

## Corporate and Investment Banking



Corporate and Investment Banking Group (CIBG) offers a wide range of financial services to medium and large sized public and private sector entities. The financial services being offered include providing and arranging tenured financing, corporate advisory, underwriting, cash management, trade products, corporate finance products and customer services on all Bank related matters through relationship management concept.

CIBG has strategically placed its presence in all major corporate hubs of the country and presently enjoys a leading position in corporate lending in the country. The Bank played a key role in economic growth of the country by providing vast amount of funds in all the key sectors of the economy. The Group maintains a well diversified corporate portfolio of about 400 corporate relationships.

Allied Bank is ranked as one of top investment banks in the country because of its key role in the major investment and corporate banking transactions. In recognition of its achievements in this area, the Bank was awarded "The Corporate Finance House of the Year - Banks 2005-06" by CFA Association of Pakistan.

Some of the major transactions successfully concluded by us during the year were:

1. Joint Lead Arranger for Rs. 23,000 Million, for Non Recourse Project Finance Facility for Fatima Fertilizer.
2. Joint Lead Arranger of Rs. 8,600 Million, for Syndicated Term Finance for Orient Power Company Limited.
3. Lead Advisor and Arranger for Rs. 5,500 Million, Term Finance for Bestway Cement Limited.
4. Joint Lead Advisor and Arranger for Rs. 5,500 Million, 10 Year Expansionary financing of Century Papers and Board Mills Limited.
5. Joint Lead Advisor and Arranger for Rs. 3,500 Million, Term Finance for Marri Gas Company Limited.

Focus on top quality credit has substantially reduced the NPL ratio and we expect it to reduce further in the current year. We plan to further diversify our portfolio and focus on lending to low risk areas which will be the driver of our growth in near future.

Along with Corporate and Investment Banking business, we also focused on other corporate related businesses, namely Cash Management. This allows us to maximize on the business opportunities available in the corporate segment. We started to bring a defined structure to Cash Management activity by incorporating international best practices, coinciding with the Bank's activation of its 100% real-time online branch network. The true potential of this area began to be realized in 2006, with the full rollout of state of the art cash management products and services which harnessed the Bank's unparalleled real time architecture. A team of transactional banking specialists from a multinational banking background have driven a business development effort that has enabled the acquisition mandates of multinationals, large local corporates, public sector entities, as well as regional and global financial institutions. We offer a comprehensive range of services, including receivables management, bulk online disbursements, web banking and supply chain services.

In the realm of Financial Institutions, the Bank can today boast a vast international network of top tier global correspondents, enabling our business units to access a wide array of trade solutions. We have focused on the development of inbound trade and guarantee business from counterparties across the world. Also, we have emphasized the development of inbound remittances into Pakistan, investing in people and technology development to take the lead in delivering remittances in every nook and corner of the country, and accessing beneficiaries through our own extensive network as well as through innovative delivery channels such as Web Banking and next generation ATMs. Our aim is to utilize Financial Institutions network to facilitate Non Resident Pakistanis (NRPs) by putting in place third party arrangements with banks / exchange companies around the world for functioning as contact points for home remittances. In this regard, we have started directly crediting foreign remittances to individual accounts in remote for convenient home remittances.

We are also in the process of establishing our Asset Management Company to provide one window facility to NRPs as well as our local customers for management of their funds.



# Groups' Review



## Commercial and Retail Banking



Commercial and Retail Banking Group (CRBG) was restructured in 2005 with the formation of 27 regions overseen by three Group Heads namely North, Central and South with the objective to be more close to our customers. As a result of this restructuring, focused attention is being paid to fulfill the needs of small to medium size industrial and commercial enterprises.

The underlying strength of our strategy is to identify market needs and develop innovative products having technological edge. The products should match with customer needs and expectations by remaining receptive

in the competitive business environment. We have been continuously improving service standards to achieve accelerated business growth. This process includes working on a number of initiatives to enhance our operational effectiveness like launching of internet banking, installation of flat bed printers in branches, further expanding ATM network etc.

Since restructuring of CRBG, we have aggressively expanded our deposit base, enhanced our assets portfolio with significant increase in the range of products and services. Consequently, the Bank has become an active and visible market player.

In line with the vision and mission of the Bank, we have defined our goals, targets and objectives as under:

- i. To be the market leader in middle sized customers segment
- ii. To become leading SME Bank in the diversified urban markets
- iii. To focus on new avenues in agriculture sector financing
- iv. To provide the customers with integrated financing and investment options
- v. To provide speedy funds transfer and deposits solutions under one roof

In order to achieve these goals, we have defined our strategy keeping in view the market potential and dynamics. Major achievements are highlighted hereunder:

- Upgradation of customer services
- Hiring of professional and experienced staff in all functional areas
- Launching of new liability products addressing customer needs
- Renovation of branches
- Improvement in technology support
- Decentralization of authorities to provide prompt services to the customers
- Capacity building of employees and promoting business oriented values to accelerate business growth
- Promotion of performance based culture
- Emphasis on principle based banking for strict compliance and control

To address the changing business environment primarily due to merger/acquisition of banks and increasing market competition, comprehensive market study and research work is given due importance. We have already instituted a strategy to cope with the future challenges to achieve its goals and targets.

Our strategy for 2007 is to rapidly upgrade the service standards by accelerating the pace of induction of quality human resource in a phased manner. Simultaneously, progress is made in the deployment of the state of the art technology and improvement in service level.

We plan to continue our efforts by concentrating more on attractive liability products and enhancing our share of assets portfolio to SME sector by exploiting the advantage of our large branch network.

In line with the policy of the Bank, the Bank started strategically structuring itself by focusing on business segments. This approach was carried out in a phased manner where Corporate and Investment Banking Group and Commercial and Retail Banking Group were established. Subsequently, during the later part of 2006, Consumer and Personal Banking Group (CPBG) was organized to optimize on the business opportunities exist in the market. The Group plans to cater to the financial needs of consumers and small businesses. With the largest online branch network, the platform is ready for the Bank to become one of the best consumer banks having a diversified portfolio of consumer products. We are planning to operate a multi channel service model through which it will provide a full range of financial services 24 hours a day and 7 days a week.

The Consumer and Personal Banking Group intends to build broader and deeper relationships both with existing and new customers. Our objective is "To Build A Truly World Class Consumer Bank".

To achieve this, we plan to put in place the following key "ingredients":

- Top class professionals
- State of the art technology
- Customer centric products
- Best in class Credit and Risk Management tools
- Strong Marketing and Sales Culture
- Strong Service Environment

We see very little that differentiates the current product offerings in the market. By leveraging the ingredients to the fullest, we believe we would be able to provide enhanced value to our customers and our stakeholders.

Over the last few years, there has been tremendous growth in personal loans, auto loans, credit and debit cards, mortgages, etc. We expect this to continue to grow significantly over the medium and longer term. Consumer and Personal Banking Group will represent a considerable portion of the Bank's revenues and going forward, it will be one of the major contributors to the Bank's profitability.

Although there are several banks providing consumer products, we believe that Allied Bank, with its largest online branch network and commitment to superior technology infrastructure, can meet the personal financial needs of its franchise and non franchise customers more competitively.

During 2007 we will continue the process of recruiting the core team members and putting the technology in place. We will also strengthen our current credit and debit card offerings to ensure that the "value proposition" for this product group is further strengthened. In addition, a number of new and innovative products are planned for this year. Furthermore, we expect to fully leverage our existing branch network and customer base to optimize this huge untapped opportunity at our Bank.



## Consumer and Personal Banking

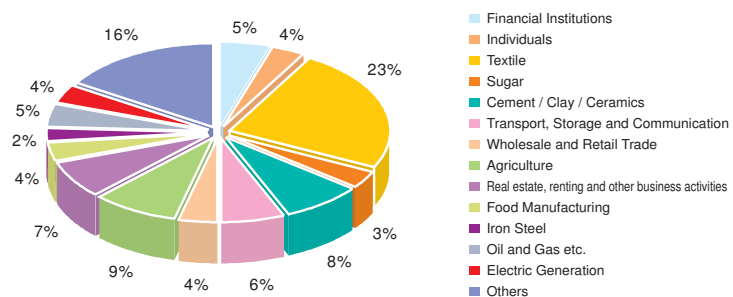
## Risk Management

The Risk Management Group (RMG) was established in June 2005 as an integral part of Allied Bank's business activities, with key responsibility to identify, analyze, monitor and manage the principal risks to which the Bank is exposed. The risk management process begins with the formulation of business objectives and strategies, and encompasses the identification, assessment and measurement, monitoring and control of credit, market and operational risks across the Bank.

Risk functions have been segregated by business specialization i.e. Credit Risk, Operational Risk, Market Risk, Credit Administration, Risk Architecture and Portfolio Management. In pursuance of these objectives, RMG has taken up the challenge to foster a proactive risk culture by creating the following risk management functions by business specialization:

- **Credit Risk:** Credit Risk Management is divided into two units i.e. Commercial and Retail Risk, and Corporate and Financial Institutions Risk. These units ensure that risk exposures undertaken match the risk appetite of the Bank, and that proper credit approval procedures are adhered to.
- **Operational Risk:** The Operational Risk Management unit is developing an effective system for identification of critical risk areas, and developing processes / controls to mitigate these risks.
- **Market Risk:** The Bank intends to build an effective Market Risk Management unit to independently identify measure, monitor and control the potential losses that may arise from the Bank's activities in the financial markets.
- **Credit Administration:** The Credit Administration Division constantly monitors the security and documentation risks inherent in the existing credit portfolio through six regional credit administration departments located all over the country.
- **Risk Architecture** formulates credit policies and procedure guidelines and ensures that all risks in product program based lending in consumer finance is properly mitigated. This function also oversees the formulation of operational risk and market risk policies.
- **Portfolio Management** is an integral part of the credit process that has varied responsibilities. These include monitoring portfolio MIS and risk profile, establishing concentration limits, identify and analyze trends that could affect the risk and performance of the portfolio as well as coordinating the implementation of Basel II in the Bank, which is of utmost priority and is viewed by the Bank as an important step in the alignment of regulatory and economic capital requirements.

### Advances - Segment Wise Business





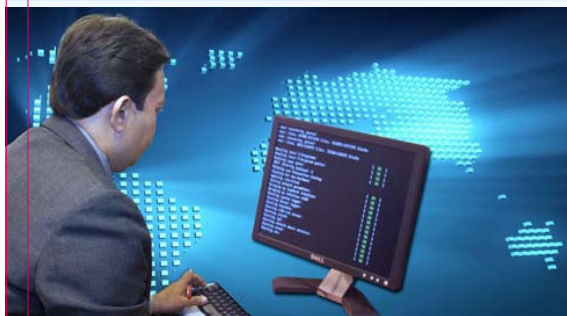
Since formation of the Group, a number of initiatives have been taken. Some of the major initiatives are listed below:

- Formulation of essential credit policies
- Implemented a new Credit Application Package incorporating a formalized and structured approach for credit analysis, and directs the focus of evaluation towards a balanced assessment of credit risk with identification of proper mitigants. These risks include industry risk, business risk, financial risk, security risk and account performance risk
- Strengthened financial analysis through launch of separate financial spreadsheet templates for manufacturing and trading concerns, banks, leasing and insurance companies. To make the risk estimation more accurate and forward looking, RMG on a pilot basis also developed in house Risk Rating Templates to rate the various asset classes. These rating templates are targeted for launch in 2007 after they have been tested with the assistance of an external consultant
- Initiated Basel II implementation project by engaging PricewaterhouseCoopers (PwC) in the latter half of 2006. In this respect, we plan to undertake the following measures:
  - To conduct a Gap Analysis with respect to Credit, Market and Operational Risk
  - Establishment of a market risk management framework
  - Evaluation of various risk management software to meet the sophisticated data management and reporting requirements

We continue to promote sound business decisions consistent with the Bank's risk tolerance levels and drives the maximization of long term shareholder return. Our aim is to continue the pace of initiatives in 2007 with implementation of Basel II as well as formulation of operational risk and market risk guidelines.

# Groups' Review

## Treasury



Treasury group is actively involved in managing funds through interbank market, investments in securities and capital markets with the objective to provide healthy support to other businesses of the Bank as well as to the customers. At the same time, the Group also ensures that all regulatory requirements are being complied with.

The Group has qualified and experienced professionals who have specialized expertise in treasury functions. The Group is divided into desks of Money Market, Foreign Exchange, Treasury Marketing and Capital Market, functions of which are:

**Money Market:** The Desk is responsible to manage regulatory reserve requirements of the Bank, liquidity management by placement and borrowing through interbank money market, participate in auctions of Treasury Bills and other government papers and management and trading of investment in fixed income government securities. Interest rate risk management is also the responsibility of this area.

**Foreign Exchange:** The FX Desk is involved in fund management of foreign currencies through interbank placements and swaps, pricing support to TMU, quoting prices to overseas correspondents for higher home remittances volumes, managing currency exposure for adherence of regulatory limits.

**Treasury Market Unit (TMU):** It manages day to day liquidity needs of the Bank's customers to hedge their exposure/trade transactions in foreign currencies, manages regulatory reserve requirements of foreign currency accounts, provide funding to nostro accounts, quote competitive prices to the Bank's customers, quote spot and forward rates to customers and discounting of bills, as well as caters customer requirement of foreign currency loans for trade purposes.

**Capital Market Desk:** The Desk is responsible for all activities related to equity markets. The desk manages investment in listed shares, trades in securities to generate profit from short term price fluctuations, finds arbitrage opportunities for profit maximization through trading in ready and futures market and provides financing through Continuous Funding System (CFS).

During 2006, Bank's Treasury remained focused on its core objective of liquidity management. The Bank actively participated in Treasury Bills auctions, increased its FX trading volume and became an active player of Capital Market. These collective efforts from different areas increased Treasury's profit in particular and Bank's overall profitability in general.

Looking forward, in 2007 we will continue our focus on the core business of managing Bank's liquidity, support other areas by introducing innovative products for Banks customers and to enhance Bank's profitability by actively using Income Funds offering value in terms of yield and quality.

With the introduction of Treasury module of Temenos T24, greater volumes of interbank dealing in SWAPS and gap running activities in the area of foreign exchange and interest rate risk will be enhanced. Besides improving the profitability of the Bank, it will provide opportunity to be more aggressive in price quotations and image building of the Bank. With Temenos T24 in place, we will be able to target derivatives products that are used locally in the areas of interest rate SWAPS, Forward Rate Agreements (FRAS) and plain vanilla option. This will help our customers to hedge their exposures in an efficient manner.

# Groups' Review



At ABL Finance Group plays pivotal role in strategic planning, formulation of business strategy, budgetary control, MIS, Tax management and Financial and Regulatory Reporting. The Group provides proactive support to business groups by providing analysis and information for efficient decision making.

Finance plays dynamic role in enhancing the economic value and realization of corporate objectives of the Bank. The Group also provides support in the following:

- Strategic planning and budgeting
- Automation initiatives
- Performance measurement for various business segments and products
- Formulation and implementation of effective cost control strategies
- Timely finalization and dissemination of periodical financial statements

Finance Group played key role in recapitalization and subsequent restructuring of the Bank. The group successfully managed the related accounting and audit requirements of merger of Ibrahim Leasing Limited (ILL) in 2005 and First Allied Bank Modaraba (FABM) in 2006.

The first priority of the new Board of Directors on acquisition of the Bank was to give a strategic direction and vision for transforming the Bank into a dynamic and world class financial institution. In this context, Finance Group played a key role in formulation of 5 years strategic plan of the Bank.

The Group in coordination with other business groups also prepares robust annual business and operating plans. The annual budgetary exercise is done in coordination with other supporting and business groups to have a realistic but challenging budgetary targets in the back drop of economic environment and business competition. A robust monitoring mechanism to track the actual results with the budgetary targets is in place.

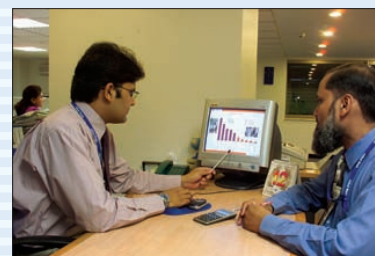
We have structured management reporting system in place which gives the management key performance indicators and has drill down capability to trace variances. We have also developed MIS for various internal business segments of the Bank which helps the senior management in timely decision making and monitoring.

The Corporate Governance, financial and regulatory requirements have changed a lot over the last 2 to 3 years. In this context, we have successfully managed to adopt the new reporting requirements while ensuring completeness, accuracy and transparency. In the year 2006, we implemented the Reporting Chart of Account introduced by the SBP.

In order to strengthen the financial and MIS capability of the Bank, we initiated the implementation of Oracle ERP / financials which is now at the final stage of implementation. Additionally, we managed various automation initiatives in coordination with IT Group, such as accruals/accounting processes.

Going forward, the Group plans to proactively participate in implementation of Basel II, Internal Control Guidelines and new core banking software. The Group will continue to work with other support and business groups to ensure the completeness and transparency of financial reporting.

## Finance



# Groups' Review



## Audit and Inspection

The primary objective of the Audit and Inspection Group (AIG) is to review the effectiveness of internal controls and risk management practices to minimize business risk. The Group performs an ongoing evaluation of the Bank's operations vis-a-vis quality, comparability and transparency of the financial information. The Audit and Inspection Group also verifies that the Bank is in compliance with pertinent laws, regulations and directives of the State Bank of Pakistan and other regulatory authorities.

The Bank has undergone a number of changes in respect of its administrative infrastructure, technology base, management philosophy, and control environment under the leadership of new management of the Bank since 2004. In order to enable the Group to operate effectively in the changing environment, meeting with enhanced regulatory requirements, expectations of the stakeholders

and requirements of modern internal auditing techniques, a comprehensive strategic plan is under implementation. The strategic plan is based on a four pronged strategy to bring about a quality change in the internal audit function.

This strategy focuses on the following four dimensions:

- Re-engineering of systems and policies
- Development of human resources
- Development of IT resources and infrastructure
- Reorganization of the Group and upgradation of internal setup at Regional Audit Offices

We have achieved all targets set in Audit Plan for the year 2006. Moreover, policy documents of AIG like risk based internal audit policy, charters of the Group and Audit Committee were reorganized as per requirements of code of corporate governance issued by SECP and SBP. Also during 2006 a risk based internal audit framework has been developed and internal audit checklists of branches were updated. The concept of soft audit for branches has been introduced besides establishment of special task force for investigation of fraud and forgeries cases in the Bank.

During 2007, we intend to automate the workflows of the Group from audit planning, its execution, monitoring to follow up of audit issues. Special emphasis will be laid on accelerating the pace of the transformation process and to make the internal audit function in the Bank more effective and result oriented. Professionally qualified staff having requisite banking audit experience and IT background will be hired to perform these assignments. Our main objective will remain improving the quality of Internal Audit and changing the audit approach from conventional transaction testing to a risk based and value adding management consultancy in line with the latest definition of internal auditing and requirements of international standards.

We hope that after implementation of the strategic plan, Audit and Inspection Group will be able to transform its approach from conventional auditing to IT enabled risk based value added management consultancy conforming to international standards and best practices in the field of internal auditing.

The Compliance and Control Group (CCG) is responsible for safeguarding the Bank against any risk arising from legal or regulatory sanctions, financial loss, or any other loss to the Bank's reputation that it may suffer as a consequence of non compliance with laws, regulations, code of conduct and standards of good practices.

The Group oversees the implementation of all relevant regulations and procedures of the Bank. In light of which, we strive to make the internal control more effective and efficient so that the branches operate within the framework of internal and external rules and regulations.

The functions performed by the Group are as follows:

- Legal and regulatory matters
- Internal control and its overall framework
- Compliance with policies
- Anti Money Laundering , Know Your Customer and fraud control program
- Regulatory reporting
- Compliance of internal, external auditors and SBP reports
- Compliance of SBP prudential regulations

For the Group, the pressure stems from all sides to protect the institution mainly from any embarrassing loss to reputation. Failure to comply with regulatory compliance, can lead to serious business consequences in terms of lost revenue, customer confidence and legal liability. In short, this is the challenging and exhilarating role of the Group, which is vital in promoting healthy practices in today's demanding Banking sector.

During 2006, to maintain an effective control environment has been a rigorous testing assignment for us. We have been playing a dynamic role in carrying out this enormous task effectively and efficiently. Some of the major achievements of the Group are as follows:

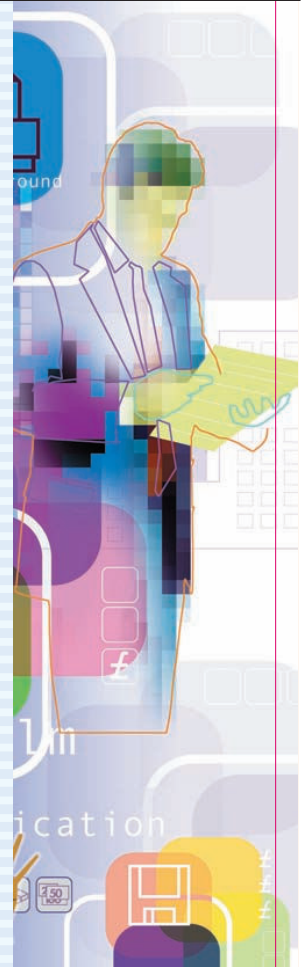
- Enforcing "Know Your Customer" standards across the branch network
- Monitoring high value unusual transactions on a daily basis
- Following up the rectification process of slackness in controls and issues raised by audit

Going forward, we plan to address the following:

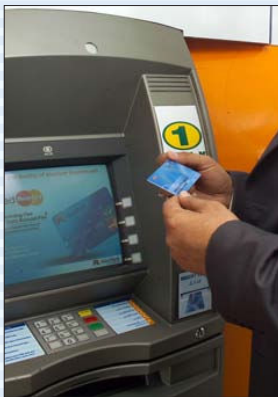
- Introduction of an automated Anti Money Laundering solution
- Introduction of an automated solution to the control function
- Add value towards the core activities of the Bank
- Safeguard the reputation of the Bank in the eyes of customers, regulators, markets and society
- Inculcate business ethics at all levels of management

With the implementation of Temenos T24 core banking system, we will be geared up for the system support for KYC, AML and other critical functions. This will allow us to have effective control, monitoring and followup of such functions.

## Compliance and Control



## Information Technology



The key aim of Information Technology Group (IT) is to provide strong technological support to the business. This aligns the Group with the overall objective of the management to transform the Bank into technology-based financial institution which provides convenient banking to its customers and at the same time allows strong control environment.

IT Group continued to play its role in the progress of the Bank by supporting technology based products and services. During the year, we provided support required to maintain its leadership in branch based online services through its network of 742 branches. This unique position was leveraged to attract new business in addition to enhancing the convenience for the existing customers. Consequently, the utilization of previously introduced services on the online branch network continued to grow while additional services were introduced. Such services include Cash Management for corporate and commercial clients, convenient home remittance services by directly crediting to individual accounts in remote branches, efficient Demand Draft payment process, etc. We also provided our expertise in branch connectivity to enhance MIS through a centralized Central Database where information on transactions is updated daily. Business Intelligence Portal was also introduced on the Bank's intranet for the availability of vital information for the senior management in a digital dashboard format.

During 2006, the Group played a pivotal role in installing 190 ATMs, raising the number of ATMs to 290 (December 31, 2006), thereby achieving the distinction of having the largest ATM network in the country. Moreover, during the year, the Group worked on various value added features for ATMs and internet, such as funds transfers, availability of Mini Statement of Account, introduction of Alerts through SMS / email to customers and utility bills payment.

Involvement of the IT Group in office automation continued to grow during 2006 with additional users being provided email and other facilities. Email facilities were made available on the Bank's Wide Area Network for the branches through Linux mail. In addition, MS Exchange email facilities were expanded to cover additional users. Use of SharePoint Portal for sharing information amongst users on the Bank's intranet also increased. Consequently, reliance on electronic modes of communication such as BlackBerry grew exponentially during the year resulting in quicker decision making and more responsive management.

With increasing volume of transactions being routed through branch connectivity, a full fledged Disaster Recovery Site was created and an associated Disaster Recovery Plan has been implemented to ensure continuity of services on the electronic delivery channels.

During the year, the Bank decided on the acquisition of a latest, internationally recognized core banking software. An agreement was signed with Temenos, Switzerland for acquiring software license for their core system T24 and its associated modules as well as for implementing the same. Under the agreement, Temenos will also carry out necessary parameterization / customization of the system. The implementation project has already been initiated and is expected to be completed by the middle of 2008. The new system will not only bring the bank at par with the international banks in terms of processes and technology, it will also enable the bank to offer customer centric services to enhance its capability to launch new products and services.



Operations Group is well positioned to meet the challenges of the changing business environment. To achieve it, the Group is working on optimal use of information technology coupled with increased awareness of the customer's preferences. The Group is involved in achieving efficiencies through reengineering the existing processes and procedures. This will allow the Bank to offer easy, convenient and hassle free products and services at most economical pricing. It was considered imperative to introduce latest and state of art technology in banking operations which will considerably reduce manual intervention ensuring enhanced productivity, accuracy and economy in processing cost.

During the short span of two years, the Bank managed to upgrade its image and captured a visible market share. Besides automation of process, the Engineering Division initiated the remodeling and renovation of the branch network to introduce a corporate outlook across the branches as well as to provide comfortable and convenient environment to its customers. Alternate Delivery Channel function focus greatly on reducing the transactions on the counters. We were instrumental in establishing the niche for its ATMs throughout the country by extending the network of 290 ATMs in more than 90 cities (December 31, 2006). This is an impressive milestone as number of ATMs was only 45 in September 2004 when the Bank was recapitalized. The Bank has clearly emerged out as market leader in establishing the largest network of ATMs while offering value added services like interbank / branch funds transfer and facility for utility bills payment. The Bank also managed to cross 300,000 landmarks of ATM card holders and became the largest issuer and acquiring bank among the member banks. Internet bank facility was launched in the beginning of the year which further boosted the Bank's image in the local market equally supported by helpdesk facility being run on 24/7 basis.

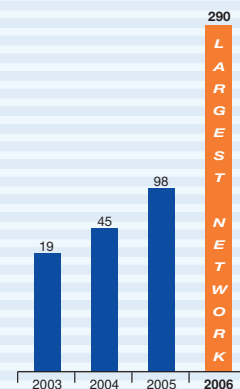
We played an important role in keeping the branches well informed about the changes in rules and regulation. It also ensured that adequate controls from risk perspective are in place and initiatives like online verifications of customer information were timely implemented. Alternate back up sites for SWIFT and other sensitive areas of production were established.

We would focus on widening the scope of electronic distribution channels to reduce the dependencies on the branches, reducing the transactions costs and enhancing the value added services. This coupled with the repositioning of the branches and helps in increasing the market share and customer satisfactions. There would be special focus on creating awareness programs for the staff about the retention of customers by fulfilling their demands, cross selling and managing their expectation proactively.

## Operations



**Number of ATMs**  
as at December 31



# Groups' Review

## Human Resources



The core objective of the human resource group is to recruit and retain competent pool of human resource for the Bank and to look after the employees, in terms of their motivation, competency enhancement and training and development. Allied Bank is an equal opportunity and affirmative action employer where females and minorities are given equal opportunity to apply. However, merit and individual competence are the most significant factors for the selection in the Bank.

The Human Resource Group (HRG) is sub divided into six wings, namely, Personnel Wing, Compensation and Benefits Wing, Management Development Wing, Employee Relations Wing, Human Resource Planning Wing and Human Capital Management Wing. All the human resource management practices and activities are uniformly distributed amongst these wings.

In early 2005, a major reorganization was undertaken across the Bank and various activities were structured on functional basis. The purpose of this reorganization was to achieve the maximum professionalism and specialization in various functions and to put internal check and balances in place, for the implementation of best management practices. Along with this reorganization, a constant process of induction of best available resources from within and outside the country was initiated and as a result, the Bank now has professionals with number of years of experience in specified fields. Uptil now, we have completed placement of all key positions for the top two tiers of the management.

One of the major tasks which are also undertaken as a continuous process is to change the culture of the Bank by not only introducing technology but also to induct fresh human capital by way of an efficient and effective management training program. So far, six batches of these trainees have been inducted and after comprehensive training at Allied Bank Management Development Centers, they have been placed in various functions. We have ambitious training and development programs with three management development centers at Karachi, Lahore and Islamabad, with full time principals and faculty members imparting training on a wide variety of subjects, including the training in soft skills. We have a plan to upgrade these management development centers and to bring them to the international standards. We are also planning to work with the leading educational institutions to provide training to our employees specific to banking requirements. Last year, the management development centers conducted 109 different in house training courses. In addition to these in house training courses, 20 employees holding key positions were sent to 14 international courses around the world. In addition, 334 staff members were sent for 154 local training courses in reputable training institutes within Pakistan.

At HRG, the activities grow with a constant change, to incorporate the best and latest management practices to induct and retain the world class personnel and to further develop them.

The primary purpose of Special Assets Management Group (SAM) is to keep Non Performing Loans at optimal level in a timely and cost efficient manner. It persuades defaulting borrowers in a variety of ways which includes dialogues, negotiations, suits and third party intervention to come to an amicable settlement of their dues. The Group plays a pivotal role to establish its value, shaping its vision and accomplishing its mission about eradication of Non-Performing Loans/Assets (NPLs/NPAs). Our objective is to resolve disputes with clients preferably through negotiations and if necessary through legal action.

SAM Group also seeks to ensure compliance of Prudential Regulations and risk management guidelines issued by SBP with regard to NPL accounts.

During the year 2006, the NPLs reduced by 17.5% from Rs. 12.7 billion to Rs. 10.5 billion as a result of aggressive recovery efforts by SAM group.

We have adopted a proactive approach instead of a reactive approach to avoid NPLs in the future through effective coordination with Risk Management and other business group and keeping a close watch on our clients' activities. This strategy has worked out well as NPLs reduced from Rs. 17.3 billion (Sep. 30, 2004) to Rs. 10.5 billion, NPL ratio improved from 34% to 7% in December 2006. Similarly, net infection ratio of 17% in September 2004 reduced to only 1.96% in December 2006 whereas loan loss coverage ratio improved from 61% to 73% in the same period.

Corporate Affairs Group facilitates the Board of Directors in discharging their fiduciary responsibilities by providing timely input on corporate Governance, shareholders matters and statutory regulations. It acts as an agent for disseminating the decisions and directives of the Board, various sub Committees of the Board and shareholders.

Consequent to recapitalisation of the Bank, the Corporate Affairs Group played a key role in listing of the Banks shares on the Stock Exchanges, merger of Ibrahim Leasing Limited and First Allied Bank Modaraba, and issuance / listing of the Bank's Term Finance Certificates.

In order to cater for future capital requirement, the Group also administered statutory approvals for increase in authorised capital during the year 2006.

In 2006, the Board Committees and their TORs were restructured in line with Corporate Governance and best practices.

Corporate Affairs Group also assisted the management in formulation of management committees and follow up on matters arising out of minutes of such committees' meetings. The Group coordinate with management for inculcating the good governance and best practices across the Bank.

In 2007, the Group will be involved in following initiatives:

- Establishment of Asset Management Company
- Liquidation of Allied Management Services Limited (AMSL)
- Dividend payments and issuance of Bonus shares

Corporate Affairs Group will continue to ensure compliance with legal requirements of SECP, SBP, Stock Exchanges and other statutory laws.

## Special Assets Management

## Corporate Affairs

