President's Review

I am pleased to present the results for the year 2005, which was one of the most historic one for the Bank. I am very happy to state that the Bank has demonstrated a very strong and successful turnaround.

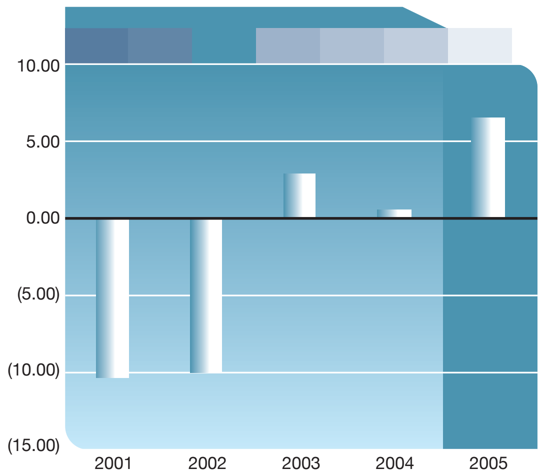
Profitability

The Bank earned highest profit after tax in it's over 60 years' history. The profit after tax increased from Rs.192 million in 2004 to Rs. 3,033 million in 2005 showing an increase of 1,482%. While the profit before tax improved by 892% increasing from Rs.482 million to Rs.4,777 million and Net Interest Income was Rs.7,822 million as compared to Rs.4,451 million during last year. This stellar growth resulted from improvement in interest margins, increase in advances to deposits ratio to around 74%, as the bank was able to book quality advances due to increased equity and per party limit, and the strategy of the Bank to focus on its core business. Simultaneously, non interest income excluding incidental/account maintaining charges increased by 35% from Rs.984 million to Rs.1,334 million. This increase emanated from growth in foreign trade business transacted by the Bank, income on online funds transfer and investment banking activities during the year under review. Capital gain and dividend income also increased from Rs.65 million to Rs.196 million. This increase was mainly driven by effective portfolio management and increased exposure in the capital markets. The operating expenses increased by 4% only from Rs.4,115 million to Rs.4,272 million as compared to 58% increase in gross income. We focused on growth of revenues in every business segment across the Bank, kept costs under control, and benefited from rise in the interest rates. As a consequence, our net profit increased substantially and the increase in the profitability was also diversified.

Due to investment of funds in better earning assets, reduction of non-performing assets to gross earning assets ratio and increase in interest rates, the gross spread increased by 190 basis points. Income to cost ratio improved from 1.6 times to 2.3 times and cost to average deposits ratio decreased by 30 basis points to 3.0%. This phenomenal increase in profitability resulted in improvement of return on equity from 8% to 29% and return on assets from 0.1% from 1.7%.

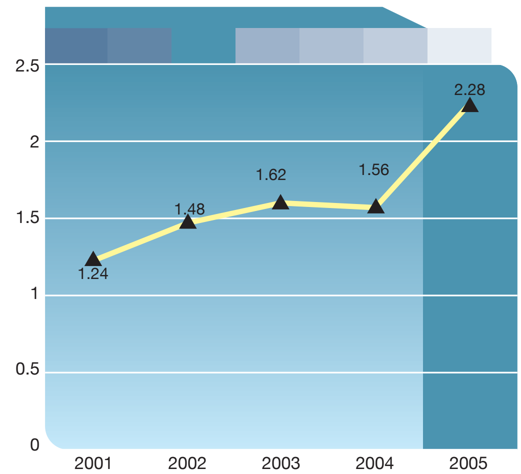
Earning per Share

Rupees per share



Revenue to Cost ratio

percentage



Business Growth

The deposits of the Bank grew from Rs. 126 billion to Rs. 162 billion depicting a growth of 28%. This growth was achieved despite the intense competition and sluggish growth in deposits of the banking industry during the second half of 2005. The advances grew by Rs.50 billion or 71% i.e. from Rs.70 billion in 2004 to Rs.120 billion in 2005. This has resulted in rise of our market share to 6.0% by 110 basis points. Total foreign trade handled by the Bank increased from Rs.73 billion in 2004 to Rs.96 billion in 2005 i.e. 32%. The total assets increased from Rs.155 billion to Rs. 192 billion. Equity of the Bank increased from Rs.10 billion in 2004 to Rs.13 billion in 2005.

Asset Quality and Capital Adequacy

The non performing portfolio (NPLs) decreased from Rs.15.4 billion to Rs.12.6 billion. This decrease in non-performing portfolio and booking of quality assets resulted in decrease of NPLs to gross advances ratio from 22% to 11%. Simultaneously, net infection ratio decreased from 8.3% to 3.6%. The capital adequacy ratio stands at 11% against the regulatory requirement of 8%.

Business Operating Model

During 2005 the Bank made major changes in its business operating model which included changes in business and support groups. The functions of the Bank were organized around the customer segments i.e. Corporate and Investment Banking (CIBG), Commercial and Retail Banking (CRBG) and Consumer Banking. This restructuring has positioned the Bank to react quickly to new developments in rapidly changing financial services arena. The business segments will work to produce synergies across the enterprise.

In order to effectively respond to client expectations, CRBG has reorganized its sales structure by segmenting its network. The group is now sub divided in 27 regions and three group offices. The underlying aim of this reorganization is to offer clients the highest standard of service and seeks to do this by effectively responding to client needs and enhancing satisfaction. At 31 December 2005, the network was of 741 branches and 100 Automatic Teller Machines (ATMs). During 2006 the Bank will further strengthen its SME asset marketing and relationship management part of CRBG. Objective of CRBG is to grow faster than the market by fully capitalizing on the potential customers by providing better services and new products to existing customers. This new structure should offer synergies leading to a better understanding of the different consumer profiles and retail channels, and to more accurate measurement of levels of satisfaction. The group will also devise tools to gauge consumer satisfaction and will endeavour to update its products and services.

Corporate and Investment Banking looks after the needs of corporate, public sector and financial institutions. The group is striving to respond attentively to its clients' needs and relationship managers seek to have an excellent understanding of their clients' financial and business strategies and day-to-day management concerns. Investment banking is striving to provide best combination of financial advice and financing/syndication arrangements.

These structural changes have helped to grow the business at faster pace and also assisted in cross selling across different segments. Simultaneously, the support groups were also restructured in order to make them more efficient and provide better service within the organization.

Technology

Realizing that the market is going to change from a branch-based distribution model to a more complex system in which clients would expect to choose among various communication channels, the Bank has decided to invest massively in setting up a full fledged multi-channel Retail Bank. Allied Bank will be one of banks with highest number of ATMs by the end of next year. The Bank will also install self service banking kiosks during 2006 at offsite locations to facilitate the customers and will be true reflection of the will of the Bank to exploit new service delivery channels. From a strictly technological standpoint, it is practically certain that part of the future of banking will ride on the internet. Because it consists of intangible services, banking is in fact one of the few businesses in which the entire value chain, including delivery, can be provided over the internet. So even though personal contact with our clients remains a core value at Allied Bank, the quality of that interaction will only be boosted by offering services with greater added value. Your Bank is determined to seize the opportunities for development and innovation afforded by internet, and also to make sure that remote banking brings it ever closer to its clients.

During 2006, the Bank will finalize the vendor of core banking software system and will initiate the implementation of the system. In addition to that, certain other initiatives of automation of back office activities are underway. Moreover, the management is also working on improving the capability of information systems and data quality. Oracle financials – ERP will be fully operational during 2006. These efforts will vitally boost the decision making capability of the management and substantially enhance the MIS reporting to the Board of Directors.

Human Capital

For us to translate our strategy into reality, all clients must receive excellent service from highly motivated and engaged people. Therefore we need to maintain our high standards in recruiting, developing and retaining talent. To achieve this, we must keep demonstrating commitment to our people, create a high performance culture, and build world-class leadership. We will carry out targeted recruitment of experienced managers. By effectively transposing core values of the Bank into performance assessment criteria, we will provide a consistent basis for appraising employee performance and attitudes around the Bank. The induction of qualified and experienced professionals will assist in improving the quality and efficiency of the HR, while also enabling us to continue to respond to the changing needs and

increasing demands of the business. It will ensure that the Bank delivers a consistent, quality service supported by value-creating people, strategies and policies.

General

The year 2005 was pivotal for the future success of the Bank. JCR-VIS assigned 'A' (single A) long term rating to the Bank, which was subsequently upgraded to A+ (single A plus) on the basis of September 2005 results. Similarly, the short term rating of A1 was upgraded to A1+. The Bank was listed on all the exchanges of Pakistan during the year and its stock value was Rs.86.5 as on December 31, 2005. The Bank is now a recognized robust institution with strong financials.

It is very important to emphasize that reaching our financial goals has not been, and will never be, at the expense of non-compliance with regulatory rules and regulations. Internally, we use the strength of our values and ethics to guide us in executing our growth plans with integrity. Integrity and compliance are of paramount importance to us, thereby helping us to live up to the role that authorities and the public expect from us.

Future Outlook

Based on the strengths, vision and mission of the Bank the Board of Directors has approved a five year business plan and strategy of the Bank. The strategy envisages that Bank will provide all the financial solutions to customers while enhancing the value for shareholders and increasing its market share in all the segments and products.

The financial services sector is the most challenging, highly profitable and quickly changing sector. The changes are providing multiple growth opportunities for large and financially strong banks. Your Bank has the financial and technological strength to reap full benefit out of these changes which are leading to consolidation of players in the market. The financial services industry as a whole is in a period of growth. Economic and market recovery is allowing companies to shift their focus from purely cost and efficiency to more aggressive growth strategies. However, there are lot of challenges to growth in financial services like increased regulatory pressures, increased consumer expectations and a tough competitive environment.

The Bank will concentrate on growing earnings over the long term at a rate which will place it favourably when compared with its peer group. We will also focus on investing in our delivery platforms, technology, people and brand to support the future value of the Bank. Core values are integral to our strategy, and communicating them to customers, shareholders and employees is intrinsic to the strategy. These values are Integrity, Excellence in Service, High performance, Innovation and growth. We will further enhance the growth attained during the last year by rewarding performance and discouraging mediocrity, strengthening the use of marketing as a key management tool of the business lines, focusing investment on businesses and geographies with largest growth potential, benchmarking growth targets and achievements rigorously against peer group.

Finally, I would like to express my gratitude to our customers for their continued support and trust and acknowledge the hard work and dedication of our employees. I would also like to thank the Board of Directors for their support and guidance provided to the management in strategic direction and policy formulation.

Khalid A. Sherwani
President