

## Notes to the Unconsolidated Condensed Interim Financial Statements (Un-audited) for the Nine Months ended September 30, 2008

### 1. STATUS AND NATURE OF BUSINESS

Allied Bank Limited (the Bank), incorporated in Pakistan, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all stock exchanges in Pakistan. The Bank operates a total of 761 (December 31, 2007: 757) branches in Pakistan including the Karachi Export Processing Zone Branch. The long term credit rating of the Bank assigned by the Pakistan Credit Rating Agency Limited (PACRA) is 'AA'. Short term rating of the Bank is 'A1+'. The Bank is a holding company of ABL Asset Management Company Limited.

The registered office of the Bank is situated in Lahore whereas the principal office is situated at Khayaban-e-Iqbal, Main Clifton Road, Bath Island, Karachi.

### 2. STATEMENT OF COMPLIANCE

2.1 These unconsolidated condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984 and the provisions of and regulations/directives issued under the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984. In case requirements differ, the provisions of and regulations/directives issued under the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984 shall prevail.

2.2 The SBP, vide BSD Circular No. 10, dated August 26, 2002 had deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking companies till further instructions. Further, the SECP vide SRO 411(I)/2008 dated April 28, 2008 had deferred the applicability of International Financial Reporting Standard (IFRS -7) Financial Instruments; Disclosures till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 3. BASIS OF PRESENTATION

3.1 The disclosures made in these unconsolidated condensed interim financial statements have, however been limited based on the format prescribed by the State Bank of Pakistan, vide BSD Circular No. 2 dated May 12, 2004 and International Accounting Standard 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and these unconsolidated condensed interim financial statements should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2007.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

- 4.1 The accounting policies, underlying estimates and methods of computation followed in the preparation of these unconsolidated condensed interim financial statements are same as those applied in preparing the most recent annual financial statements of the Bank.

	Note	Un-audited September 30, 2008	Audited December 31, 2007
Rupees in '000'			
<b>5. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings	5.1	1,700,000	1,500,000
Letters of placement	5.2	320,000	1,850,000
Repurchase agreement lendings (Reverse Repo)	5.3	13,546,010	12,924,241
Certificates of investment	5.4	200,000	2,145,000
		<u>15,766,010</u>	<u>18,419,241</u>

- 5.1 These are unsecured lendings to Financial Institutions, carrying mark-up at rates, ranging between 13.90% and 25.00% (December 31, 2007: 10.00% and 12.00%) per annum and maturing on various dates, latest by December 26, 2008.
- 5.2 These are clean placements with Non-Banking Finance Companies, carrying mark-up at rates, ranging between 20.00% and 22.00% (December 31, 2007: 9.75% and 10.30%) per annum and maturing on various dates, latest by October 06, 2008.
- 5.3 These are short-term lendings to various financial institutions against government securities. These carry mark-up at rates, ranging between 11.80% and 12.90% (December 31, 2007: 9.10% and 9.40%) per annum and maturing on various dates, latest by October 29, 2008.
- 5.4 The certificates of investment carry mark-up at the rate of 15.90% (December 31, 2007: ranged between 9.80% and 10.25%) per annum and maturing on various dates, latest by October 09, 2008.

**6. INVESTMENTS**

	Note	Held by Bank	Given as collateral	Total
Rupees in '000'				
Current period – September 30, 2008 (Un-audited)	6.1	<u>78,773,996</u>	<u>3,891,571</u>	<u>82,665,567</u>
Prior year corresponding period – December 31, 2007 (Audited)	6.1	<u>71,432,066</u>	<u>12,526,397</u>	<u>83,958,463</u>

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	Un-audited As at September 30, 2008			Audited As at December 31, 2007		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
<b>Rupees in '000'</b>						
<b>6.1 Investments by types</b>						
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies	190,775	-	190,775	33,860	-	33,860
<b>Available for sale securities</b>						
Market Treasury Bills	23,182,238	3,899,228	27,081,466	24,936,479	12,543,383	37,479,862
Pakistan Investment Bonds	445,386	-	445,386	444,758	-	444,758
Ordinary shares / certificates of listed companies	6,010,695	-	6,010,695	1,601,605	-	1,601,605
Preference shares of listed companies	250,000	-	250,000	275,000	-	275,000
Investment in open-end mutual funds	16,867,985	-	16,867,985	19,606,845	-	19,606,845
Ordinary shares of unlisted companies	394,050	-	394,050	82,099	-	82,099
Ordinary shares of unlisted companies - (related parties)	451,219	-	451,219	451,219	-	451,219
Pre IPO investments	35,000	-	35,000	2,514,900	-	2,514,900
Privately Placed TFC's	250,000	-	250,000	1,890,918	-	1,890,918
Sukuk Bonds	2,620,000	-	2,620,000	2,420,000	-	2,420,000
Term Finance Certificates (TFCs)	7,364,274	-	7,364,274	736,636	-	736,636
	57,870,847	3,899,228	61,770,075	54,960,459	12,543,383	67,503,842
<b>Held-to-maturity securities</b>						
Pakistan Investment Bonds	10,435,371	-	10,435,371	11,108,762	-	11,108,762
Foreign Currency Bonds (US\$)	136,179	-	136,179	160,010	-	160,010
TFCs, Debentures, Bonds, and PTCs	10,708,910	-	10,708,910	4,903,356	-	4,903,356
	21,280,459	-	21,280,459	16,172,128	-	16,172,128
<b>Subsidiary</b>						
ABL Asset Management Company Limited	500,000	-	500,000	500,000	-	500,000
	79,842,082	3,899,228	83,741,310	71,666,447	12,543,383	84,209,830
Provision for diminution in value of investments	(173,844)	-	(173,844)	(192,290)	-	(192,290)
Unrealised loss on revaluation of Held-for-trading securities	(41,571)	-	(41,571)	(1,463)	-	(1,463)
Deficit on revaluation of Available-for-sale securities	(852,671)	(7,657)	(860,328)	(40,628)	(16,986)	(57,614)
<b>Investments (net of provision)</b>	<b>78,773,996</b>	<b>3,891,571</b>	<b>82,665,567</b>	<b>71,432,066</b>	<b>12,526,397</b>	<b>83,958,463</b>

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	Note	Un-audited	Audited
		September 30, 2008	December 31, 2007
Rupees in '000'			
<b>7. ADVANCES</b>			
Loans, cash credits, running finances, etc. - in Pakistan		181,048,666	170,743,654
Net investment in finance lease - in Pakistan		775,131	741,148
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		5,161,641	1,455,922
Payable outside Pakistan		4,305,310	3,256,536
		9,466,951	4,712,458
		191,290,748	176,197,260
Financing in respect of Continuous Funding System (CFS)		-	2,327,097
		191,290,748	178,524,357
Provision against non-performing advances/others	7.1	(10,243,123)	(10,103,954)
General provision against consumer financing		(9,797)	(13,123)
Advances - net of provision		181,037,828	168,407,280

- 7.1 This represents provision against non-performing advances amounting to Rs. 10,097,850 thousand (December 31, 2007: Rs. 9,958,681 thousand) and a provision of Rs. 145,273 thousand (December 31, 2007: Rs. 145,273 thousand) made against Japan Power Generation Limited without changing its status to non-performing as per SBP Directive No. BID (Insp)/722/71-02-2007 dated March 14, 2007. Advances include Rs. 11,751,148 thousand (2007: Rs. 11,354,923 thousand) which have been placed under the non-performing status as detailed below:

Category of Classification	Un-audited September 30, 2008				
	Classified Advances			Provision required	Provision held
	Domestic	Overseas*	Total		
Rupees in '000'					
Other Assets Especially					
Mentioned	49,947	-	49,947	-	-
Substandard	1,443,109	-	1,443,109	359,611	359,611
Doubtful	794,679	-	794,679	397,340	397,340
Loss	9,463,413	-	9,463,413	9,340,899	9,340,899
	11,751,148	-	11,751,148	10,097,850	10,097,850

Category of Classification	Audited December 31, 2007				
	Classified Advances			Provision required	Provision held
	Domestic	Overseas*	Total		
Rupees in '000'					
Other Assets Especially					
Mentioned	32,765	-	32,765	-	-
Substandard	1,311,832	-	1,311,832	327,091	327,091
Doubtful	532,967	-	532,967	265,960	265,960
Loss	9,477,359	-	9,477,359	9,365,630	9,365,630
	11,354,923	-	11,354,923	9,958,681	9,958,681

\* The Bank did not have any overseas branch as at December 31, 2007. However, during the current period Bank has opened an overseas branch in Export Processing Zone Karachi.

**8. OPERATING FIXED ASSETS**

During the current period, additions and disposals in operating fixed assets amounted to Rs. 1,902,770 thousand (September 30, 2007: Rs. 1,044,901 thousand) and Rs. 130,948 (September 30, 2007: Rs. 63,290 thousand) respectively.

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Note	Un-audited September 30, 2008	Audited December 31, 2007
Rupees in '000'		
<b>9. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	85,846,641	72,912,363
Savings deposits	76,296,857	71,255,336
Current accounts - Remunerative	39,323,706	42,351,315
- Non-remunerative	76,690,025	67,742,105
	278,157,229	254,261,119
<b>Financial Institutions</b>		
Remunerative deposits	1,158,383	9,711,263
	<u>279,315,612</u>	<u>263,972,382</u>

**10. SUB-ORDINATED LOANS**

The Bank is in the process to issue second TFC amounting to Rs. 4 billion out of which, Rs. 3 billion had been raised through Pre IPO and Rs. 1 billion will be offered for subscription through IPO for which SECP approval is awaited. As of September 30, 2008 Rs. 3 billion has been received as Pre IPO proceeds and are included in deposits and other accounts.

Note	Un-audited September 30, 2008	Audited December 31, 2007
Rupees in '000'		

**11. SHARE CAPITAL**

**11.1 Authorised capital**

Un-audited September 30, 2008	Audited December 31, 2007		Un-audited September 30, 2008	Audited December 31, 2007
No. of shares			Rupees in '000'	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

**11.2 Issued, subscribed and paid-up capital**

Un-audited September 30, 2008	Audited December 31, 2007	Ordinary Shares	Un-audited September 30, 2008	Audited December 31, 2007
No. of shares			Rupees in '000'	
406,780,094	406,780,094	Fully paid in cash	4,067,801	4,067,801
222,035,681	114,308,294	Issued as bonus shares	2,220,357	1,143,083
628,815,775	521,088,388		6,288,158	5,210,884
9,148,550	9,148,550	18,348,550 Ordinary Shares of Rs.10 each determined pursuant to the Scheme of Amalgamation of Ibrahim Leasing Limited (ILL) with ABL in accordance with the share swap ratio, stipulated therein less 9,200,000 Ordinary Shares of Rs.10 each held by ILL on the cut-off date (September 30, 2004)	91,486	91,486
8,400,000	8,400,000	8,400,000 Ordinary Shares of Rs.10 each determined pursuant to the Scheme of Amalgamation of First Allied Bank Modaraba with Allied Bank Limited in accordance with the share swap ratio stipulated therein	84,000	84,000
<u>646,364,325</u>	<u>538,636,938</u>		<u>6,463,644</u>	<u>5,386,370</u>

Ibrahim Fibres Limited and Ibrahim Agencies (Private) Limited, related parties of the Bank, held 204,455,088 (31.63%) and 59,968,382 (9.28%) [December 31, 2007: 170,379,240 (31.63%) and 47,473,652 (8.81%)] Ordinary shares of Rs.10 each, respectively, as at September 30, 2008.

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	<b>Un-audited September 30, 2008</b>	<b>Audited December 31, 2007</b>
	————— Rupees in '000' —————	
<b>12. CONTINGENCIES AND COMMITMENTS</b>		
<b>12.1 Direct credit substitutes</b>		
Guarantees in favour of:		
Banks and financial institutions	1,355,191	1,971,776
<b>12.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	7,970,987	4,040,048
Others	7,224,146	6,235,919
	15,195,133	10,275,967
<b>12.3 Trade-related contingent liabilities</b>	106,539,604	83,037,690
<b>12.4 Claims against the Bank not acknowledged as debt</b>	6,001,502	3,058,291
<b>12.5 Commitments to extend credit</b>		
The Bank makes commitments to extend credit in the normal course of business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
	<b>Un-audited September 30, 2008</b>	<b>Audited December 31, 2007</b>
	————— Rupees in '000' —————	
<b>12.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	14,779,603	10,998,573
Sale	5,664,911	4,763,749
<b>12.7 Commitments in respect of:</b>		
Civil works	740,862	752,139
Acquisition of operating fixed assets	147,131	168,654
<b>12.8 Commitments in respect of lease financing</b>	68,575	188,174
<b>12.9 Commitments in respect of:</b>		
Forward lending	—	1,000,000
Forward borrowing	—	—
	—	1,000,000
<b>12.10 Commitments in respect of lending against CFS</b>	—	733
<b>12.11 Commitments in respect of purchase of shares</b>	647,549	865,000

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**12.12 Contingencies**

**12.12.1** There is no change in the status of contingencies, set out in note 21.12 to the financial statements of the Bank for the year ended December 31, 2007, except for the contingency as mentioned below.

**12.12.2** The Income tax assessments of the Bank have been finalized upto and including Tax Year 2007 for local operations and Azad Kashmir Operations. Further, income tax returns for the tax year 2008 have also been filed for local and Azad Kashmir operation.

- a) While finalizing income tax assessments up to the assessment year 2000-2001, the income tax authorities made certain add backs with a tax impact of Rs.278 million. As a result of appeals filed by the Bank before the Appellate Authorities, these add-backs were set-aside with a tax impact of Rs.125 million. The appeal effect orders with regard to the above matters are pending.
- b) The assessments from Assessment Year 2001-2002 to Tax Year 2006 have been finalized with net additional tax liability of Rs.4,431 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions having tax impact of Rs.4,102 million and Rs.2,398 million have been deleted and set-aside by Appellate Authorities, respectively. Appeal effect orders for these reliefs are pending.
- c) The assessment for Tax Year 2007 has been finalized with net additional tax liability of Rs.909 million. Appeal against the order has been filed before appellate authority.

Pending the finalization of the above-referred matters, no provision has been made by the bank in an aggregate sum of Rs.5,618 million in these financial statements. This sum includes tax liability, aggregating to Rs.4,102 million, already deleted by the Appellate Authorities. Against most of the deleted and set-aside issues Income Tax Department is in appeal before higher appellate authorities. The management is hopeful that the outcome of these appeals will be in favor of the Bank.

**13. OTHER CHARGES**

These include an amount of Rs. 117,317 thousand in respect of accrual for contribution to Workers Welfare Fund as per the amendment made vide Finance Act, 2008 in Workers Welfare Fund Ordinance, 1971.

**14. VOLUNTARY RETIREMENT SCHEME (VRS)**

During the period, Bank offered the Voluntary Retirement Scheme (VRS) for its employees. 318 employees of the Bank opted for retirement under this scheme. Total liability for these employees under this scheme for pension, gratuity, leave encashment, medical, benevolent and salary compensation benefits is worked out to Rs. 1,170 million. As a result the Bank has incurred Rs.486 million which is provided by the Bank during the period.

**15. EARNINGS PER SHARE - BASIC AND DILUTED**

Note	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007
	Rupees in '000'			
Profit after taxation for the period attributable to ordinary shareholders	3,740,546	4,150,188	1,232,367	1,398,678
	Number of shares			
Weighted average number of Ordinary Shares outstanding during the period	646,364,325	646,364,325	646,364,325	646,364,325
	Rupees			
Earnings per share - basic and diluted	5.79	6.42	1.91	2.16

There is no dilution effect on basic earnings per share.

**15.1** The comparative figure of weighted average number of shares outstanding has been restated to include the effect of bonus shares issued by the Bank during the period.



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**17. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

The segment analysis with respect to business activity is as follows:-

	<b>For the Period Ended September 30, 2008</b>				
	<b>Corporate Finance</b>	<b>Trading &amp; Sales</b>	<b>Retail Banking</b>	<b>Commercial Banking</b>	<b>Payment &amp; Settlement</b>
	Rupees in '000'				
Total Income	263,456	1,520,525	11,405,626	17,583,504	83,470
Total Expenses	(143,967)	(1,245,654)	(9,930,918)	(15,746,868)	(48,628)
Net Income	<u>119,489</u>	<u>274,871</u>	<u>1,474,708</u>	<u>1,836,636</u>	<u>34,842</u>

	<b>For the Period Ended September 30, 2007</b>				
	<b>Corporate Finance</b>	<b>Trading &amp; Sales</b>	<b>Retail Banking</b>	<b>Commercial Banking</b>	<b>Payment &amp; Settlement</b>
	Rupees in '000'				
Total Income	187,942	1,463,392	6,872,271	13,961,551	154,798
Total Expenses	(92,770)	(1,245,560)	(5,280,546)	(11,789,079)	(81,811)
Net Income	<u>95,172</u>	<u>217,832</u>	<u>1,591,725</u>	<u>2,172,472</u>	<u>72,987</u>

**18. GENERAL**

Figures have been rounded off to the nearest thousand rupees.

**19. DATE OF AUTHORIZATION FOR ISSUE**

These unconsolidated condensed interim financial statements were authorized for issue on October 29, 2008 by the Board of Directors of the Bank.

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
President and Chief Executive Officer

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Director

\_\_\_\_\_  
Director

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Director