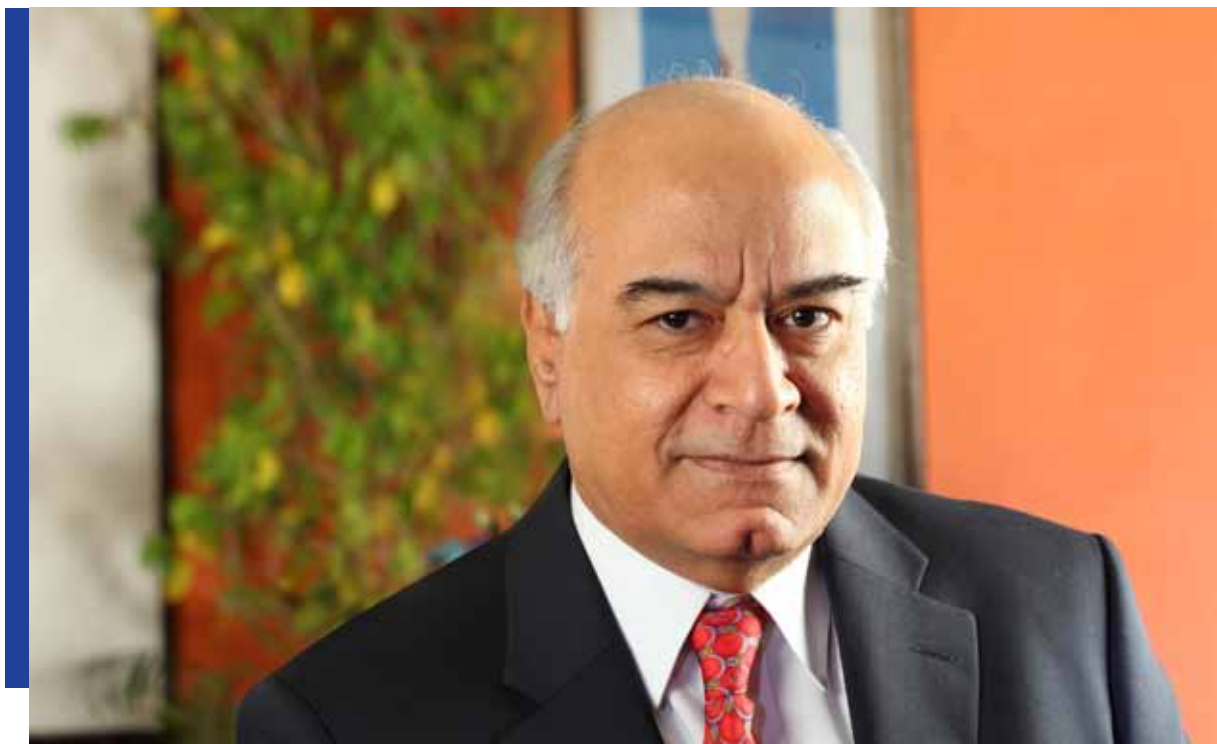


Chief Executive Officer's Review



During 2010 the economy's ability to achieve sustainable recovery remains constrained. The key variables impeding stabilization and thereby growth were persistent high inflation, fiscal distress, severe energy shortage, devastating floods and the security situation.

GDP Growth recovered to 4.1% in FY 2010 from a low base – after the transition to macro stability in second half 2009 – mainly due to recovery in the manufacturing and services sectors' performance. However, risks to macroeconomic stability have also been gaining traction on the back of rising fiscal pressures and relentless high inflation. The average inflation having fallen to 11.7% in FY10 has risen to 14.6% during 1H-FY11 and the surge in recent months is broad based.

The destructive floods in the second half of 2010 derailed the economy further with total losses of USD 9-10 billion, of which USD 3-4 billion were in the agricultural sector. This together with acute electricity and gas shortage has taken a toll on the growth of economic activity which is now widely expected to be around 2-3% for FY11 from an initial target of 4.5%. Meanwhile, global outlook continues to remain fragile and uneven as the weaknesses in major developed economies continue to drag the global recovery despite exceptional performance of emerging markets.

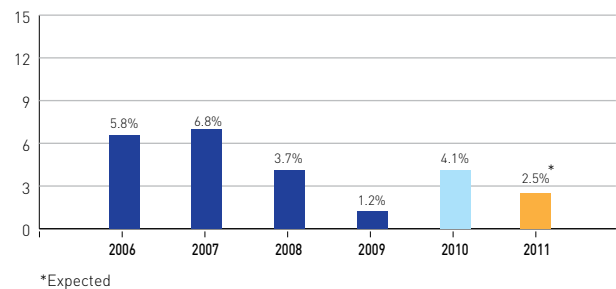
As against targeted growth of 26% in tax revenues for FY11, the actual tax collection during 1H-FY11 registered a growth of 13% only. Meanwhile, rising expenditure, primarily owing to the need for relief and reconstruction efforts in floods affected areas, subsidies for energy and food items and security related activities further indicate the difficulties that lie ahead. Under the circumstances, there is an increasing reliance by the government to fund the rising deficit through borrowings from SBP and the banking sector. While the fiscal position awaits progress, the external current account has shown notable improvement in 1H-FY11 mainly on account of robust growth in exports owing to high international prices for textiles and rice, continuing strong inflows of home remittances and disbursement of the Coalition Support Fund. However, the impact of this improved outlook may be neutralized by growing uncertainty regarding capital and financial inflows.

Recognizing the risks to the economy caused by high inflation that was being exacerbated by a structural fiscal deficit, the State Bank of Pakistan resorted to three successive 50bps hikes in the policy rate in FY11. Despite an increase in the policy rate and its transmission to market interest rates, the growth in key monetary aggregates remained substantial as M2 grew by 15.1% during the 1H-FY11 due to sharp growth in credit to the Government from the banking system. In addition, the outstanding stock of credit extended to the public sector for procurement of commodities and Public Sector Enterprises (PSEs) remained at an elevated level. Meanwhile, the credit to the private sector depicted a modest growth of 4.8% as against a contraction of 1.8% a year earlier. The credit to private sector was primarily for working capital financing whereas credit for fixed investment showed a consistent declining trend.

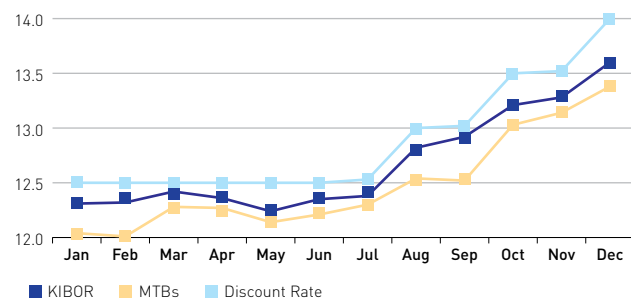
Despite adequate liquidity, the banking sector largely remained cautious in extending credit to the private sector mainly due to prevalent circumstances in the country; which partly also fueled the growth in Non-Performing Loans (NPLs), rising close to Rs. 500 billion by the end of Q1-FY11. At the same time, government's growing financing needs provided banks the opportunity to invest in risk free government securities.

Under the current difficult environment, your Bank remained committed to its strategy of maintaining steady growth in carefully selected quality avenues. In order to achieve the strategic objective the management of Your bank not only continued to re-align risk management framework to effectively respond to rapidly changing dynamics of the operating environment; but also stayed focused on cost effective deposit mix whereby further increasing proportion of Current and Savings (CASA) deposits. Additionally Your bank continues to build business by increasing penetration in retail segment, strengthening our corporate and commercial relationships; product innovation and strong focus on service quality.

GDP Growth (Percentage)



Interest Rates (2010)



CEO's Review



Business Performance

Commercial & Retail Banking

Commercial & Retail Banking Group, catering to the needs of individuals, middle sized customers, Small and Medium Enterprises (SMEs) and agriculture sector, provides its customers with integrated financing and offers various deposits solutions including speedy funds transfers through its extensive online network and a strong Alternate Delivery Channel (ADC) platform. During 2010, the Group successfully embarked upon its strategy of increasing the proportion of low cost deposits. Deposits grew by 13% to reach Rs. 371 billion as at December 31, 2010 over the previous year with share of CASA improving on average volume basis from 53% during 2009 to 55% in 2010, thereby managing the cost of funds in contributing to improved profitability.

There have been renewed efforts by the Group to enhance penetration in the commercial & retail lending segments and agriculture sector with a view to increase its share in the total loan book of the bank. In this regard various new products were launched to

attract customers. The team of Relationship Managers (RMs) is being strengthened to identify and attract customers having strong business profile matching the bank's risk acceptance criteria. The bank continued to adopt a cautious stance towards consumer financing in the current difficult high inflationary environment and remained cognizant to offer consumer products to its strong profile customers at large. A structural shift thus made during the year was the merging of Consumer segment into Commercial & Retail Group.

Going forward, the Group focuses on further contribution in the bank's bottom line through growth in quality avenues and improvement in deposit mix while effectively exploiting cross sell opportunities and optimization of branch banking/ADCs platform to generate sustainable sources of fee based income.

Corporate & Investment Banking

The Corporate and Investment Banking Group (CIBG) continued to provide strategic and structured financial solutions and advisory services to leading corporates, backed by a high quality relationship management



team. Despite a difficult macroeconomic outlook, the Group maintained its position as one of the leading player and closed a number of high value and complex transactions for premier corporate entities encompassing both debt and equity based solutions. During 2010 Allied Bank won the "Corporate Finance Equity/ Advisory House" by CFA Association of Pakistan" and "Best Domestic Investment Bank of the year – Pakistan" award by the Asset Magazine Hong Kong for the second consecutive year. The awards are recognition of our continuous endeavors in providing quality solutions to our corporate clientele.

Considering the challenging environment at hand, the Group focus remained on asset quality during the year and followed a two pronged strategy a) increasing exposure to only premier corporates having strong business fundamentals and tested payment track record and, b) reducing/rationalizing exposure in sectors with weak dynamics. Priority remained on extending short term working capital/trade based financing facilities which provide the ability to make swift adjustments to portfolio in line with prevalent macro and industry specific factors.

Focus on industry specific products and solutions for client receivables, payments and liquidity management has enabled Cash Management Unit to generate appreciable growth in fee income. Our entire product offering is fully customizable and supported by comprehensive real-time MIS delivery to the customers.

Allied Bank, in a short span of time, has acquired prominent position in the industry in International In-bound Remittance. Associated with a vast number of International Correspondents, our Home Remittance Service is the channel of choice for most large Pakistani Expatriate locations across the globe. Our newly streamlined systems ensure near-immediate transaction throughput, making all transactions available across the entire Allied Bank's network instantly. There has been an impressive 42% growth in remittance volumes handled by the bank during 2010.

The Group is also looking after the Allied Bank's initiatives to establish international footprint and is at an advanced stage for opening a branch in Bahrain and a Representative Office in Dubai with an objective to tap business opportunities in these markets.

CEO's Review



Treasury & FX Management

Being cognizant of the developments on economic front, Treasury played a vital role not only in managing the funds to maximize bank's revenues but also remained focused on customers' orientation in collaboration with other groups to broaden the base of trade related business activities. The year 2010 saw a shifting in the interest environment owing to higher inflation, budget deficit etc. As a result of upward shift in yield curve due to hikes in SBP Discount rate during the year under review, the Treasury cautiously reduced the duration of investment portfolio. The strategy resulted in ensuring better return on investments which partially offset the corresponding increase in offering return to Banks' remunerable depositors.

Special Asset Management

Owing to the rising trend in NPLs across the banking sector, the role of Special Asset Management Group (SAMG) has become increasingly important to recover bank's stuck up funds in a timely manner. Through the joint efforts of SAMG and Business Groups, the bank made recoveries and regularization of around Rs. 3 billion during 2010, thereby contributing to bank's low infection ratio compared to industry averages and peers. Efforts are underway to bring further structural improvements in the Group and increasing focus on capacity building through inductions at key slots.

Human Resource

At Allied Bank we recognize our employees as the prime asset and key contributors to the performance of the bank and place great emphasis on the attraction, development, motivation and retention thereof. During the year under review, the bank remained active in attracting the best of the industry talent by offering market based compensation and a congenial work environment. As part of continuing strategy to mix youth with experience, the management pursued the policy of inducting fresh Post Graduates in business and Commerce from leading business schools as Management Trainee Officers by following meticulous selection process. During the last three years over 1400 MTOs through various batches have been hired and were provided comprehensive in-house training before being assigned to various functions.

Employees' professional development remained one of the key elements of our human resource strategy. To keep abreast with technological development and changing business needs, human capital enrichment through extensive in-house and external training is indispensable. During the year, 5,687 employees participated in various in-house training programs arranged at Management Development Centers in Karachi, Lahore and Islamabad. In addition, the bank nominated 2,162 employees for ex-house training in Pakistan while 45 employees were also sent abroad for attending training and seminars. During 2010, the bank has incurred an amount of Rs. 79 million on training of employees as compared to Rs. 58 million spent in previous year.

To promote employees engagement and satisfaction, a performance evaluation system is in place whereby 'pay to performance criteria' inculcates the motivation amongst the employees to achieve the goals/targets. Recognizing it to be a long-term investment having lasting benefits, the management continued to invest in human resource strengthening and rationalization. Since the restructuring and recapitalization of the bank in 2004, the permanent workforce increased by one-third of the total strength at end-Dec 2004. The bank has promoted the philosophy of women participation in every sphere of economic activity. Female employment ratio at Allied Bank has increased from 4% to 12% of the total employees during the last 6 years with further increase targeted in the coming years.



CEO's Review



Service Quality

Keeping in view Allied Bank's customer centric vision, the bank has in place a dedicated service quality function entrusted with the responsibility to monitor and recommend for improvement in the service quality standards. In line with the commitment to provide enriched customer experience, 'verbalized ATM/T-Pin generation process' has been introduced by 24/7 Allied Phone Banking, along with host of personalized banking services. In addition, Complaint Management Unit established last year has been made more effective to provide speedy and effective resolutions to build a strong rapport with the customer.

Internal Service Measures (ISMs) are in place to ensure that set Service Standards in terms of timeliness & quality are being achieved across the bank. To uplift the service culture at branch level, the placements of Customer Support Officers have been initiated. Moreover, Customer Satisfaction Survey is conducted on periodic basis by Service Quality to gauge customer satisfaction levels.

Risk Management

Risk Management involves setting the most appropriate course of action under uncertainty by identifying, assessing, understanding, communicating and addressing risk issues. Recognizing the international trends and global focus; At Allied Bank risk management is an essential pillar of our banking strategy. The Risk Management Group, is actively measuring, monitoring, controlling and reporting risks across the Bank. Modern analytical tools are used in combination with traditional techniques to assess credit, operational, market and liquidity risks. Risk appetite in the form of regulatory capital allocation has been determined for the above three risk forms in addition to capital adequacy.

During the year under review, focus remained on development and implementation of policies & procedures to further strengthen risk management in every area. Further, the Bank has developed an Internal Capital Adequacy Assessment Process (ICAAP) as per central bank guidelines.

The internal obligor risk rating system has been redesigned to further strengthen the credit decision process and to identify the high risk portfolio. The obligor risk rating models are being embedded in a newly developed automated workflow of credit approval (Loan Origination System). Industry experts and engineers have been engaged and placed in the Risk and Business units to not only provide their expert opinions on the obligor's technical viability but also to support the Bank's credit risk strategy through detailed industry analysis.

The Group has 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 oversight of the Board to efficiently manage the liquidity and market risk. In-order to ascertain that adequate capital cushion is available to absorb market risk shocks; stress testing is regularly carried out on different risk factors.

The management has been cognizant of the fact that operational risk, like other risks, needs to be proactively mitigated. Allied Bank has developed and is de-

veloping an Operational Risk Management Framework (ORMF) which provides detailed guidelines besides tools such as Risk & Control Self Assessment, Key Risk Indicators and Incident Data Management.

The Bank is endeavoring towards automated Basel II Capital Calculations through implementation of a world-class software solution. The Credit Risk Capital Calculator is operational whereas the automation of Operational Risk and Market Risk reporting is underway.

Technology

After the successful completion of first phase during 2009, which involved migration of Treasury, centralized Trade Factories, all Controlling Offices and development of centralized processing units for account opening and verification; the second phase of Roll out of T-24, a state-of-the art core banking solution, in branches began in May 2010. To date 79 high volume branches have been successfully migrated to the new system. Besides all new branches are being opened under T-24 environment taking the total number of branches currently operating on T-24 to 101. In order to cater to high speed connectivity requirement for the new core banking solution, infrastructure up gradation and bandwidth improvements are being actively pursued. Efforts are also underway for up gradation of IT security framework across all applications and systems and provision of effective disaster recovery mechanism.

The technology team is effectively managing the bank's strong ADCs platform bringing constant up gradation and improvements in the products/services offered. To achieve paper-less environment, the Group is fast automating the various approval processes and work flows, bringing efficiencies in decision making besides savings of cost.

Operations, System & Control

Operations group continued to focus on centralization of processes and business continuity. Strong operational support provided to the businesses to ensure the successful launch of new products and services during the year. The Internal Controls Division under the ambit of Operations Group is entrusted with the re-

CEO's Review



sponsibility of expediting rectification of irregularities and control lapses in branches' operations and various controlling offices pointed out through audit reviews.

The Compliance Group ensures adherence to the regulatory requirements and Bank's internal policies and procedures. During the year the Group revisited the AML / KYC Policy and realigned it with the changes in the regulatory environment. Specific training sessions were held to apprise the field functionaries as to AML/ KYC policies and procedures. Besides introducing certain automated off-site monitoring tools in the vast network of branches on a daily basis, the bank has also procured a name search solution through OFAC. Recognizing it to be an ongoing process, the Management of Allied Bank has adopted an internationally accepted Internal Control COSO Framework, with the assistance of a reputable advisory firm in accordance with guidelines on Internal Controls from the State Bank of Pakistan, as elaborated in "Statement of Internal Controls" being integral part of the Annual Report.

Alternate Delivery Channels (ADCs)

Leveraging technology to deliver the best customer experience and enhance the efficiency of operations remained the corner stone of our business strategy. The bank continued to maintain its lead of being the top Bank with highest number of ATMs, which increased to 569 at December 31, 2010 (13% of the industry share) covering 145+ cities whereby making it the widest geographical coverage for ATM based service amongst all the banks in Pakistan. Additionally, the bank also has

installed 5 cash deposit machines in major cities. With completely on line network of 806 branches we enjoy a market share of 12% amongst the online branches in the country. To effectively leverage e-Banking initiatives, the face of Allied Direct – Internet Banking – was upgraded with more user-friendly and real time processes. A great addition in the feature-set of our Internet Banking this year is the formal domestic remittance service with the name of Allied Pay Anyone wherein Allied Bank customers can send cash to any individual in Pakistan even if the beneficiary doesn't have a bank account. Allied Bank has a market share of 13% in the overall e-Banking Payments in the country.

Following launch of Visa Debit Cards in August 2008, the activity speeded up during 2009 and 2010 with 350,000 cards issued to customers during the year, taking the total number of cards to 622,000 at end-Dec 2010. With pick up in usage of these cards, the fee flows from this avenue have started to strengthen appreciably.

Awards, Recognition and Ratings

Your Bank won a host of awards and recognitions for its strong performance during 2010 and improvement in systems and processes. Allied Bank was awarded the Best Domestic Bank – Pakistan by Asia Money. The evaluation criteria take into account the performance, leadership, financial strength and corporate strategy during the year under review of the banks operating in Pakistan.

Allied Bank has also been adjudged as "Best Bank" of 2009 by CFA Association of Pakistan in its 7th Annual Excellence Awards. Your Bank has also been ranked 1st in Pakistan and 9th Globally by the Banker Magazine, UK for yielding best profits on capital.

The Bank also received the corporate excellence award in financial institutions category for the second consecutive year by Management Association of Pakistan (MAP) in recognition of its Corporate Governance and Overall Management Best practices.

As mentioned above the Banks' Corporate & Investment Banking Group has won "Corporate Finance Equity/Advisory House" by CFA Association of Pakistan" and Best Domestic Investment Bank of the year – Paki-

stan" award by the Asset Magazine Hong Kong for the second consecutive year

During the year Pakistan Credit Rating Agency has assigned 'Positive Outlook' to our entity Ratings of AA/A1+. The Positive Outlook acknowledges Allied Bank's consistent robust performance emanating from sustained growth and sound asset quality.

The Corporate Governance Rating of the Bank has also been enhanced to 'CGR-8+' during the year from 'CGR 8' by JCR-VIS Credit Rating Company which denotes high level of Corporate Governance. The rating actions takes into account the improvements in the area of internal audit and compliance, risk management, customer service, IT including the progress towards the implementation of new core banking system, and strengthening of the overall control environment.

As part of our initiatives to constantly improve and judge ourselves against best international practices and benchmarks, the Bank voluntarily got itself rated from Moody's' Investor Services, one of the premier International Rating Agency. The ratings [Bank Deposits – Foreign Currency: B3/NP; Bank Deposits – Local Currency: B1/NP; Bank Financial Strength: E+], though also influenced by the Sovereign Ratings of Pakistan, are at par with the international ratings of Tier-1 Peer Banks in the domestic Industry as well as important regional players.

ABL Asset Management Company Limited (ABL AMC)

ABL AMC, a wholly owned subsidiary of Allied Bank Limited, is fast positioning itself as a prominent player in the asset management industry. After the launch of two new funds during 2010, the AMC is now managing four open end funds, including conventional and an Islamic money market fund, an income fund and a stock fund. The company's funds have provided superior returns in their respective categories during FY10. The Assets under management of the company expanded to over Rs. 12 billion at December 31, 2010 (End-Dec 2009: Rs. 8 billion). JCR-VIS has recently upgraded the Management Quality rating of ABL AMC to 'AM3+' from 'AM3', while the Rating Outlook has also been changed to 'Positive' from 'Stable'. The rating action acknowledges the improvement in systems and controls and performance of the company.



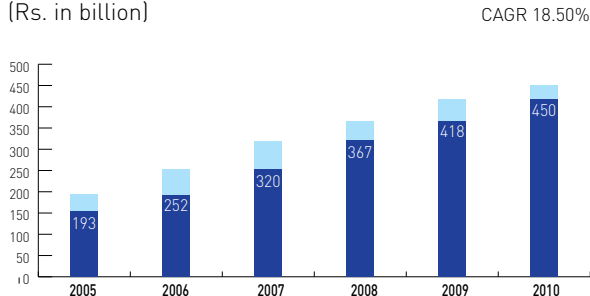
Chief Executive Officer's Review

Financial Analysis Balance Sheet Growth & Mix

The asset base of the bank grew by 8% over 2009 to Rs. 449,932mln while equity base expanded by healthy 20% to Rs. 35,975 million as at December 31, 2010 due to improved profitability and its retention. The risk absorption capacity of the bank augmented as Equity to Assets ratio improved to 8% at December 31, 2010 from 7% at December 31, 2009. Consequently, the CAR also increased to 13.84% at December 31, 2010 from 13.47% last year. The asset mix remained dominated by advances comprising 56% of the total assets at end-Dec 2010. However, investments emerged as the main contributor towards increase in assets during 2010 registering a growth of 28%, primarily in risk-free MTBs. Gross advances grew by 8% over 2009 whereas deposits rose by 13% at end-Dec 2010 over 2009. The Advances to Deposit Ratio decreased from 72% at end-Dec 2009 to 68% at end-Dec 2010.

In line with the management's strategy to diversify the loan mix towards Commercial & Retail Loans, their proportion in the total financing enhanced to 21% at end-Dec 2010 from 19% at end-Dec 2009. Under the current difficult environment, your bank adopted the strategy to pro-actively monitor the weak accounts and speeded-up the recovery efforts and regularization/rescheduling of the existing accounts facing difficulties though otherwise having sound viability prospects. Consequently, the YoY rise in NPLs is lower compared to the corresponding period and infection ratio of 7% as at December 31, 2010 notably below the industry and peer average, reflecting the quality of loan underwriting practices and credit processes.

Size of Financial Position (Rs. in billion)



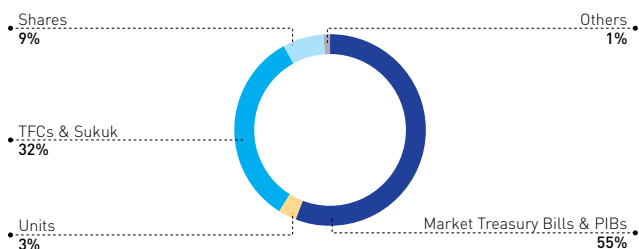
Segmental Advances - Performing (Rs. in billion)



Average Deposits Composition (Percentage)



Investments (Percentage)

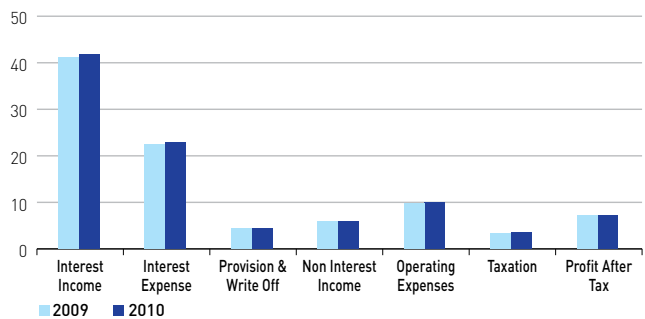


Profitability

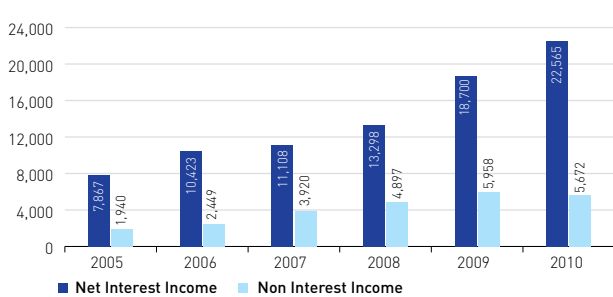
Under the current challenging environment, the bank managed to maintain a healthy growth in its profitability with key profitability indicators remaining robust. The Profit Before Tax and After Tax during 2010 rose by 17% and 16%, respectively, over the corresponding year. Resultantly, the EPS improved from Rs. 9.11 in 2009 to Rs. 10.52 in 2010. The average ROA and ROE remained strong at 1.9% and 28.8%, respectively.

Despite lower YoY average yields on earning assets on account of comparatively lower average KIBOR prevailing during the year, interest income grew by 9% to Rs. 44,993 million owing to higher average volumes under investments and advances. Interest expense on other hand increased marginally as deposits cost declined notably on the back of improvement in mix of CASA in total deposits. Consequently, Net Interest Income registered a healthy 21% growth, contributing to the overall improvement in profitability.

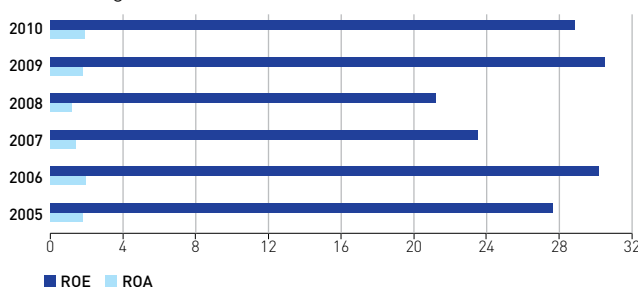
Profit and Loss Composition (Rs. in billion)



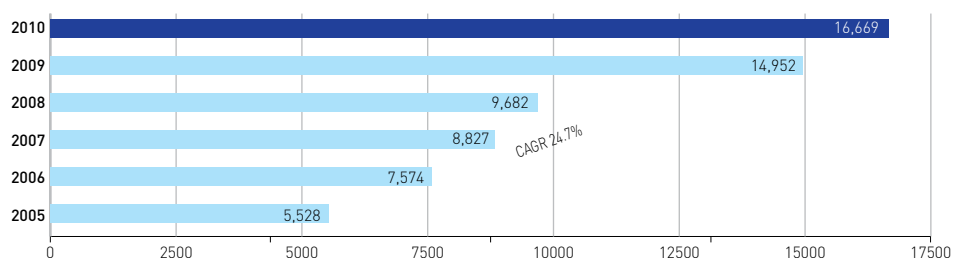
Gross Income Composition (Rs. in million)



ROE & ROA (Percentage)



Operating Income Before Provision and Tax (Rs. in million)



CEO's Review



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. Among fee income components, Cash Management fee, income from remittance, Commission on handling import and export transactions, ATM and Visa Debit Card fee, Bancassurance income have shown appreciable YoY growth. Going forward, the management aims to further enhance the contribution of fee and commission in the overall income of the bank through leveraging strong technology platform and offering products and services satisfying customers' needs.

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% to Rs. 11,273 million. This when compared with inflationary trends and increasing outlays on infrastructure strengthening, higher security and insurance charges under the prevailing security situation in the country 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

83% 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.

Future Outlook

Economic environment is likely to remain tough during 2011 owing to persistently high inflation, soaring fiscal deficit coupled with structural issues like energy shortages. This will lead to continuing pressure on private sector credit demand and borrowers' repayment capacity. Under the circumstance, Allied Bank would continue its pursuit of steady growth. Key focus for Allied Bank during 2011 would be on quality of assets, effective liability management through enhancing the proportion of core deposits, controlling costs and improving efficiencies while making efforts to attain higher standards of service quality and building on our non-fund based income streams.