

Notes to the Financial Statements (Un-audited)

for the nine months ended September 30, 2006

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 (2005: 741) 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 During the current period, the Board of Directors of the bank, in their meeting held on April 28, 2006, decided to merge First Allied Bank Modaraba (FABM) with Allied Bank Limited (ABL), pursuant to Section 48 of the Banking Companies Ordinance, 1962 and approved the scheme of amalgamation of the FABM with and into ABL under section 284 to 288 read with section 503(1)(C) of the Companies Ordinance, 1984. The effective date of the said amalgamation was fixed at January 01, 2006. The proposed scheme of amalgamation was adopted by the shareholders of the bank through a special resolution passed in the Extraordinary General meeting held on June 24, 2006. The said scheme of amalgamation was approved by the State Bank of Pakistan (SBP) in principle through its letter No. BPD (PU-31)/625-74/10473/JD/2006/4742 dated May 27, 2006. The Lahore High Court, subsequently, sanctioned the above referred scheme of amalgamation vide its order dated July 12, 2006.

1.2 As a result of the amalgamation of the FABM with the bank on the above-referred effective date, the results of both entities have been combined for the purposes of preparation of these financial statements. International Accounting Standard-22 "Business Combinations" is not applicable to the amalgamated financial statements, as the amalgamation is between two enterprises under common control. The bank has applied the "uniting of interests" method to account for the amalgamation. In applying the "uniting of interests" method, the financial statement items of bank and FABM for all periods presented are included in these financial statements as if they had been combined from the beginning of the earliest period presented, i.e. January 01, 2005, except for the treatment accorded to 8,400,000 ordinary shares of Rs.10 each determined pursuant to the Scheme of Amalgamation in accordance with the share-swap ratio stipulated therein. The resulting effects of the above have been included in the Statement of Changes in Equity in the relevant period on account of the fact that the Ordinary shares were issued subsequent to the beginning of the earliest period presented.

1.3 The comparatives in the accompanying balance sheet of the bank for the year ended December 31, 2005 and comparatives in the accompanying profit and loss account, cash flow statement and statement of changes in equity relating to the nine months ended September 30, 2005 comprise (a) balances of ABL and (b) balances of FABM.

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".

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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 amalgamated entities.

The effects of adjustments as a result of conforming the accounting policies of ABL and FABM and applying those policies to all periods presented are immaterial.

	Note	September 30, 2006	December 31, 2005
Rupees in '000			
4. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	4.1	100,000	-
Letter of placement	4.2	4,182,500	785,000
Repurchase agreement lendings	4.3	4,462,845	4,272,382
Certificates of investment	4.4	1,830,000	720,000
		<u>10,575,345</u>	<u>5,777,382</u>

4.1 These are unsecured lendings to Financial Institution, carrying mark-up at rate of 9.25% (December 31, 2005: nil) per annum and maturing on October 02, 2006.

4.2 These are clean placements with Non-Banking Financial Institutions, carrying mark-up at rates, ranging between 10.50% and 13.50% (December 31, 2005: 11.00% and 13.00%) per annum and maturing on various dates, latest by December 14, 2006.

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 8.82% (December 31, 2005: 7.00% and 8.50%) per annum and maturity of up to six months.

4.4 The certificates of investment carry mark-up at rates, ranging between 10.50% and 11.95% (December 31, 2005: 10.25% and 12.10%) per annum and maturing on various dates, latest by March 15, 2007.

5. INVESTMENTS

	Note	Held by bank	Given as collateral	Total
Rupees in '000				
Current period - September 30, 2006	5.1	<u>47,131,734</u>	<u>2,139,387</u>	<u>49,271,121</u>
Prior year corresponding period - December 31, 2005	5.1	<u>40,279,182</u>	<u>4,647,470</u>	<u>44,926,652</u>

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	As at September 30, 2006			As at December 31, 2005		
	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	261,786	-	261,786	594,711	-	594,711
Available for sale securities						
Market Treasury Bills (note 5.2)	23,176,139	2,130,627	25,306,766	5,459,960	478,256	5,938,216
Federal Investment Bonds	-	5,000	5,000	-	5,000	5,000
Pakistan Investment Bonds	298,625	-	298,625	-	-	-
Shares / certificates of listed companies	1,272,069	-	1,272,069	681,854	-	681,854
Preference shares of listed companies	275,000	-	275,000	200,000	-	200,000
Investment in mutual funds	814,973	-	814,973	206	-	206
Shares of unlisted companies	17,099	-	17,099	62,878	-	62,878
Commercial papers	135,852	-	135,852	-	-	-
Listed Term Finance Certificates (TFCs)	1,388,106	-	1,388,106	1,145,608	-	1,145,608
	27,377,863	2,135,627	29,513,490	7,550,506	483,256	8,033,762
Held to maturity securities						
Market Treasury Bills (note 5.2)	-	-	-	12,825,430	2,875,414	15,700,844
Pakistan Investment Bonds	15,066,635	6,114	15,072,749	14,354,866	1,288,800	15,643,666
Foreign Currency Bonds (US\$)	210,970	-	210,970	260,076	-	260,076
TFCs, Debentures, Bonds and PTCs	4,027,431	-	4,027,431	4,439,812	-	4,439,812
	19,305,036	6,114	19,311,150	31,880,184	4,164,214	36,044,398
Related parties						
Subsidiary						
Allied Management Services (Private) Limited	62,488	-	62,488	62,488	-	62,488
Others	451,219	-	451,219	451,219	-	451,219
	47,458,392	2,141,741	49,600,133	40,539,108	4,647,470	45,186,578
Provision for diminution in value of investments	(238,054)	-	(238,054)	(342,115)	-	(342,115)
Unrealised (loss) / gain on revaluation of held for trading securities	(18,331)	-	(18,331)	25,706	-	25,706
Surplus / (Deficits) on revaluation of available for sale securities	(70,273)	(2,354)	(72,627)	56,483	-	56,483
Investments (net of provision)	47,131,734	2,139,387	49,271,121	40,279,182	4,647,470	44,926,652

5.2 Pursuant to the requirements of BSD Circular no. 7, dated May 30, 2006, which allows a one time reclassification of securities between the three categories, the Bank reclassified Market Treasury Bills amounting to Rs 7,801 million (book value) from Held to maturity to Available for sale category.

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	Note	September 30,2006	December 31, 2005
Rupees in '000'			
6. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		137,838,258	113,630,400
Outside Pakistan		—	—
		137,838,258	113,630,400
Net investment in finance lease			
In Pakistan		726,521	658,716
Outside Pakistan		—	—
		726,521	658,716
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan		1,993,221	2,687,766
Payable outside Pakistan		3,359,719	2,561,112
		5,352,940	5,248,878
		143,917,719	119,537,994
Financing in respect of Continuous Funding System (CFS)			
		254,761	327,677
		144,172,480	119,865,671
Provision against non-performing advances	6.1	(9,134,632)	(8,648,742)
General provision against consumer financing		(12,855)	(10,155)
		135,024,993	111,206,774

6.1 Advances include Rs 12,224,802 thousand (December 31, 2005: Rs 12,699,338 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	46,095	—	46,095	—	—
Substandard	617,873	—	617,873	97,360	97,360
Doubtful	590,960	—	590,960	229,046	229,046
Loss	10,969,874	—	10,969,874	8,808,226	8,808,226
	12,224,802	—	12,224,802	9,134,632	9,134,632

* The bank does not have any overseas branch.

6.2 During the current period, in order to comply with the requirements of the BSD Circular No. 2, dated January 14, 2006, issued by the State Bank of Pakistan, the Bank changed the method of computation of provision against the non-performing advances. The Circular requires the Bank to create provision at a rate of 25 percent, instead of 10 percent of non-performing loans, in the substandard category after adjustment of the Forced Sale Value (FSV) of assets held as collateral against advances while determining the provision requirement. Additionally, BSD Circular No. 7, dated November 01, 2005, issued by the State Bank of Pakistan restricted the benefit of the Forced Sale Value (FSV) of the collateral to financing facilities of Rs.10.00 million and above as against the previous requirement to restrict the same to financing facilities of Rs.5.00 million and above, for the purposes of determining provision against non-performing advances. The requirements of the aforementioned Circulars have to be met by December 31, 2006. However, on a prudent basis, the Bank has made a provision of Rs.203.873 million representing 75% of Rs. 271.831 million being the total impact of the above changes as at the end of the current period.

Had the above referred increase in the rate of provision for substandard category and increase in the limit of financing for taking the benefit of the FSV not taken place, profit before taxation for the current period and advances (net of provision) at the end of the current period would have been higher by Rs.203.873 million.

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7. OPERATING FIXED ASSETS

During the current period, additions and disposals in operating fixed assets amounted to Rs. 1,642.985 and Rs. 33.083 million, respectively.

	September 30, 2006	December 31, 2005
	Rupees in '000'	
8. BORROWINGS FROM FINANCIAL INSTITUTIONS		
Borrowings from financial institutions	9,500	5,000
Borrowings from State bank of Pakistan in respect of export refinance	4,908,068	3,999,675
Repurchase agreement borrowings	2,130,302	4,231,780
Call borrowings	1,400,000	1,300,000
Overdrawn nostro accounts	340,667	157,330
	<u>8,788,537</u>	<u>9,693,785</u>

9. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	47,967,592	31,633,508
Savings deposits	61,050,216	66,323,993
Current accounts - non remunerative	58,988,863	49,710,944
- remunerative	24,762,415	13,410,869
	<u>192,769,086</u>	<u>161,079,314</u>

Financial Institutions

Remunerative deposits	5,260,417	330,954
	<u>198,029,503</u>	<u>161,410,268</u>

10. SHARE CAPITAL

10.1 Authorised capital

	September 30, 2006	December 31, 2005		September 30, 2006	December 31, 2005
	No. of shares			Rupees in '000'	
	<u>500,000,000</u>	<u>500,000,000</u>	Ordinary shares of Rs.10 each	<u>5,000,000</u>	<u>5,000,000</u>

10.2 Issued, subscribed and paid-up capital

Fully paid-up Ordinary shares of Rs.10 each

	September 30, 2006	December 31, 2005		September 30, 2006	December 31, 2005
	No. of shares			Rupees in '000'	
	406,780,094	406,780,094	Fully paid in cash	4,067,801	4,067,801
	24,535,471	24,535,471	Issued as bonus shares	245,355	245,355
	<u>431,315,565</u>	<u>431,315,565</u>		<u>4,313,156</u>	<u>4,313,156</u>
	9,148,550	9,148,550	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

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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>448,864,115</u>	<u>448,864,115</u>		<u>4,488,642</u>	<u>4,488,642</u>

Ibrahim Fibres Limited and Ibrahim Agencies (Private) Limited, related parties of the bank, held 141,982,700 and 26,995,154 (December 31, 2005: 141,982,700 and 25,190,230) Ordinary shares of Rs.10 each, respectively, as at September 30, 2006.

September 30, 2006	December 31, 2005
————— Rupees in '000' —————	

11. CONTINGENCIES AND COMMITMENTS

11.1 Direct credit substitutes

Guarantees in favour of:

Banks and financial institutions	1,940,929	1,355,300
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11.2 Transaction-related contingent liabilities / commitments

Guarantees in favour of:

Government	1,281,033	627,404
Others	3,970,886	3,464,202
	5,251,919	4,091,606

11.3 Trade-related contingent liabilities

39,015,315	22,394,618
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11.4 Claims against the bank not acknowledged as debt

4,351,655	5,622,737
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11.5 Commitments to extend credit

5,087,119	6,480,152
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11.6 Commitments in respect of forward foreign exchange contracts

Purchase	6,179,724	3,173,997
Sale	3,032,220	2,300,788
	9,211,944	5,474,785

11.7 Commitments in respect of:

Civil works	240,755	323,025
Acquisition of operating fixed assets	331,932	258,327

11.8 Commitments in respect of future sale of equity instruments

131,117	290,136
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11.9 Commitments in respect of lease financing

177,206	13,012
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11.10 Commitments in respect of:

Forward lending	-	-
Forward borrowing	-	-
	-	-

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11.11 Contingencies

- 11.11.1** There is no change in the status of contingencies, set out in note 21.11 to the financial statements of the Bank for the year ended December 31, 2005, except for the contingency as mentioned below.
- 11.11.2** 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, add-backs with a tax impact of Rs 64 million were deleted and Rs 125 million were set aside. The appeal effect orders with regard to the above matters are currently 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 have been deleted and Rs 2,424 million have been set-aside by the Appellate Authorities. The appeal effect orders with regard to the above matters are currently pending.

Pending the finalization of the above-referred appeals, no provision has been made by the Bank in an aggregate sum of Rs. 4,962 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.

	Nine months ended September 30, 2006	Nine months ended September 30, 2005	Quarter ended September 30, 2006	Quarter ended September 30, 2005
	Rupees in '000'			
12. FEE, COMMISSION AND BROKERAGE INCOME				
Core fees, commission and brokerage	847,492	574,833	281,688	261,445
Account maintenance charges	169,829	311,042	43,519	90,556
	<u>1,017,321</u>	<u>885,875</u>	<u>325,207</u>	<u>352,001</u>
13. EARNINGS PER SHARE - BASIC AND DILUTED				
Profit after tax for the period attributable to ordinary shareholders	3,379,662	2,051,647	1,119,150	1,011,037
Weighted average number of Ordinary Shares outstanding during the period	448,864,115	448,864,115	448,864,115	448,864,115
Basic / Diluted earnings per share	<u>7.53</u>	<u>4.57</u>	<u>2.49</u>	<u>2.25</u>
14. 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).

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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	September 30, 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	12,853	351,672	134,719	10,997	1,109,281	3,141
Deposits repaid during the period / year	(18,867)	(1,457,848)	(131)	(4,964)	(1,053,731)	(121)
Deposits at the end of the period / year	471	24,870	138,513	6,485	1,131,046	3,925

Nature of related party transaction	September 30, 2006			September 30, 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'					
Mark-up earned	-	-	-	-	-	-
Mark-up expensed	14	320	289	-	-	-

	September 30, 2006	December 31, 2005
	Rupees in '000'	
Net receivable from staff retirement benefit funds	770,229	609,971
	Rupees in '000'	
Charge in respect of staff retirement benefit funds	10,186	27,517

15. RECLASSIFICATION

Following corresponding figure has been reclassified for the purpose of better presentation.

	<u>From</u>	<u>To</u>	December 31, 2005 Rupees in '000'
16. GENERAL	Deposits	Other liabilities	<u>442,956</u>

Figures have been rounded off to the nearest thousand rupees.

17. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 30, 2006 by the Board of Directors of the Bank.

Chief Financial Officer

President & Chief Executive

Director

Director

Chairman