

Notes to the Financial Statements (Un-audited)

for the quarter ended March 31, 2006

1. STATUS AND NATURE OF BUSINESS

- 1.1 Allied Bank Limited, incorporated in Pakistan, as a banking company, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all stock exchanges in Pakistan. 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. The Bank operates a total of 741 (2005: 741) branches in Pakistan. The Bank is a holding company of Allied Management Services (Private) Limited. The medium to long term credit rating of the bank rated by JCR-VIS Credit Rating Company Limited is 'A+' with a stable outlook. Short term rating of the bank is 'A1+'.
- 1.2 The Ibrahim Leasing Limited (ILL) was merged with the Bank w.e.f. May 31, 2005. 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, 2005 comprise balances of ABL and balances of ILL.

2. STATEMENT OF COMPLIANCE

- 2.1 These financial statements have been prepared in accordance with 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 Accounting 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 SBP 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. 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 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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4. INVESTMENTS

	Held by Bank	Given as Collateral	Total
	Rupees in '000'		
As at March 31, 2006	32,104,253	8,058,162	40,162,415
As at December 31, 2005	40,182,588	4,647,470	44,830,058

As at March 31, 2006			As at December 31, 2005		
Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000'					

4.1 Investments by types:

Held for trading securities

- Ordinary shares of listed companies	482,610	-	482,610	594,711	-	594,711
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Available for sale securities

- Market Treasury Bills	1,951,864	5,975,041	7,926,905	5,459,960	478,256	5,938,216
- Federal Investment Bonds	-	5,000	5,000	-	5,000	5,000
- Shares / certificates of listed companies	1,404,270	-	1,404,270	681,854	-	681,854
- Preference shares of listed companies	200,000	-	200,000	200,000	-	200,000
- Shares of unlisted companies	36,939	-	36,939	62,878	-	62,878
- Listed Term Finance Certificates (TFCs)	1,122,567	-	1,122,567	1,145,608	-	1,145,608
- NIT Units	206	-	206	206	-	206
	4,715,846	5,980,041	10,695,887	7,550,506	483,256	8,033,762

Held to maturity securities

- Market Treasury Bills	6,874,491	1,715,661	8,590,152	12,825,430	2,875,414	15,700,844
- Pakistan Investment Bonds	15,191,787	362,460	15,554,247	14,354,866	1,288,800	15,643,666
- Federal Investment Bonds	-	-	-	-	-	-
- Provincial Government Securities	-	-	-	-	-	-
- Foreign Currency Bonds (US\$)	260,902	-	260,902	260,076	-	260,076
- TFCs, Debentures, Bonds, and PTCs	4,233,022	-	4,233,022	4,321,357	-	4,321,357
	26,560,202	2,078,121	28,638,323	31,761,729	4,164,214	35,925,943

Related parties

- Subsidiary

- Allied Management Services (Private) Limited	62,488	-	62,488	62,488	-	62,488
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- Others

	451,219	-	451,219	451,219	-	451,219
	32,272,365	8,058,162	40,330,527	40,420,653	4,647,470	45,068,123

Provision for diminution in value of investments	(300,245)	-	(300,245)	(320,254)	-	(320,254)
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Unrealised (loss) / gain on revaluation of held for trading investment	(7,095)	-	(7,095)	25,706	-	25,706
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Surplus on revaluation of available for sale investments	139,228	-	139,228	56,483	-	56,483
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Investments (net of provision)	32,104,253	8,058,162	40,162,415	40,182,588	4,647,470	44,830,058
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Notes to the Financial Statements (Un-audited)

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	March 31, 2006	December 31, 2005
Rupees in '000'		
5. ADVANCES		
Loans, cash credits, running finances, etc.		
In Pakistan	119,310,172	113,474,225
Outside Pakistan	—	—
	119,310,172	113,474,225
Net investment in finance leases - in Pakistan	570,003	455,230
Bills discounted and purchased (excluding government treasury bills)		
Payable in Pakistan	3,066,134	2,687,766
Payable outside Pakistan	1,995,415	2,561,112
	5,061,549	5,248,878
	124,941,724	119,178,333
Financing in respect of Continuous Funding System (CFS)	395,190	327,677
	125,336,914	119,506,010
Provision against non-performing advances	(8,764,752)	(8,548,883)
General provision against consumer financing	(11,655)	(10,155)
	116,560,507	110,946,972

- 5.1 Advances include Rs 12,503,349 thousand (2005: Rs 12,580,412 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	29,162	—	29,162	—	—
Substandard	405,668	—	405,668	40,332	40,332
Doubtful	784,954	—	784,954	331,520	331,520
Loss	11,283,565	—	11,283,565	8,392,900	8,392,900
	12,503,349	—	12,503,349	8,764,752	8,764,752

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6. CONTINGENCIES AND COMMITMENTS

	March 31, 2006	December 31, 2005
	Rupees in '000'	
6.1 Direct credit substitutes		
Guarantees in favour of:		
Banks and financial institutions	600,927	1,355,300
6.2 Transaction-related contingent liabilities / commitments		
Guarantees in favour of:		
Government	1,633,926	627,404
Others	3,393,752	3,464,202
	5,027,678	4,091,606
6.3 Trade-related contingent liabilities	22,399,336	22,394,618
6.4 Claims against the bank not acknowledged as debt	5,622,415	5,622,737
6.5 Commitments to extend credit	8,564,920	6,480,152
6.6 Commitments in respect of forward foreign exchange contracts		
Purchase	4,394,812	3,173,997
Sale	2,557,310	2,300,788
	6,952,122	5,474,785
6.7 Commitments in respect of:		
Civil works	460,675	323,025
Acquisition of operating fixed assets	78,376	258,327
6.8 Commitments in respect of future sale of equity instruments	113,502	290,136
6.9 Commitments in respect of lease financing	30,336	13,012
6.10 Commitments in respect of:		
Forward lending	-	-
Forward borrowing	-	-

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6.11 Contingencies

6.12 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 646 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 433 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.

Pending the finalization of the above-referred appeals, no provision has been made by the Bank in an aggregate sum of Rs 5,330 million in these financial statements. This sum includes tax liability, aggregating to Rs 5,151 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 favour of the Bank.

6.13 As a result of a compromise decree granted by the Honorable High Court of Sindh in August 2002, Fateh Textile Mills Limited pledged 16.376 million shares of ABL with the Bank as security, consequent to the default by Fateh Textile Mills Limited on the terms of the decree. The Bank published a notice on June 23, 2004 in accordance with the requirements of section 19(3) of the Financial Institutions (Recovery of Finances) Ordinance 2001 and invited sealed bids from interested parties to purchase the pledged shares. The bidding process was scheduled for July 23, 2004 and the Bank had fixed a reserve price of Rs.25 per share. On the bid date, the highest offer for these shares was received at a rate of Rs 25.51 per share. The bid was approved and the successful bidder had deposited an amount of Rs 417.754 million with the Bank.

Fateh Textile Mills Limited had filed a suit against the Bank in the High Court of Sindh, challenging the sale of the above shares. The High Court had not granted a stay order on the process of sale of shares. However, the matter is still pending in the Court.

	Quarter ended March 31, 2006	Quarter ended March 31, 2005
	Rupees in '000'	
7. EARNING PER SHARE - BASIC AND DILUTED		
Profit after tax for the period attributable to ordinary shareholders	1,068,515	428,090
	No. of shares	
weighted average number of ordinary shares outstanding during the period	440,464,115	440,464,115
Basic / diluted earning per share (Rupees)	2.43	0.97

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8. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its subsidiary, companies with common directorship, having equity under 20%, directors and employee benefit plan.

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:

Nature of related party transaction	March 31, 2006			December 31, 2005		
	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'					
Loans						
Outstanding at the beginning of the year	-	-	-	-	-	-
Loans given during the period / year	-	-	-	-	-	-
Loans repaid during the period / year	-	-	-	-	-	-
Loans outstanding at the end of the period / year	-	-	-	-	-	-
Deposits						
Deposits at the beginning of the year	6,485	1,131,046	3,925	452	1,075,496	905
Deposits received during the period / year	6,516	206,277	1	10,997	1,109,281	3,141
Deposits repaid during the period / year	(12,269)	(1,196,191)	(95)	(4,964)	(1,053,731)	(121)
Deposits at the end of the period / year	732	141,132	3,831	6,485	1,131,046	3,925
Mark-up earned during the period / year	-	-	-	-	-	-
Mark-up expensed during the period / year	-	2,158	75	-	611	-

	March 31, 2006	December 31, 2005
	Rupees in '000'	
Net receivable from staff retirement benefit funds	670,831	609,971
Charge / (reversal) in respect of staff retirement benefit funds	6,743	(71,559)

9. GENERAL

Figures have been rounded off to the nearest thousand rupees.

10. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on April 28, 2006 by the Board of Directors of the Bank.

Chief Financial Officer

President & Chief Executive Officer

Director

Director

Chairman