 2006.

- Pattern of Shareholding is annexed.

- Statement of Compliance with Code of Corporate Governance is annexed.

- 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 the nominations.

- Board of Directors has the following sub-committees with clearly laid down Terms of Reference.

- Audit Committee
- Human Capital Committee
- Risk Management Committee
- e-Vision Committee
- Strategic Planning & Monitoring Committee

Meetings of the Board

Seven meetings of the Board were held during the year under review. The Board granted leave of absence to the directors not attended the meetings. The numbers of meetings attended by each director for this period are as under:

Directors' Report to the Shareholders

Name	Designation	Attendance
Mohammad Naeem Mukhtar	Chairman	6
Sheikh Mukhtar Ahmed	Director	6
Mohammad Waseem Mukhtar	Director	7
Abdul Aziz Khan	Director	2
Sheikh Jalees Ahmed	Director	7
Farrakh Qayyum	Director	2
Nazrat Bashir	Director	4
Tasneem M. Noorani	Director	6
Mubashir A. Akhtar	Director	6
* Kamal Monnoo	Director	5
** Khalid A. Sherwani	Director /CEO	5
Pervaiz Iqbal Butt	Director	2
Mohammad Aftab Manzoor	Director/CEO	2

Auditors

The present auditors Messrs M. Yousuf Adil Saleem and Co., Chartered Accountants retire and being eligible offer themselves for re-appointment. Messrs Ford Rhodes Sidat Hyder and Co., Chartered Accountants retire and in pursuance of the Code of Corporate Governance become ineligible for re-appointment for having completed a term of five years.

The Board of Directors, on the suggestion of the Audit Committee, recommended Messrs KPMG Taseer Hadi & Co., Chartered Accountants (local representative of KPMG International), and M. Yousuf Adil Saleem and Co., Chartered Accountants (local representative of Deloitte Touche Tohmatsu) for the next term.

Year 2008 Prospects

Pakistan's economy has entered a challenging phase. Major economic indicators show a concerning situation, with deterioration witnessed in trade balance, fiscal deficit, price levels, monetary conditions and external debt.

Uncertain political situation is having an underlying impact on the investment climate in the country. On the external front, Pakistan has remained mostly shielded from global financial and economic events thus far, but volatility and changes in the foreign exchange markets could impact Pakistan's external trade and balances. GDP growth rate is likely to be below target.

Under the current economic situation, and with the implementation of the Basel Accord II, the banking industry may have to confront issues of capital adequacy, risk profile and growing NPLs. Fund mobilization by banks also faces a predicament with increasing the deposits requiring high cost.

With continuous monitoring of economic and industry environment, your Bank is pursuing a managed growth approach, where quality of growth is given higher preference than just growing the balance sheet. As a result, emphasis is placed on better quality assets and lower cost of deposits. With this approach, the Bank intends to maintain a steady growth trajectory.

Through ABL Asset Management Company Limited, your Bank will shortly be introducing a range of products to meet the growing demand for savings and investments. Together with consumer centric asset products, your Bank will continue to increase its product range and penetrate market share.

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.

New Chief Executive Officer

The Board welcomes new Chief Executive Officer, Mr. Mohammad Aftab Manzoor, who has assumed his responsibility with effect from November 1, 2007.

Acknowledgements

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

Mohammad Aftab Manzoor
Chief Executive Officer

Mohammad Naeem Mukhtar
Chairman

Dated: February 29, 2008
Place: Lahore