

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)  
for the Half Year ended June 30, 2008

**1. STATUS AND NATURE OF BUSINESS**

The consolidated condensed interim financial statements consist of Allied Bank Limited (holding company) and ABL Asset Management Company Limited (subsidiary company).

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 757 (December 31, 2007: 757) branches in Pakistan. 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 consolidated 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 consolidated 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 consolidated 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 consolidated condensed interim financial statements should be read in conjunction with the financial statements of the Bank and its subsidiary 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 consolidated condensed interim financial statements are same as those applied in preparing the most recent annual financial statements of the Bank and its subsidiary, respectively.

	Note	Un-audited June 30, 2008	Audited December 31, 2007
————— Rupees in '000' —————			
<b>5. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings	5.1	2,600,000	1,500,000
Letters of placement	5.2	2,542,000	1,850,000
Repurchase agreement lendings (Reverse Repo)	5.3	23,119,666	12,924,241
Certificates of investment	5.4	400,000	2,145,000
		<u>28,661,666</u>	<u>18,419,241</u>

**5.1** These are unsecured lendings to Financial Institutions, carrying mark-up at rates, ranging between 13.00% and 20.00% (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 14.00% and 20.00% (December 31, 2007: 9.75% and 10.30%) per annum and maturing on various dates, latest by July 11, 2008.

**5.3** These are short-term lendings to various financial institutions against government securities. These carry mark-up at rates, ranging between 9.00% and 11.75% (December 31, 2007: 9.10% and 9.40%) per annum and maturing on various dates, latest by August 08, 2008.

**5.4** The certificate of investment carries mark-up at the rate of 18.00% (December 31, 2007: ranged between 9.80% and 10.25%) per annum and will mature on July 25, 2008.

**6. INVESTMENTS**

	Note	Held by Bank	Given as collateral	Total
————— Rupees in '000' —————				
Current period – June 30, 2008 (Un-audited)	6.1	<u>80,055,294</u>	<u>792,564</u>	<u>80,847,858</u>
Prior year corresponding period – December 31, 2007 (Audited)	6.1	<u>70,932,066</u>	<u>12,526,397</u>	<u>83,458,463</u>

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)  
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	Un-audited As at June 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	198,558	-	198,558	33,860	-	33,860
<b>Available-for-sale securities</b>						
Market Treasury Bills	22,736,531	799,205	23,535,736	24,936,479	12,543,383	37,479,862
Pakistan Investment Bonds	445,089	-	445,089	444,758	-	444,758
Ordinary shares / certificates of listed companies	5,863,571	-	5,863,571	1,601,605	-	1,601,605
Preference shares of listed companies	275,000	-	275,000	275,000	-	275,000
Investment in open-end mutual funds	17,756,845	-	17,756,845	19,606,845	-	19,606,845
Ordinary shares of unlisted companies	229,823	-	229,823	82,099	-	82,099
Ordinary shares of unlisted companies -(related parties)	474,962	-	474,962	451,219	-	451,219
Pre IPO investments	35,000	-	35,000	2,514,900	-	2,514,900
Privately placed investments	250,000	-	250,000	1,890,918	-	1,890,918
Sukuk Bonds	2,570,000	-	2,570,000	2,420,000	-	2,420,000
Term Finance Certificates (TFCs)	7,635,646	-	7,635,646	736,636	-	736,636
	58,272,467	799,205	59,071,672	54,960,459	12,543,383	67,503,842
<b>Held-to-maturity securities</b>						
Pakistan Investment Bonds	10,491,669	-	10,491,669	11,108,762	-	11,108,762
Foreign Currency Bonds (US\$)	176,937	-	176,937	160,010	-	160,010
TFCs, Debentures, Bonds, and PTCs	10,788,957	-	10,788,957	4,903,356	-	4,903,356
	21,457,563	-	21,457,563	16,172,128	-	16,172,128
	79,928,588	799,205	80,727,793	71,166,447	12,543,383	83,709,830
Provision for diminution in value of investments	(174,481)	-	(174,481)	(192,290)	-	(192,290)
Unrealised loss on revaluation of Held-for-trading securities	(7,460)	-	(7,460)	(1,463)	-	(1,463)
Surplus/(deficit) on revaluation of Available-for-sale securities	308,647	(6,641)	302,006	(40,628)	(16,986)	(57,614)
<b>Investments (net of provision)</b>	<b>80,055,294</b>	<b>792,564</b>	<b>80,847,858</b>	<b>70,932,066</b>	<b>12,526,397</b>	<b>83,458,463</b>

Notes to the Consolidated Condensed Interim Financial Statements (Un-audited)  
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Note	Un-audited June 30, 2008	Audited December 31, 2007
Rupees in '000'		
<b>7. ADVANCES</b>		
Loans, cash credits, running finances, etc. – in Pakistan	171,671,061	170,743,654
Net investment in finance lease – in Pakistan	796,319	741,148
Bills discounted and purchased (excluding government treasury bills)		
– Payable in Pakistan	2,067,509	1,455,922
– Payable outside Pakistan	3,736,788	3,256,536
	5,804,297	4,712,458
	178,271,677	176,197,260
Financing in respect of Continuous Funding System (CFS)	266,131	2,327,097
Advances – gross	178,537,808	178,524,357
Provision for non-performing advances / others 7.1	(10,076,035)	(10,103,954)
General provision for consumer financing	(11,607)	(13,123)
Advances – net of provision	168,450,166	168,407,280

7.1 This represents provision against non-performing advances amounting to Rs. 9,930,762 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. 11,040,319 thousand (December 31, 2007: Rs. 11,354,923 thousand) which have been placed under the non-performing status as detailed below:

Category of Classification	Un-audited June 30, 2008			Provision required	Provision held
	Classified Advances				
	Domestic	Overseas*	Total		
Rupees in '000'					
Other Assets Especially					
Mentioned	34,139	–	34,139	–	–
Substandard	752,162	–	752,162	186,814	186,814
Doubtful	773,118	–	773,118	386,559	386,559
Loss	9,480,900	–	9,480,900	9,357,389	9,357,389
	11,040,319	–	11,040,319	9,930,762	9,930,762
	Audited December 31, 2007				
Category of Classification	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 does not have any overseas branch.

**8. OPERATING FIXED ASSETS**

During the current period, additions to and disposals from operating fixed assets amounted to Rs. 1,548,639 thousand (June 30, 2007: Rs. 739,084 thousand) and Rs. 396,470 thousand (June 30, 2007: Rs. 52,723 thousand) respectively.

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	Un-audited June 30, 2008	Audited December 31, 2007
Rupees in '000'		
<b>9. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	82,512,738	72,464,363
Savings deposits	80,421,467	71,250,854
Current accounts – Remunerative	47,798,347	42,301,009
– Non-remunerative	80,673,898	67,742,105
	291,406,450	253,758,331
<b>Financial Institutions</b>		
Remunerative deposits	2,558,559	9,711,263
	<u>293,965,009</u>	<u>263,469,594</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 will be raised through Pre IPO and Rs. 1 billion will be offered for subscription through IPO. As of June 30, 2008 Rs. 2.372 billion has been received as Pre IPO proceeds and are included in deposits and other accounts.

	Un-audited June 30, 2008	Audited December 31, 2007		Un-audited June 30, 2008	Audited December 31, 2007
Rupees in '000'					
<b>11. SHARE CAPITAL</b>					
<b>11.1 Authorised capital</b>					
	Un-audited June 30, 2008	Audited December 31, 2007			
	No. of shares				
	1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000
<b>11.2 Issued, subscribed and paid-up capital</b>					
	Un-audited June 30, 2008	Audited December 31, 2007	Ordinary Shares		
	No. of shares				
	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 June 30, 2008.

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	Un-audited June 30, 2008	Audited December 31, 2007
	Rupees in '000'	
<b>12. CONTINGENCIES AND COMMITMENTS</b>		
<b>12.1 Direct credit substitutes</b>		
Guarantees in favour of:		
Banks and financial institutions	1,052,159	1,971,776
<b>12.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	4,864,629	4,040,048
Others	8,143,599	6,235,919
	13,008,228	10,275,967
<b>12.3 Trade-related contingent liabilities</b>	78,732,665	83,037,690
<b>12.4 Claims against the Bank not acknowledged as debt</b>	4,008,765	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.		
	Un-audited June 30, 2008	Audited December 31, 2007
	Rupees in '000'	
<b>12.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	18,113,703	10,998,573
Sale	11,498,576	4,763,749
<b>12.7 Commitments in respect of:</b>		
Civil works	619,835	752,139
Acquisition of operating fixed assets	168,694	168,654
<b>12.8 Commitments in respect of lease financing</b>	89,370	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>	738,533	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 2006 for local operations and Azad Kashmir Operations. Further, income tax returns for the tax year 2007 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 deleted and 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 2005 have been finalized with net additional tax liability of Rs. 3,760 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions having tax impact of Rs. 3,918 million and Rs. 2,398 million have been deleted and set-aside by Appellate Authorities, respectively. With respect to tax year 2005, the Bank has filed appeal against the Order of Commissioner of Income Tax (Appeals) and for rest of the above years the appeal effect orders are pending.
- c) The assessment for Tax Year 2006 has been finalized with net additional tax liability of Rs. 671 million. As a result of the appeals filed by the Bank before the Appellate Authority, various additions having tax impact of Rs. 184 million have been deleted for which appeal effect order is pending.

Pending the finalization of the above-referred matters, no provision has been made by the Bank in an aggregate sum of Rs. 4,709 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. 78.051 million 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. EARNINGS PER SHARE - BASIC AND DILUTED**

Note	Half Year Ended June 30, 2008	Half Year Ended June 30, 2007	Quarter Ended June 30, 2008	Quarter Ended June 30, 2007
Rupees in '000'				
Profit after taxation for the period attributable to ordinary shareholders	2,509,294	2,751,510	1,150,656	1,400,663
Number of shares				
Weighted average number of Ordinary Shares outstanding during the period 14.1	646,364,325	646,364,325	646,364,325	646,364,325
Rupees				
Earnings per share - basic and diluted	3.88	4.26	1.78	2.17

There is no dilution effect on basic earnings per share.

**14.1** 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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15. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its subsidiary, companies with common directorship having equity under 20%, directors and employee benefit plans. Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable uncontrolled price method). Details of transactions with related parties except those under the terms of employment and balances with them as at the period/year end were as follows:

Nature of related party transactions	June 30, 2008					December 31, 2007				
	Directors	Companies with common directorship having equity under 20%	Subsidiaries	Key management personnel	Other related parties	Directors	Companies with common directorship having equity under 20%	Subsidiaries	Key management personnel	Other related parties
Rupees in '000'										
<b>Loans</b>										
Loans at the beginning of the period/year	1,283	-	-	82,148	491,400	386	-	-	43,490	-
Loans given during the period/year	2,601	-	-	106,743	1,128,522	7,186	-	-	49,096	491,400
Loans repaid during the period/year	(3,188)	-	-	(11,757)	-	(6,289)	-	-	(10,438)	-
Loans at the end of the period/year	696	-	-	177,134	1,619,922	1,283	-	-	82,148	491,400
<b>Deposits</b>										
Deposits at the beginning of the period/year	3,763	87,452	-	19,949	-	1,701	58,082	-	3,479	-
Deposits received during the period/year	277,584	333,701	-	121,288	-	4,978,161	1,163,102	-	142,960	-
Deposits repaid during the period/year	(276,961)	(408,522)	-	(131,209)	-	(4,978,089)	(1,133,732)	-	(126,510)	-
Deposits at the end of the period/year	4,386	12,631	-	10,032	-	3,763	87,452	-	19,949	-
Nostro balances	-	178,772	-	-	-	-	86,820	-	-	-
Placements	-	409,350	-	-	-	-	-	-	-	-
Investments in shares	-	235,969	-	-	238,993	-	235,969	-	-	112,527
Other receivables	-	37	-	-	50,607	-	-	-	-	-
Other payables	-	-	-	1,321	-	-	-	-	-	-
Net receivable from staff retirement benefit funds	-	-	-	-	1,409,002	-	-	-	-	1,153,044
Staff retirement fund deposits	-	-	-	-	3,719,569	-	-	-	-	1,863,389
Rupees in '000'										
Mark-up earned	-	327	-	3,575	79,120	-	-	-	1,499	-
Mark-up expensed	12	231	-	101	151,628	77	16	6,865	62	115,177
Rent expense	-	-	-	-	3,985	-	-	-	-	-
Bank charges levied	-	-	-	3	-	-	-	-	1	-
Charge / (reversal) in respect of staff retirement benefit funds	-	-	-	-	(67,495)	-	-	-	-	15,451

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

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

**For the Half Year Ended June 30, 2008**

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Asset Management
Rupees in '000'						
Total Income	245,477	986,352	7,128,763	11,444,395	56,216	23,274
Total Expenses	(127,730)	(881,775)	(5,962,265)	(10,349,395)	(31,859)	(22,159)
Net Income	117,747	104,577	1,166,498	1,095,000	24,357	1,115

**For the Half Year Ended June 30, 2007**

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Asset Management
Rupees in '000'						
Total Income	176,378	987,101	4,296,560	9,174,835	113,540	-
Total Expenses	(84,384)	(874,539)	(3,170,197)	(7,808,610)	(59,174)	-
Net Income	91,994	112,562	1,126,363	1,366,225	54,366	-

**17. GENERAL**

**17.1** The Board of Directors of the Bank in its meeting held on August 20, 2008 has approved interim cash dividend for the half year ended June 30, 2008 at Rs. 1.5 per share (June 30, 2007: cash dividend of Rs. 1.5 per share) resulting in total distribution of Rs. 969.546 million. The consolidated condensed interim financial statements for the half year ended June 30, 2008 do not include the effect of this appropriation and will be accounted for in the financial statements of the period of declaration.

**17.2** Figures have been rounded off to the nearest thousand rupees.

**18. DATE OF AUTHORIZATION FOR ISSUE**

These consolidated condensed interim financial statements were authorized for issue on August 20, 2008 by the Board of Directors of the Bank.

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

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President and Chief Executive

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director