

Notes to the Condensed Interim Financial Statements (Un-audited)

for the Half Year ended June 30, 2007

1. STATUS AND NATURE OF BUSINESS

Allied Bank Limited, incorporated in Pakistan, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all three stock exchanges in Pakistan. The Bank operates a total of 742 (December 31, 2006: 742) branches in Pakistan. The medium to long term credit rating of the Bank rated by The Pakistan Credit Rating Agency Limited (PACRA) is 'AA' whereas JCR-VIS Credit Rating Company Limited has rated 'AA-' with a stable outlook. Short term rating of the Bank by PACRA and JCR-VIS is 'A1+' and 'A-1+' respectively. The Bank is a holding company of Allied Management Services (Private) 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 condensed interim financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

2.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these 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.

2.3 The disclosures made in these 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 financial statements should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2006.

2.4 These financial statements are un-audited but subject to limited scope review by the auditors and are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984.

2.5 The Bank has obtained a waiver from the Securities and Exchange Commission of Pakistan for the preparation of consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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	Note	June 30, 2007	December 31, 2006
Rupees in '000'			
4. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	4.1	3,150,000	475,000
Letters of placement	4.2	3,090,000	384,500
Repurchase agreement lendings	4.3	14,670,781	15,385,739
Certificates of investment	4.4	2,990,000	2,805,000
		<u>23,900,781</u>	<u>19,050,239</u>

4.1 These are unsecured lendings to Financial Institutions, carrying mark-up at rates, ranging between 9.00 % and 10.50 % (December 31, 2006: 12.00 %) per annum and maturing on various dates, latest by July 30, 2007.

4.2 These are clean placements with Non-Banking Finance Companies, carrying mark-up at rates, ranging between 9.35% and 10.60% (December 31, 2006: 12.00% and 13.50%) per annum and maturing on various dates, latest by September 06, 2007.

4.3 These are short-term lendings to various financial institutions against government securities. These carry mark-up at rates, ranging between 8.50% and 9.00% (December 31, 2006: 8.25% and 9.40%) per annum and maturing on various dates, latest by August 23, 2007.

4.4 The certificates of investment carry mark-up at rates, ranging between 9.60% and 12.00% (December 31, 2006: 11.25% and 12.50%) per annum and maturing on various dates, latest by September 29, 2007.

5. INVESTMENTS

		Held by bank	Given as collateral	Total
Rupees in '000'				
Current period (June 30, 2007)	5.1	<u>54,622,462</u>	<u>18,842,877</u>	<u>73,465,339</u>
Prior year corresponding period (December 31, 2006)	5.1	<u>41,755,120</u>	<u>5,198,121</u>	<u>46,953,241</u>

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	June 30, 2007			December 31, 2006		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees in '000'					
5.1 INVESTMENT BY TYPES :						
Held-for-trading securities						
Ordinary shares of listed companies	247,208	-	247,208	267,290	-	267,290
Available-for-sale securities						
Market Treasury Bills	24,165,781	18,869,110	43,034,891	18,143,360	5,188,065	23,331,425
Federal Investment Bonds	-	-	-	-	5,000	5,000
Pakistan Investment Bonds	444,546	-	444,546	298,625	-	298,625
Ordinary shares / certificates of listed companies	1,533,143	-	1,533,143	1,457,860	-	1,457,860
Preference shares of listed companies	275,000	-	275,000	275,000	-	275,000
Investment in mutual funds	9,851,912	-	9,851,912	266,229	-	266,229
Ordinary shares of unlisted companies	17,099	-	17,099	17,099	-	17,099
Ordinary shares of unlisted companies – (related parties)	451,219	-	451,219	451,219	-	451,219
Investment in Pre IPO and TFCs	250,000	-	250,000*	555,000	-	555,000
Listed Term Finance Certificates (TFCs)	539,786	-	539,786	1,320,863	-	1,320,863
	<u>37,528,486</u>	<u>18,869,110</u>	<u>56,397,596</u>	<u>22,785,255</u>	<u>5,193,065</u>	<u>27,978,320</u>
Held-to-maturity securities						
Pakistan Investment Bonds	11,881,818	-	11,881,818	13,881,122	6,073	13,887,195
Foreign Currency Bonds (US \$)	210,796	-	210,796	212,087	-	212,087
TFCs, Debentures, Bonds and PTCs	4,688,057	-	4,688,057	4,867,258	-	4,867,258
	<u>16,780,671</u>	<u>-</u>	<u>16,780,671</u>	<u>18,960,467</u>	<u>6,073</u>	<u>18,966,540</u>
Subsidiary						
Allied Management Services (Private) Limited	62,488	-	62,488	62,488	-	62,488
Investment at cost	54,618,853	18,869,110	73,487,963	42,075,500	5,199,138	47,274,638
Less: Provision for diminution in value of investments	(203,837)	-	(203,837)	(203,038)	-	(203,038)
Investments (Net of Provision)	54,415,016	18,869,110	73,284,126	41,872,462	5,199,138	47,071,600
Unrealised loss on revaluation of held-for-trading securities	(9,261)	-	(9,261)	(30,180)	-	(30,180)
Surplus/(Deficit) on revaluation of available-for-sale securities	216,707	(26,233)	190,474	(87,162)	(1,017)	(88,179)
Total Investments (Net of Provision)	<u>54,622,462</u>	<u>18,842,877</u>	<u>73,465,339</u>	<u>41,755,120</u>	<u>5,198,121</u>	<u>46,953,241</u>

* This represents amount of Rs. 250,000 thousand (December 31, 2006: Rs. 250,000 thousand) pertaining to privately placed TFCs of Javedan Cement Limited.

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	Note	June 30, 2007	December 31, 2006
Rupees in '000'			
6. ADVANCES			
Loans, cash credits, running finances, etc. in Pakistan		152,106,604	143,383,499
Net investment in finance leases in Pakistan		848,233	777,878
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		2,041,738	2,942,960
Payable outside Pakistan		3,413,276	3,493,264
		<u>5,455,014</u>	<u>6,436,224</u>
Financing in respect of Continuous Funding System (CFS)		158,409,851	150,597,601
		<u>2,070,790</u>	<u>1,107,817</u>
		160,480,641	151,705,418
Provision against non-performing advances	6.1	(7,633,939)	(7,657,737)
General provision for consumer financing		(13,985)	(14,047)
		<u>152,832,717</u>	<u>144,033,634</u>

- 6.1** This represents provision against non-performing advances amounting to Rs. 7,488,666 thousand and a provision of 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. 10,619,372 thousand (December 31, 2006: Rs. 10,478,589 thousand), which have been placed under non-performing status as detailed below:

Category of Classification	Domestic	Overseas*	Total	Provision required	Provision held
Rupees in '000'					
Other Assets Especially					
Mentioned	25,309	-	25,309	-	-
Substandard	838,012	-	838,012	91,819	91,819
Doubtful	537,024	-	537,024	214,577	214,577
Loss	9,219,027	-	9,219,027	7,182,270	7,182,270
	<u>10,619,372</u>	<u>-</u>	<u>10,619,372</u>	<u>7,488,666</u>	<u>7,488,666</u>

* The Bank does not have any overseas branch.

7. OPERATING FIXED ASSETS

During the current period, additions to and disposals from operating fixed assets amounted to Rs. 739,084 thousand (2006: Rs. 825,438 thousand) and Rs. 52,723 thousand (2006: 29,775 thousand), respectively.

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	June 30, 2007	December 31, 2006	Rupees in '000'	
8. DEPOSITS AND OTHER ACCOUNTS				
Customers				
Fixed deposits	49,541,016	53,304,136		
Savings deposits	70,729,488	66,954,303		
Current accounts – remunerative	39,081,923	23,028,853		
Current accounts -non- remunerative	63,863,026	56,422,618		
	<u>223,215,453</u>	<u>199,709,910</u>		
Financial Institutions				
Remunerative deposits	7,730,092	6,321,414		
	<u>230,945,545</u>	<u>206,031,324</u>		
9. SHARE CAPITAL				
9.1 Authorised capital				
	June 30, 2007	December 31, 2006		
	No. of shares			
	<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u> <u>10,000,000</u>
9.2 Issued, subscribed and paid-up capital				
Fully paid-up Ordinary shares of Rs. 10 each				
	June 30, 2007	December 31, 2006		
	No. of shares			
	406,780,094	406,780,094	Fully paid in cash	4,067,801 4,067,801
	<u>114,308,294</u>	<u>24,535,471</u>	Issued as bonus shares	<u>1,143,083</u> 245,355
	<u>521,088,388</u>	<u>431,315,565</u>		<u>5,210,884</u> 4,313,156
			18,348,550 Ordinary Shares of Rs.10 each determined pursuant to the Scheme of Amalgamation 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)	
	9,148,550	9,148,550		91,486 91,486

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		8,400,000 Ordinary Shares of Rs.10 each determined pursuant to the Scheme of Amalgamation of First Allied Bank Modaraba in accordance with the share swap ratio stipulated therein		
	8,400,000		84,000	84,000
<u>538,636,938</u>	<u>448,864,115</u>		<u>5,386,370</u>	<u>4,488,642</u>

Ibrahim Fibres Limited and Ibrahim Agencies (Private) Limited, related parties of the bank, held 170,379,240 and 34,617,452 (December 31, 2006: 141,982,700 and 27,281,554) Ordinary shares of Rs.10 each, respectively, as at June 30, 2007.

	June 30, 2007	December 31, 2006
	Rupees in '000'	
10. CONTINGENCIES AND COMMITMENTS		
10.1 Direct credit substitutes		
Guarantees in favour of:		
Banks and financial institutions	<u>1,346,854</u>	<u>1,761,869</u>
10.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	<u>3,082,661</u>	<u>1,986,614</u>
Others	<u>4,368,156</u>	<u>4,761,103</u>
	<u>7,450,817</u>	<u>6,747,717</u>
10.3 Trade-related contingent liabilities	<u>35,701,830</u>	<u>38,142,108</u>
10.4 Claims against the bank not acknowledged as debt	<u>2,733,716</u>	<u>2,738,318</u>
10.5 Commitments to extend credit	<u>16,070,770</u>	<u>8,090,550</u>
10.6 Commitments in respect of forward foreign exchange contracts		
Purchase	<u>8,536,278</u>	<u>6,983,267</u>
Sale	<u>4,181,453</u>	<u>3,266,742</u>
10.7 Commitments in respect of:		
Civil works	<u>291,316</u>	<u>294,037</u>
Acquisition of operating fixed assets	<u>455,719</u>	<u>1,149,408</u>
10.8 Commitments in respect of lease financing	<u>215,513</u>	<u>150,384</u>
10.9 Commitments in respect of:		
Forward lending	<u>-</u>	<u>-</u>
Forward borrowing	<u>-</u>	<u>1,853,461</u>
	<u>-</u>	<u>1,853,461</u>
10.10 Commitments in respect of lending against CFS	<u>964,545</u>	<u>250,824</u>

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10.11 Contingencies

- 10.11.1** There is no change in the status of contingencies, set out in note 23.11 to the financial statements of the Bank for the year ended December 31, 2006, except for the contingency as mentioned below:
- 10.11.2** The Income tax assessments of the Bank have been finalized up to and including Tax Year 2006 local operations and Azad Kashmir operations, respectively.
- 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. 64 million and Rs. 125 million respectively. The appeal effect orders with regard to the above matters are pending.
 - The assessments from Assessment Year 2001-2002 to Tax Year 2005 have been finalized with net additional tax liability of Rs 4,684 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions, having a tax impact of Rs. 4,718 million and Rs. 2,424 million have been deleted and set-aside by the Appellate Authorities, respectively. The appeal effect orders with regard to the above matters are pending.
 - The assessment of Tax Year 2006 has been finalized with net additional tax liability of Rs. 671 million. However, the Bank is in the process of filing appeal against the above referred order before the Appellate Authorities.

Pending the finalization of the above-referred appeals, no provision has been made by the Bank in an aggregate sum of Rs. 5,633 million in these financial statements. This sum includes tax liability, aggregating to Rs. 4,782 million, already deleted by the Appellate Authorities for which appeal effect orders are pending. The management is hopeful that the outcome of these appeals will be in favor of the Bank.

Half Year Ended June 30, 2007	Half Year Ended June 30, 2006	Quarter Ended June 30, 2007	Quarter Ended June 30, 2006
Rupees in '000'			

11. EARNINGS PER SHARE - BASIC AND DILUTED

Profit after tax for the period attributable to Ordinary shareholders (Rupees in '000')	2,751,510	2,260,512	1,400,663	1,183,133
Weighted average number of Ordinary shares outstanding during the period	538,636,938	538,636,938	538,636,938	538,636,938
Basic / Diluted earnings per share (Rupees)	5.11	4.20	2.60	2.20

There is no dilution effect on basic earning per share.

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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12. 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).

Detail of transactions with related parties except those under the terms of employment and balances with them as at the period-end / year end were as follows:

	June 30, 2007			December 31, 2006		
	Directors	Companies with common directorship, having equity under 20%	Subsidiary Company	Directors	Companies with common directorship, having equity under 20%	Subsidiary Company
Nature of related party transactions						
Deposits						
Deposits at the beginning of the period / year	1,814	59,801	138,679	6,668	76,125	3,925
Deposits received during the period / year	4,354,466	297,026	139,802	17,432	765,872	270,262
Deposits repaid during the period / year	(4,337,667)	(299,996)	(133,203)	(22,286)	(782,196)	(135,508)
Deposits at the end of the period /year	<u>18,613</u>	<u>56,831</u>	<u>145,278</u>	<u>1,814</u>	<u>59,801</u>	<u>138,679</u>
Rupees in '000'						
Mark-up expensed						
	77	16	6,665	13	233	152
Rupees in '000'						
	June 30, 2007			December 31, 2006		
	Rupees in '000'			Rupees in '000'		
Net receivable from staff retirement benefit funds	<u>1,022,242</u>			<u>918,541</u>		
	June 30, 2007			June 30, 2006		
	Rupees in '000'			Rupees in '000'		
Charge/(reversal) in respect of staff retirement benefit funds	<u>15,451</u>			<u>(30,543)</u>		

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13. Segment Details with respect to Business Activities

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

For the Period Ended June 30, 2007					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
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
For the Period Ended June 30, 2006					
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
Rupees in '000'					
Total income	86,001	1,099,207	3,766,586	6,174,644	466,452
Total expenses	(44,808)	(978,676)	(2,803,918)	(5,125,867)	(379,108)
Net income	41,193	120,531	962,668	1,048,777	87,344

14. Liquidation of Allied Management Services (Private) Limited

The Board of Directors of Allied Bank Limited in its meeting held on October 30, 2006 has approved the liquidation of Allied Management Services (Private) Limited, (AMSL), a wholly owned subsidiary of the Bank, consequent to the merger of First Allied Bank Modaraba (managed by AMSL) into the Bank. Subsequently, shareholders of Allied Management Services (Private) Limited in Extra Ordinary General Meeting held on April 28, 2007 resolved to wind up the company under the provision of sections 362 to 370 of Companies Ordinance, 1984 under the Members' Voluntary winding up and appointed a liquidator. Currently, the winding up proceedings of AMSL are in progress.

15. GENERAL

15.1 The Board of Directors in its meeting held on August 10, 2007 has approved interim cash dividend for the half year ended June 30, 2007 at Rs. 1.50 per share (June 30, 2006: cash dividend of Rs. Nil per share) resulting in total distribution of Rs. 807.955 million. The condensed interim financial statements for the half year ended June 30, 2007 do not include the effect of this appropriation and will be accounted for in the financial statements of the period of declaration.

15.2 Figures have been rounded off to the nearest thousand rupees.

16. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on August 10, 2007 by the Board of Directors of the Bank.

Chief Financial Officer

President & Chief Executive

Director

Director

Chairman