

## Notes to the Financial Statements (Un-audited)

for the Quarter ended March 31, 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 stock exchanges in Pakistan. The Bank operates a total of 742 (2006: 742) branches in Pakistan. The medium to long term credit rating of the Bank rated by JCR-VIS Credit Rating Company Limited is 'A+' with a positive outlook. Short term rating of the Bank is 'A-1+'. 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.

1.1 First Allied Bank Modaraba (FABM) was merged with the Bank w.e.f. January 01, 2006. The comparatives in the accompanying profit and loss account, cash flow statement and statement of changes in equity relating to the period ended March 31, 2006 comprise (a) balances of ABL and (b) balances of FABM.

### 2. STATEMENT OF COMPLIANCE

2.1 These financial statements are prepared in accordance with the directives issued by the State Bank of Pakistan, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 or directives issued by the State Bank of Pakistan differ with the requirements of these standards, the requirements of Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and the said directives take precedence. The disclosures made in these financial statements have, however, been limited based on the format prescribed by the SBP vide BSD Circular Letter No.2, dated May 12, 2004, and International Accounting Standard 34 "Interim Financial Reporting".

2.2 The SBP as per 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. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified in accordance with the categories prescribed by the SBP vide BSD Circular No.10, dated July 13, 2004.

2.3 These financial statements are being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of International Accounting Standard (IAS) - 34 "Interim Financial Reporting", as applicable in Pakistan.

2.4 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

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

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for the Quarter ended March 31, 2007

	Note	March 31, 2007	December 31, 2006
Rupees in '000'			
<b>4. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings	4.1	2,150,000	475,000
Letters of placement	4.2	3,857,000	384,500
Repurchase agreement lendings (Reverse Repo)	4.3	11,797,926	15,385,739
Certificates of investment	4.4	4,520,000	2,805,000
		<u>22,324,926</u>	<u>19,050,239</u>

4.1 These are unsecured lendings to Financial Institutions, carrying mark-up at rates, ranging between 9.80% and 10.40% (December 31, 2006: 12.00%) per annum and maturing on various dates, latest by May 29, 2007.

4.2 These are clean placements with Non-Banking Financial Institutions, carrying mark-up at rates, ranging between 10.10% and 13.00% (December 31, 2006: 12.00% and 13.50%) per annum and maturing on various dates, latest by July 9, 2007.

4.3 These are short-term lendings to various financial institutions against government securities. These carry mark-up at rates, ranging between 8.77% and 9.00% (December 31, 2006: 8.25% and 9.40%) per annum and maturing on various dates, latest by June 2, 2007.

4.4 The certificates of investment carry mark-up at rates, ranging between 10.15% and 12.25% (December 31, 2006: 11.25% and 12.50%) per annum and maturing on various dates, latest by July 9, 2007.

### 5. INVESTMENTS

	Held by bank	Given as collateral	Total
Rupees in '000'			
Current period - March 31, 2007	<u>58,502,546</u>	<u>3,295,712</u>	<u>61,798,258</u>
Prior year corresponding period - December 31, 2006	<u>41,755,120</u>	<u>5,198,121</u>	<u>46,953,241</u>

## Notes to the Financial Statements (Un-audited)

for the Quarter ended March 31, 2007

	As at March 31, 2007			As at December 31, 2006		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
<b>Rupees in '000'</b>						
<b>5.1 INVESTMENT BY TYPES :</b>						
<b>Held for trading securities</b>						
- Ordinary shares of listed companies	224,136	-	224,136	267,290	-	267,290
<b>Available for sale securities</b>						
- Market Treasury Bills	33,960,940	3,287,098	37,248,038	18,143,360	5,188,065	23,331,425
- Federal Investment Bonds	-	5,000	5,000	-	5,000	5,000
- Pakistan Investment Bonds	298,625	-	298,625	298,625	-	298,625
- Ordinary shares / certificates of listed companies	1,600,135	-	1,600,135	1,457,860	-	1,457,860
- Preference shares of listed companies	275,000	-	275,000	275,000	-	275,000
- Investment in open-end mutual funds	2,211,006	-	2,211,006	266,229	-	266,229
- Ordinary shares of unlisted companies	17,099	-	17,099	17,099	-	17,099
- Pre IPO Investments in TFCs	450,000	-	450,000	555,000	-	555,000
- Listed Term Finance Certificates (TFCs)	822,710	-	822,710	1,320,863	-	1,320,863
	39,635,515	3,292,098	42,927,613	22,334,036	5,193,065	27,527,101
<b>Held to maturity securities</b>						
- Pakistan Investment Bonds	13,400,034	6,032	13,406,066	13,881,122	6,073	13,887,195
- Foreign Currency Bonds (US\$)	211,158	-	211,158	212,087	-	212,087
- TFCs, Debentures, Bonds, and PTCs	4,783,381	-	4,783,381	4,867,258	-	4,867,258
	18,394,573	6,032	18,400,605	18,960,467	6,073	18,966,540
<b>Related parties</b>						
<b>- Subsidiary</b>						
Allied Management Services (Private) Limited	62,488	-	62,488	62,488	-	62,488
<b>- Others</b>	451,219	-	451,219	451,219	-	451,219
	58,767,931	3,298,130	62,066,061	42,075,500	5,199,138	47,274,638
Provision for diminution in value of investments	(196,852)	-	(196,852)	(203,038)	-	(203,038)
Unrealised (loss) / gain on revaluation of held for trading investments	(20,419)	-	(20,419)	(30,180)	-	(30,180)
Deficit on revaluation of available for sale investments	(48,114)	(2,418)	(50,532)	(87,162)	(1,017)	(88,179)
<b>Investments (net of provision)</b>	<b>58,502,546</b>	<b>3,295,712</b>	<b>61,798,258</b>	<b>41,755,120</b>	<b>5,198,121</b>	<b>46,953,241</b>

## Notes to the Financial Statements (Un-audited)

for the Quarter ended March 31, 2007

	Note	March 31, 2007	December 31, 2006
Rupees in '000'			
<b>6. ADVANCES</b>			
Loans, cash credits, running finances, etc. – in Pakistan		140,757,406	143,383,499
Net investment in finance lease – in Pakistan		752,222	777,878
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		2,348,379	2,942,960
Payable outside Pakistan		3,746,301	3,493,264
		6,094,680	6,436,224
		147,604,308	150,597,601
Financing in respect of Continuous Funding System (CFS)		62,495	1,107,817
		147,666,803	151,705,418
Provision against non-performing advances / others	6.1	(7,748,096)	(7,657,737)
General provision against consumer financing		(13,609)	(14,047)
		139,905,098	144,033,634

6.1 This represents provision against non-performing advances amounting to Rs. 7,602,823 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. 10,462,973 thousand (2006: Rs. 10,478,589 thousand) which have been placed under the non-performing status as detailed below:

Category of Classification	Domestic	Overseas*	Total	Provision required	Provision held
Rupees in '000'					
Other Assets Especially Mentioned	33,351	–	33,351	–	–
Substandard	517,054	–	517,054	124,873	124,873
Doubtful	631,081	–	631,081	219,868	219,868
Loss	9,281,487	–	9,281,487	7,258,082	7,258,082
	10,462,973	–	10,462,973	7,602,823	7,602,823

\* The Bank does not have any overseas branch.

### 7. OPERATING FIXED ASSETS

During the current period, additions and disposals in operating fixed assets amounted to Rs. 242,088 thousand and Rs. 2,864 thousand, respectively.

## Notes to the Financial Statements (Un-audited)

for the Quarter ended March 31, 2007

	March 31, 2007	December 31, 2006	Rupees in '000'	
<b>8. DEPOSITS AND OTHER ACCOUNTS</b>				
<b>Customers</b>				
Fixed deposits	53,888,363	53,304,136		
Savings deposits	67,323,252	66,954,303		
Current accounts - Remunerative	31,759,851	23,028,853		
- Non-remunerative	54,689,371	56,422,618		
	<u>207,660,837</u>	<u>199,709,910</u>		
<b>Financial Institutions</b>				
Remunerative deposits	9,218,775	6,321,414		
	<u>216,879,612</u>	<u>206,031,324</u>		
<b>9. SHARE CAPITAL</b>				
<b>9.1 Authorised capital</b>				
	March 31, 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>
<b>9.2 Issued, subscribed and paid-up capital</b>				
Fully paid-up Ordinary shares of Rs. 10 each				
	March 31, 2007	December 31, 2006	<b>Ordinary Shares</b>	
	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 of 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

## Notes to the Financial Statements (Un-audited)

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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 with Allied Bank Limited in accordance with the share swap ratio stipulated therein	
8,400,000	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 34,152,552 (December 31, 2006: 141,982,700 and 25,190,230) Ordinary shares of Rs.10 each, respectively, as at March 31, 2007.

	March 31, 2007	December 31, 2006
	Rupees in '000'	
<b>10. CONTINGENCIES AND COMMITMENTS</b>		
<b>10.1 Direct credit substitutes</b>		
Guarantees in favour of:		
Banks and financial institutions	1,569,970	1,761,869
<b>10.2 Transaction-related contingent liabilities / commitments</b>		
Guarantees in favour of:		
Government	3,466,561	1,986,614
Others	3,437,220	4,761,103
	6,903,781	6,747,717
<b>10.3 Trade-related contingent liabilities</b>	28,143,496	38,142,108
<b>10.4 Claims against the bank not acknowledged as debt</b>	2,696,593	2,738,318
<b>10.5 Commitments to extend credit</b>	9,348,350	8,090,550
<b>10.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	7,727,116	6,983,267
Sale	4,999,613	3,266,742
	12,726,729	10,250,009
<b>10.7 Commitments in respect of:</b>		
Civil works	261,475	294,037
Acquisition of operating fixed assets	404,914	685,705
<b>10.8 Commitments in respect of future sale of equity instruments</b>	9,678	-
<b>10.9 Commitments in respect of lease financing</b>	147,471	150,384
<b>10.10 Commitments in respect of:</b>		
Forward lending	100,000	-
Forward borrowing	-	1,853,461
	100,000	1,853,461

## Notes to the Financial Statements (Un-audited)

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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 upto and including Tax Year 2005 and Tax Year 2004 for local operations and Azad Kashmir operations, respectively.

- 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. 64 million and Rs. 125 million, respectively. 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. 4,684 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions having tax impact of Rs. 4,718 million and Rs 2,424 million have been deleted and set-aside by Appellate Authorities, respectively. The appeal effect orders with regard to the above matters are pending.
- c) Tax liability as per income tax return for the Tax Year 2006 is Rs. 1,582 million whereas provision has been made upto Rs. 1,331 million after considering the effect of carry forward losses of the above mentioned Assessments / Tax Years which would be made available in Tax Year 2006.

Pending the finalization of the above-referred appeals, no provision has been made by the Bank in an aggregate sum of Rs. 5,213 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.

Note	Quarter Ended March 31, 2007	Quarter Ended March 31, 2006
Rupees in '000'		
<b>11. FEE, COMMISSION AND BROKERAGE INCOME</b>		
Core fees, commission and brokerage	397,782	262,151
Account maintenance charges	111,891	67,734
	509,673	329,885
<b>12. EARNINGS PER SHARE - BASIC AND DILUTED</b>		
Profit after tax for the period attributable to ordinary shareholders	1,350,847	1,077,379
Weighted average number of Ordinary Shares outstanding during the period	12.1 538,636,938	538,636,938
Earnings per share - basic and diluted	2.51	2.00
There is no dilution effect on basic earnings per share.		

**12.1** The comparative figure of weighted average number of shares outstanding has been restated to include Ordinary shares issued by the Bank during the last year as a result of merger with FABM and the bonus shares issued in year 2007.

## Notes to the Financial Statements (Un-audited)

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### 13. 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-end / year end were as follows:

	March 31, 2007			December 31, 2006		
	Directors	Companies with common directorship, having equity under 20%	Subsidiary Companies	Directors	Companies with common directorship, having equity under 20%	Subsidiary Companies
	Rupees in '000'					
<b>Nature of related party transactions</b>						
<b>Deposits</b>						
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	13,971	161,419	208	17,432	765,872	270,262
Deposits repaid during the period / year	(7,538)	(159,478)	(146)	(22,286)	(782,196)	(135,508)
Deposits at the end of the period / year	8,247	61,742	138,741	1,814	59,801	138,679

	March 31, 2007			March 31, 2006		
	Directors	Companies with common directorship, having equity under 20%	Subsidiary Companies	Directors	Companies with common directorship, having equity under 20%	Subsidiary Companies
	Rupees in '000'					
Mark-up expensed	39	38	3,198	-	-	75

	March 31, 2007	December 31, 2006
	Rupees in '000'	
Net receivable from staff retirement benefit funds	987,442	918,541
	March 31, 2007	March 31, 2006
	Rupees in '000'	
Charge in respect of staff retirement benefit funds	5,029	6,743

## Notes to the Financial Statements (Un-audited)

for the Quarter ended March 31, 2007

### 14. GENERAL

Figures have been rounded off to the nearest thousand rupees.

### 15. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on April 27, 2007 by the Board of Directors of the Bank.

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

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

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Chairman