

2004

Annual Report



SOLID FOUNDATIONS



**Meezan Bank**  
The Premier Islamic Bank



Ayasofya Camii  
Mosque



Mosque of  
Sultan Ahmed



Al-Aqsa  
Mosque



Badshahi  
Mosque



Masjid-i-Shah

## SOLID FOUNDATIONS

Islam is a religion that lays solid foundations in every sphere of life. With this guidance, Meezan Bank has established dedicated Islamic Banking on core fundamentals. The five pillars are representative of the strength of Islam and its emphasis on faith, truth, value and support for all.

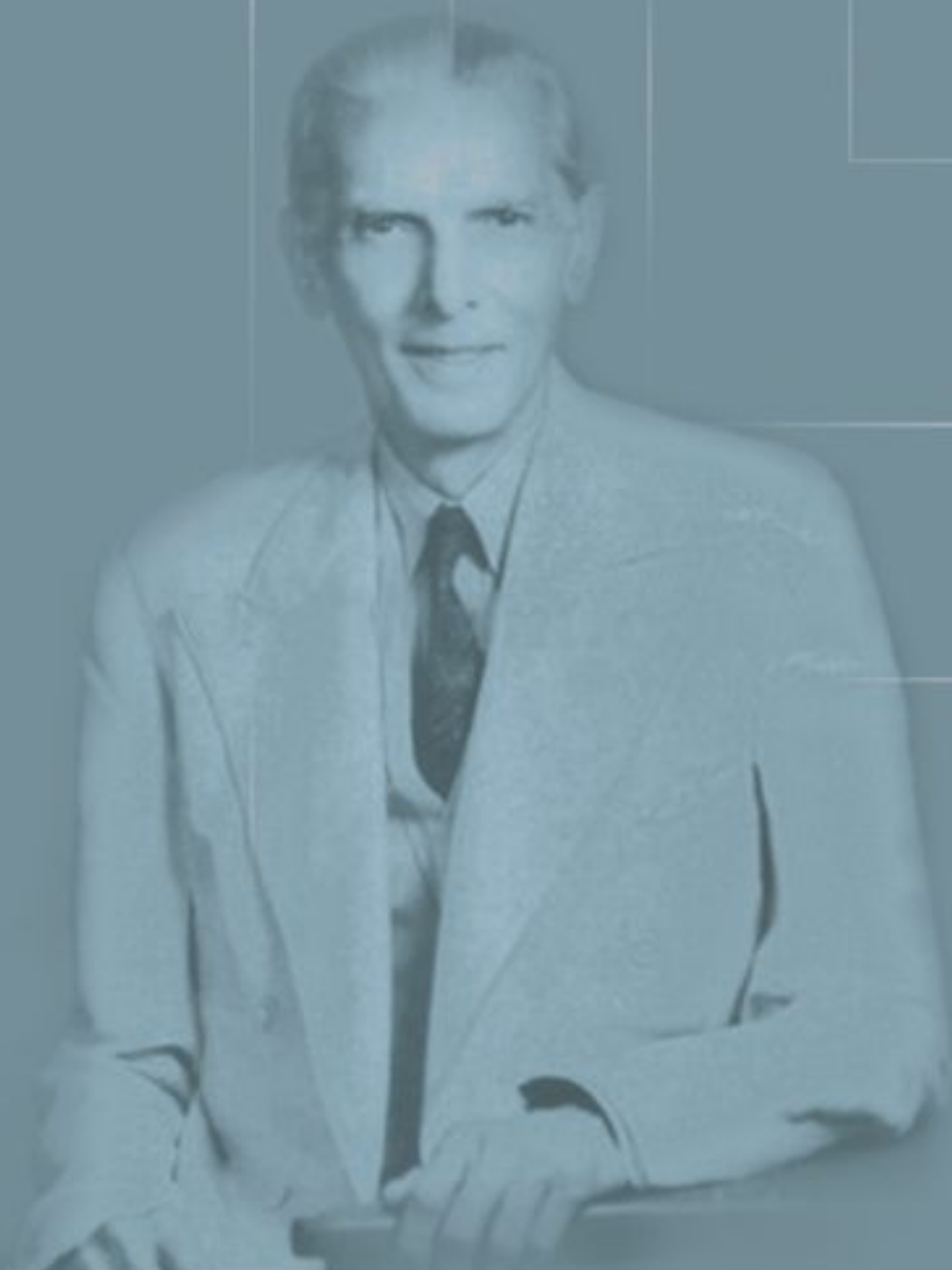
بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF ALLAH,  
THE MOST BENEFICENT,  
THE MOST MERCIFUL



## QUAID'S VIEW

"We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice."



# QUAID'S VIEW ON ISLAMIC BANKING

I shall watch with keenness the work of your Research Organization in evolving banking practices compatible with Islamic ideas of social and economic life. The economic system of the West has created almost insoluble problems for humanity and to many of us it appears that only a miracle can save it from disaster that is not facing the world. It has failed to do justice between man and man and to eradicate friction from the international field. On the contrary, it was largely responsible for the two world wars in the last half century. The Western world, in spite of its advantages, of mechanization and industrial efficiency is today in a worse mess than ever before in history. The adoption of Western economic theory and practice will not help us in achieving our goal of creating a happy and contented people.

We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare, happiness and prosperity of mankind.

[On the occasion of the Opening Ceremony of The State Bank of Pakistan on July 1, 1948.]



**Meezan Bank**  
The Premier Islamic Bank

# Our Vision

“Establish Islamic banking as banking of first choice...”

Establish Islamic banking as banking of first choice to facilitate implementation of an equitable economic system, providing a strong foundation for establishing a fair and just society for mankind.



# Our Mission

“To be a premier Islamic bank...”

To be a premier Islamic bank offering a one-stop shop for innovative value-added products and services to our customers within the bounds of Shariah, while optimizing the stakeholders’ value through an organizational culture based on learning, fairness, respect for individual enterprise and performance.



Meezan Bank

**RIBA  
FREE**

The Premier Islamic Bank



## KEY CORPORATE VALUES

### Core Values

Shariah Compliance, Integrity, Professionalism, Service Excellence, Social Responsibility.

### Brand Personality

A sober and established, strong, empathetic, professional person; who is an extremely loyal and dependable friend and business partner, and is committed to offering comprehensive value-based Shariah-compliant financial solutions.

### Staff

Committed, motivated, and professionally trained employees who are empathetic to their customer's needs.

### Relationships

Are long term with Meezan Bank. We recognize and value our customers' needs above all, and strive to ensure their fulfillment. All customers are treated with professionalism and in a friendly manner. It is our endeavor to ensure that they receive efficient & timely service. The Meezan Bank experience is a unique one.



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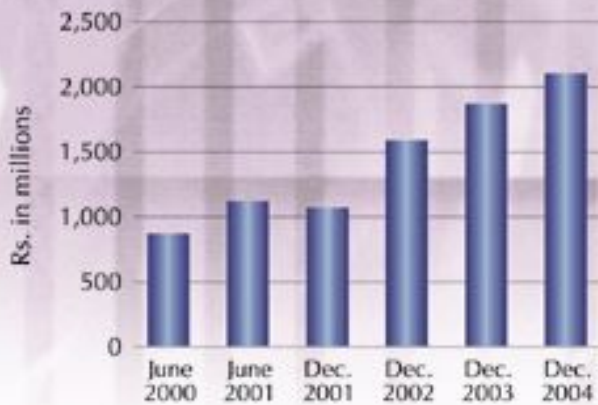
# KEY FIGURES AT A GLANCE

Rupees in millions

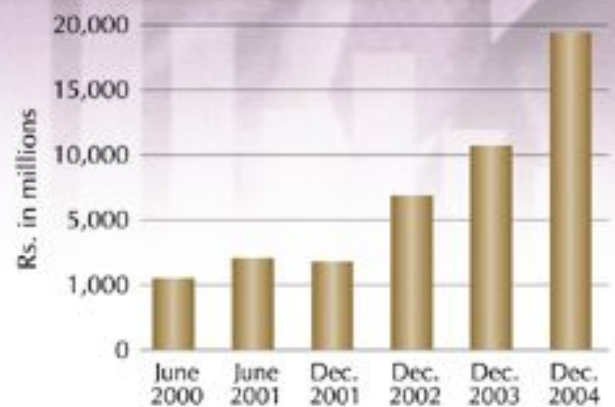
	Dec. 2004	Dec. 2003	Dec. 2002	Dec.* 2001	June 2001	June 2000
<b>Paid-up Capital</b>	1,346	1,064	1,001	901	901	721
<b>Shareholders' Equity</b>	2,098	1,748	1,586	1,203	1,257	878
<b>Total Assets</b>	19,697	11,102	6,971	2,053	2,179	1,314
<b>Financings</b>	12,340	7,397	3,532	865	1,242	482
<b>Deposits</b>	13,770	7,757	5,079	637	644	214
<b>Total Income</b>	880	679	660	30	554	288
<b>Operating Expenses</b>	409	255	195	36	101	64
<b>Profit/(Loss) Before Taxation</b>	221	241	270	(35)	397	170
<b>Profit/(Loss) After Taxation</b>	224	214	223	(54)	366	126
<b>Earnings per share - pre tax (Rs.)</b>	1.64	1.79	2.81	(0.38)	4.44	2.36
<b>Earnings per share - after tax (Rs.)</b>	1.67	1.59	2.10	(0.58)	4.09	1.75
<b>Break-up Value (Rs.)</b>	15.59	12.99	15.84	13.35	13.95	12.17
<b>Cash Dividend (%)</b>	–	5.00	5.00	–	17.50	15.00
<b>Stock Dividend (%)</b>	15.00	10.00	10.00	–	–	–
<b>Right Shares</b>	30.00	–	–	–	–	–

\*Represents figures for the six-month period ended December 31, 2001 due to change in year end from June to December.

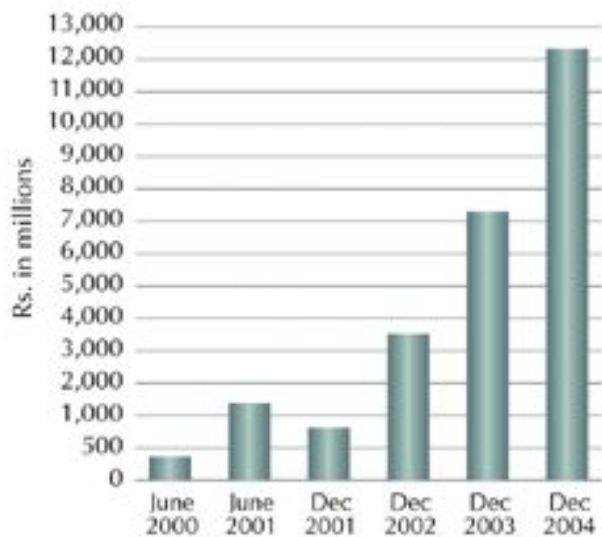
## Shareholder's Equity



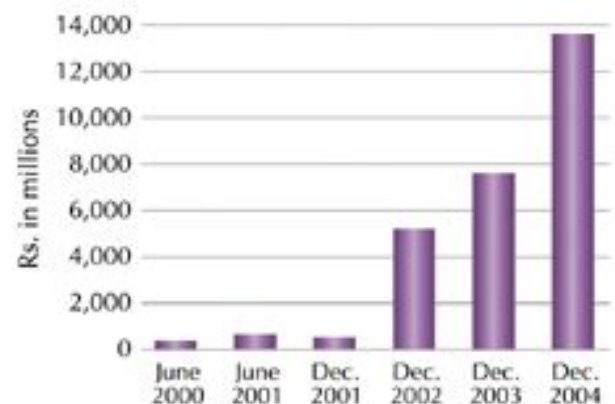
## Total Assets



## Total Financings



## Total Deposits



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa  
Naser Abdul Mohsen Al Marri  
Irfan Siddiqui  
Mohamed Abdul-Rehman Hussain  
Istaqbal Mehdi  
Tarik Kivanc  
Mohammed Abdul Rahman Mohammed Bucheerei  
Abdul Wahab Al Houti  
Ariful Islam  
Rana Ahmad Humayun

*Chairman*  
*Vice Chairman*  
*President & CEO*

## SHARIAH BOARD

Justice (Retd.) Muhammad Taqi Usmani  
Dr. Abdul Sattar Abu Ghuddah  
Sheikh Essam M. Ishaq  
Dr. Muhammad Imran Usmani

*Chairman*

## EXECUTIVE COMMITTEE

Naser Abdul Mohsen Al Marri  
Mohamed Abdul-Rehman Hussain  
Istaqbal Mehdi  
Irfan Siddiqui

## AUDIT COMMITTEE

Istaqbal Mehdi  
Mohamed Abdul-Rehman Hussain  
Irfan Siddiqui

## Company Secretary

Shabbir Hamza Khandwala

## MANAGEMENT

Irfan Siddiqui  
Ariful Islam  
Najmul Hassan  
Shabbir Hamza Khandwala  
Ayaz Wasay  
Arshad Majeed  
Muhammad Haris  
Sohail Khan  
Mehnaz Ikram  
Faiz-ur-Rehman  
Munawar Rizvi  
Zafar Ali Khan  
Pervez Mobin  
Aamir Zaveri  
Khalid Saleem  
Abdul Ghaffar Memon  
Rizwan Ata  
Saleem Khan

*President & CEO*  
*Chief Operating Officer*  
*Corporate & Business Development*  
*Chief Financial Officer*  
*Treasury & Financial Institutions*  
*Operations*  
*Corporate & Structured Finance*  
*Auto Finance*  
*Legal Advisor*  
*Information Technology*  
*Branch Expansion & Business Promotion*  
*Marketing, Liability Products & Housing Finance*  
*Human Resources & Administration*  
*Internal Audit*  
*Compliance*  
*Regional Manager - South*  
*Regional Manager - Central*  
*Regional Manager – North*

## SHARIAH ADVISORY

Dr. Muhammad Imran Usmani

## LEGAL ADVISOR

Rizvi, Isa, Afridi & Angell

## AUDITORS

A.F. Ferguson & Co.

## REGISTERED OFFICE

3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi-74000, Pakistan.  
Ph: 92-21-5610582 Fax: 92-21-5610375  
Website: [www.meezanbank.com](http://www.meezanbank.com) E-mail: [info@meezanbank.com](mailto:info@meezanbank.com)

## REGISTRAR & SHARE TRANSFER OFFICE

THK Associates (Private) Limited  
Ground Floor, Modern Motors House, Beaumont Road,  
Karachi-75530, Pakistan. Ph: 92-21-5689021 Fax: 92-21-5655595

# HISTORY OF RIBA-FREE BANKING IN PAKISTAN



1947

The inception of Pakistan as the first Islamic Republic created in the name of Islam.

1949

The Objectives Resolution was adopted by the first Constituent Assembly based on the ideology of a sovereign Islamic state. This was the first step in the conception towards Pakistan's Constitution.

1956

The first Constitution defined Islam as the State Religion and all laws to be according to the injunctions of the Qur'an and Sunnah.

1962

The establishment of the Council of Islamic Ideology (CII) was followed by the conception of the second constitution of Pakistan.

1973

The third constitution of Pakistan was passed allowing comprehensive legislation on Islamic principles and establishment of a Federal Shariat Court (FSC).

1980

CII presents its report on the elimination of interest, genuinely considered to be the first major work in the world undertaken on Islamic Banking and Finance.

1985

Commercial banks transformed their nomenclature stating all Rupee saving accounts as interest-free. However, foreign currency deposits in Pakistan and lending of foreign loans continued as before.

1991

Procedures adopted by banks in 1985 was declared un-Islamic by the FSC. The government and some banks / DFIs made appeals to the Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan.

1997

Al-Meezan Investment Bank is established as the first Islamic bank of Pakistan. Dr. Muhammad Imran Usmani appointed as resident Shariah advisor.

1999

The Shariat Appellate Bench of the Supreme Court of Pakistan rejects the appeals and directs all laws on interest banking to cease. The government sets a high level commission, task forces and committees to institute and promote Islamic Banking on a parallel basis with the conventional system.

2001

The Shariah Supervisory Board is established at Al-Meezan Investment Bank, led by Justice (Retd.) Muhammad Taqi Usmani as Chairman. The SBP sets criteria for the establishment of Islamic commercial banks in the private sector and subsidiaries and stand-alone branches by existing commercial banks, to conduct Islamic Banking in the country.

2002

The first Islamic Banking license is issued to Meezan Bank by the State Bank of Pakistan. Societe Generale's, (a French commercial bank) operations in Pakistan were amalgamated with Meezan Bank. President General Pervez Musharraf inaugurates the first commercial banking branch of Meezan Bank at the FTC Building, Karachi.



2003

A Musharakah based Export Refinance Scheme is designed by the State Bank in coordination with Meezan Bank, in order to provide export finance to eligible exporters on the basis of Islamic modes of financing. Efforts are underway to develop Islamic money market instruments like Ijarah Sukuk to facilitate Banks in terms of liquidity and SLR management.

Pakistan's first Shariah compliant Mortgage facility is launched by Meezan Bank. Approved by the Shariah Supervisory Board, the product enables home purchase, home construction, renovation, as well as replacement of any existing mortgage.

Al Meezan Investment Management Limited (AMIM), a group company of Meezan Bank, introduces Meezan Islamic Fund (MIF). MIF is an open-end mutual fund that is Shariah compliant.

2004

The SBP establishes a dedicated Islamic Banking Department (IBD) by merging the Islamic Economics Division of the Research Department with the Islamic Banking Division of the Banking Policy Department. A Shariah Board has been appointed to regulate and approve guidelines for the emerging Islamic Banking industry.

The Government of Pakistan awards the mandate for its debut international Sukuk (Bond) offering for US\$ 600 million. The offering is a success and establishes a benchmark for Pakistan. Meezan Bank acts as the Shariah Structuring Advisor for this historic transaction.

Meezan Bank's asset management arm, Al Meezan Investment Management Limited (AMIM), launches the Meezan Balanced Fund (MBF). The offering was oversubscribed 1.25 times.



# CHAIRMAN'S REVIEW



After only two years operating as a fully-fledged dedicated Islamic Commercial Bank, Meezan Bank is continuing to expand its product and branch network across Pakistan. This is at a time when the Islamic Banking industry is becoming more vibrant than ever before, maintaining its rapid growth both in Pakistan and across the world. Meezan Bank, the first pioneer Islamic Bank in Pakistan, has made a vital contribution to this development. Its management, employees and stakeholders are all committed to enabling people from all walks of life to make Riba-free banking their banking of first choice.

We are pleased to present Meezan Bank's annual report for the year 2004. The Bank continues to pursue energetically its mission as the torchbearer of Islamic Banking. As an institution dedicated solely to offering Shariah-

compliant banking, it leads the market with innovative research and development to promote a range of product and services in keeping with the dictates of the Shariah.

The Bank now has sixteen branches across Pakistan with more planned for this year. Our aim remains to promote innovative financial solutions coupled with dedicated service excellence through our customized branches. Our experienced staff members, trained in Islamic Banking, will continue the Meezan commitment to provide a high level of service to their customers and financial advice they can trust.

We are currently witnessing an exponential growth in Islamic Banking in Pakistan with an unprecedented number of commercial banks opening Islamic Banking windows. This has been made possible because of the commitments of the State Bank of Pakistan (SBP) to promote Islamic Banking in the country. We applaud the dynamic leadership of the Governor SBP and the dedication of the team at the newly created Islamic banking department for establishing a level playing field and a sound framework for Islamic Banking to realize its full market potential.

We would also like to congratulate the Government of Pakistan for its recent debut offering of Islamic Sukuks. This was an outstanding success raising US\$ 600 million at a profit rate comparable to that enjoyed by countries with higher sovereign ratings. As the Shariah Structuring Advisor, Meezan Bank had the honor of being a part of the team which brought this issue to market. We are confident that the State Bank of Pakistan will shortly issue local Sukuk Bonds to assist the development of an Islamic money market.

Alhamdulillah, we believe Meezan Bank, as the nation's first pioneering dedicated Islamic Commercial Bank, will maintain its leading position in the Islamic Banking industry in Pakistan because:



- Meezan Bank has a team of experienced banking professionals with a shared commitment to the values and development of Islamic Banking.
- The Bank has a globally recognized and very active Shariah Supervisory Board comprised of leading internationally renowned scholars. The Bank has a Shariah Advisor who is a scholar of sound standing and repute.
- The Bank has put into place state-of-the-art information technology systems to ensure high quality service delivery to its customers.
- The Bank continues to penetrate the market through strategic branch expansion, new product development, leading-edge technological investment, and training.

The main shareholders of the bank are leading financial institutions who add considerable value directly through Board representation, and indirectly through cooperation and syndications.

As always we would like to express our gratitude to the Ministry of Finance, State Bank of Pakistan and all related regulatory bodies for their continuous commitment to establish a viable Islamic financial system in the country. We also thank our shareholders, fellow Board members, members of the Shariah Supervisory Board and employees for their common unrelenting mission in making Meezan Bank the premier and dedicated Islamic Bank of Pakistan.



Ebrahim bin Khalifa Al-Khalifa  
Chairman

# 2004: ANOTHER YEAR OF PROGRESS



Saadullah Khan & Brothers and a Meezan Bank led syndicate signed a landmark Rs. 910 million Syndicated Murabaha Finance Facility.

Meezan Bank is one of the Lead Managers for the public offering of Sui Southern Gas Company shares.



Meezan Bank signs an agreement to join the "1 LINK" network, Pakistan's first and leading ATM network.



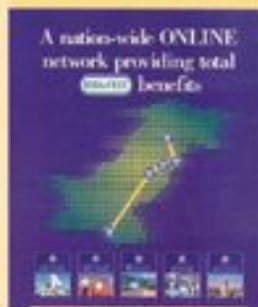
Meezan Bank re-launches Car Ijarah with a new business strategy to enhance the availability of Islamic Auto Leasing to all potential customers across Pakistan.

Meezan Bank launches a new and unique Islamic Investment facility, Meezan Providence. The first of its kind long-term investment for corporate employee Provident / Gratuity / Pension Funds.



**Meezan Providence**

Online Banking launched nationwide across all MBL branches.



Meezan Bank entity ratings at A+ for medium to long-term and A1+ for short-term, reaffirmed by JCR-VIS Credit Rating Company, which has also set Meezan Bank's outlook on medium to long-term rating as "Stable".

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Meezan Bank continued its dedicated focus on making Islamic Banking the banking of first choice in Pakistan. Below are some of the highlights of the year.



Meezan Bank's website recognized by Spider magazine as the 3rd most frequented financial website in Pakistan.



Meezan Bank inaugurates its First pioneering Auto & Housing Finance Centre in Federal B. Area, Karachi.

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24/7 Banking launched nationwide with a ATM / Debit card, new ATM outlets in Karachi and Lahore, and a revised 24/7 nation-wide Call Center facility at 111-331-331.



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The Government of Pakistan awards the mandate for the debut of an international Sukuk (Bond) offering for US\$ 600 million to a consortium in which Meezan Bank was the Shariah Structuring Advisor.

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Meezan Bank formally inaugurated its Circular Road Branch in Lahore located outside Shah Alam Gate at a key business and financial area of the provincial capital.



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Balanced Fund

Al Meezan Investment Management Limited, a subsidiary of Meezan Bank, introduces the Meezan Balanced Fund, a closed end fund, which is the first Shariah-compliant balanced fund in Pakistan.

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Meezan Bank  
The Quranic Finance Bank

Islamic Banking New in Sialkot

Sialkot

Meezan Bank introduces Islamic Banking to the city of Sialkot.

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# OUR FOUNDATIONS

Shariah Strength

Financial Backing

Comprehensive Business Solutions

Information Technology

Human Resources



**Meezan Bank**  
The Premier Islamic Bank



# SHARIAH STRENGTH

The members of the Shariah Board of Meezan Bank are internationally renowned scholars serving on the boards of many Islamic banks operating in different countries.

## The members of the Shariah Board are:

1. Justice (Retd.) Muhammad Taqi Usmani (Chairman)
2. Dr. Abdul Sattar Abu Ghuddah
3. Sheikh Essam M. Ishaq
4. Dr. Muhammad Imran Usmani

**Justice (Retd.) Muhammad Taqi Usmani** is a renowned figure in the field of Shariah, particularly Islamic Finance. He holds the position of Deputy Chairman at the Islamic Fiqh Academy, Jeddah. He is also a member of Shariah advisory boards of a number of financial institutions practicing Islamic Banking and Finance including Saudi American Bank, Saudi Arabia; HSBC PLC, Global Islamic Finance, London; Citi Islamic Investment Bank, Bahrain and Dow Jones Islamic Market Index. Justice (Retd.) Muhammad Taqi Usmani has vast experience in Islamic Shariah, he has been teaching various subjects on Islam for 39 years. He is also serving as the Vice President of Darul-Uloom, Karachi. He also served as a Judge in the Shariat Appellate Bench, Supreme Court of Pakistan.

Born in Pakistan, Justice (Retd.) Muhammad Taqi Usmani holds an LLB from Karachi University. He graduated from Punjab University in 1970. Prior to that, he completed Takhassus course i.e. the specialization course of Islamic Fiqh and Fatwa (Islamic Jurisprudence) from Jamia Darul-Uloom, Karachi.

**Dr. Abdul Sattar Abu Ghuddah** holds positions of Shariah Advisor and Director, Department of Financial Instruments at Al-Baraka Investment Co. of Saudi Arabia. He holds a Ph.D in Islamic Law from Al Azhar University Cairo, Egypt. He is an active member of Islamic Fiqh Academy and the Accounting & Auditing Standards Board of Islamic Financial Institutions.

Dr. Abdul Sattar teaches Fiqh, Islamic Studies and Arabic in Riyadh and has done a valuable task of researching and compiling information for the Fiqh Encyclopedia in the Ministry of Awqaf and Islamic Affairs in Kuwait. He was a member of the Fatwa Board in the Ministry from 1982 to 1990.

**Sheikh Essam M. Ishaq** graduated in Political Science from McGill University, Montreal, Canada. Currently he is teaching Fiqh and Aqeeda courses in UAE and Bahrain at Umm Al-DarDa' Islamic Centre. He holds the position of Shariah Advisor at Discover Islam, Bahrain.

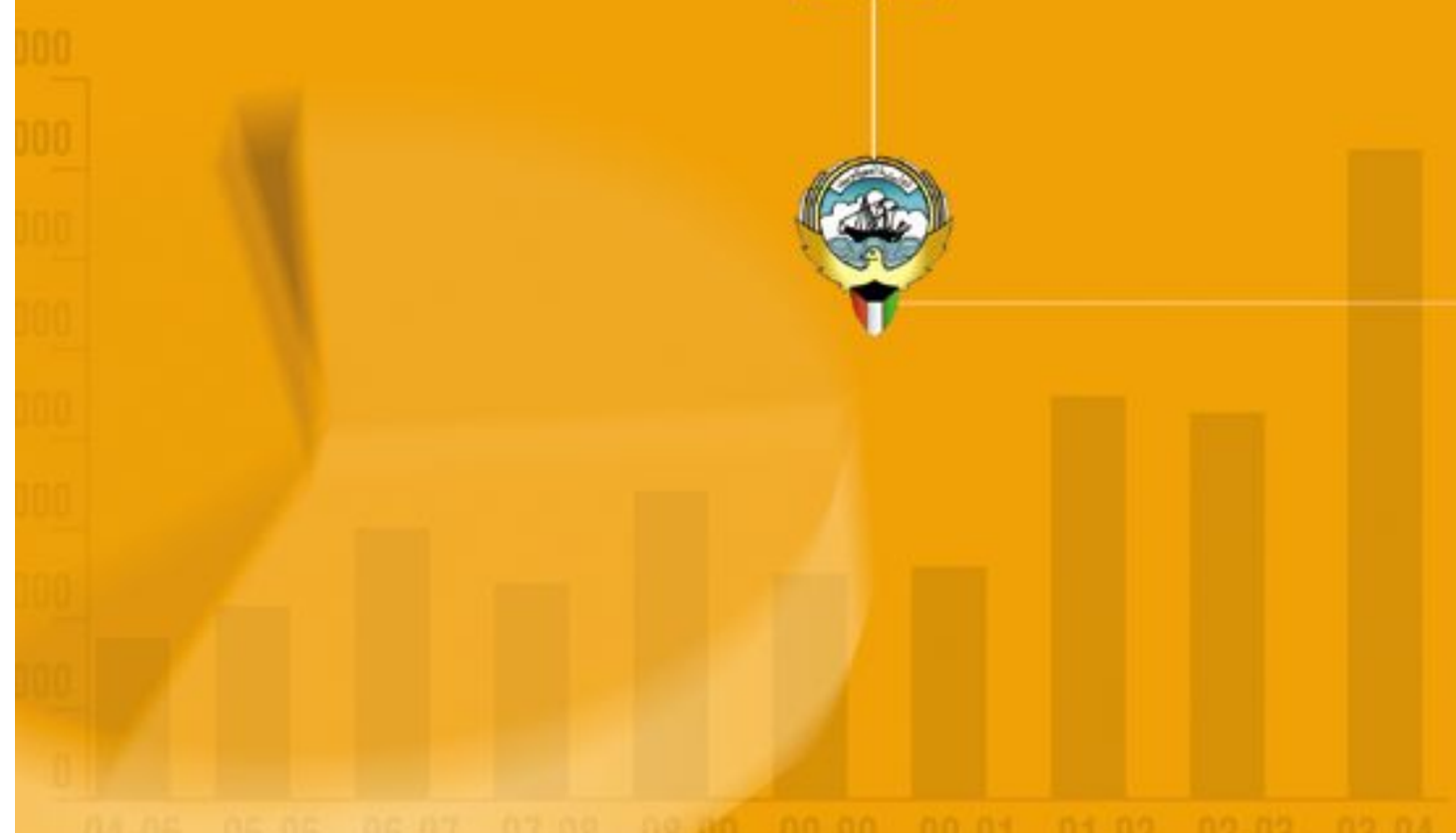
**Dr. Muhammad Imran Usmani** is an LLB, M. Phil, and Ph. D. in Islamic Finance and graduated as a scholar from Jamia Darul-Uloom, Karachi where he also completed a specialization course in Islamic Jurisprudence. He is the Shariah Advisor for the Bank, where he is also involved in conducting training sessions for staff in Islamic finance and Shariah issues. Dr. Usmani has been teaching several branches of Islamic learning since 1990 at Jamia Darul-Uloom, Karachi. He is also a visiting faculty member of the Institute of Business Administration (IBA) Karachi.

## Dr. Usmani serves as an Advisor / Member of Shariah Boards of the following institutions:

- State Bank of Pakistan
- HSBC Amana Finance
- Guidance Financial Group, USA
- Lloyds TSB Bank, UK
- Credit Suisse, Switzerland,
- Future Growth Equity, South Africa



**Meezan Bank**  
The Premier Islamic Bank





# FINANCIAL BACKING

## **Pakistan Kuwait Investment Company (Private) Limited**

Pakistan Kuwait Investment Company (Private) Limited (PKIC), a joint venture between the Governments of Pakistan and Kuwait, is one of the most profitable and respected financial institutions in Pakistan. It is commonly referred to as a leading example of sovereign joint ventures. PKIC has nurtured a diversified experience in foreign currency transactions, project finance and syndications in its 20 years of operations in Pakistan. It is the first financial institution in Pakistan which has been rated AAA (Triple A) for medium to long term by JCR-VIS Credit Rating Company Limited, an affiliate of Japan Credit Rating Company.

## **Shamil Bank of Bahrain E.C.**

Shamil Bank is incorporated in the kingdom of Bahrain and has grown steadily since 1982 to become a leading Islamic Institution with a paid-up capital of US\$ 230 million. The Bank is a subsidiary of the Dar Al-Maal Al-Islami Trust, a leading Islamic financial organization based in Geneva. The Bank operates a network of branches in Bahrain and its shares are listed on the Bahrain stock exchange.

## **Islamic Development Bank**

Islamic Development Bank Jeddah, ("IDB") is an international financial institution established in 1975 in pursuance of a declaration of the conference of Finance Ministers of Muslim countries to foster economic development and social progress in Member (Islamic) countries. The bank participates in equity capital and grants loans for productive projects and enterprises besides providing financial assistance in other forms for economic and social development. It accepts deposits and mobilizes financial resources through Shariah compatible modes. IDB has a capital base of approximately US\$ 5 billion and enjoys a presence in 53 member countries.

## **Kuwait Awqaf Public Foundation**

Kuwait Awqaf Public Foundation is attached to the Ministry of Awqaf & Islamic Affairs, Government of Kuwait. The Foundation has a global investment portfolio and is strictly governed by Shariah principles.

## **Shareholding Structure**

	<b>Rs. in millions</b>
Pakistan Kuwait Investment Company (Pvt.) Limited	512
Shamil Bank of Bahrain E.C	349
Islamic Development Bank, Jeddah	126
Kuwait Awqaf Public Foundation	112
Others	246
Paid up Capital	<u>1,346</u>



**Meezan Bank**  
The Premier Islamic Bank



# COMPREHENSIVE BUSINESS SOLUTIONS

Corporate and Investment Banking

SME

Auto Finance

Housing Finance

Treasury & Financial Institutions

Asset Management



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The Premier Islamic Bank

## CORPORATE & INVESTMENT BANKING

The Corporate & Investment Banking Unit upholds the mission of the bank by striving to provide a one-stop solution for the dynamic business needs of our corporate clientele, within the bounds of Shariah. We endeavor to strengthen our relationship with our customers by offering them an assorted product portfolio. The quest for new products, suited to the business needs of our clients, has played a vital role in making the bank a success story.

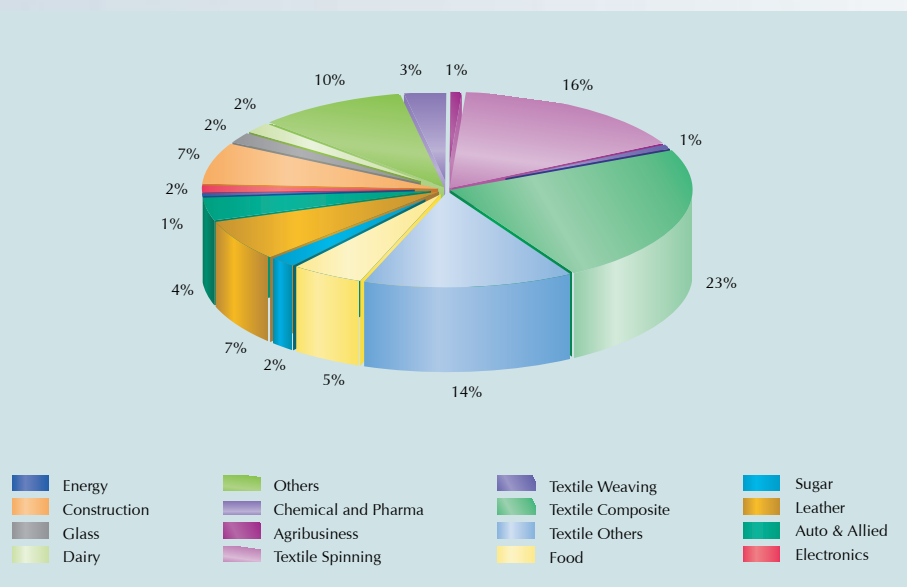
The Bank has been successful in developing Shariah compliant alternatives for the majority of conventional banking products. We cater to both short and long-term financing needs of our clients in addition to servicing their trade related requirements. Murabaha and Salam meet working capital needs whereas Ijarah and Diminishing Musharakah fulfill long term financing requirements for plant and machinery. Furthermore, the bank has structured a number of noteworthy transactions using the Musharakah concept.

Meezan Bank successfully closed a short-term consignment based Musharakah transaction with a reputable supplier of engineering equipment during the year 2004. Under the arrangement, Meezan Bank opened a Usance LC for the import of the equipment to be installed under a contract between Meezan Bank's partner and a local buyer. The equipment upon arrival was installed by Meezan Bank's partner as per the contract and the profit earned was shared between Meezan Bank and its partner in accordance with the agreed ratio. The Bank generated a handsome return on its investment.

Another notable Musharakah transaction, with a leading contracting company on the Defense Housing Authorities' (DHA) Creek City Project in Karachi, is also progressing smoothly. Approximately 20% of the contract has been completed to date. Meezan Bank expects to generate good return on this transaction and to replicate the model for similar transactions in the future.

A continuously expanding product portfolio enables the bank to expand its existing relationships as well as add new names to the client base. Our customer base is comprised of both multinationals and blue chip local corporate groups, which currently include names such as Al Abid Silk, Al Ghazi Tractors, Al Karam Group, Alcatel, Attock Cement, Crescent Textile, Crescent Steel, Dawood Group, Dewan Group, Engro Chemical, Fatima Group, Fazal Group, General Tyre, Gul Ahmed Textile, Hilton Pharma, Ibrahim Fibres, Khas Group, Master Group, MIMA Group, Nishat Group, Premier Group, Rafhan Maize, Shafi Group, Siemens and Sitara Group.

The total financing portfolio of the bank as on December 31, 2004 amounted to Rs. 10.42 billion compared to Rs. 7.4 billion as on December 31, 2003 - representing an increase of over 40%. The portfolio cover is prudently distributed over all major sectors of the economy. Sectoral distribution of the financing portfolio is shown below:



The Corporate & Investment Banking Unit also provides a wide range of advisory services integrating industry, product and regional specialization to help businesses' address their strategic needs and to formulate and execute dynamic business strategies. The Unit managed and monitored a Rs. 910 million Syndicated Short Term Islamic Finance Facility to Saadullah Khan & Brothers, one of the leading construction firms of Pakistan. The unit also acted as joint advisor and lead manager for the Government of Pakistan's divestment of 5% shares of SSGC. The transaction was oversubscribed by 16 times and the green shoe option of an additional 5% shares was fully utilized. The total transaction size was Rs. 1.73 billion.

Additionally Meezan Bank was a member (in the role of Shariah Structuring Advisor) of the syndicate formed for the US\$ 600 million Sukuk Issue - with leading international banks as members of the consortium. The Sukuk Issue was oversubscribed 2.4 times. Meezan Bank was also appointed joint advisor and arranger of a Rs. 1.2 billion IPO of Meezan Balanced Fund for Al Meezan Investment Management Limited. This closed-end fund is the first Shariah compliant balanced fund in Pakistan, which combines the benefit of both equity and Islamic income instruments. The IPO was oversubscribed.

As one of the foundational business lines of the Bank, the Corporate & Investment Banking Unit continues to earn significant market share and bring the expertise of cutting-edge Islamic banking with absolute service excellence to meet the market demand for Islamic Banking.

## SMALL & MEDIUM ENTERPRISE (SME)

Small & Medium Enterprises (SME's) are officially classed in Pakistan as units employing between 10 and 100 staff. Under this definition, there are about 80,000 SME's in the country, most concentrating on trade and services. However the true significance of SME's is much greater taking into account the entities operating in the informal sector, each employing between 5 and 10 staff. According to the Asian Development Bank Report, SME's account for about 80% of urban jobs and 30% of Pakistan's gross domestic product. SME's are considered the engine of economic growth in both developed and developing countries as they provide low-cost employment as the unit cost of persons employed is lower than large-size units.

SME needs are being highly diversified, including practical and strategic business advice, financing, marketing, and technology upgrading. Today, the SME sector is the lifeline of big industrial establishments due to its direct contribution and support towards value addition and exports. For the past three decades, the fastest growing export industries have been dominated by SME's. Of all, cotton weaving and textile, rank among the top two exporting sectors. Others include sports goods, surgical instruments, carpets and footwear etc. SME exports dominate low value added sectors and rely on traditional technologies.

As part of Meezan Bank's continuous efforts to bring Islamic Financial services to all businesses, the SME sector has also been the Bank's prime focus. With the enormous business opportunities available, many entrepreneurs in this sector also have a strong Shariah mindset. The potential of this sector to grow has enabled Meezan Bank to aggressively increase its SME portfolio.

As of December 31, 2004 the SME business initiatives generated a funded exposure of Rs. 257 million and non-funded exposure of Rs. 75.7 million. Meezan Bank remains committed in actively contributing to the SME sector to ensure the resilience of SMEs to withstand economic instability and maintain a reasonable growth. This will also allow Meezan Bank to build its portfolio through providing yet another Shariah compliant financial solution to the masses.



## CAR IJARAH



Meezan Bank's Car Ijarah product completed 2½ years of business operations in 2004. The year saw Meezan Bank becoming a recognized player in the Auto Finance market with active business volumes, significant market presence and a wide and well-established auto dealers network.

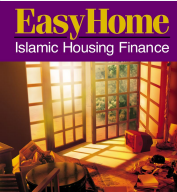
The Bank's objective of taking the year-end 2003 portfolio of Rs. 291 million to the next level was successfully achieved with the portfolio standing at Rs. 1.272 billion on December 31, 2004.

Car Ijarah is offered in all cities where Meezan Bank has a presence, with dedicated credit and sales teams in each city managing the product.

During the year, the business also developed and launched a program for the leasing of used vehicles, as an effective enhancement of the product itself, which is yet a comparatively untapped market avenue.

The goal for 2005 is to further enhance market share while ensuring top credit quality and the maintenance of competitive turn-around times. Further enhancements to the product including motorcycle leasing are currently underway.





## HOUSING FINANCE

The present relevance of housing finance cannot be understated and has significant micro and macro economic implications. Individually speaking, the investment for a home typically represents the single largest investment most individuals will ever make. Furthermore, housing equity on average represents up to 40% of consumer equity in developed markets around the globe.

On a larger scale, the housing finance market is among the most important in any economy. A well-functioning housing finance system offers incentives for households to save, provides investors with opportunities to gain stable, long term returns, creates large numbers of jobs for skilled and unskilled workers in construction and ancillary industries, enables home owners to leverage their physical assets into financial assets for investment, and contributes greatly to the deepening and broadening of the financial sector. Housing market activity is thus an important leading indicator of overall macroeconomic activity and has a tremendous impact, both in terms of providing social stability and in promoting economic development. Resultantly, ensuring the availability of housing and the growth of housing finance markets is a policy priority in most countries.

Unfortunately, this facilitation has always occurred on a conventional interest-based platform, hence limiting its benefit to Muslims, in particular those living in Western countries. With the recent availability and rapid proliferation of Islamic mortgages however, the benefits of Islamic financing can now be brought to not only the interest-averse, but the traditionally non-Shariah compliant as well.

As with the overall financial paradigm of which it is a part, an Islamic mortgage is based on the ownership or transfer of ownership of an asset, in this case the property, and follows a certain defined process with adherence to specific Shariah requirements. A conventional mortgage on the other hand is in essence just a loan of money upon which interest is charged.

The nation's first Islamic housing finance facility, EasyHome was officially launched in December of 2003. It is a very comprehensive product based on the concept of Diminishing Musharakah, that provided the market a long awaited Shariah-compliant mortgage facility that allows home purchase, building, renovation, and even replacement of an existing mortgage.

Bringing this facility to the market involved an extensive process addressing various critical areas: product development and Shariah approval, internal risk management infrastructure encompassing credit processing, analysis & credit initiation, systems for portfolio risk management and processing control, customer sales & service through the Bank's branch network and Call Center, and an external infrastructure covering legal, property appraisal, property search, verification, and real estate agencies.



Meezan Bank has committed itself to ensuring that the nation's critical need for Housing is not only supported, but led by Islamic Housing Finance, with a comprehensive product, very competitive pricing, and an application process that is smooth, fair and quick, ensuring equal access to all eligible applicants.

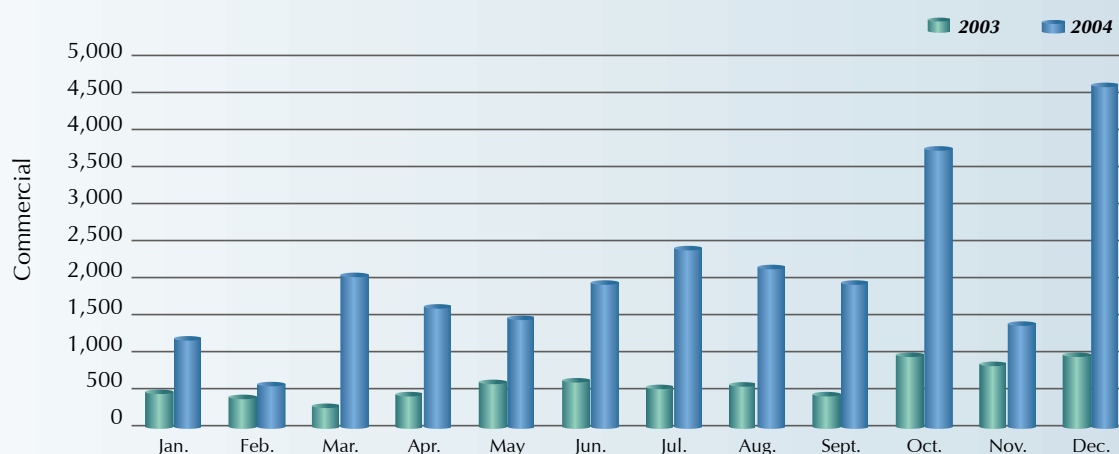
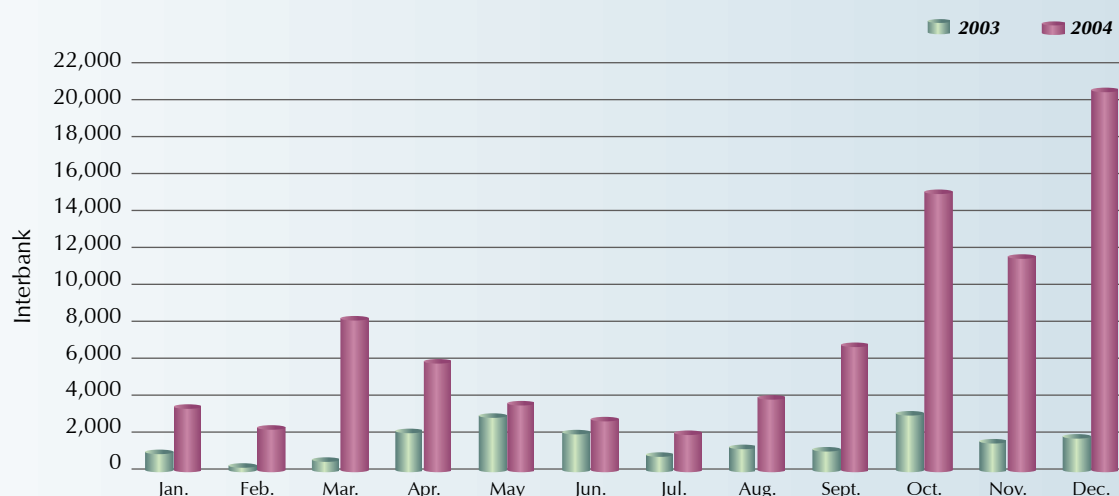
As the pioneer in this market, the Bank has established a very thorough and customer friendly experience for all applicants, whereby risk is controlled, service is paramount, and dreams are turned into reality as soon as possible.

EasyHome has brought a new level of excellence to the market. From launch the demand for this product has been completely overwhelming. With initially only one dedicated outbound sales set-up in the whole country the portfolio neared Rs. 700 million as of December 31, 2004, with a very effective process that takes less than 3 weeks on average for a complete disbursement. The product has also achieved 5% market share in its first year from amongst all mortgage service providers (Islamic & Conventional) in the country.

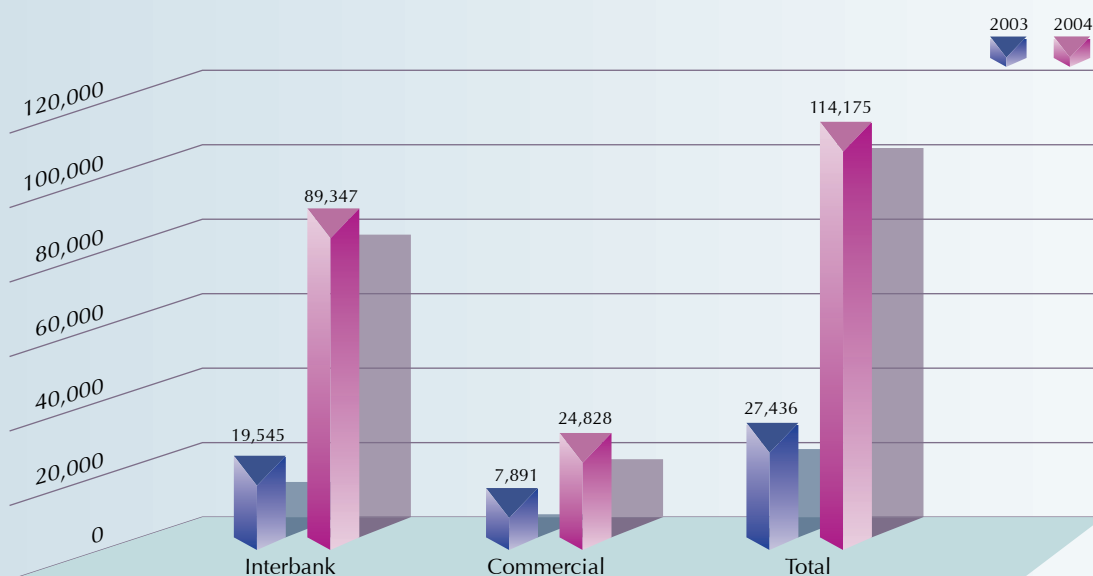
## TREASURY & FINANCIAL INSTITUTIONS

Meezan Bank's Treasury is guided by Shariah and driven by a competitive spirit and a missionary zeal, with a unit comprised of experienced and dedicated professionals. Treasury caters to the branches and customers for all their foreign exchange requirements with efficacy and professionalism. Spot/ready as well as all forward cover services are provided to branches/customers within Shariah guidelines. On the other hand inter-bank FX activity is undertaken to square all daily positions and hedge the forwards. Customers are also provided advice on a regular basis about currency movements and market outlook (without any commitment or obligation). Over the years Treasury has steadily enhanced its market activity and made an increasing impact in the inter-bank market, especially during the last six months of 2004. The unit intends to enhance market activity with increased depth and enhanced volumes.

**Turnover of FX Transactions in Rs. millions for the year 2003 - 2004**



### Total Volume of FX Transactions in Rs. millions



In the Money market, Treasury has demonstrated its ability to access the Call market or liquidity needs based on Shariah approved modalities of Musharakah and Mudaraba. In terms of FE 25 US\$, the unit has conducted Commodity Murabaha transactions with international banks as well as participated in Dollar Sukuk issues, namely Qatar and Dubai Sukuks, though in a small way.

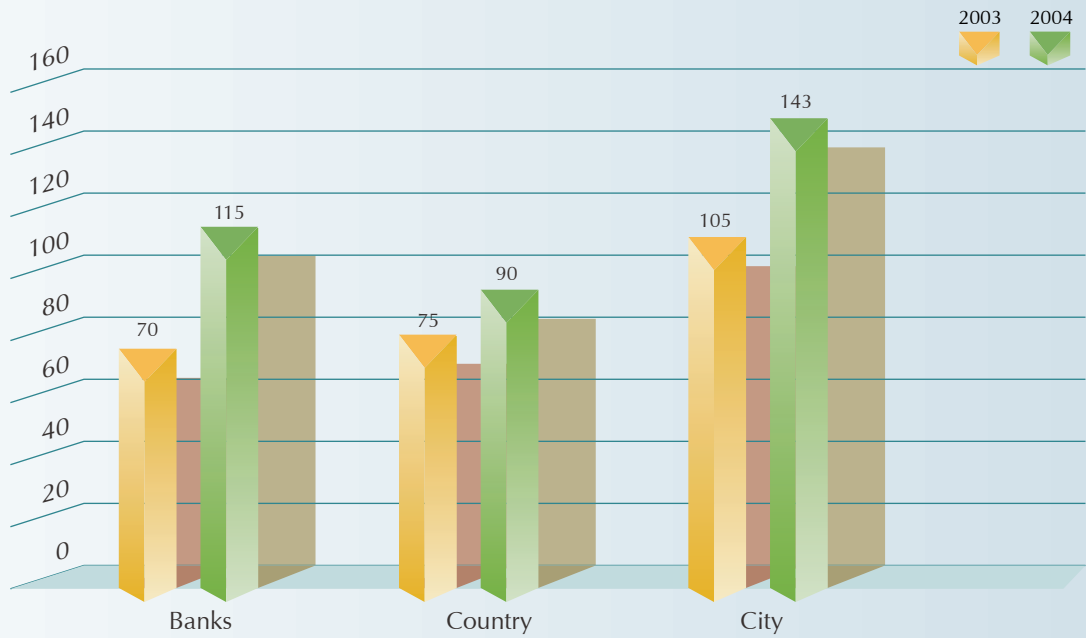
Money market activity can only move to a higher plane after the issuance of Rupee Sukuks by the GoP/SBP. Recently the GoP launched the first ever US\$ 600 million Sukuk, which was co-lead managed by leading international banks, while Meezan Bank acted as the Shariah Structuring Advisor. It is envisaged that the GoP would launch the local counterpart of the successful US\$ Pakistan Sukuk.

Meezan Bank intends to hold a workshop in the foreseeable future on the Development of an Islamic Money Market in Pakistan for the benefit of all Islamic Divisions / departments. Financial Institutions (FI), which is part of Treasury, and the Financial Institutions Group, were entrusted with the task of developing and maintaining relationships with financial institutions in Pakistan and overseas. Over the last couple of years FI has endeavored to develop numerous relationships globally and efforts are continuing on an on-going basis. As of December 31, 2004, there were 115 correspondent banks, covering 90 countries and 143 cities around the globe. Out of the above, 21 have confirmation lines for Meezan Bank in 55 countries all over the world.

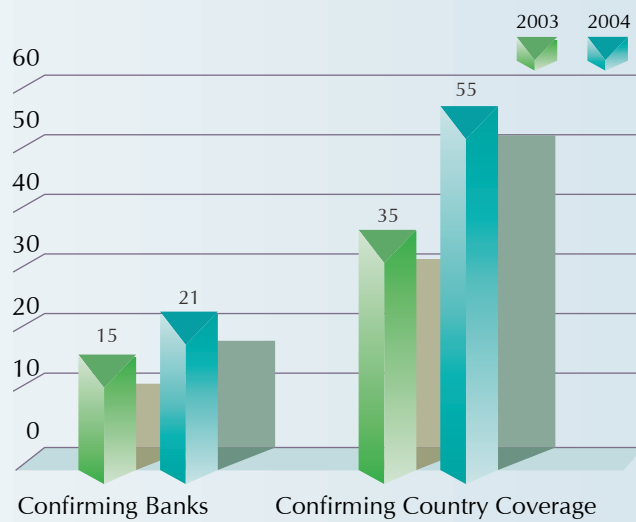
### Financial Institutions Coverage Statistics

	2003	2004	Growth
BKE Banks	70	115	64%
BKE Country Coverage	65	90	38%
Confirming Banks	15	21	40%
Confirming Country	35	55	57%

### FI Relationships-BKE



### L/C Confirming Banks



FI plans to increase its correspondent banking network qualitatively and quantitatively across the globe with emphasis on European, Asian and African markets, wherever required. FI believes that this should have a catalytic effect on the Bank's Trade Finance business. Locally we have plans to focus on Islamic institutions or Banks with Islamic products / transactions primarily in the NBFI sector.

# ASSET MANAGEMENT



**Al Meezan**  
INVESTMENT MANAGEMENT LIMITED

Al Meezan Investment Management (AMIM), a subsidiary of Meezan Bank, is the only investment advisory and asset management company in Pakistan specializing exclusively in the development and management of Shariah-Compliant asset management products. This makes AMIM the only NBFC in Pakistan with a mandate to provide Shariah Compliant investment opportunities to investors. AMIM also has one of the longest proven track records in the private sector for managing mutual funds.

Total assets under management of AMIM were Rs. 2 billion, as of December 31, 2003, and grew to over Rs. 4.5 billion as of December 31, 2004, recording a growth of 125% in the last one year.

AMIM's first fund, the Al Meezan Mutual Fund Limited (AMMF), established in 1996, is one of the best performing private sector mutual funds in Pakistan. Over its eight-year history, the average return (including dividend payouts) earned by shareholders of AMMF has been 24.9% per annum versus 15.2% provided by the KSE, depicting an out performance of over 9%. For the period ended December 31, 2004, AMIM has declared an interim cash dividend of 10%, Rs. 1 per share, interim bonus shares of 10%, and 50% Right Shares at par value of Rs. 10 for AMMF.

AMIM's open end fund, the Meezan Islamic Fund (MIF) commenced operations with a seed capital of Rs. 520 million on August 8, 2003 and as of December 31, 2004 had Net Assets in excess of Rs. 1.67 billion, reflecting a growth of 221%. MIF has provided a cumulative return of an impressive 45% to its unit holders from inception until December 31, 2004, and is also the largest Shariah-compliant mutual fund in Pakistan.

AMIM's third fund, the Rs. 1.2 billion closed end Meezan Balanced Fund (MBF), Pakistan's First Shariah-compliant balanced fund, commenced its operations on November 30, 2004. The public offering of the fund was held from December 20 – 23, 2004, and due to overwhelming demand by the public the fund was over-subscribed by 1.24 times.

Operations of AMIM are conducted under the supervision of Meezan Bank Limited, which is the Shariah advisor of AMIM.

Al Meezan Investment Management Limited is going to expand its product base and launch other Shariah compliant investment products in the near future.



# INFORMATION TECHNOLOGY

In today's business arena Information Technology serves as the backbone for all operations/functions of a Bank and is the foundation for offering innovative services to its corporate and retail customers. In modern day banking if you don't have a better information system then your goal is not to compete, but just to survive.

Implementation of core banking applications was considered to be the first foundational step for all the technological advancements in the Bank. By the grace of Allah, the establishment of this first milestone of a comprehensive Shariah compliant real-time online core banking system throughout the branch network within a very short span of time, was achieved. The core banking system caters to all business needs strictly in compliance with the guiding principles of Shariah.

Secondly, the Bank has also successfully deployed the following functionality, which has resulted in enhanced online real-time customer services:

- Interactive Voice Response (IVR)
- Computer Telephony Integration (CTI)
- Technically advanced 24x7 Call Center
- Automated Teller Machine (ATM) Network
- Debit Card Network
- Comprehensive customer relationship management (CRM) software for customer complaint management and telephone banking.

Insha-Allah in due course of time, the Bank will be offering online real-time Internet banking to our customers. We are also in the process of implementation of messaging and collaboration software (Lotus Notes), which will further improve internal and external communication. This will also serve as a stepping-stone for process flow applications thus eliminating manual paper flow and creating a cost-effective paperless environment.

In order to be recognized as one of the leading financial institutions in the country and to achieve the highest level of customer satisfaction using state of the art and cost effective solutions, it is imperative for the Bank to orient itself effectively in a constantly changing environment. Therefore, the Bank has also earmarked a substantial budget for the training and development of our technology team.



**Meezan Bank**  
The Premier Islamic Bank





# HUMAN RESOURCES

At Meezan Bank, Human Resources plays one of the most vital roles. Our human capital is our most valuable equity, and it is the people of Meezan Bank who carry the mission and vision forward. As dedicated Islamic Bankers it takes a special breed of person with a belief and commitment in Islamic Shariah and an unwavering professionalism to carry the responsibility of making Islamic Banking the banking of first choice.

The Bank strives to ensure this by developing our employees, recognizing their contributions, and rewarding their success.

To ensure the proper development of employees and to cope with the current market trends and business needs, there is a comprehensive & meticulous training structure in place. This is not only a blend of sharing ideas, solutions and a comprehensive understanding of Islamic banking, but also a motivating and nurturing blend of education and exposure that ensures a holistic and comprehensive development.

Meezan Bank provides the tools needed for our people to develop world-class analytical, leadership, management and relationship-building skills. Because they deal with a broad range of issues in Islamic banking, they learn what it takes to lead in financial services. The Bank ensures its commitment to the individual competence of all employees with the primary focus on personal skills and the immediate demands of the job.

We also realize the importance of a recognition & reward policy. Achievement is a milestone in an individual's career as well as in the Bank's growth, and thus needs to be recognized in the most effective manner. We are continuously striving to make our policies more customized & competitive to improve our working environment, foster teamwork, encourage innovation, and to ensure career progression.

Human Resources is committed to providing an ideal professional environment that enables our employees to pursue the highest possible level of professionalism as well as supporting their personal fulfillment. We believe that our strategic mix reinforces in our employees the ability to think 'out of the box' and discover new ideas and concepts, while challenging the status quo. This will further ensure a competitive advantage to Meezan Bank through enhanced loyalty, commitment and motivation.



**Meezan Bank**  
The Premier Islamic Bank

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 9th Annual General Meeting of the members of Meezan Bank Limited will be held Insha-Allah on Wednesday, March 30, 2005 at 09:00 a.m. at Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

## ORDINARY BUSINESS

1. To confirm the minutes of the Extraordinary General Meeting held on November 29, 2004.
2. To receive, consider and adopt the Audited Accounts for the year ended December 31, 2004 together with the Auditors' and Directors' Reports thereon.
3. To appoint auditors of the bank for the year ending December 31, 2005 and to fix their remuneration. The present auditors M/s A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

## SPECIAL BUSINESS

4. To consider, and if thought fit, to pass the following Resolution as an Ordinary Resolution:

"Resolved that the capitalization of a sum of Rs. 175,567,448 out of the free reserves of the Bank for the purposes of issuance of 17,556,744 ordinary shares of Rs. 10/- each as fully paid interim bonus shares be and is hereby approved."

5. To transact any other business with the permission of the chair.

By order of the Board



Shabbir Hamza Khandwala  
Company Secretary

Karachi  
March 3, 2005

#### Notes:

- i) The Members' Register will remain closed from March 23, 2005 to March 30, 2005 (both days inclusive).
- ii) A member eligible to attend and vote at this meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received at the registered office not less than 48 hours before the holding of the meeting.
- iii) An individual beneficial owner of the Central Depository Company, entitled to vote at this meeting must bring his/her National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.
- iv) Members are requested to promptly notify Share Registrar, THK Associates (Pvt.) Ltd., Karachi, of any change in their addresses.

#### STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the Resolution contained in item (4) of the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 30, 2005.

#### Issue of Bonus Shares

In order to meet the requirements of the State Bank of Pakistan to increase the paid up capital of the commercial banks to Rs. 1.5 billion by December 31, 2004, the Board of Directors had proposed and issued an interim bonus issue of 15% by transferring a sum of Rs. 175,567,448 from free reserves of the bank.

The Directors are interested in this issue to the extent of their shareholding in the bank.

# DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Meezan Bank Limited are pleased to present the eighth Annual Report and audited financial statements, setting out detailed financial results of the Bank along with consolidated financial statements of the group, including Al-Meezan Investment Management Limited, for the financial year ended December 31, 2004.

Meezan Bank holds the distinction of being the first bank in Pakistan to be granted a license as a Scheduled Islamic Commercial Bank. From this point in January 2002 onwards, the Bank has played a key developmental role in promoting Islamic finance in the country. Through the establishment of a comprehensive internal infrastructure, the development of viable value propositions and solutions, and the development of a growing delivery capability, the Bank has emerged as an icon in the Islamic financial industry, and a measure for dedicated Shariah compliance, product diversity, and technological advancement.

Our experience to date has, by the grace of Allah, been very dynamic and growth oriented. Within this short span of time and in this often volatile environment, the Bank has achieved a well diversified financing portfolio which includes key blue chip multinationals as well as strong local corporate groups. In addition, the Bank has established itself as a premium financial services provider for the consumer sector with Auto Finance and Housing Finance business lines, both of which continue to attain significant market share. Furthermore, with a product menu that caters to a broad spectrum of needs across the corporate and consumer horizons, a growing range of financially savvy individuals from a variety of socio-economic levels are realizing the value of Meezan Bank's competitive, secure, and effective products and services, all resting upon the foundation of absolute Shariah compliance.

As a new commercial entity, and one with a very specific vision of bringing the benefit of Islamic Banking to the nation, one critical goal that has been and will remain foremost is our delivery and reach capability. The Bank has successfully embarked upon an aggressive program of expanding our branch network in response to market demand, through the lens of exacting analysis and placement strategy. Although this results in a significant level of expenditure, we have by the Grace of Allah, maintained our profitability at a robust level with a net profit after tax of Rs. 224 million on a balance sheet footing of Rs. 19.7 billion, up from Rs. 11.1 billion for the corresponding period last year.

## Financial Highlights

	<b>Amount</b> <b>(Rs. in 000's)</b>
Authorised Share Capital	2,000,000
Paid up Capital	1,346,017
Capital Reserve	256,578
Revenue Reserve	258,325
Total Shareholders' Funds	2,098,382
Profit Before Taxation	220,878
Add: Tax Reversal	3,480
Net Profit for the Year	224,358

## **Economic Overview**

Pakistan's economy has shown strong growth in 2004, having attained a growth rate of about 6.50%, with solid all round performance in key areas. Growth has been pushed along by exports as well as agriculture. By the grace of Allah, macro economic indicators point towards sustained economic growth in the years to come. It is also very gratifying to note that for the first time in the history of Pakistan, an IMF arrangement has been successfully completed. Not only did the GoP successfully complete the PRGF arrangement with the IMF, but it did not draw the last tranche of this facility while declaring that it would not seek a successor arrangement due to its healthy external position. Since all the required performance criteria were met by Pakistan, the IMF concluded that any post program monitoring was not warranted.

The agricultural sector continued to show a sustained growth rate of around 4%. Timely rains as well as an increase in wheat and cotton cultivation have been the major factors for improved performance. Consequently, it is envisaged that the cotton crop is likely to cross 14 million bales for the first time in the history of the country. The industrial sector has also performed strongly with double-digit growth, which is likely to continue in the first half of 2005.

The private sector continued to expand strongly with credit absorption in the second half of 2004 reaching new highs. Credit distribution was widespread and covered all sectors of the economy, with the manufacturing sector taking about half the credit off-take, which was followed by consumer financing, which absorbed about 15%. It is also expected that the elimination of textile quotas in 2005 would have a catalytic effect on Pakistan, especially in exports performance for the textile and clothing industry, which would further enhance the growth momentum.

On the fiscal front the Central Board of Revenue (CBR) managed to surpass its half yearly target of Rs. 250 billion in the second half of 2004. Improved revenue administration, substantial imports, as well as continued growth, enabled the CBR to exceed its target by 14%. The non-tax area also showed robust growth of 30%.

Overall forex reserves remained at high levels around US\$ 12 billion, primarily due to sustained remittances from expatriate Pakistanis. The higher oil bill was due largely to price rises and higher quantities, which can be gauged by the 93% increase in cost in the third quarter of 2004. Import of machinery and chemicals also rose by about one-third and almost half respectively, in the second half of 2004. The exchange rate also came under increasing pressure but the SBP intervened and finally decided to support oil imports directly from its reserves. SBP intervention calmed the markets and the Rupee resultantly stabilized, well under the 60 mark and currently trades around the 59.50 level.

## **Money Market**

Increasing demand pressures, as well as the high price of oil and all POL products has resulted in higher levels of inflation. This necessitated the SBP to change its monetary stance from accommodative to neutral with a firm bias. Treasury bills registered increases, on a year on year basis by about 250 to 300 basis points in the 3, 6 and 12 month tenors. The Karachi Interbank Offer Rate (KIBOR) also kept pace with the rise in yields in GoP securities.

As per SBP guidelines, KIBOR must be used as a benchmark for all corporate financing. Banks have now started quoting rates for 2 and 3 year KIBOR as well. It appears likely that yields of GoP securities would rise further in 2005 with 6 and 12 months Treasury bill yields reaching levels of 6.50% and 7% respectively, by year end. This sustained and strong credit demand and rising short-term yields are expected to improve the profitability of the banking sector as a whole.

### **The Banking Sector**

The banking sector continued to show stellar performance. While the GDP grows beyond 6% and is likely to reach as high as 8% in the foreseeable future, the SBP continues to raise yields especially in the shorter tenors, therefore the yield curve is likely to flatten, as the yields in the longer term would rise at a much slower pace. The current inflationary trend would more than likely provoke the SBP to accelerate the tightening of monetary policy. However if growth rates continue to rise as expected then any tightening measures would not be detrimental to the economy. In fact they would achieve the objective of restraining inflationary pressures and real rates would not be negative, after all. The SBP continued to focus on improving the regulatory environment with emphasis on AML/KYC on the one hand and the implementation of Basel II initiatives, along with risk management parameters and standards.

Numerous banks increased their network of branches throughout the country, while the big 4 rationalised. Continuing on the path of privatisation and divesting government ownership, two banks were given to private parties, namely UBL and Allied Bank. Several banks were allowed to open Islamic banking branches / divisions, including Standard Chartered Bank, Habib Bank Limited, Habib Bank AG Zurich, Metropolitan Bank, Bank Al Habib, and Soneri Bank. It has also been reported in the media that the SBP is considering issuing new licenses for several dedicated Islamic banks. Such Islamic banks / branches would inevitably increase the competition for market share, but it is deemed that this would only be positive for Islamic finance as a whole. Meezan Bank would face this competition and focus on the real challenge of maintaining our position as the premier Islamic bank in Pakistan. Our wealth of experience over the years, well entrenched brand equity, tested credibility, and diversified product menu will all provide us with the ammunition to face any such challenge.

### **Capital Markets**

The capital markets of the country showed remarkable resilience, energy and strength. The KSE-100 index scaled uncharted peaks and closed the year at 6,218 against the previous year's closure of 4,471, a rise of over 39%. The rally witnessed may be attributed to a positive sentiment stemming from a stable political environment, strong economic indicators and good corporate earnings growth. These factors have also resulted in enhanced levels of direct foreign investment and it is expected that the country rating of Pakistan may be up-graded. Overall there is a tangible feel-good factor for the country and the economy, which bodes well for the coming years.

### **Operating Results of the Bank**

With the completion of its second year as a fully scheduled and dedicated Islamic Commercial bank, the results are clearly indicative of an excellent growth trend. The balance sheet grew from Rs. 11.1 billion to Rs. 19.7 billion, reflecting an increase of 77%. The highlights of the Bank's performance during the year include the tremendous

growth in the financing and investment portfolio that recorded an increase of 60% with deposits growing by 77%. The Bank earned a profit after tax of Rs. 224 million during the year, 5% higher than the corresponding figure reported in the previous year. An analysis of the results shows that the income from core banking has increased by 47%, which importantly reflects a healthy trend despite shrinking spreads, which have beset the banking industry as a whole. The foreign trade business has also shown impressive growth during the year as compared to the last year with the business volume handled by the Bank more than doubling due to which the fee-based income has increased from Rs. 54 million to Rs. 101 million, reflecting an increase of 87%. During the year, operating expenses increased by 60%, from Rs. 255 million to Rs. 409 million, which is mainly due to the addition of new branches as well as required investment in information technology.

**Significant achievements during the year may be highlighted as follows:**

- The successful opening of six new branches across the country: four in Karachi and one each in Sialkot and Lahore.
- The establishment of Meezan Bank on the nation's first ATM network, "1 LINK".
- The development and launch of complete Online Banking facilities throughout all Meezan Bank branches nation-wide.
- The launch of a new and unique Islamic Investment facility, entitled Meezan Providence, which was the first of its kind in Pakistan, whereby a corporate or business concern can make a 100% halal long-term investment of their employee provident / gratuity / pension funds.
- 24 Hour / 7 days a week banking launched nationwide with a branded 24/7 ATM / Debit card, new ATMs in Karachi and Lahore, and a revised 24/7 nation-wide Call Center facility.
- The award of a mandate by the Government of Pakistan for the debut issue of an international Sukuk (Bond) for US\$ 600 million to a consortium of international banks in which Meezan Bank was the Shariah Structuring Advisor.
- Al Meezan Investment Management Limited (AMIM), a subsidiary of Meezan Bank, introduced the Meezan Balanced Fund (MBF), a closed end fund, which is the first Shariah compliant balanced fund in Pakistan.

**Future Outlook**

The rapidly increasing focus on Islamic Banking in this market is a clear indication of its viability as a profitable alternative to traditional finance, and one that cannot be ignored. We welcome the entry of credible new players in the nascent Islamic Banking industry and hope that this will result in significant growth in the market. The resultant effects of increased competition and the benefits to the consumer in terms of product variation and pricing will Insha-Allah support the overall cause of Islamic Banking in Pakistan. It has been Meezan Bank's prime goal to promote Islamic

banking in Pakistan. In fact, the Bank has even provided Islamic Banking Advisory services to financial institutions and is committed to playing a leading role in this endeavor.

Meezan Bank will continue with a strategic growth plan for branch expansion across the country, as well as making the required investment in information technology to enable the level of service excellence we desire in this competitive arena. Furthermore, the corporate banking initiatives at Meezan Bank will continue to be a high priority providing our customers with optimum value through the effective delivery of Shariah compliant products and services. Our expanding product menu caters to a variety of financial needs, coupled with the latest technological support, access and convenience, as well as service excellence, all within the bounds of Shariah.

More recently the Bank decided that consumer banking is essentially inevitable for a commercial bank in today's market, with successful growth and acquisition going to whoever can offer the salient deliverables in the most optimum way, as well as effectively differentiate themselves from the rest of the market. Furthermore, in addition to the obvious advantages of consumer banking from a revenue stream and diversification of risk perspective, this arena affords Meezan Bank the real opportunity to address its core vision of bringing Islamic Banking to the forefront of our society, as a viable and feasible alternative to the conventional system. It is through our role as a service provider to the mass of individual consumers at large that we create an awareness, educate, and provide solutions on a large scale, reaching down to the grass roots level. This way our solutions are not limited only to the narrow confines of a niche, but to the society at large, which is our foremost objective.

Finally, it is worth re-emphasizing that Islamic finance is a veritable reality. The depth and scope of this industry, both locally and internationally, evidenced by the sheer size of investment being made, the mushrooming client bases, the quality of portfolios, the wide experience and talent of its stakeholders and executors, are all clearly indicative that its time to stand up and take notice. In fact in Pakistan alone the growth rate is currently over 70% per annum with estimates of the total assets of Islamic Banks reaching close to Rs. 500 billion in the next few years.

And as a leading example, Meezan Bank continues to educate the market in a transparent and open manner, as to what Islamic Banking is all about, how it differs from the conventional system, and what are its many benefits and advantages. We welcome and in fact urge all members of society to come and see for themselves as well.

#### **Dividend and Right Issue**

During the year the Bank declared 15% Stock Dividend (Bonus shares) continuing its unbroken payout record since the date of listing on the stock exchange.

Further the bank has issued 30% Rights Issue at par to the shareholder.

#### **Corporate and Financial Reporting Framework**

The Board of Directors of Meezan Bank is fully cognizant of its responsibility as recognized by the recently formulated Code of Corporate Governance issued by the recently formulated Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. The following statements are a manifestation of its commitment towards high standards of Corporate Governance and continuous organizational improvement.



1. The financial statements prepared by the management of Meezan Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of Meezan Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements, except as disclosed.
4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no doubts upon the Bank's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
8. Key operating and financial data for the last seven years in summarized form is annexed to the report.
9. The Bank has fully complied with best practices on Transfer Pricing and the provisions of the Code of Corporate Governance as contained in the listing regulations of the Karachi Stock Exchange throughout the accounting period and the Directors are satisfied that there is an ongoing process of internal control for identifying, evaluating and managing the significant risks faced by the Bank.
10. The value of investments of the Bank's recognized Provident Fund based on audited accounts as at June 30, 2003 amounted to Rs. 12.7 million and based on un-audited accounts as at December 31, 2004 amounted to Rs. 21.0 million. The value of investments of Gratuity Fund amounted to Rs. 1.2 million based on un-audited accounts.
11. The purchase and sale of shares by the Directors, Chief Executive, CFO and Company Secretary, the pattern of shareholding and record of Board meetings during the year is given in the enclosed annexure.

### **Compliance with the Code of Corporate Governance**

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its Listing Regulations relevant for the year ended December 31, 2004 have been adopted by the company and have been duly complied with. A statement to this effect is annexed with the report.

### **Risk Management Framework**

Risk management is an integral part of the Bank's strategic decision-making process. It ensures that a framework exists in which prudent financing decisions are taken and return is commensurate with the risk undertaken. The management of the Bank is acutely aware of various risks involved and ensures accurate and comprehensive monitoring.

The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. These committees comprise of senior management staff of the Bank who meet regularly to deliberate on matters relating to the various risk exposures under their respective supervision. Such committees include:

- Credit Committee
- Asset Liability Management Committee (ALCO)
- Audit Committee

The Credit Committee is responsible for approving and monitoring all financing transactions and also the overall quality of the financing portfolio. For this purpose it has formulated Credit Policy so as to effectively monitor the risk profile of the Bank's asset portfolio and to ensure strict adherence to the State Bank of Pakistan's Prudential Regulations, Banking Companies Ordinance 1962, and any other regulatory requirement.

ALCO formulates short and long-term strategies to manage liquidity and rate risks in the light of market conditions, as well as the business objectives of the Bank. The Audit Committee has worked diligently in ensuring that the Code of Corporate Governance has been complied with by the Bank.

The Bank has an internal audit department and it performs audit reviews of different functions on a regular basis to examine and evaluate the adequacy and effectiveness of internal systems and controls. It reports directly to the Audit Committee. The Bank has also established an independent compliance function to monitor compliance risk.

The Board of Directors are taking measures to fully implement the SBP guidelines on risk management by December 31, 2005.

### **Compliance Statement of Ethics and Business Practices**

The Bank's reputation and its actions as a legal entity depend on the conduct of its employees. It is the policy of Meezan Bank to follow the highest business ethics and standards of conduct. The Bank's Code of Business Ethics and Standards of Conduct sets parameters for ethical behavior and business practices for directors and employees. The code is obligatory and enforced at all levels fairly and without prejudice.

### **Credit Rating**

The JCR-VIS Credit Rating Company Limited, an affiliate of Japan Credit Rating Agency, Japan has graded the Bank's long-term entity rating at A+ with stable outlook, while the short-term rating has been graded at A1+, which is the highest possible in this category.

### **Auditors**

The present auditors M/s A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of M/s A.F. Ferguson & Co., as auditors for the year ending December 31, 2005.



Ebrahim bin Khalifa Al-Khalifa  
Chairman



Irfan Siddiqui  
President & CEO

# ANNEXURE TO THE DIRECTORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

The purchase and sale of shares by the Directors, Chief Executive, CFO & Company Secretary and their spouses are given below:

<b>DIRECTORS AND THEIR SPOUSES:</b>	<b>Number of shares as at January 01,2004</b>	<b>Number of shares purchased during the year</b>	<b>Bonus Shares received during the year</b>	<b>No. of shares sold during the year</b>	<b>Number of shares as at December 31,2004</b>
NAME					
Mr. Irfan Siddiqui	2,561,033	-	678,671	-	3,239,704
Mr. Zaigham Mahmood Rizvi	606,612	-	160,751	-	767,363
Mrs. Talat Rizvi w/o Mr. Zaigham Mamhood Rizvi	550	-	145	-	695
Mr. Ariful Islam	1,146,240	-	303,752	-	1,449,992
Mr. Rana Ahmad Humayun	200,000	-	53,000	-	253,000

#### **CFO & COMPANY SECRETARY**

NAME					
Mr. Gohar Iqbal Shaikh *	78,334	6,061	20,017	61,000	43,412

\* Subsequent to the year end Mr. Shabbir Hamza Khandwala was appointed as CFO & Company Secretary of the bank.

During the year four meetings of the Board were held and attended as follows:

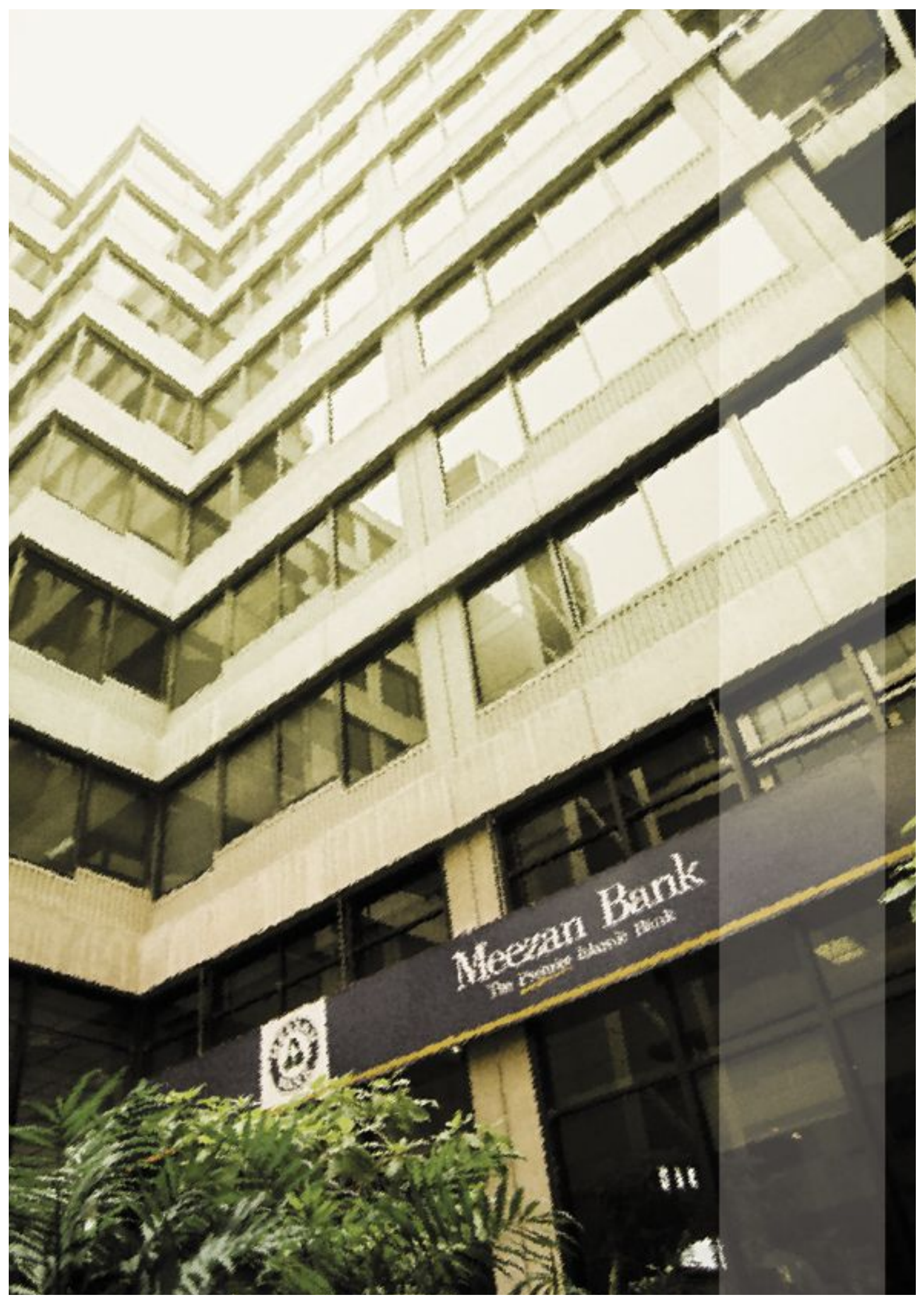
<b>NAME OF DIRECTOR</b>	<b>Meetings attended</b>
H.E. Sheikh Ebrahim bin Khalifa Al Khalifa - Chairman	4
Mr. Naser Abdul Mohsen Al Marri - Vice Chairman	4
Mr. Irfan Siddiqui- President & CEO	4
Mr. Mohamed Abdul-Rehman Hussain	2
Mr. Zaigham Mahmood Rizvi	2
Mr. Tarik Kivanc	3
Mr. Mazen Khalid Al-Braikan	3
Mr. Ariful Islam	4
Mr. Rana Ahmad Humayun	4
Mr. Yousif Saleh Khalaf	2

Subsequent to the year end Pakistan Kuwait Investment Company (Private) Ltd. nominated Mr. Istaqbal Mehdi in place of Mr Zaigham Mahmood Rizvi, Shamil Bank of Bahrain nominated Mr. Mohammed Abdul Rahman Mohammed Bucheerei in place of Mr. Yousif Saleh Khalaf and Kuwait Awqaf Public Foundation nominated Mr. Abdul Wahab Al Houti in place of Mr. Mazen Khalid Al-Braikan.

# VALUE ADDED STATEMENT

Rupees in '000

	2004	%	2003	%
<b>Value Added:</b>				
Profit/return on financing, investments and placements earned - net of provision	515,659	75	391,341	70
Fee, commission and brokerage income	100,739	15	53,869	10
Dividend income	108,592	16	114,625	21
Income from dealing in foreign currencies	26,830	4	5,215	1
Gain or sale of investments etc.	128,932	19	113,601	20
	880,752		678,651	
Administrative expenses	196,096	(29)	120,449	(22)
	684,656	100	558,202	100
<b>Value allocated as follows:</b>				
<i>to employees</i>				
Salaries, allowances & other benefits	168,585	25	115,421	21
<i>to depositors/financial institutions</i>				
Return on deposits and other dues expensed	250,393	37	182,354	33
<i>to providers of capital</i>				
Bonus shares	-		106,405	
Cash dividend	-		53,202	
	-	-	159,607	28
<i>to Government</i>				
Income tax	(3,480)	(1)	27,015	5
<i>to expansion and growth</i>				
Depreciation	44,800		19,599	
Retained in business	224,358		54,206	
	269,158	39	73,805	13
	684,656	100	558,202	100



**Meezan Bank**  
The Islamic Bank



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# SHARIAH ADVISOR'S REPORT

الحمد لله رب العالمين، والصلاة والسلام على خاتم الأنبياء والمرسلين،  
محمد المصطفى الأمين، وعلى آله وأصحابه أجمعين، وبعد:

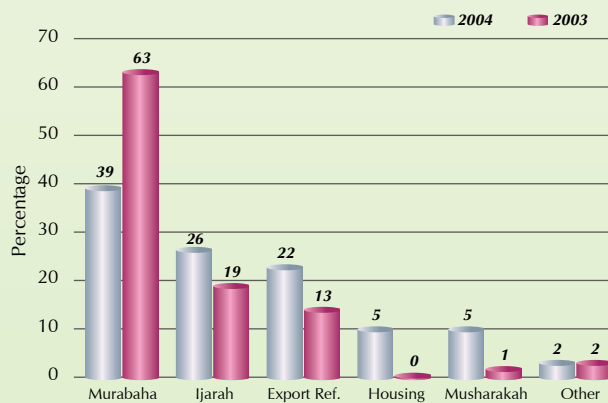
The year under review was the second full year of Islamic Commercial Banking for Meezan Bank Limited. During this time the Bank executed a variety of established Islamic Commercial Banking products as well as two new products that were launched successfully after the approval of the Shariah Supervisory Board. They are as follows:

1. Housing Finance Construction Product: During the current year the Bank refined the Builder product so as to enable the offering of different variants, which now comprehensively include House Construction and House Renovation.
2. Asset Management: The Bank's subsidiary, Al Meezan Investment Management launched another Shariah Compliant fund by the name of Meezan Balanced Fund, with a capital of Rs. 1.2 billion. The fund manages a combination of equity investments and Shariah compliant debt securities.

## Review of Assets

The Bank primarily used Murabaha, Ijarah, Islamic Export Refinance, Diminishing Musharakah and Musharakah for its financing activities during the year. The chart given below shows the composition of the financing portfolio by product:

### Composition of Financing



It is encouraging to note that Murabaha transactions now constitute 39% of the total financing portfolio compared to 63% in the previous year while the percentage of Musharakah, Ijarah and Islamic Export Refinance have increased substantially. The Bank's total financing portfolio reached Rs. 12.339 billion as of December 31, 2004. The Standard Agreements used by the Bank are in accordance with the principles of Islamic Shariah and have been approved by the Shariah Supervisory Board (SSB).

During the course of the Shariah Audit the following have been carefully checked:

- Murabaha Declarations
- The Description of Assets
- Asset ownership of the Bank or its proportion
- Relevant Invoices
- The sequence and order of the documents

- Purchase deeds in leasing transactions
- Time difference between purchases and declaration.

Based on the Shariah review the Executive Committee has directed the Bank's management not to recognize income amounting to Rs. 7.2 million earned on certain Murabaha transactions, as the existence of assets underlying those Murabahas at the respective date of Declaration has not been conclusively established as yet. The EC shall conduct a detailed review of the subject Murabaha transactions in due course and accordingly determine whether or not this amount can be recognized as income.

It is highly recommended that, on a test basis, the Bank's representatives physically check and verify the Assets, which are the subject of Murabaha and Ijarah Transactions.

It was also noted that other products of the Bank including Trade Finance, Treasury, Car Ijarah and Home Financing are being used through their approved format by the SSB. In addition to this investments made in listed shares are based on the criteria given by the SSB.

#### **Review of Liabilities**

On the liability side, the Bank offers different Shariah Compliant deposit products. The total deposits of the Bank reached Rs. 13.8 billion as at December 31, 2004. The procedure for calculation of profit, weightages and redemption has been approved by the SSB. The implementation of the procedure of profit calculation is also being checked quarterly.

#### **Advisory**

Meezan Bank acted as the Shariah Structuring Advisor for the debut Sukuk offering by the Government of Pakistan in the international capital markets. The issue raised US\$ 600 million for the GoP and was structured on the basis of Ijarah. The Bank actively participated in the review and preparation of the underlying documentation which was approved by the SSB.

#### **Charity**

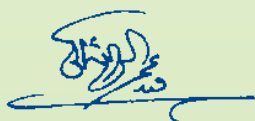
During the year an amount of Rs. 0.95 million was transferred to the Charity Account and an amount of Rs. 0.83 million was disbursed.

#### **Creation of New Product Development and Shariah - Compliance Department**

During the year a new department called Product Development and Shariah-Compliance was created. This department reports directly to the Shariah Advisor and is responsible for over-seeing new product development, training, monitoring and compliance audit.

May Allah bless us with the best Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



Dr. Muhammad Imran Usmani  
Member Shariah Supervisory Board and Shariah Advisor

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present the Board has eight non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred during the year ended December 31, 2004.
5. Statement of Ethics and Business Practices has been approved and signed by the directors and employees of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of the significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
8. The head of the internal audit of the Bank resigned on July 4, 2004. Subsequently, a new head of internal audit was appointed by the Bank. The appointment including the remuneration and its terms and conditions have been approved by the Board. There was no new appointment of the CFO or Company Secretary during the year ended December 31, 2004.
9. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter during the year ended December 31, 2004. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The management of the Bank has circulated a summary of provisions of various laws i.e. the Companies Ordinance, 1984, the Code of Corporate Governance, the Banking Companies Ordinance, 1962, the Prudential Regulations of the State Bank of Pakistan and the Listing Regulations of the Karachi Stock Exchange as required under clause (xiv) of the Code i.e. with respect to the 'Orientation Course' of directors to acquaint them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of shareholders.



11. The Directors' report for the year ended December 31, 2004 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and Acting CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank, other than that disclosed in the pattern of shareholdings.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, of whom two are non-executive directors. The CEO is also a member of the committee.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank. The terms of reference of the committee have been formed, approved by the Board and advised to the committee for compliance.
17. The Board has set-up an internal audit function the members of which are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full-time basis. The Bank is in the process of hiring a new head of internal audit to replace the previous head who retired on January 1, 2005.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.



IRFAN SIDDIQUI  
President & CEO

# REVIEW REPORT TO THE MEMBERS

## ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Meezan Bank Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2004.



A.F. FERGUSON & Co.  
Chartered Accountants  
Karachi.  
March 4, 2005

# STATEMENT OF INTERNAL CONTROLS

The statement is presented to comply with the requirement of State Bank of Pakistan Circular No. BSD 7 dated May 27, 2004 "Guidelines on Internal Control".

The management is responsible for establishing and maintaining an adequate and effective system of internal control for implementing strategies and policies as approved by Board of Directors. The system of internal control is based on what management considers to be appropriate to the Bank's activities, to the materiality of the financial and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage rather than eliminate the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against material mis-statement and loss.

In addition to discharging the above responsibility, the Board of Directors has also formed an Audit Committee. The Audit Committee has direct oversight responsibility to ensure the independence of the internal audit function and the independence of the external auditors. Audit Committee meets at least once every quarter with internal auditors to discuss the scope and results of their work and the adequacy of internal accounting controls. The committee also meets with external auditors prior to approval of half yearly and final results of the Bank.

Based on observations and weakness found and identified by the auditors both internal and external, improvements are brought about by the management with the approval of the Board of Directors in the internal controls to ensure non- recurrence of those exceptions and eliminations of such weaknesses to the maximum possible level.

In view of the above and based on its supervision, management believes that the internal controls are in place and operating effectively for the year under review and that it is an ongoing process for the identification, evaluation and management of significant risk faced by the bank. The Board has endorsed this evaluation.

Moreover keeping in view the risk exposure, internal controls are being continually being reviewed and updated not only to conform to and to achieve full compliance with State Bank of Pakistan's guidelines on internal controls, but also to conform, where ever feasible and practicable, with international best practices and good corporate governance models.



IRFAN SIDDIQUI  
President & CEO



ARIFUL ISLAM  
Chief Operating Officer

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Meezan Bank Limited as at December 31, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for four branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of financings covered more than 60% of the financings of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.4 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

- c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2004 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



A.F. FERGUSON & Co.  
Chartered Accountants  
Karachi.  
March 4, 2005



# BALANCE SHEET

AS AT DECEMBER 31, 2004

Note **2004** **2003**  
Rupees in '000

## ASSETS

Cash and balances with treasury banks	7	2,623,588	1,042,285
Balances with other banks	8	1,751,083	683,596
Due from financial institutions		-	-
Investments	9	1,429,053	1,211,667
Financings	10	12,339,745	7,397,078
Other assets	11	1,349,184	689,226
Operating fixed assets	12	204,737	78,537
Deferred taxation		-	-
		<b>19,697,390</b>	<b>11,102,389</b>

## LIABILITIES

Bills payable	13	196,145	169,062
Due to financial institutions	14	2,862,139	988,964
Deposits and other accounts	15	13,769,807	7,756,862
Sub-ordinated loan		-	-
Liabilities against assets subject to finance leases		-	-
Other liabilities	16	770,631	429,790
Deferred taxation	17	286	9,236
		<b>17,599,008</b>	<b>9,353,914</b>
		<b>2,098,382</b>	<b>1,748,475</b>

## NET ASSETS

## REPRESENTED BY

Share capital	18	1,346,017	1,064,045
Capital reserves	19	256,578	351,444
Revenue reserves	20	258,325	221,073
		<b>1,860,920</b>	<b>1,636,562</b>
Advances against issue of right shares	18.1.1	192,312	-
Surplus on revaluation of investments	21	45,150	111,913
		<b>2,098,382</b>	<b>1,748,475</b>

## CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

President and Chief Executive

Director

Director

# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED DECEMBER 31, 2004



Note **2004** **2003**  
Rupees in '000

Profit/return on financings, investments and placements earned	23	534,400	375,567
Return on deposits and other dues expensed	24	250,393	182,354
Net spread earned		284,007	193,213
Provision / (reversal) of provision against non-performing financings (net)	10.7	16,991	(17,769)
Provision for diminution in value of investments	9.2	1,750	1,995
Bad debts written off directly	10.8	-	-
		18,741	(15,774)
Net spread after provisions		265,266	208,987
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		100,739	53,869
Capital gain on sale of investments		81,223	105,339
Dividend income		108,592	114,625
Unrealised gain on held for trading investments		42,081	-
Income from dealing in foreign currencies		26,830	5,215
Other income	25	5,628	8,262
Total other income		365,093	287,310
		630,359	496,297
<b>OTHER EXPENSES</b>			
Administrative expenses	26	409,296	255,449
Other provisions / write offs		-	-
Other charges	27	185	20
Total other expenses		409,481	255,469
		220,878	240,828
Extraordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		220,878	240,828
Taxation - for the year	28	5,470	5,731
- deferred	28	(8,950)	21,284
		(3,480)	27,015
<b>PROFIT AFTER TAXATION</b>		224,358	213,813
		12,073	
Unappropriated profit brought forward		236,431	630
			214,443
<b>APPROPRIATIONS AND TRANSFERS</b>			
Transferred to			
Statutory reserve		(44,872)	
Reserve for issue of bonus shares		-	(42,763)
Revenue reserves		-	(106,405)
Proposed final cash dividend (2003: Rs 0.50) per share on 134,601,710 (2003: 106,404,514) ordinary shares		-	-
		-	(53,202)
		(44,872)	(202,370)
Unappropriated profit carried forward		191,559	12,073
Basic earnings per share - (Rupees)	29	1.67	1.59

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

President and Chief Executive

Director

Director



# CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

Note **2004** **2003**  
Rupees in '000

## CASH FLOW FROM OPERATING ACTIVITIES

Profit before taxation	220,878	240,828
Dividend income	(108,592)	(114,625)
	112,286	126,203
Adjustments for non-cash charges		
Provision / (reversal) of provision against non-performing financings (net)	16,991	(17,769)
Provision for diminution in value of investments	1,750	1,995
Unrealised gain on held for trading investments	(42,081)	-
Gain on sale of share in a subsidiary company	(450)	-
Gain on sale of property, equipment and others	(704)	(1,391)
Depreciation	43,707	19,066
Amortisation	1,093	533
	20,306	2,434
	132,592	128,637
(Increase) / decrease in operating assets		
Net investments in held for trading securities	244,474	(147,393)
Financings	(4,959,658)	(3,847,121)
Other assets	(656,842)	204,228
	(5,372,026)	(3,790,286)
Increase in operating liabilities		
Bills payable	27,083	122,220
Due to financial institutions	1,873,175	977,133
Deposits and other accounts	6,012,945	2,677,384
Other liabilities	393,288	179,186
	8,306,491	3,955,923
Income tax paid	3,067,057	294,274
	(7,112)	
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>3,059,945</b>	<b>(106,736)</b> <b>187,538</b>

## CASH FLOW FROM INVESTING ACTIVITIES

Net investments in		
- held to maturity securities	(120,893)	(20,263)
- available for sale securities	(90,329)	(345)
- unquoted subsidiary company	-	(67,900)
- quoted associated undertakings	4,080	(132,939)
- unquoted associated undertakings	(286,000)	12,900
Sale proceed on disposal of shares in an unquoted subsidiary company	5,300	-
Dividends received	107,118	140,257
Investments in operating fixed assets	(172,613)	(63,379)
Sale proceeds on disposal of property, equipment and others	2,317	2,576
Net cash outflow from investing activities	(551,020)	(129,093)

## CASH FLOW FROM FINANCING ACTIVITIES

Amount received against issue of shares	192,312	-
Dividend paid	(52,447)	(49,987)
Net cash flow from financing activities	139,865	(49,987)
Net increase in cash and cash equivalents	2,648,790	8,458
Cash and cash equivalents as at January 1	30 1,725,881	1,717,423
Cash and cash equivalents as at December 31	30 4,374,671	1,725,881

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

President and Chief Executive

Director

Director



# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2004



	Share capital	Capital reserves			Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit	
	Rupees in '000						
Balance as at January 1, 2003	1,001,454	33,333	168,943	62,591	209,000	630	1,475,951
Issue of bonus shares	62,591	-	-	(62,591)	-	-	-
Net profit after taxation for the year	-	-	-	-	-	213,813	213,813
Transfer to statutory reserve	-	-	42,763	-	-	(42,763)	-
Transfer to reserve for issue of bonus shares	-	-	-	106,405	-	(106,405)	-
Proposed dividend	-	-	-	-	-	(53,202)	(53,202)
Balance as at December 31, 2003	1,064,045	33,333	211,706	106,405	209,000	12,073	1,636,562
Issue of bonus shares	281,972	(33,333)	-	(106,405)	(142,234)	-	-
Net profit after taxation for the year	-	-	-	-	-	224,358	224,358
Transfer to statutory reserve	-	-	44,872	-	-	(44,872)	-
Balance as at December 31, 2004	1,346,017	-	256,578	-	66,766	191,559	1,860,920

The annexed notes 1 to 41 form an integral part of these financial statements.

Chairman

President and Chief Executive

Director

Director



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 1. LEGAL STATUS AND NATURE OF BUSINESS

The Bank was incorporated in Pakistan on January 27, 1997 as a public limited company under the Companies Ordinance, 1984 and its shares are quoted on the Karachi Stock Exchange. The Bank was registered as an 'Investment Finance Company' on August 8, 1997 and carried on the business of investment banking as permitted under SRO 585(I)/87 dated July 13, 1987 in accordance and in conformity with the principles of Islamic Shariah. A 'certificate of commencement of business' was issued to the Bank on September 29, 1997.

The Bank was granted a 'Scheduled Islamic Commercial Bank' licence on January 31, 2002 and formally commenced operations as a scheduled Islamic commercial bank with effect from March 20, 2002 on receiving notification in this regard from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. Currently, the Bank is engaged in commercial, consumer and investment banking activities.

The Bank was operating through sixteen branches as at December 31, 2004 (2003: ten). Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

## 2. BASIS OF PRESENTATION

The Bank provides financing mainly through murabaha, ijarah, musharakah and export refinance under Islamic export refinance scheme. Under murabaha the goods are purchased and are then sold to the customers on credit. The purchase and sale arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financings is recognised in accordance with the principles of Islamic Shariah, however income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable if so directed by the Executive Committee of the Shariah Supervisory Board.

## 3. STATEMENT OF COMPLIANCE

- 3.1 The financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance), the directives issued by the SBP including format for financial statements of Bank issued by SBP through BSD Circular No. 36 dated October 10, 2001, and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretation Committee of IASC (the interpretations), as adopted in Pakistan. However, the requirements of these Ordinances and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.
- 3.2 The SBP through its BSD Circular letter No. 10 dated August 26, 2002 has deferred the implementation of IAS 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for banks in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of these financial statements.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that investments are valued at market rates in accordance with the requirements of SBP's BSD Circular No. 10 dated July 13, 2004 as amended through BSD Circular No. 11 dated August 4, 2004 and BSD Circular No. 14 dated September 13, 2004.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 5.2 Revenue recognition

- (i) Dividend income is recognised when the Bank's right to receive payment is established.
- (ii) Purchase and sale of investments are recorded on the dates of contract. Gains and losses on sale of investments are also recorded on those dates.
- (iii) The Bank follows the finance method in recognising income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset under ijarah facility is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in the ijarah. Gains / losses on termination of ijarah contracts, documentation charges, front-end fees and other ijarah income are recognised as income on a receipt basis. Consistent with prior years, income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iv) Profit on murabaha financings and placements is recognised on accrual basis, except the profit required to be suspended in compliance with the Prudential Regulations issued by the SBP which is recorded on receipt basis. Consistent with prior years, profit on murabaha is recognised on delivery of goods to the customer.
- (v) Commission on letters of credit, acceptances and guarantees is recognised on receipt basis, except for commission on guarantees in excess of Rs. 50,000 which is recognised over the period of the guarantee.

## 5.3 Financings

Financings are stated net of specific and general provisions against non-performing financings, if any, which are charged to the profit and loss account.

The Bank determines the provision against financings on a prudent basis in accordance with the Prudential Regulations issued by the SBP.

Financings are written off when it is considered that there is no realistic prospect of recovery.

## 5.4 Investments

5.4.1 The Bank classifies its investments as follows:

### - Held for trading

These are investments acquired principally for the purpose of generating profit from short-term fluctuations in price.

### - Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Bank has positive intent and ability to hold to maturity.

### - Available for sale

These are investments which do not fall under the 'held for trading' or 'held to maturity' categories.

The Bank has reclassified its investment in the aforementioned categories on September 30, 2004 to comply with the requirements of BSD Circular No. 11 dated August 4, 2004.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

5.4.2 To comply with the requirements contained in BSD Circulars 10, 11 and 14 dated July 13, August 4 and September 24, 2004 respectively, the Bank values its investments as follows:

- Quoted securities, excluding investments categorised as 'held to maturity' securities and investment in subsidiaries and associates, are stated at revalued amounts.
- Unquoted securities including investments in associates and subsidiaries continue to be stated at cost less provision for impairment, if any.
- Investments in quoted associates are carried at cost. Previously, these investments were stated at revalued amounts in accordance with BSD Circular No. 20 dated August 4, 2000. The reason and effect of the aforementioned change in accounting policy is stated in note 6.1.
- Investments in securities categorised as 'held to maturity' are carried at amortised cost. Previously such quoted investments were stated at revalued amount and the unquoted investment were stated at cost. This change in accounting policy has not resulted in any change in the profit for the current year.

5.4.3 Any surplus/deficit arising as a result of revaluation of quoted securities categorised as 'available for sale' is presented below the shareholders' equity in the balance sheet.

5.4.4 During the year the Bank has changed its accounting policy in respect of accounting for unrealised surplus / deficit arising on revaluation of 'held for trading' investments portfolio. According to the revised policy, surplus / deficit arising on revaluation of 'held for trading' securities is credited / charged to the profit and loss account. Previously any surplus / deficit arising as a result of revaluation of investments was presented below shareholders' equity in the balance sheet in accordance with BSD Circular No. 20 dated August 4, 2000. The reason and effect of change in this accounting policy is stated in note 6.1.

5.4.5 The Bank has also changed its accounting policy in respect of accounting for unrealised surplus / deficit arising on revaluation of 'held to maturity' investments portfolio. 'Held to maturity' investments are now carried at amortised cost. Previously any surplus / deficit arising as a result of revaluation of investments was presented below shareholders' equity in the balance sheet in accordance with BSD Circular No. 20 dated August 4, 2000. This change in accounting policy has no effect on these financial statements.

5.4.6 Cost of investments is determined on moving average basis. The cost of acquisition of 'dealing securities' (i.e. quoted securities purchased and sold on the same day) is not considered for calculating the 'moving average cost' of other quoted securities (i.e. quoted securities sold after the date of purchase).

5.4.7 Impairment loss is recognised whenever the carrying amount of an investment exceeds its expected recoverable amount. An impairment loss is recognised in income currently.

## 5.5 Operating fixed assets

### 5.5.1 Tangible assets

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to the profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life. The full annual rate of depreciation is applied on the cost of additions while no depreciation is charged on assets deleted during the year. Capital work in progress is stated at cost.

Items of fixed assets costing Rs. 10,000 or less are not capitalised and are charged off in the year of purchase. When the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on disposals of fixed assets is included in income currently.

## 5.5.2 Intangible assets

Intangible assets comprise of computer software. Accounting for such assets is on the same basis as for tangible fixed assets owned by the Bank.

## 5.6 Taxation

### Current

The charge for taxation is based on expected taxable income for the year at current rates of taxation, and any adjustments to tax payable in respect of previous years, after taking into consideration available tax credits, rebates and tax losses etc.

### Deferred

The Bank accounts for deferred taxation using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 5.7 Staff retirement benefits

### Defined benefit plan

The Bank operates a funded gratuity scheme for all its permanent employees who have completed the minimum qualifying eligible service of one year. The scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2004. The projected unit credit method was used for actuarial valuation.

Actuarial gains or losses are recognised in accordance with the actuary's recommendation.

### Defined contribution plan

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10% of basic salary.

## 5.8 Foreign currencies

Foreign currency transactions are recorded in rupees at exchange rates prevailing on the date of transaction. Assets, liabilities and contingencies and commitments in foreign currencies except forward contract other than contracts with the SBP at the year end are reported in rupees at exchange rates prevalent on the balance sheet date.

Forward contracts other than contracts with the SBP relating to the foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract. Forward contracts with the SBP relating to foreign currency deposits are valued at spot rate prevailing at the balance sheet date. Exchange gains and losses are included in income currently.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 5.9 Provisions and contingent assets and liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation arising as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognised, and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

## 5.10 Related party transactions

Transactions between the Bank and its related parties are carried out on arm's length basis substantiated in a manner set out in the note 40.2.

## 5.11 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 5.12 Compensated absences

The Bank recognises liability in respect of employees compensated absences in the period in which these are earned upto the balance sheet date.

## 6. REASON AND EFFECT OF CHANGES IN ACCOUNTING POLICIES

6.1 Effective September 30, 2004 the Bank has changed its accounting policy in respect of matters stated in notes 5.4.2 and 5.4.4 above. These changes have been made to comply with the requirements stated in BSD Circulars 10, 11 and 14 dated July 13, August 4 and September 24, 2004 respectively issued by SBP. The effects of respective changes are presented below separately.

- Had the accounting policy not been changed with respect to valuation of investment in quoted associates, the investment in quoted associates and the unrealised surplus on revaluation of investments as presented below shareholders' equity in the balance sheet would have been higher by Rs. 128.484 million.
- Had the accounting policy not been changed with respect to accounting for unrealised surplus arising on revaluation of investments categorised as 'held-for-trading', the profit for the year ended December 31, 2004 would have been lower by Rs. 42.081 million and surplus on revaluation of investments would have been higher by the same amount.

In accordance with the allowed alternative treatment specified in International Accounting Standard (IAS) 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' the effects of the aforementioned changes in an accounting policy have been recognised in the current period. As the Bank has reclassified its portfolio on September 30, 2004 in accordance with the requirements of BSD Circular No. 11 dated August 4, 2004 therefore it is not practical to state the 'held for trading' portfolio on the same basis for the years ended December 31, 2002 and 2003. However, for the purpose of disclosure, 'held for trading' securities portfolio as at December 31, 2002 and December 31, 2003 has been considered as 'held for trading' portfolio as required by SBP's aforementioned circulars. The restated proforma information as required by the aforementioned IAS has been presented in notes 6.2 and 6.3 below.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 6.2 Extract of profit and loss account

	2004	2003	Proforma	
			2004	2003
Rupees in '000				
Profit after taxation for the period before incorporating the effects of changes in accounting policy	182,277	213,813	182,277	213,813
Cumulative effects of changes in accounting policy as stated above	42,081	-	2,358	(295)
Profit after taxation for the year as restated	224,358	213,813	184,635	213,518

## 6.3 Extract of statement of unappropriated profit

Opening balance of unappropriated profit as previously reported	12,073	630	12,073	630
Effects of changes in accounting policy				
- as stated above	-	-	39,723	40,018
- statutory reserve	-	-	(7,945)	(8,004)
Opening balance of unappropriated profit as restated	12,073	630	43,851	32,644
Profit after taxation for the year	224,358	213,813	184,635	213,518
	236,431	214,443	228,486	246,162
Transfer to statutory reserve	(44,872)	(42,763)	(36,927)	(42,704)
Transfer to reserves for issue of bonus shares	-	(106,405)	-	(106,405)
Proposed dividend	-	(53,202)	-	(53,202)
Unappropriated profit	191,559	12,073	191,559	43,851

## 7. CASH AND BALANCES WITH TREASURY BANKS

	2004	2003
Rupees in '000		
In hand		
- local currency	266,600	95,870
- foreign currency	59,858	47,870
With the SBP in		
- local currency current accounts - note 7.1	2,199,745	812,868
- foreign currency deposit accounts - note 7.1	97,000	85,292
With National Bank of Pakistan in		
- a local currency current account	385	385
	2,623,588	1,042,285

7.1 These represent local and foreign currency amounts required to be maintained by the Bank with the SBP as stipulated by it (the SBP).



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 8. BALANCES WITH OTHER BANKS

	2004	2003
	Rupees in '000	
In Pakistan		
- on current accounts	21,818	13,335
- on deposit accounts - note 8.1	164,716	388,549
Outside Pakistan		
- on current accounts	817,793	73,198
- on deposit accounts	746,756	208,514
	<u>1,751,083</u>	<u>683,596</u>

8.1 It includes Rs. 4.715 million (2003: Rs. 188.549 million) held in a deposit account with an associated undertaking. The depositor has undertaken to utilise such funds in accordance with the principles of Islamic Shariah.

## 9. INVESTMENTS

	2004			2003			
	Held by the Bank	Given as Collateral	Total	Held by the Bank	Given as Collateral	Total	
	Rupees in '000						
<b>Investments by types</b>							
Held for trading securities	note 9.3	178,817	-	178,817	423,291	-	423,291
Held to maturity securities	note 9.4	178,290	-	178,290	57,397	-	57,397
Available for sale securities	note 9.5	221,244	-	221,244	130,915	-	130,915
In related parties							
Subsidiary (unquoted)	note 9.6	63,050	-	63,050	67,900	-	67,900
Associates (quoted)	note 9.7	351,746	-	351,746	355,826	-	355,826
Associates (unquoted)	note 9.8	103,000	-	103,000	69,000	-	69,000
Advance against issue of certificates by an associate		180,000	-	180,000	-	-	-
Advance against issue of preference shares of Falcon Greenwood (Private) Limited (an associate)		72,000	-	72,000	-	-	-
		<u>1,348,147</u>	-	<u>1,348,147</u>	<u>1,104,329</u>	-	<u>1,104,329</u>
Add: Surplus on revaluation of investments							
- 'Held for trading' taken to profit and loss account		42,081	-	42,081	-	-	-
- 'Held for trading' taken to surplus shown below equity		-	-	-	39,723	-	39,723
- 'Available for sale'		45,150	-	45,150	72,190	-	72,190
		<u>1,435,378</u>	-	<u>1,435,378</u>	<u>1,216,242</u>	-	<u>1,216,242</u>
Less: Provision for diminution in value of investments	note 9.2	6,325	-	6,325	4,575	-	4,575
		<u>1,429,053</u>	-	<u>1,429,053</u>	<u>1,211,667</u>	-	<u>1,211,667</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>9.1 Investments by segments</b>		
Fully paid up ordinary shares		
- Listed companies	596,207	754,432
- Unlisted companies	166,050	136,900
Musharakah term finance certificates	30,600	30,600
Bonds - note 9.4	178,290	57,397
Units of an open end fund	125,000	125,000
Advance against issue of certificates - note 9.1.1	180,000	-
Advance against issue of preference shares	72,000	-
	1,348,147	1,104,329
Add: Surplus on revaluation of investments		
- 'Held for trading' taken to profit and loss account	42,081	-
- 'Held for trading' taken to surplus shown below equity	-	39,723
- 'Available for sale'	45,150	72,190
	1,435,378	1,216,242
Less: Provision for diminution in value of investments - note 9.2	6,325	4,575
	1,429,053	1,211,667

9.1.1 This represents advance against issue of certificates in a closed end fund. These certificates were subsequently quoted on the Karachi Stock Exchange.

## 9.2 Particulars of provision

Opening balance	4,575	2,580
Charge for the year	1,750	1,995
Reversals	-	-
	1,750	1,995
Closing balance	6,325	4,575

9.2.1 This provision is against investment in an unquoted associated undertaking.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.3 Held for trading securities

The Bank holds investments in ordinary shares of Rs 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company	2004	2003	2004	2003
	Number of Shares		Cost Rupees in '000	
<b>Textile composite</b>				
Nishat (Chunian) Limited	50,000	-	3,910	-
Legler Nafees Denim Mills Limited	-	500,000	-	6,250
<b>Cement</b>				
DG Khan Cement Limited	60,000	-	2,870	-
Lucky Cement Limited	-	100,000	-	2,481
<b>Refinery</b>				
National Refinery Limited	26,000	26,000	4,160	3,524
<b>Power generation and distribution</b>				
Hub Power Company Limited	94,500	1,240,000	3,357	46,913
Southern Electric Power Company Limited	-	100,000	-	2,091
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	129,500	406,900	35,018	112,928
Sui Northern Gas Pipelines Limited	-	969,012	-	36,932
Shell Pakistan Limited	8,000	17,500	3,354	7,337
Sui Southern Gas Company Limited	39,712	310,212	1,168	8,543
<b>Oil and gas exploration</b>				
Pakistan Oil Fields Limited	55,000	97,500	11,818	21,215
Oil and Gas Development Company Limited	-	451,987	-	14,468
<b>Automobile assembler</b>				
Agriautos Industries Limited	180,000	-	8,865	-
<b>Technology and communication</b>				
Pakistan Telecommunication Company Limited (A)	953,500	840,000	38,466	29,461
World Call Payphone Limited	-	105,375	-	1,621
<b>Fertilizer</b>				
Engro Chemical Pakistan Limited	-	522,001	-	45,145
Fauji Fertilizer Bin Qasim Company Limited	-	100,000	-	1,765
Fauji Fertilizer Company Limited	546,365	481,300	53,854	41,926
<b>Chemical</b>				
ICI Pakistan Limited	-	25,000	-	2,130
<b>Paper and board</b>				
Packages Limited	81,712	56,712	11,026	5,387
<b>Food and personal care products</b>				
Unilever Pakistan Limited - note 9.3.1	980	24,475	874	29,432
<b>Miscellaneous</b>				
Tri-Pack Films Limited	900	44,000	77	3,742
			<u>178,817</u>	<u>423,291</u>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

9.3.1 The nominal value of these shares is Rs. 50 each.

## 9.4 Held to maturity securities

Name of the investee entity

	2004	2003	2004	2003
	Number of Bonds		Cost Rupees in '000	
<b>Bonds</b>				
Qatar Global Sukuk Bonds (Sukuk-Qatar) - note 9.4.1	1,000,000	1,000,000	59,430	57,397
Dubai Sukuk Bonds (Sukuk-Dubai) - note 9.4.2	2,000,000	-	118,860	-
			178,290	57,397

9.4.1 The paid up value of Sukuk-Qatar is US\$ 1 per bond. The return on Sukuk-Qatar is on the basis of London inter-bank offered rate plus a fixed credit spread of forty basis points. These bonds will mature in 2010.

9.4.2 The paid up value of Sukuk-Dubai is US\$ 1 per bond. The return on Sukuk-Dubai is on the basis of London inter-bank offered rate plus a fixed credit spread of forty five basis points. These bonds will mature in 2009.

## 9.5 Available for sale securities

The Bank holds investments in ordinary shares and musharakah term finance certificates (MTFCs) of a nominal value of Rs. 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company

	2004	2003	2004	2003
	Number of Shares/ Certificates		Cost Rupees in '000	
<b>Ordinary shares</b>				
<b>Auto Assembler</b>				
Agriautos Industries Limited	120,000	-	5,929	-
<b>Power generation and distribution</b>				
Hub Power Company Limited	1,500,000	1,500,000	49,000	54,194
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	100,280	280	27,401	33
Shell Pakistan Limited	45,000	45,000	15,305	15,305
Sui Southern Gas Company Limited	1,100,000	-	30,107	-
<b>Oil and gas exploration</b>				
Pakistan Oil Fields Limited	100,000	-	21,488	-
<b>Technology and communication</b>				
Pakistan Telecommunication Company Limited (A)	476,500	160,000	15,555	4,323
<b>Fertilizer</b>				
Fauji Fertilizer Company Limited	172,500	50,000	11,537	2,733
<b>Paper and board</b>				
Packages Limited	30,000	30,000	1,829	1,829
<b>Food and personal care products</b>				
Unilever Pakistan Limited - note 9.3.1	14,000	24,540	12,493	21,898
<b>MTFCs</b>				
Sitara Chemicals Limited - note 9.5.1	6,120	6,120	30,600	30,600
			221,244	130,915



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

9.5.1 The paid up value of MTFs is Rs 5,000 per certificate. The return on MTFs is on Musharakah basis and will mature in 2007.

## 9.6 Subsidiary (unquoted)

Particulars	2004	2003	2004	2003	Percentage of equity holding	Break up value per share	Latest available financial statements	Name of the chief executive
	Number of Shares		Rupees in '000		%	Rupees		
Al-Meezan Investment Management Limited (ordinary shares) - notes 9.6.1 and 9.6.2	650,000	700,000	63,050	67,900	65	258.09	December 31, 2004*	Mr. Muhammad Shoab
Total			63,050	67,900				

\*Half yearly unaudited financial statements.

9.6.1 The nominal value of these shares is Rs. 100 each.

9.6.2 During the year the Bank has disposed off 5% holding in the investee company reducing its holding to 65% in the investee company.

## 9.7 Associates (quoted)

The Bank holds investments in ordinary shares/units of Rs. 10 each, unless stated otherwise, in the following listed investee entities:

Name of the investee entity	2004	2003	Percentage of direct equity holding	2004	2003
	Number of shares / certificates / units		%	Rupees in '000	
<b>Ordinary shares</b>					
<b>Closed end mutual fund</b>					
Al-Meezan Mutual Fund Limited	1,784,800	1,965,500	2.00	12,150	16,230
<b>Modaraba</b>					
Fayzan Manufacturing Modaraba	21,457,500	21,457,500	23.84	214,596	214,596
<b>Units of an open end fund</b>					
Meezan Islamic Fund - note 9.7.1	2,841,095	2,500,000	N/A	125,000	125,000
				351,746	355,826

9.7.1 The nominal value of these units is Rs. 50 each.

9.7.2 Investments in quoted associates have a market value of Rs. 480.230 million (2003: Rs. 400.178 million).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.8 Associates (unquoted)

The Bank holds investments in ordinary shares of Rs. 10 each, unless stated otherwise, in the following unlisted investee companies:

Particulars	2004	2003	2004	2003	Percentage of equity holding	Break up value per share	Latest available financial statements	Name of the chief executive
	Number of Shares		Rupees in '000		%	Rupees		
Plexus (Private) Limited	1,499,980	1,499,980	15,000	15,000	50	5.78	December 31, 2004*	Mr. Arif-ul-Islam
Faysal Management Services (Private) Limited - note 9.8.1	540,000	540,000	54,000	54,000	30	132.67	December 31, 2004*	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited - note 9.8.1	90,000	-	9,000	-	30	100	December 31, 2004*	Mr. Shuja-ul-Mulk
Falcon Greenwood (Private) Limited - note 9.8.1	250,000	-	25,000	-	25	100	December 31, 2004*	Mr. Abbas Khan
Total			<u>103,000</u>	<u>69,000</u>				

\*Unaudited

9.8.1 The nominal value of these shares is Rs. 100 each.

## 10. FINANCINGS

In Pakistan

- Murabaha financings
  - Net investment in ijarah - note 10.2
  - Export refinance under Islamic scheme
  - Financings against bills
  - Loans, cash credit, running finances, etc. - notes 10.3, 10.4 and 10.5
  - Musharakah financings
  - House financings
- Total financing - note 10.6

Less: Provision against non-performing financings - note 10.7

	2004	2003
	Rupees in '000	
	4,856,083	4,678,811
	3,221,480	1,440,353
	2,705,274	988,964
	270,945	145,564
	115,667	101,498
	571,769	95,700
	677,349	8,380
	<u>12,418,567</u>	<u>7,459,270</u>
	78,822	62,192
	<u>12,339,745</u>	<u>7,397,078</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.1 Particulars of financings

	2004	2003
	Rupees in '000	
10.1.1 In		
- local currency	12,132,123	6,841,848
- foreign currencies	207,622	555,230
	12,339,745	7,397,078
10.1.2 Short-term (for upto one year)	8,583,182	6,290,711
Long-term (for over one year)	3,756,563	1,106,367
	12,339,745	7,397,078

## 10.2 Net investment in ijarah

	2004				2003			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	950,976	2,332,991	9,697	3,293,664	600,299	946,778	-	1,547,077
Residual value	14,650	452,418	395	467,463	25,546	140,105	-	165,651
Minimum ijarah payments	965,626	2,785,409	10,092	3,761,127	625,845	1,086,883	-	1,712,728
Profits for future periods	223,969	313,486	2,192	539,647	132,249	140,126	-	272,375
Present value of minimum ijarah payments	741,657	2,471,923	7,900	3,221,480	493,596	946,757	-	1,440,353

10.3 During the year a revised scheme of arrangement was sanctioned by the High Court of Sindh in respect of Pakland Cement Limited (PCL). Under the revised scheme of arrangement:

- TFCs having a face value of Rs. 40.589 million were issued; and
- the Bank has waived mark up aggregating Rs. 36.347 million (note 10.8.3) which represents Rs. 23.286 million in respect of accrued mark up from January 1, 2001 to May 31, 2004 and Rs. 13.061 million in respect of TFC Series B.

These TFCs have been issued by PCL in two series, series 'A' represents the principal amount and will carry a yield of 6 months ask KIBOR + 2.5 percent whereas series 'B' has been issued for accrued mark up and carries no yield. The TFCs will be redeemed between the period January 15, 2005 to July 15, 2013. The transfer of these TFCs can only be effected among the creditors of PCL and transfer to third party (other than a creditor) will require prior written consent of the issuer. The outstanding amount of the original loan is fully provided.

10.4 This includes Rs. 56.691 million representing mark-up free loans to staff advanced under the Bank human resource policies. Included therein are loans to executives and directors as shown in note 10.4.1 below.

### 10.4.1 Loans to executives and directors

	EXECUTIVES		DIRECTORS	
	2004	2003	2004	2003
	Rupees in '000			
Opening balance	23,329	15,929	1,093	1,226
Loans disbursed during the year	14,495	8,835	-	-
Loans repaid during the year	(3,761)	(1,435)	(133)	(133)
Closing balance	34,063	23,329	960	1,093

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.5 Particulars of loans and financings to directors, associated companies etc.

	<b>Balance as at December 31, 2004</b>	<b>Maximum total amount of financings including temporary financings granted during the year*</b>
	Rupees in '000	
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons	56,691	56,691
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members - note 10.5.1	146,917	146,917
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties - note 10.5.2	474	474
	<u>204,082</u>	<u>204,082</u>

\*The maximum amount has been calculated by reference to month end balances.

10.5.1 This represents a musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs. 94.500 million and ijarah facilities outstanding from The General Tyre and Rubber Company Limited (an associated company) amounting to Rs. 52.417 million. The musharakah facility is secured against equitable mortgage over property whereas the ijarah facility is secured against the respective assets.

10.5.2 This represents an ijarah facility outstanding from Al-Meezan Investment Management Limited (a subsidiary company). The ijarah facility is secured against the respective assets.

10.6 Financings include Rs. 59.971 million (2003: Rs. 62.192 million) which have been placed under non-performing status as detailed below:

<b>Category of classification</b>	<b>Domestic</b>	<b>Overseas</b>	<b>Total</b>	<b>Provision required</b>	<b>Provision held</b>
	Rupees in '000				
Other assets especially mentioned	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	59,971	-	59,971	59,971	59,971
	<u>59,971</u>	<u>-</u>	<u>59,971</u>	<u>59,971</u>	<u>59,971</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.7 Particulars of provision against non-performing financings:

	2004			2003		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	62,192	-	62,192	175,257	-	175,257
Charge for the year	2,620	18,851	21,471	-	-	-
Reversals	(4,480)	-	(4,480)	(17,769)	-	(17,769)
	(1,860)	18,851	16,991	(17,769)	-	(17,769)
Amounts written off - note 10.8.1	(361)	-	(361)	(95,296)	-	(95,296)
Closing balance	59,971	18,851	78,822	62,192	-	62,192

10.7.1 The Bank has maintained a general reserve (provision) in accordance with the applicable requirements of Prudential Regulations for consumer financing issued by the State Bank of Pakistan.

## 10.8 Particulars of write offs

10.8.1 Against provision – note 10.7  
Directly charged to profit and loss account

10.8.2 Write offs of Rs. 500,000 and above  
Write offs below Rs. 500,000

10.8.3 Details of loan write off of Rs. 500,000 and above.

	2004	2003
	Rupees in '000	
	361	95,296
	-	-
	361	95,296
	-	95,296
	361	-
	361	95,296

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees or above allowed to any person during the year ended December 31, 2004 is as follows:

S.No.	Name and address of the borrower	Name of directors* (with NIC number)	Father's name	Outstanding liabilities at the date of write off			Principal written off	Mark-up waived	Other financial relief provided	Total	
				Principal	Mark-up	Other					
Rupees in '000											
1.	Pakland Cement Limited Dewan Centre, 3-A, Lalazar Beach Hotel Road, Karachi	Syed Moonis Abdullah Alvi Esq. 42201-6886191-3	Syed Riaz uddin Alvi Esq.	30,959	16,134	-	47,093**	-	-	36,347	36,347
		Mr. Muhammad Khubaib 42301-5462662-3	Mr. Ghulam Nabi								
		Mr. Aziz-ul-Haque 42301-8514003-5	Mr. Noor-ul- Haque								
		Mr. Farrukh Viqaruddin Junaidy 42301-7518478-7	Mr. Muhammad Viqaruddin Junaidy								



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

S.No.	Name and address of the borrower	Name of directors* (with NIC number)	Father's name	Outstanding liabilities at the date of write off				Principal written off	Mark-up waived	Other financial relief provided	Total
				Principal	Mark-up	Other	Total				
Rupees in '000											
		Mr. Zaheer Mustafa Jaleel 420007-245886-7	Mr. Ahmed Jaleel Siddiqui								
		Mr. Khursheed Anwer Jamal 42201-0763190-5	Mr. Muhammad Yaqoob								
		Mr. Muhammad Shabbir Alem 516-73-164873 (Nominee director on behalf of NIT)	Mr. Muhammad Mobin								
		Mr. Wajahat A. Baqai ***  (Nominee director on behalf of creditors)	Mr. Tasleem Uddin Baqai								
		Mr. Wasif Mustafa Khan ***  (Nominee director on behalf of creditors)	***								

\* Information as available in the records of MBL.

\*\* In addition to the above amounts aggregating Rs. 50.797 million were recoverable as markup, however, as a matter of prudence the Bank had not recognised this balance in its books. Out of this balance the Bank has waived mark-up aggregating Rs. 36.347 million.

\*\*\* Information not available in the records of the MBL.

## 11. OTHER ASSETS

	2004	2003
	Rupees in '000	
Profit / return accrued in local currency	106,650	66,690
Profit / return accrued in foreign currency	1,945	2,451
Advances, deposits, advance rent and other prepayments	150,044	30,837
Advance taxation (payments less provisions)	187,719	186,077
Receivables on account of sale of securities	318,524	31,339
Dividends receivable	3,716	2,242
Stamps	1,494	879
Advance against future murabaha	325,046	298,921
Advances against future ijarah	247,632	67,020
Security deposits	5,928	2,594
Prepaid exchange risk fee	42	129
Other - note 11.1	444	47
	<u>1,349,184</u>	<u>689,226</u>

11.1 This represents amount recoverable from the SBP upon encashment of various instruments on behalf of the SBP by the Bank.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 12. OPERATING FIXED ASSETS

	2004	2003
	Rupees in '000	
Tangible assets		
- Capital work-in-progress – note 12.1	12,830	9,268
- Property, equipment and others – note 12.2	182,767	64,636
	195,597	73,904
Intangible assets – note 12.3	9,140	4,633
	204,737	78,537
12.1 Capital work-in-progress		
- Advances to suppliers and contractors for building renovation	4,792	6,708
- Advances for purchase of vehicles	8,038	2,560
	12,830	9,268

## 12.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2004	Rate of depreciation %
	As at January 1, 2004	Additions/ (disposals)	As at December 31, 2004	As at January 1, 2004	Charge/ (on disposals)	As at December 31, 2004		
Rupees in '000								
Land and buildings - note 12.2.1	-	55,329	55,329	-	2,766	2,766	52,563	5%
Leasehold improvements	26,534	34,487	61,021	3,298	6,102	9,400	51,621	10%
Furniture and fixtures	6,155	6,298	12,453	1,121	1,245	2,366	10,087	10%
Electrical, office and computer equipments	32,971	43,695 (667)	75,999	16,894	23,213 (255)	39,852	36,147	33%
Vehicles	32,313	23,642 (2,741)	53,214	12,024	10,381 (1,540)	20,865	32,349	20%
2004	97,973	163,451 (3,408)	258,016	33,337	43,707 (1,795)	75,249	182,767	
2003	43,143	58,476 (3,646)	97,973	16,732	19,066 (2,461)	33,337	64,636	

12.2.1 The break-up of cost of land and buildings between the two separate categories has not been disclosed as the subject purchase was made for an overall price.

12.2.2 Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs. 6.986 million (2003: Rs. 6.721 million).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

12.2.3 Details of disposal of fixed assets to executives and other persons are as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser	Address
Rupees in '000							
<b>Electrical, office and computer equipments</b>							
Generator	550	181	369	250	Negotiation	Base Ten International	Suit # 1007, Pak Avenue, 10th Floor, Block 6, 24-A P.E.C.H.S, Main Shahrah-e-Faisal, Karachi 75400
Toshiba photocopier	-	-	-	29	Negotiation	General Traders (Private) Ltd.	1st Floor, Al-Falah Courts, I.I Chundrigar Road, Karachi
Mobile	12	4	8	5	Insurance claim	Adamjee Insurance Company Ltd.	6th Floor, Adamjee House, I.I. Chundrigar Road, Karachi 74000
Laptop	104	68	36	36	Bank policy	Emad-ul-Hasan (Ex-employee)	B-53, Block 4-A, Gulshan-e-Iqbal, Karachi.
<b>Vehicles</b>							
Honda Civic	1,241	497	744	915	Bank policy	Chaudhry Naeem Yasin (Ex-employee)	161-M, Lahore Cantt. Cooperative Housing Society, Lahore.
Honda City	735	662	73	159	Bank policy	Sohail Khan (Employee)	A-228, Block D, North Nazimabad, Karachi.
Honda City	766	383	383	383	Bank policy	Emad-ul-Hassan (Ex-Employee)	B-53, Block 4-A, Gulshan-e-Iqbal, Karachi.
Honda Civic	-	-	-	465	Negotiation	Nadeem Ahmed (Individual)	House No. 66, Muslim Town, Faisalabad.
Honda Civic	-	-	-	75	Bank policy	Saleem Khan (Employee)	Apartment No. 701, Margalla Towers, F-10, Islamabad.
	3,408	1,795	1,613	2,317			

## 12.3 Intangible assets

	COST			AMORTISATION			Net book value as at December 31, 2004	Rate of amortisation %
	As at January 1, 2004	Additions	As at December 31, 2004	As at January 1, 2004	Charge	As at December 31, 2004		
Computer software	5,328	5,600	10,928	695	1,093	1,788	9,140	10%
2003	1,621	3,707	5,328	162	533	695	4,633	

Rupees in '000



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>13. BILLS PAYABLE</b>		
In Pakistan	196,145	163,008
Outside Pakistan	-	6,054
	<u>196,145</u>	<u>169,062</u>
<b>14. DUE TO FINANCIAL INSTITUTIONS</b>		
In Pakistan	2,862,139	988,964
Outside Pakistan	-	-
	<u>2,862,139</u>	<u>988,964</u>
<b>14.1 Particulars of due to financial institutions</b>		
In local currency	2,835,274	988,964
In foreign currencies	26,865	-
	<u>2,862,139</u>	<u>988,964</u>
<b>14.2 Details of due to financial institutions</b>		
Secured		
Under Islamic export refinance scheme – note 14.2.1	2,665,274	988,964
Unsecured		
Call borrowing	170,000	-
Others	26,865	-
	<u>2,862,139</u>	<u>988,964</u>

14.2.1 These borrowings are on a profit and loss sharing basis maturing between January 17 to June 30, 2005 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 3,000 million has been allocated to the Bank by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2005.

	2004	2003
	Rupees in '000	
<b>15. DEPOSITS AND OTHER ACCOUNTS</b>		
Customers		
- Fixed deposits schemes	4,628,446	3,102,645
- Savings deposits	5,113,127	3,566,193
- Current accounts – remunerative	-	-
- Current accounts - non-remunerative	3,134,172	601,349
- Margin	90,675	11,496
	<u>12,966,420</u>	<u>7,281,683</u>
Financial institutions		
- Remunerative deposits	784,038	474,712
- Non-remunerative deposits	19,349	467
	<u>803,387</u>	<u>475,179</u>
	<u>13,769,807</u>	<u>7,756,862</u>
<b>15.1 Particulars of deposits</b>		
In		
- local currency	12,914,624	6,982,937
- foreign currencies	855,183	773,925
	<u>13,769,807</u>	<u>7,756,862</u>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>16. OTHER LIABILITIES</b>		
Return on deposits and other dues		
- payable in local currency - note 16.1	76,211	40,764
- payable in foreign currency	818	526
Unearned commission	7,803	7,159
Accrued expenses	23,260	15,494
Advance payments	10,879	2,493
Unclaimed dividends	862	107
Unrealised loss (net) on forward foreign exchange contracts	1,184	386
Payable to defined benefit plan - note 32.3	6,530	2,889
Provision against off-balance sheet obligations - note 16.2	1,600	1,600
Security deposits against ijarah	480,863	188,401
Payable on account of purchase of securities	64,449	23,917
Other staff benefits	64,373	64,605
Proposed dividend	-	53,202
Others - notes 16.3 and 16.4	31,799	28,247
	<u>770,631</u>	<u>429,790</u>
16.1 It includes Rs. 10.357 million (2003: Rs. 3.143 million) in respect of return accrued on borrowings from the SBP under the Islamic export refinance scheme.		
16.2 <b>Provision against off-balance sheet obligations</b>		
Opening balance - note 16.2.1	1,600	1,600
Charge for the year	-	-
Reversals	-	-
Amount written off	-	-
Closing balance	<u>1,600</u>	<u>1,600</u>
16.2.1 This represents provision made against a bail bond issued on behalf of former employees of Societe Generale, The French and International Bank in a suit pending before a court.		
16.3 It includes charity payable aggregating Rs. 2.889 million (2003: Rs. 2.773 million). Charities amounting to Rs. 0.200 million and Rs. 0.350 million during the year ended December 31, 2004 were paid to Memon Hospital and Sindh Institute of Urology and Transplantation respectively. None of the other individuals received charity in excess of Rs. 100,000 each.		
Charity was not paid to any individual / organization in which a director or his spouse had any interest at any time during the year.		
16.4 It includes an aggregate amount of Rs. 7.200 million which the Bank had earned from murabaha financings and which has not been recognised as income on the directive of the Shariah Supervisory Board that pending a detailed review of the underlying transactions the related income may not be in accordance with the principles of Islamic Shariah.		



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 17. DEFERRED TAXATION

(Debit) / credit balances arising on account of:

Excess of tax written down values over accounting net book values of owned assets  
 Other staff benefits  
 Excess of ijarah financings over tax written down values of ijarah assets  
 Carried forward unassessed tax losses  
 Excess of tax written down values over accounting net book values of investments  
 Provision against non-performing financing  
 Others

	2004	2003
	Rupees in '000	
	(1,397)	(1,314)
	(24,461)	(26,488)
	113,504	67,063
	(86,284)	(28,149)
	(2,404)	(1,876)
	(858)	-
	(608)	-
	<u>286</u>	<u>9,236</u>

- 17.1 The bank has an aggregate amount of Rs. 227.062 million available as carried forward unassessed tax losses as at December 31, 2004. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

## 18. SHARE CAPITAL

### 18.1 Authorised, issued, subscribed and paid-up capital

A summary of the movement on ordinary share capital is given below:

	Ordinary Shares	
	Number	Amount Rupees in '000
<b>Authorised capital</b>		
As at January 1, 2004	150,000,000	1,500,000
Increase during the year	50,000,000	500,000
As at December 31, 2004	<u>200,000,000</u>	<u>2,000,000</u>
<b>Issued capital</b>		
As at January 1, 2003	100,145,425	1,001,454
Ordinary shares of Rs. 10 each issued as bonus shares	6,259,089	62,591
As at December 31, 2003	<u>106,404,514</u>	<u>1,064,045</u>
Ordinary shares of Rs. 10 each issued as bonus shares	28,197,195	281,972
Right issue at Rs. 10 each	35,113,489	351,135
As at December 31, 2004	<u>169,715,198</u>	<u>1,697,152</u>
<b>Subscribed and paid-up capital</b>		
As at January 1, 2003	100,145,425	1,001,454
Issue of bonus shares	6,259,089	62,591
As at December 31, 2003	<u>106,404,514</u>	<u>1,064,045</u>
Issue of bonus shares	28,197,195	281,972
As at December 31, 2004	<u>134,601,709</u>	<u>1,346,017</u>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

18.1.1 In accordance with the directive of the State Bank of Pakistan, all banks were required to increase their paid up capital to Rs. 1.5 billion by December 31, 2004. To comply with that requirement, the Bank has issued 35,113,489 right shares having a paid up value of Rs. 351.135 million as at December 31, 2004. The Bank had received an aggregate amount of Rs. 192.312 million against such right issue upto December 31, 2004. A further amount of Rs. 120.585 million has been received upto February 9, 2005, the last date of renunciation of the rights. The remaining amount was received by March 3, 2005.

18.2 The Bank intends to issue 9.9 million ordinary shares of Rs. 10 each having a face value of Rs. 99 million under an employee stock option plan.

18.3 Shares of the Bank held by a subsidiary:

As at  
Dec. 31, 2004

As at  
Dec. 31, 2003

Subsidiary

- Al-Meezan Investment Management Limited

### Number of Shares

- 20,904

## 19. CAPITAL RESERVES

Share premium account  
Statutory reserve - note 19.1  
Reserve for issue of bonus shares

**2004**      **2003**  
Rupees in '000

-	33,333
256,578	211,706
-	106,405
<u>256,578</u>	<u>351,444</u>

19.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital.

## 20. REVENUE RESERVES

General reserve  
Unappropriated profit

66,766	209,000
191,559	12,073
<u>258,325</u>	<u>221,073</u>

## 21. SURPLUS ON REVALUATION OF INVESTMENTS

Quoted shares  
Other securities (Quoted MTFCs)

40,866	111,270
4,284	643
<u>45,150</u>	<u>111,913</u>

## 22. CONTINGENCIES AND COMMITMENTS

### 22.1 Direct credit substitutes

Government

66,587	62,587
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# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

		2004	2003
		Rupees in '000	
22.2	<b>Transaction related contingent liabilities</b>		
	Guarantees favouring		
	- Government	2,188,156	1,976,350
	- Banks	32,717	9,634
	- Others	714,812	372,420
		<u>2,935,685</u>	<u>2,358,404</u>
22.3	<b>Trade related contingent liabilities</b>		
	Import letters of credit	2,880,866	1,487,620
	Acceptances	1,236,296	666,632
		<u>4,117,162</u>	<u>2,154,252</u>

22.4 While finalising the assessment of the Bank for the income year ended June 30, 2001 (assessment year 2001-2002) the assessing officer has subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income. The matter has been set aside by the Commissioner of Income Tax, Appeals for re-examination by the assessing officer, recognising the fact that the State Bank of Pakistan through its letter No. 6226/Sec-296-2001 dated October 3, 2001 has confirmed that the assessee's deposits in its opinion were covered under the Protection of Economics Reforms Act, 1992.

The amount of tax levied by the assessing officer on such gain aggregated Rs. 141.689 million, whereas the net tax liability for the aforesaid assessment year and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs. 41 million. The management is confident that the ultimate outcome of the fresh assessment would be in favour of the Bank and accordingly no provision has been recognised in the financial statements in this regard.

		2004	2003
		Rupees in '000	
22.5	<b>Commitments in respect of</b>		
	Financings	10,754,024	5,954,993
22.6	<b>Commitments in respect of forward exchange contracts</b>		
	Purchases	573,145	279,873
	Sales	1,808,208	483,936
22.7	<b>Other commitments</b>		
	Bills for collection (inland)	32,249	8,052
	Bills for collection (foreign)	934,538	489,177
		<u>966,787</u>	<u>497,229</u>

## 23. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED

On financings to:

- Customers - note 23.1
- Financial institutions

On investments in

- 'Held for maturity' securities – note 23.2
- 'Available for sale' securities

On deposits with financial institutions

	513,397	347,713
	-	-
	1,639	212
	5,327	5,129
	14,037	22,513
	<u>534,400</u>	<u>375,567</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

23.1 It includes return aggregating Rs. 18.757 million (2003: Rs. 0.600 million) on financing under musharakah arrangements.

23.2 It represents return on investments made in Qatar and Dubai Global Sukuk Bonds.

## 24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

Deposits  
Other short term borrowings

**2004**      **2003**  
Rupees in '000

195,549	176,244
54,844	6,110
<b>250,393</b>	<b>182,354</b>

## 25. OTHER INCOME

Gain on sale of share in the subsidiary company  
Gain on sale of property, equipment and others  
Gain on termination of ijarah financings  
Others - note 25.1

450	-
704	1,391
3,897	792
577	6,079
<b>5,628</b>	<b>8,262</b>

25.1 It includes reversal of provision amounting to Rs. Nil (2003: Rs. 5 million) for the proposed small business support fund.

## 26. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.  
Charge for defined benefit plan - note 32.4  
Contribution to defined contribution plan  
Directors' fees - note 33  
Rent, taxes, insurance, electricity, etc.  
Legal and professional charges  
Communication  
Repairs and maintenance  
Stationery and printing  
Advertisement and publicity  
Auditors' remuneration - note 26.1  
Depreciation - note 12.2  
Amortisation - note 12.3  
Travelling  
Entertainment  
Local transportation and car running  
Clearing charges and subscription fees  
Security charges  
Office supplies  
Service charges - note 33.2  
Brokerage and commission  
Hardware and software maintenance  
Others

160,338	108,547
3,641	2,889
4,606	3,985
8,824	9,596
62,440	34,491
5,345	5,367
19,753	13,327
3,435	3,010
13,646	6,758
21,816	9,164
4,925	2,527
43,707	19,066
1,093	533
5,785	3,911
2,689	1,212
8,162	4,616
7,128	1,134
3,646	2,356
1,754	871
13,734	13,812
4,655	2,210
2,760	1,986
5,414	4,081
<b>409,296</b>	<b>255,449</b>

### 26.1 Auditors' remuneration

Audit fee  
Fee for audit of employees' funds  
Special certifications and sundry advisory services  
Tax services  
Out of pocket expenses

850	750
75	75
2,566	1,518
1,304	89
130	95
<b>4,925</b>	<b>2,527</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>2004</b>	<b>2003</b>
	Rupees in '000	
<b>27. OTHER CHARGES</b>		
Penalties imposed by the SBP	185	20
	<u>185</u>	<u>20</u>
<b>28. TAXATION</b>		
- Current	5,470	5,731
- Deferred	(8,950)	21,284
	<u>(3,480)</u>	<u>27,015</u>
28.1	As the provision for current taxation for the year ended December 31, 2004 has been made on the basis of presumptive tax therefore a relationship between the tax expense and the accounting profit has not been disclosed.	
<b>29. BASIC EARNINGS PER SHARE</b>		
Profit for the year (Rupees in '000)	224,358	213,813
Weighted average number of ordinary shares	134,601,709	134,601,709
Basic earnings per share - note 29.1 (Rupees)	<u>1.67</u>	<u>1.59</u>
29.1	The number of ordinary shares as at December 31, 2003 has been adjusted for issue of bonus shares.	
29.2	There were no convertible dilutive potential ordinary shares outstanding on December 31, 2004 and 2003.	
<b>30. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks – note 7	2,623,588	1,042,285
Balances with other banks – note 8	1,751,083	683,596
	<u>4,374,671</u>	<u>1,725,881</u>
<b>31. STAFF STRENGTH</b>	<b>2004</b>	<b>2003</b>
	511	238
	Total number of employees, including 73 (2003: 63) contracted employees at the end of the year	
<b>32. DEFINED BENEFIT PLAN</b>		
<b>32.1 Principal actuarial assumptions</b>		
Discount rate	9% p.a	7% p.a
Expected rate of increase in salaries	9% p.a	7% p.a
Expected rate of return on investments	9% p.a	7% p.a
Normal retirement age	60 years	60 years
<b>32.2 Reconciliation of amount payable to defined benefit plan</b>	<b>2004</b>	<b>2003</b>
	Rupees in '000	
Present value of defined benefit obligations	10,972	7,332
Fair value of plan assets - note 32.6	(1,956)	(1,931)
Net actuarial losses not recognised	(2,486)	(2,512)
	<u>6,530</u>	<u>2,889</u>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>32.3 Movement in payable to defined benefit plan</b>		
Opening balance	2,889	1,113
Charge for the year – note 32.4	3,641	2,889
Contribution made during the year	-	(1,113)
Closing balance	6,530	2,889
<b>32.4 Charge for defined benefit plan</b>		
Current service cost	3,126	2,450
Interest cost	513	354
Expected return on plan assets	(135)	(63)
Actuarial losses	137	148
	3,641	2,889
<b>32.5 Actual return on plan assets</b>	473	315

32.6 It includes a balance of Rs. 1.223 million (2003: Rs. 1.636 million) kept in a savings account with the Bank.

## 33. REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The amounts charged in these financial statements are as follows:

	President and Chief Executive		Directors		Executives	
	2004	2003	2004	2003	2004	2003
	Rupees in '000					
Fees	899	899	7,925*	8,697	-	-
Managerial remuneration	8,945	7,931	12,116	10,568	27,673	25,494
Charge for defined benefit plan	-	-	513	440	1,327	1,308
Contribution to defined contribution plan	-	-	615	528	1,517	1,523
House rent	-	-	135	-	2,601	85
Utilities	-	-	615	528	1,816	1,675
Medical	69	113	723	332	2,059	1,575
Conveyance	506	233	259	-	-	-
Leave fare assistance	-	-	138	-	-	-
Others	218	56	128	515	788	1,953
	10,637	9,232	23,167	21,608	37,781	33,613
Number of persons	1	1	10	12	20	18

\*This includes amounts charged in these financial statements as fees to nine (2003: eleven) non-executive directors.

33.1 Certain executives are provided with free use of the Bank cars and certain items of household furniture and fixtures in accordance with their entitlements.

33.2 In addition to the above, service charges (note 26) include Rs. 12.997 million (2003: Rs. 11.489 million) in respect of reimbursement, to a related party, of salary and other benefits paid by that related party to the chief executive as he is on secondment from that related party.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 34. MATURITIES OF ASSETS AND LIABILITIES

	<b>2004</b>				
	<b>Total</b>	<b>Upto three months</b>	<b>Over three months to one years</b>	<b>Over one year to five years</b>	<b>Over five years</b>
	Rupees in '000				
<b>Assets</b>					
Cash and balances with treasury banks	2,623,588	2,623,588	-	-	-
Balances with other banks	1,751,083	1,591,083	160,000	-	-
Investments	1,429,053	220,898	231,510	34,884	941,761
Financings	12,339,745	6,056,861	2,526,321	2,711,480	1,045,083
Other assets	1,349,184	1,343,256	-	-	5,928
Operating fixed assets	204,737	-	-	-	204,737
	<u>19,697,390</u>	<u>11,835,686</u>	<u>2,917,831</u>	<u>2,746,364</u>	<u>2,197,509</u>
<b>Liabilities</b>					
Bills payable	196,145	196,145	-	-	-
Due to financial institutions	2,862,139	2,045,339	816,800	-	-
Deposits and other accounts - note 34.1	13,769,807	10,227,140	1,825,937	1,716,730	-
Other liabilities	770,631	223,754	139,486	406,212	1,179
Deferred taxation	286	-	-	286	-
	<u>17,599,008</u>	<u>12,692,378</u>	<u>2,782,223</u>	<u>2,123,228</u>	<u>1,179</u>
Net assets	<u>2,098,382</u>	<u>(856,692)</u>	<u>135,608</u>	<u>623,136</u>	<u>2,196,330</u>
Share capital	1,346,017				
Capital reserves	256,578				
Revenue reserves	258,325				
Advance against issue of right shares	192,312				
Surplus on revaluation of investments	45,150				
	<u>2,098,382</u>				

34.1 Current and savings deposits have been classified under maturity upto three months as these do not have any contracted maturity. Further, the Bank estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 35. YIELD / PROFIT RATE RISK

Yield / profit rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective yield / profit rate	Total	2004				Not exposed to yield / profit risk
			Exposed to yield / profit risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
Rupees in '000							
<b>On-balance sheet financial instruments</b>							
<b>Assets</b>							
Cash and balances with treasury banks	-	2,623,588	-	-	-	-	2,623,588
Balances with other banks	1.77	1,751,083	751,472	160,000	-	-	839,611
Investments	4.10	1,429,053	-	-	34,884	178,290	1,215,879
Financings	6.04	12,339,745	6,055,322	2,522,198	2,693,135	1,012,399	56,691
Other assets	-	1,009,885	-	-	-	-	1,009,885
		19,153,354	6,806,794	2,682,198	2,728,019	1,190,689	5,745,654
<b>Liabilities</b>							
Bills payable	-	196,145	-	-	-	-	196,145
Due to financial institutions	2.78	2,862,139	2,045,339	816,800	-	-	-
Deposits and other accounts	2.80	13,769,807	6,982,944	1,825,937	1,716,730	-	3,244,196
Other liabilities	-	264,556	-	-	-	-	264,556
		17,092,647	9,028,283	2,642,737	1,716,730	-	3,704,897
<b>On-balance sheet gap</b>		2,060,707	(2,221,489)	39,461	1,011,289	1,190,689	2,040,757
Non-financial assets		544,036					
Non-financial liabilities		(506,361)					
Total net assets		2,098,382					
<b>Off-balance sheet financial instruments</b>							
Forward lendings		-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-	-
<b>Total yield / profit risk sensitivity gap</b>			(2,221,489)	39,461	1,011,289	1,190,689	
<b>Cummulative yield / profit risk sensitivity gap</b>			(2,221,489)	(2,182,028)	(1,170,739)	19,950	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 36. CURRENCY RISK

	<b>2004</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net foreign currency exposure</b>
	Rupees in '000			
Pakistan rupees	17,045,248	16,209,781	1,235,063	2,070,530
United States dollars	2,001,045	799,105	(1,242,450)	(40,510)
Great Britain pounds	26,716	40,231	(685)	(14,200)
Japanese yen	1,797	-	(1,571)	226
Euro	75,338	43,530	9,643	41,451
Singapore dollars	632	-	-	632
Australian dollars	1,152	-	-	1,152
Canadian dollars	872	-	-	872
Swiss francs	554	-	-	554
	<u>19,153,354</u>	<u>17,092,647</u>	<u>-</u>	<u>2,060,707</u>

The currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank does not take any currency exposure except to the extent of statutory net open position prescribed by the SBP. Foreign exchange open and mismatch positions are controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

## 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities, except investments categorised as 'held to maturity' securities and investments in subsidiaries and associates is based on quoted market prices. The value of unquoted equity investments is reduced if required, on the basis of break-up value of those investments based on the latest available financial statements as disclosed in notes 9.6 and 9.8.

The fair value of advances, other assets, other liabilities and deposits and other accounts cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of financings has been calculated in accordance with the Bank's accounting policy as stated in note 5.3. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values as these assets and liabilities are either short term in nature or in the case of advances and deposits are frequently repriced.

## 38. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. However, the Bank does not believe that it is exposed to major concentration of credit risk. The Bank manages its exposure to credit risk by portfolio diversification and adequate collateral, wherever applicable.

The Bank has well-defined credit structure duly approved by the Board of Directors, under which delegated authorities at various levels are operating which critically scrutinise and sanction financings. The emphasis is to provide short to medium term trade related financing to reputable names which are self-liquidating and Shariah compatible. The risk appraisal system of the Bank has enabled it to build a sound portfolio. The Bank has developed a system to monitor problem accounts so that instant instructions based on early warning signals are passed on to units to deal with potential problem accounts.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

	2004					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
<b>38.1 Segment by class of business</b>						
Chemical and pharmaceuticals	430,552	3.49%	202,821	1.47%	1,105,579	5.20%
Agribusiness	-	-	19,730	0.14%	193,278	0.91%
Textile	4,787,252	38.80%	391,921	2.85%	6,452,318	30.35%
Cement	-	-	201,063	1.46%	-	-
Sugar	228,290	1.85%	50,676	0.37%	693,090	3.26%
Shoes and leather garments	622,576	5.05%	39,071	0.28%	670,562	3.15%
Automobile and transportation equipment	666,544	5.40%	311,360	2.26%	756,381	3.56%
Financial	55,000	0.45%	803,387	5.83%	3,623,130	17.04%
Insurance	-	-	9,626	0.07%	-	-
Electronics and electrical appliances	173,374	1.40%	60,756	0.44%	602,276	2.83%
Production and transmission of energy	148,200	1.20%	1,235,953	8.98%	100,000	0.47%
Individuals	1,259,375	10.20%	6,630,929	48.16%	30,724	0.14%
Others	3,968,582	32.16%	3,812,514	27.69%	7,035,260	33.09%
	<u>12,339,745</u>	<u>100%</u>	<u>13,769,807</u>	<u>100%</u>	<u>21,262,598</u>	<u>100%</u>
<b>38.2 Segment by sector</b>						
Public / Government	-	-	-	-	-	-
Private	12,339,745	100%	13,769,807	100%	21,262,598	100%
	<u>12,339,745</u>	<u>100%</u>	<u>13,769,807</u>	<u>100%</u>	<u>21,262,598</u>	<u>100%</u>

## 39. GEOGRAPHICAL SEGMENT ANALYSIS

	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	220,878	19,697,390	2,098,382	21,262,598
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>220,878</u>	<u>19,697,390</u>	<u>2,098,382</u>	<u>21,262,598</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 40. RELATED PARTY TRANSACTIONS

40.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.

40.2 A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The services charges relating to secondment are on actual basis.

### 40.3 **Names and nature of related party relationship**

Subsidiary company

- Al-Meezan Investment Management Limited

Associated companies / related parties

- Al-Meezan Mutual Fund Limited
- Faysal Management Services (Private) Limited
- Faysal Bank Limited
- Fayzan Manufacturing Modaraba
- Pakistan Kuwait Investment Company (Private) Limited
- Plexus (Private) Limited
- The General Tyre and Rubber Company of Pakistan Limited
- Al-Meezan Investment Bank Limited Staff Provident Fund
- Al Meezan Investment Bank Limited Staff Gratuity Fund Limited
- Meezan Islamic Fund
- Meezan Balanced Fund
- Falcon Greenwood (Private) Limited
- Blue water (Private) Limited

40.4 Key management personnel:

- Mr. Irfan Siddiqui (President and Chief Executive Officer)
- Mr. Ariful Islam (Chief Operating Officer)



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

40.5 The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2004	2003
	Rupees in '000	
<b>Financings</b>		
At January 01,	100,000	25,000
Disbursed during the year	246,579	150,000
Repaid during the year	(198,310)	(75,000)
At December 31,	148,269	100,000
<b>Deposits</b>		
At January 01,	452,650	213,447
Deposited during the year	24,057,966	3,005,483
Repaid during the year	(23,251,297)	(2,766,280)
At December 31,	1,259,319	452,650
Bank balance	4,715	188,549
Profit receivable on murabaha financing	503	181
Service charges payable by the Bank	75	208
Acceptances	57,714	25,351
Letters of credit (unfunded)	180,890	31,518
Profit earned on murabaha financing	2,599	854
Profit earned on a bank account	5,560	12,472
Return on deposits expensed	15,841	5,115
Dividend income earned	44,747	50,810
Service charges incurred	13,734	13,977
Fees and commission earned	5,722	-
Commission earned on letters of credit	892	269
Dividend paid	31,295	30,443
Transactions with retirement benefit funds	See notes 16, 26 and 32	
Remuneration to directors and key management personnel	See note 33	

## 41. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 3, 2005 by the Board of Directors of the Bank.

Chairman

President and Chief Executive

Director

Director



CONSOLIDATED  
FINANCIAL STATEMENTS

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Meezan Bank Limited (the holding company) and its subsidiary company, Al-Meezan Investment Management Limited, as at December 31, 2004 and the related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof, for the year ended December 31, 2004. We have expressed a separate opinion on the financial statements of the holding company which include unaudited certified returns from the branches except for four branches which have been audited by us. The financial statements of the subsidiary company were reviewed in accordance with the review standard as applicable in Pakistan by another firm of chartered accountants whose report has been furnished to us and our opinion in so far as it relates to the amounts included for the subsidiary company, is based solely on the report of such other auditor.

These consolidated financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

As stated in note 5.4 to the consolidated financial statements the accounting policies with respect to investments have been changed.

In our opinion the consolidated financial statements, based on our examination as explained above, present fairly the financial position of Meezan Bank Limited and its subsidiary company as at December 31, 2004 and the results of their operations, changes in equity and cash flows for the year then ended.



A.F. FERGUSON & Co.  
Chartered Accountants  
Karachi.  
March 4, 2005



# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2004

	Note	2004	2003
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	7	2,624,217	1,042,311
Balances with other banks	8	1,748,912	685,586
Due from financial institutions		-	-
Investments	9	1,613,957	1,292,461
Financings	10	12,339,660	7,397,479
Other assets	11	1,362,425	701,389
Negative goodwill	12	(3,920)	(11,459)
Operating fixed assets	13	209,424	79,850
Deferred taxation		-	-
		<b>19,894,675</b>	<b>11,187,617</b>
<b>LIABILITIES</b>			
Bills payable	14	196,145	169,062
Due to financial institutions	15	2,862,139	988,964
Deposits and other accounts	16	13,745,707	7,748,367
Sub-ordinated loan		-	-
Liability against an asset subject to a finance lease	17	-	131
Other liabilities	18	781,664	436,109
Deferred taxation	19	200	9,151
		<b>17,585,855</b>	<b>9,351,784</b>
<b>NET ASSETS</b>		<b>2,308,820</b>	<b>1,835,833</b>
<b>REPRESENTED BY</b>			
Share capital	20	1,346,017	1,064,045
Capital reserves	21	256,578	351,444
Revenue reserves	22	444,342	270,086
Surplus on revaluation of investments	23	-	7,510
		<b>2,046,937</b>	<b>1,693,085</b>
Surplus on revaluation of investments	24	45,150	90,476
Advance against issue of right shares	20.1.1	192,312	-
<b>MINORITY INTEREST</b>	25	<b>24,421</b>	<b>52,272</b>
		<b>2,308,820</b>	<b>1,835,833</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	26		

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.

Chairman

President and Chief Executive

Director

Director

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2004



	Note	2004	2003
Rupees in '000			
Profit/return on financings, investments and placements earned	27	535,258	375,824
Return on deposits and other dues expensed	28	249,862	182,375
Net spread earned		285,396	193,449
Provision / (reversal) of provision against non-performing financings (net)	10.7	16,991	(17,769)
Provision for diminution in value of investments		-	-
Bad debts written off directly	10.8	-	-
		16,991	(17,769)
Net spread after provisions		268,405	211,218
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		164,787	68,865
Capital gain on sale of investments		116,017	129,649
Dividend income		74,926	72,438
Unrealised gain on held for trading investments		44,551	7,245
Income from dealing in foreign currencies		26,830	5,215
Other income	29	18,315	12,615
Total other income		445,426	296,027
		713,831	507,245
<b>OTHER EXPENSES</b>			
Administrative expenses	30	438,861	265,635
Other provisions / write offs		-	-
Loss on disposal of shares in a subsidiary		4,112	-
Other charges	31	185	20
Total other expenses		443,158	265,655
		270,673	241,590
Extraordinary / unusual items		-	-
Share of results of associates before taxation	9.7	139,001	32,541
		409,674	274,131
<b>PROFIT BEFORE TAXATION</b>			
Taxation - for the year	32	23,925	10,625
- prior years		-	-
- deferred	32	(8,951)	21,199
		14,974	31,824
<b>PROFIT AFTER TAXATION</b>		394,700	242,307
<b>MINORITY INTEREST</b>	25	(24,890)	(12,245)
<b>PROFIT AFTER TAXATION AND MINORITY INTEREST</b>		369,810	230,062
Unappropriated profit brought forward		28,322	630
		398,132	230,692
<b>APPROPRIATIONS AND TRANSFERS</b>			
Transferred to			
Statutory reserve		(44,872)	(42,763)
Reserve for issue of bonus shares		-	(106,405)
Proposed final cash dividend at Rs. 0.50 per share on 106,404,514 ordinary shares		-	(53,202)
Revenue reserve		-	-
		(44,872)	(202,370)
Unappropriated profit carried forward		353,260	28,322
Basic earnings per share - (Rupees)	33	2.75	1.71

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.

Chairman

President and Chief Executive

Director

Director



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

Note      **2004**      2003  
Rupees in '000

## CASH FLOW FROM OPERATING ACTIVITIES

Profit before taxation	409,674	274,131
Dividend income	(74,926)	(72,438)
	334,748	201,693
Adjustments for non-cash charges		
Unrealised gain on held for trading investments	(44,551)	(7,245)
Provision / (reversal) of provision against non-performing financings (net)	16,991	(17,769)
Amortisation of negative goodwill	(6,764)	(3,619)
Shares in results of associates	(139,001)	(32,541)
Gain on sale of property, equipment and others	(704)	(1,391)
Depreciation	45,999	19,349
Loss on disposal of shares in subsidiary	4,112	
Amortisation	1,232	592
	(122,686)	(42,624)
	212,062	159,069
(Increase) / decrease in operating assets		
Net investments in held for trading securities	223,254	(188,317)
Financings	(4,959,172)	(3,847,522)
Other assets	(665,516)	189,194
	(5,401,434)	(3,846,645)
Increase / (decrease) in operating liabilities		
Bills payable	27,083	122,220
Due to financial institutions	1,873,175	977,133
Minority's share in the subsidiaries holding in its associates	(49,089)	33,188
Deposits and other accounts	5,997,340	2,668,889
Other liabilities	398,002	185,505
	8,246,511	3,986,935
Income tax paid	3,057,139	299,359
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	(18,165)	(108,565)
	3,038,974	190,794

## CASH FLOW FROM INVESTING ACTIVITIES

Net investments in		
- held to maturity securities	(120,893)	(20,263)
- available for sale securities	(90,329)	(345)
- quoted associated undertakings	71,238	(226,587)
- unquoted associated undertakings	(36,872)	32,400
- advance against issue of certificates	(180,465)	
- advance against issue of preference shares	(72,000)	-
Sales proceeds on disposal of shares of the subsidiary	5,300	-
Dividends received	73,646	146,789
Investments in operating fixed assets	(178,418)	(65,034)
Sale proceeds on disposal of property, equipment and others	2,317	2,576
Net cash flow from investing activities	(526,476)	(130,464)

## CASH FLOW FROM FINANCING ACTIVITIES

Liability against an asset subject to a finance lease	(131)	131
Amount received against issue of right shares	192,312	
Dividend paid	(52,447)	(49,987)
Dividend paid to minority	(7,000)	
Net cash flow from financing activities	132,734	(49,856)
Net increase in cash and cash equivalents	2,645,232	10,474
Cash and cash equivalents as at January 1	1,727,897	1,717,423
Cash and cash equivalents as at December 31	4,373,129	1,727,897

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The annexed notes 1 to 45 form an integral part of these consolidated financial statements.

Chairman

President and Chief Executive

Director

Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2004



	Capital reserves				Surplus on revaluation of investments	Revenue reserves		Total
	Share Capital	Share premium account	Statutory reserve	Reserve for issue of bonus shares		General reserve	Unappropriated profit	
	Rupees in '000							
Balance as at December 31, 2002	1,001,454	33,333	168,943	62,591	-	209,000	630	1,475,951
Adjustments relating to periods upto December 31, 2002	-	-	-	-	-	32,764	-	32,764
Balance as at January 1, 2003	1,001,454	33,333	168,943	62,591	-	241,764	630	1,508,715
Issue of bonus shares	62,591	-	-	(62,591)	-	-	-	-
Net profit after taxation and minority interest for the year	-	-	-	-	-	-	230,062	230,062
Surplus on revaluation of investments	-	-	-	-	7,510	-	-	7,510
Transfer to statutory reserve	-	-	42,763	-	-	-	(42,763)	-
Transfer to reserve for issue of bonus shares	-	-	-	106,405	-	-	(106,405)	-
Proposed dividend	-	-	-	-	-	-	(53,202)	(53,202)
Balance as at December 31, 2003	1,064,045	33,333	211,706	106,405	7,510	241,764	28,322	1,693,085
Surplus on revaluation of an investment in an associated company arising due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition amount)	-	-	-	-	-	(8,448)	-	(8,448)
Reversal of surplus as investments accounted under equity method	-	-	-	-	(7,510)	-	-	(7,510)
Issue of bonus shares	281,972	(33,333)	-	(106,405)	-	(142,234)	-	-
Net profit after taxation and minority interest for the year	-	-	-	-	-	-	369,810	369,810
Transfer to statutory reserve	-	-	44,872	-	-	-	(44,872)	-
Balance as at December 31, 2004	1,346,017	-	256,578	-	-	91,082	353,260	2,046,937

The annexed notes 1 to 45 form an integral part of these consolidated financial statements.

Chairman

President and Chief Executive

Director

Director



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Meezan Bank Limited (MBL) ('the holding company') was incorporated in Pakistan on January 27, 1997 as a public limited company under the Companies Ordinance, 1984 and its shares are quoted on the Karachi Stock Exchange. MBL was registered as an 'Investment Finance Company' on August 8, 1997 and carried on the business of investment banking as permitted under SRO 585(I)/87 dated July 13, 1987 in accordance and in conformity with the principles of Islamic Shariah. A 'certificate of commencement of business' was issued to MBL on September 29, 1997.

MBL was granted a 'Scheduled Islamic Commercial Bank' licence on January 31, 2002 and formally commenced operations as a scheduled Islamic commercial bank with effect from March 20, 2002 on receiving notification in this regard from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. Currently, MBL is engaged in commercial, consumer and investment banking activities.

MBL was operating through sixteen branches as at December 31, 2004 (2003: ten). Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

The Group comprises of the holding company and a subsidiary Al-Meezan Investment Management Limited (AMIML). AMIML is involved in investment advisory, portfolio management, equity research, underwriting and corporate finance. MBL holds 65% of the share capital of AMIML.

The Group's associates are as follows:

Entity / fund	Country of incorporation / domicile	Nature of business	Direct holding %	Indirect holding %	Total effective percentage holding %
Al Meezan Mutual Fund Limited (AMMFL)	Pakistan	Formed under the Investment Companies and Investment Advisor Rules, 1971. A closed end mutual fund.	2	9.2	11.2
Blue Water (Private) Limited (BWL)	Pakistan	Business of purchase and sale of land.	30	13	43
Falcon Greenwood (Private) Limited (FGL)	Pakistan	Business of purchase and sale of land.	25	-	25
Faysal Management Services (Private) Limited (FMSL)	Pakistan	Floatation and management of modarabas under Modarabas Companies and Modarabas (Floatation and Control) Ordinance, 1980.	30	-	30
Fayzan Manufacturing Modaraba (FMM)	Pakistan	Formed under the Modarabas Companies and Modarabas (Floatation and Control) Ordinance, 1980 and Modaraba Rules, 1981 and is managed by FMSL. FMM is a specific purpose modaraba formed to construct, operate, manage and own a polyester staple fibre (PSF) spinning and processing plant.	23.84	6	29.84
Meezan Islamic Fund (MIF)	Pakistan	Open end scheme established under a trust deed executed between AMIML as the management company and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	N/A	-	N/A
Plexus (Private) Limited	Pakistan	Business of development and export of IT enabled services and internet solutions.	50	-	50



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

During the year ended December 31, 2003, MBL had acquired a further forty percent holding in AMIML which resulted in its aggregate holding being increased to seventy percent. The further investment was made in pursuance of the SBP's consent received through its letter No. BPD (PU.35)/682-36/3762/2003 dated April 5, 2003 which restricted MBL's holding in the subsidiary to approximately 65%. Accordingly, during the year, MBL has disposed off the shares held in excess of the limit specified by the SBP.

## 2. BASIS OF PRESENTATION AND CONSOLIDATION

### 2.1 Basis of presentation

2.1.1 These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding company for the year ended December 31, 2004 and the financial statements of AMIML for the six months period ended December 31, 2004 which have only been subjected to a review by its statutory auditors but are not audited. AMIML prepares its financial statements upto June 30 each year. In preparing the consolidated profit and loss account for the year ended December 31, 2004 the results for the period January 1 to June 30, 2004 have been calculated from the audited financial statements of AMIML for the year ended June 30, 2004 after eliminating the results for the six months period ended December 31, 2003. Certain disclosures relating to AMIML as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2004. Adjustments have not been made in the financial statements of associates where the accounting policies of the associates were different from that of the Group.

2.1.2 The associates have been accounted for in these consolidated financial statements under the equity method of accounting on the respective bases as follows:

<b>Entity</b>	<b>Source of information</b>
Al Meezan Mutual Fund Limited (AMMFL)	Financial statements for the half years ended December 31, 2004 and 2003, unaudited but subject to limited review, and audited financial statements for the year ended June 30, 2004.
Blue Water (Private) Limited (BWL)	Financial statements for the period March 26 to December 31, 2004, signed by the management of the investee company. Not audited as the company was incorporated during the year.
Falcon Greenwood (Private) Limited (FGL)	Financial statements for the period March 26 to December 31, 2004, signed by the management of the investee company. Not audited as the company was incorporated during the year.
Faysal Management Services (Private) Limited (FMSL)	Audited financial statements for the year ended December 31, 2004.
Fayzan Manufacturing Modaraba (FMM)	Audited financial statements for the year ended December 31, 2004.
Meezan Islamic Fund (MIF)	Financial statements for the half year ended December 31, 2004 and for the period ended December 31, 2003, unaudited but subject to limited review, and audited financial statements for the year ended June 30, 2004.
Plexus (Private) Limited (Plexus)	Unaudited financial statements for the half years ended December 31, 2004 and 2003 and audited financial statements for the year ended June 30, 2004.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

2.1.3 MBL provides financing mainly through murabaha, ijarah and export refinance under Islamic export refinance scheme. Under murabaha the goods are purchased and are then sold to customers on credit. The purchases and sales arising under these arrangements are not reflected in these consolidated financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financings is recognised in accordance with the principles of Islamic Shariah, however income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable if so directed by the Executive Committee of the Shariah Supervisory Board.

## 2.2 Basis of consolidation

Subsidiaries are those enterprises in which the parent company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date when the control commenced, i.e. July 1, 2003. The financial statements of the subsidiary company have been consolidated on a line-by-line basis. The Group applies uniform accounting policies for like transactions and events in similar circumstances except where specified otherwise.

All material inter-group balances, transactions and resulting unrealised profits/losses have been eliminated.

## 3. STATEMENT OF COMPLIANCE

3.1 The consolidated financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance), the directives issued by the SBP including format for consolidated financial statements of banks issued by the SBP through BSD Circular No. 36 dated October 10, 2001, and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretation Committee of IASC (the interpretations), as adopted in Pakistan. However, the requirements of these Ordinances and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.

3.2 The SBP through its BSD Circular letter No. 10 dated August 26, 2002 has deferred the implementation of IAS 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for banks in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of MBL's own financial statements for the year ended December 31, 2004.

## 4. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention except that investments are valued at market rates in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended vide BSD Circular No. 11 dated August 4, 2004 and BSD Circular No. 14 dated September 13, 2004 and the investments in AMIML are valued in accordance with the requirements of IAS 39.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

### 5.2 Revenue recognition

(i) Dividend income is recognised when the Group's right to receive payment is established.

(ii) Purchase and sale of investments are recorded by the Group on the dates of contract. Gains and losses on sale of investments are also recorded on those dates.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

- (iii) MBL follows the finance method in recognising income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset under ijarah facility is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in the ijarah. Gains / losses on termination of ijarah contracts, documentation charges, front-end fees and other ijarah income are recognised as income on a receipt basis. Consistent with prior years, income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iv) Profit on murabaha financings and placements is recognised by MBL on accrual basis, except the profit required to be suspended in compliance with the Prudential Regulations issued by the SBP which is recorded on receipt basis. Consistent with prior years, profit on murabaha is recognised on delivery of goods to the customer.
- (v) Commission on letters of credit, acceptances and guarantees is recognised by the Group on receipt basis, except for commission on guarantees in excess of Rs. 50,000 which is recognised over the period of the guarantee.
- (vi) Advisory fee and commission income are recognised by AMIML as and when services are provided. Performance fee related to advisory services are recorded on confirmation.

## 5.3 Financings

Financings by MBL are stated net of specific and general provisions against non-performing financings, if any, which are charged to the profit and loss account.

MBL determines provision against financings on a prudent basis in accordance with the Prudential Regulations issued by the SBP.

Financings are written off when there is no realistic prospect of recovery.

## 5.4 Investments

### 5.4.1 The Group classifies its investments as follows:

- Held for trading

These are investments acquired principally for the purpose of generating profit from short-term fluctuations in price.

- Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Group has positive intent and ability to hold to maturity.

- Available for sale

These are investments which do not fall under the 'held for trading' or 'held to maturity' categories.

MBL has reclassified its investment in the aforementioned categories on September 30, 2004 to comply with the requirements of BSD Circular No. 11 dated August 4, 2004.

### 5.4.2 To comply with the requirements contained in BSD Circulars 10, 11 and 14 dated July 13, August 4 and September 24, 2004 respectively MBL values its investments as follows:

- Quoted securities, excluding investments categorised as 'held to maturity' securities and investments in associates, are stated at revalued amounts.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

- Unquoted securities are stated at cost less provision for impairment by MBL, if any.
- Investments in securities categorised as 'held to maturity' are carried at amortised cost. Previously such quoted investments were stated at revalued amount and the unquoted investments were stated at cost. This change in accounting policy has not resulted in any change in the profit for the current year.

5.4.3 Any surplus / (deficit) arising as a result of revaluation of quoted securities categorised as 'available for sale' is presented below the shareholders' equity in the balance sheet. AMIML accounts for investments in accordance with the requirements of IAS 39 whereby marketable investments are valued on a basis consistent with that of the Group except that surplus / (deficit) arising on revaluation of 'available for sale' investments is recognised in equity.

The aforementioned accounting policies of the subsidiary and an associate have not been revised to make these consistent with that of the Group because MBL complies with the requirements of SBP's BSD 20 in accounting for its investments. Further, SBP has deferred the implementation of IAS 39 to MBL as more fully explained in note 3.2 to these consolidated financial statements.

5.4.4 During the year MBL has changed its accounting policy in respect of accounting for unrealised surplus / deficit arising on revaluation of 'held for trading' investments portfolio. According to the revised policy, surplus / deficit arising on revaluation of 'held for trading' securities is credited / charged to the profit and loss account. Previously any surplus / deficit arising as a result of revaluation of investments was presented below shareholders' equity in the balance sheet in accordance with SBP's BSD Circular No. 20 dated August 4, 2000. The reason and effect of change in this accounting policy is stated in note 6.1. AMIML recognises surplus / (deficit) arising on revaluation of investments categorised as 'held for trading' in the profit and loss account.

5.4.5 MBL has also changed its accounting policy in respect of accounting for unrealised surplus / deficit arising on revaluation of 'held to maturity' investments portfolio. 'Held to maturity' investments are now carried at amortised cost. Previously any surplus / deficit arising as a result of revaluation of investments was presented below shareholders' equity in the balance sheet in accordance with BSD Circular No. 20 dated August 4, 2000. This change in accounting policy has no effect on these financial statements.

5.4.6 Cost of investments is determined on moving average basis. The cost of acquisition of 'dealing securities' (i.e. quoted securities purchased and sold on the same day) is not considered for calculating the 'moving average cost' of other quoted securities (i.e. quoted securities sold after the date of purchase).

5.4.7 Impairment loss is recognised by the Group whenever the carrying amount of an investment exceeds its expected recoverable amount. An impairment loss is recognised in income currently.

5.4.8 Effective December 31, 2004 investments in associates over which the Group has significant influence, but which it does not control, generally but not necessarily accompanying a holding of between 20% and 50% of the voting rights are accounted for under the equity method of accounting. Under this method the Group's share of post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the aggregate cost of investments in associates. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates to satisfy obligations of the associates that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes including its share of those profits only after its share of profits equals the share of net losses not recognised.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

Previously investments in associates in which the Group held between 20% and 50% of the voting rights and over which the Group had significant influence but which it did not control were accounted for under the equity method of accounting. Such quoted investments in associates in which the Group held less than 20% of the voting rights were stated at the revalued amounts and the resultant surplus was shown below equity. The reason and effect of the change are stated in note 6.4.

## 5.5 Operating fixed assets

### 5.5.1 Tangible assets

#### Owned

Operating fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to the profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life. In case of MBL the full annual rate of depreciation is applied on the cost of additions while no depreciation is charged on assets deleted during the year. Capital work in progress is stated at cost.

Items of fixed assets costing Rs. 10,000 or less in MBL and Rs. 5,000 or less in AMIML are not capitalised and are charged off in the year of purchase. When the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred.

Profit or loss on disposals of fixed assets is included in income currently.

#### Leased

Assets subject to finance lease are accounted for by AMIML by recording the asset at the lower of present value of minimum lease payments under the agreements and the fair value of asset acquired. The related obligation under the lease is accounted for as liability. Financial charges are allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

### 5.5.2 Intangible assets

Intangible assets comprise of computer software. Accounting for such assets is on the same basis as for tangible assets owned by the Group.

## 5.6 Taxation

#### Current

The charge for taxation is based on expected taxable income for the year at current rates of taxation applicable to respective entities, and any adjustments to tax payable in respect of previous years, after taking into consideration available tax credits, rebates and tax losses etc.

#### Deferred

The Group accounts for deferred taxation using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 5.7 Staff retirement benefits

### Defined benefit plan

The Group operates funded gratuity schemes for all its permanent employees who have completed the minimum qualifying eligible service of one year.

In case of MBL the scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2004. The projected unit credit method was used for actuarial valuation.

Actuarial gains or losses are recognised in accordance with the actuary's recommendation.

For AMIML contributions are made to the fund annually for all its employees based on their length of service with the company.

### Defined contribution plan

The Group also operates recognised contributory provident funds for all its permanent employees. Equal monthly contributions are made, both by the respective entities and the employees, to the fund at the rate of 10% of basic salary.

## 5.8 Foreign currencies

Foreign currency transactions are recorded by MBL in rupees at exchange rates prevailing on the date of transaction. Assets, liabilities, contingencies and commitments in foreign currencies except forward contracts other than contracts with the SBP at the year end are reported in rupees at exchange rates prevalent on the balance sheet date.

Forward contracts other than contracts with the SBP relating to the foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract. Forward contracts with the SBP relating to foreign currency deposits are valued at spot rate prevailing at the balance sheet date. Exchange gains and losses are included in income currently.

## 5.9 Provisions and contingent assets and liabilities

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent assets are not recognised by the Group, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognised, and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

Acceptances comprise undertakings by MBL to pay bills of exchange drawn on customers. MBL expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

## 5.10 Related party transaction

Transactions between the Group and its related parties are carried out on arm's length basis substantiated in a manner set out in the note 44.2.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 5.11 Offsetting

Financial assets and financial liabilities are offset by the Group and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## 5.12 Compensated absences

The Group recognises liability in respect of employees compensated absences in the period in which these are earned upto the balance sheet date.

## 5.13 Negative goodwill

Negative goodwill is measured and initially recognised as the excess of the Group's interest in fair values of identifiable assets and liabilities acquired over the cost of acquisition and recognised as income to the extent that it does not relate to identifiable expected future losses and expenses. Negative goodwill not exceeding the fair values of non-monetary assets acquired is recognised as income over the remaining weighted average useful life of the depreciable/amortisable non-monetary assets acquired. Negative goodwill in excess of the fair values of non-monetary assets acquired is recognised as income immediately. Negative goodwill is presented as deduction from assets.

## 5.14 Minority interest

Minority interest is calculated on the basis of the minority's proportion of pre acquisition carrying amounts of the identifiable assets and liabilities and share in post acquisition profit / loss of the subsidiary.

## 6. REASON AND EFFECT OF CHANGES IN ACCOUNTING POLICY

- 6.1 Effective September 30, 2004 MBL has changed its accounting policy in respect of matters stated in notes 5.4.2 and 5.4.4 above. These changes have been made to comply with the requirements stated in BSD Circulars 10, 11 and 14 dated July 13, August 4 and September 24, 2004 respectively issued by the SBP. Had the accounting policy not been changed with respect to accounting for unrealised surplus arising on revaluation of investments categorised as 'held for trading', the profit and loss for the year ended December 31, 2004 would have been lower by Rs. 42.081 million and surplus on revaluation of investment would have been higher by the same amount.

In accordance with the allowed alternative treatment specified in International Accounting Standard (IAS) 8 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' the effects of the aforementioned changes in an accounting policy have been recognised in the current period. As MBL has reclassified its portfolio on September 30, 2004 in accordance with the requirements of BSD Circular No. 11 dated August 4, 2004 therefore it is not practical to state the 'held for trading' portfolio on the same basis for the years ended December 31, 2002 and 2003. However for the purpose of disclosure, 'held for trading' securities portfolio as at December 31, 2002 and December 31, 2003 is treated as 'held for trading' portfolio required by directives of SBP. The restated proforma information as required by the aforementioned IAS has been presented in notes 6.2 and 6.3 below.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003	Proforma	
			2004	2003
Rupees in '000				
<b>6.2 Extract of profit and loss account</b>				
Profit after taxation for the period before incorporating the effects of changes in accounting policy	327,729	230,062	327,729	230,062
Cumulative effects of changes in accounting policy as stated above	42,081	-	2,358	(295)
Profit after taxation for the year as restated	369,810	230,062	330,087	229,767
<b>6.3 Extract of statement of unappropriated profit</b>				
Opening balance of unappropriated profit as previously reported	28,322	630	28,322	630
Effects of changes in accounting policy				
- as stated above	-	-	39,723	40,018
- statutory reserve	-	-	(7,945)	(8,004)
Opening balance of unappropriated profit as restated	28,322	630	60,100	32,644
Profit after taxation for the year	369,810	230,062	330,087	229,767
	398,132	230,692	390,187	262,411
Transfer to statutory reserve	(44,872)	(42,763)	(36,927)	(42,704)
Transfer to reserves for issue of bonus shares	-	(106,405)	-	(106,405)
Proposed dividend	-	(53,202)	-	(53,202)
Unappropriated profit	353,260	28,322	353,260	60,100

6.4 Effective December 31, 2004 the Group has changed its accounting policy in respect of the matter stated in note 5.4.8 above. The changes have been made to recognise investments in associates under the equity method of accounting as required under International Accounting Standard 'Accounting for Investments in Associates' (IAS-28). BSD Circular No. 11 dated August 4, 2004 also inter alia requires that investments in associates should not be marked to market and should be accounted for in accordance with IASs.

6.5 Had the accounting policy not been changed the investments in associates (note 9.5) would have been higher by Rs. 50.593 million and share of profit from associates (as shown in the profit and loss account) would have been lower by Rs. 114.066 million. The revaluation surplus (as a part of equity), the minority interest and the general reserves would have been higher by Rs. 90.484 million Rs. 65.727 million and Rs. 8.448 million respectively.

6.6 The shares in the associates i.e. AMMF and MIF and consequential effects have been recognised on the basis of the respective holdings of the Group as at December 31, 2004. The purchases and sales of holdings in these associates and the resultant gains or losses have not been determined as details in respect thereof were not readily available. Accordingly, it was impracticable to present the restated proforma information.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 7. CASH AND BALANCES WITH TREASURY BANKS

	2004	2003
	Rupees in '000	
In hand		
- local currency	266,608	95,890
- foreign currency	59,858	47,870
With the SBP in		
- local currency current accounts – note 7.1	2,199,745	812,868
- foreign currency deposit accounts – note 7.1	97,000	85,292
With National Bank of Pakistan in	1,006	391
- a local currency current accounts	<u>2,624,217</u>	<u>1,042,311</u>

7.1 This represents local and foreign currency amounts required to be maintained by MBL with the SBP as stipulated by it (the SBP).

## 8. BALANCES WITH OTHER BANKS

In Pakistan		
- on current accounts	21,818	13,531
- on deposit accounts - note 8.1	162,545	390,343
Outside Pakistan		
- on current accounts	817,793	73,198
- on deposit accounts	746,756	208,514
	<u>1,748,912</u>	<u>685,586</u>

8.1 It includes Rs. 4.715 million (2003: Rs. 188.549 million) held in a deposit account with an associated undertaking. The depositor has undertaken to utilise such funds in accordance with the principles of Islamic Shariah.

## 9. INVESTMENTS

	Note	2004			2003		
		Held by the Group	Given as Collateral	Total	Held by the Group	Given as Collateral	Total
Rupees in '000							
<b>Investments by types</b>							
Held for trading securities	9.2	210,729	-	210,729	426,738	-	426,738
Held to maturity securities	9.3	178,290	-	178,290	57,397	-	57,397
Available for sale securities	9.4	221,244	-	221,244	130,915	-	130,915
Associates (quoted)	9.5	614,346	-	614,346	544,772	-	544,772
Associates (unquoted)	9.6	47,182	-	47,182	12,121	-	12,121
Advance against issue of certificates by an associate		180,465	-	180,465	-	-	-
Advance against issue of preference shares of Falcon Greenwood (Private) Limited (an associate)		72,000	-	72,000	-	-	-
		<u>1,524,256</u>	<u>-</u>	<u>1,524,256</u>	<u>1,171,943</u>	<u>-</u>	<u>1,171,943</u>
Add: Surplus on revaluation of investments							
- 'Held for trading' taken to profit and loss account		44,551	-	44,551	7,245	-	7,245
- 'Held for trading' taken to surplus shown below equity		-	-	-	39,723	-	39,723
- 'Available for sale'		45,150	-	45,150	73,550	-	73,550
		<u>1,613,957</u>	<u>-</u>	<u>1,613,957</u>	<u>1,292,461</u>	<u>-</u>	<u>1,292,461</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.1 Investments by segments

	<b>2004</b>	2003
	Rupees in '000	
Fully paid up ordinary shares		
- Listed companies	823,408	935,313
- Unlisted companies	47,182	12,121
Musharika term finance certificates	31,941	31,899
Bonds - note 9.3	178,290	57,397
Units of an open end fund	190,970	135,213
Advance against issue of certificates - note 9.1.1	180,465	-
Advance against issue of preference shares	72,000	-
	<u>1,524,256</u>	<u>1,171,943</u>
Add: Surplus on revaluation of investments		
- 'Held for trading' taken to profit and loss account	44,551	7,245
- 'Held for trading' taken to surplus shown below equity	-	39,723
- 'Available for sale'	45,150	73,550
	<u>1,613,957</u>	<u>1,292,461</u>

9.1.1 This represents advance against issue of certificates in a closed end fund. These certificates were subsequently quoted on the Karachi Stock Exchange.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.2 Held for trading securities

The Group holds investments in ordinary shares and Musharakah term finance certificates (MTFCs) of Rs 10 each, unless stated otherwise, in the following listed investee entities:

Name of the investee entity	2004	2003	2004	2003
	Number of Shares		Cost Rupees in '000	
<b>Mutual Funds</b>				
5th ICP	-	105,000	-	1,685
22nd ICP	-	2,650	-	29
<b>Commercial bank</b>				
Meezan Bank Limited	-	20,904	-	279
<b>Textile composite</b>				
Nishat (Chunian) Limited	50,000	-	3,910	-
Legler Nafees Denim Mills Limited	-	500,000	-	6,250
<b>Cement</b>				
DG Khan Cement	60,000	-	2,870	-
Lucky Cement Limited	-	100,000	-	2,481
<b>Refinery</b>				
National Refinery Limited	26,000	26,000	4,160	3,524
<b>Power generation and distribution</b>				
Hub Power Company Limited	94,500	1,240,000	3,357	46,913
Southern Electric Power Company Limited	-	100,000	-	2,091
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	129,500	406,900	35,018	112,928
Sui Northern Gas Pipelines Limited	-	969,012	-	36,932
Shell Pakistan Limited	8,000	17,500	3,354	7,337
Sui Southern Gas Company Limited	39,712	310,212	1,168	8,543
<b>Oil and gas exploration</b>				
Pakistan Oilfields Limited	55,000	97,500	11,818	21,215
Oil and Gas Development Company Limited	-	456,823	-	14,623
Pakistan Petroleum Limited	180,000	-	24,071	-
<b>Automobile assembler</b>				
Agriautos Industries Limited	180,000	-	8,865	-
<b>Technology and communication</b>				
Pakistan Telecommunication Company Limited (A)	953,500	840,000	38,466	29,461
World Call Payphone Limited	-	105,375	-	1,621
<b>Fertilizer</b>				
Engro Chemical Pakistan Limited	-	522,001	-	45,145
Fauji Fertilizer Bin Qasim Company Limited	-	100,000	-	1,765
Fauji Fertilizer Company Limited	596,365	481,300	60,354	41,926
<b>Chemical</b>				
ICI Pakistan Limited	-	25,000	-	2,130
<b>Paper and board</b>				
Packages Limited	81,712	56,712	11,026	5,387
<b>Food and personal care products</b>				
Unilever Pakistan Limited - note 9.2.1	980	24,475	874	29,432
<b>Miscellaneous</b>				
Tri-Pack Films Limited	900	44,000	77	3,742
<b>MTFCs</b>				
Sitara Chemicals Limited - note 9.2.2	257	247	1,341	1,299
			<u>210,729</u>	<u>426,738</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

9.2.1 The nominal value of these shares is Rs. 50 each.

9.2.2 The paid up value of MTFCs is Rs. 5,000 per certificate. The return on MTFCs is on Musharakah basis and will mature in 2007.

### 9.3 Held to maturities securities held by MBL

Name of the investee entity	2004	2003	2004	2003
	Number of Certificates		Cost Rupees in '000	
<b>Bonds</b>				
Qatar Global Sukuk Bonds (Sukuk-Qatar) - note 9.3.1	1,000,000	1,000,000	59,430	57,397
Dubai Sukuk Bonds (Sukuk-Dubai) - note 9.3.2	2,000,000	-	118,860	-
			<u>178,290</u>	<u>57,397</u>

9.3.1 The paid up value of Sukuk – Qatar is US\$ 1 per bond. The return on Sukuk – Qatar is on the basis of London inter-bank offered rate plus a fixed credit spread of forty basis points. These bonds will mature in 2010.

9.3.2 The paid up value of Sukuk – Dubai is US\$ 1 per bond. The return on Sukuk – Dubai is on the basis of London inter-bank offered rate plus a fixed credit spread of forty five basis points. These bonds will mature in 2009.

### 9.4 Available for sale securities

The Group holds investments in ordinary shares and musharika term finance certificates (MTFCs) of a nominal value of Rs. 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company	2004	2003	2004	2003
	Number of Shares		Cost Rupees in '000	
<b>Ordinary shares</b>				
<b>Auto Assembler</b>				
Agriautos Industries Limited	120,000	-	5,929	-
<b>Power generation and distribution</b>				
Hub Power Company Limited	1,500,000	1,500,000	49,000	54,194
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	100,280	280	27,401	33
Shell Pakistan Limited	45,000	45,000	15,305	15,305
Sui Southern Gas Company Limited	1,100,000	-	30,107	-
<b>Oil and gas exploration</b>				
Pakistan Oilfields Limited	100,000	-	21,488	-
<b>Technology and communication</b>				
Pakistan Telecommunication Company Limited (A)	476,500	160,000	15,555	4,323
<b>Fertilizer</b>				
Fauji Fertilizer Company Limited	172,500	50,000	11,537	2,733
<b>Paper and board</b>				
Packages Limited	30,000	30,000	1,829	1,829
<b>Food and personal care products</b>				
Unilever Pakistan Limited – note 9.2.1	14,000	24,540	12,493	21,898
<b>MTFCs</b>				
Sitara Chemicals Limited – note 9.2.2	6,120	6,120	30,600	30,600
			<u>221,244</u>	<u>130,915</u>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.5 Associates (quoted)

The Group holds investments in ordinary shares of Rs. 10 each, unless stated otherwise, in the following investee entities:

Name of the investee entity	2004	2003	Effective holding %	2004	2003
	Number of shares / certificates / units			Rupees in '000	
<b>Ordinary shares</b>					
<b>Closed end mutual fund</b>					
Al-Meezan Mutual Fund Limited - note 9.7	9,402,025	13,301,000	11.20	147,511	128,694
<b>Modaraba</b>					
Fayzan Manufacturing Modaraba - note 9.7	26,857,500	26,857,500	29.84	275,865	280,865
<b>Units of an open end fund</b>					
Meezan Islamic Fund - note 9.7	2,993,264	2,706,000	N/A	190,970	135,213
				<u>614,346</u>	<u>544,772</u>

9.5.1 The nominal value of these units is Rs. 50 each.

9.5.2 Investments in quoted associates have a market value of Rs. 664.256 million (2003: Rs. 639.072 million)

## 9.6 Associates (unquoted)

MBL holds investments in ordinary shares of Rs. 10 each, unless stated otherwise, in the following investee companies:

Particulars	2004	2003	2004	2003	Percentage of equity holding %	Break up value per share Rupees	Latest available financial statements	Name of the chief executive
	Number of Shares / Certificates		Rupees in '000					
Plexus (Private) Limited - note 9.7	1,499,980	1,499,980	8,675	10,411	50	5.79	December 31, 2004*	Mr. Arif-ul-Islam
Faysal Management Services (Private) Limited - note 9.6.1 and 9.7	540,000	540,000	607	1,710	30	123.17	December 31, 2004*	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited - note 9.6.1	129,000	-	12,900	-	43	100	December 31, 2004*	Mr. Shuja-ul-Mulk
Falcon Greenwood (Private) Limited - note 9.6.1	250,000	-	25,000	-	25	100	December 31, 2004*	Mr. Abbas Khan
Total			<u>47,182</u>	<u>12,121</u>				

\*Unaudited

9.6.1 The nominal value of these shares is Rs. 100 each.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 9.7 Associates accounted for under the equity method of accounting

	Al Meezan Mutual Fund Limited	Blue Water (Private) Limited	Falcon Greenwood (Private) Limited	Faysal Management Services (Private) Limited	Fayzan Manufacturing - Modaraba	Meezan Islamic Fund	Plexus (Private) Limited	Total
	Rupees in '000							
Carrying values of investments as at December 31, 2004 according to MBL's financial statements	12,150	9,000	25,000	54,000	214,596	125,000	8,675	448,421
Holding through AMIML	172,856	6,000	-	-	-	14,936	-	193,792
Minorities' shares in associates	(60,500)	(2,100)	-	-	-	(5,228)	-	(67,828)
Group's share in results of associates relating to periods upto December 31, 2003	-	-	-	(52,290)	66,269	-	(4,589)	9,390
Group's share in results of associates in current period's profits/ (losses) before taxation	54,791	-	-	(85)	26,746	59,275	(1,726)	139,001
Taxation	-	-	-	(1,018)	-	-	(10)	(1,028)
Dividend income	-	-	-	-	(31,746)	-	-	(31,746)
Reversal of surplus on revaluation of investments	(31,786)	-	-	-	-	(3,013)	-	(34,799)
Reversal of provision for diminution in the value of an investment								
- upto December 31, 2003	-	-	-	-	-	-	4,575	4,575
- current year	-	-	-	-	-	-	1,750	1,750
	147,511	12,900	25,000	607	275,865	190,970	8,675	661,528
Note	9.5	9.6	9.6	9.6	9.5	9.5	9.6	

## 10. FINANCINGS

	2004	2003
In Pakistan		
- Murabaha financings	4,856,083	4,678,811
- Net investment in ijarah – note 10.2	3,221,006	1,440,353
- Export refinance under Islamic scheme - (Istisna)	2,705,274	988,964
- Financings against bills	270,945	145,564
- Loans, cash credit, running finances, etc. - notes 10.3, 10.4 and 10.5	116,056	101,899
- Musharakah financings	571,769	95,700
- House financings	677,349	8,380
Total financings - note 10.6	12,418,482	7,459,671

Less: Provision against non-performing financings - note 10.7

	2004	2003
	Rupees in '000	
	78,822	62,192
	12,339,660	7,397,479

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.1 Particulars of financings

	2004	2003
	Rupees in '000	
10.1.1 In local currency	12,132,038	6,842,249
In foreign currencies	207,622	555,230
	<u>12,339,660</u>	<u>7,397,479</u>
10.1.2 Short-term (for upto one year)	8,583,182	6,290,736
Long-term (for over one year)	3,756,478	1,106,743
	<u>12,339,660</u>	<u>7,397,479</u>

## 10.2 Net investment in ijarah

	2004				2003			
	Not later than one year	Later than one and less than five year	Over five years	Total	Not later than one year	Later than one and less than five year	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	950,976	2,332,991	9,223	3,293,190	600,299	946,778	-	1,547,077
Residual value	14,650	452,418	395	467,463	25,546	140,105	-	165,651
Minimum ijarah payments	965,626	2,785,409	9,618	3,760,653	625,845	1,086,883	-	1,712,728
Profits for future periods	223,969	313,486	2,192	539,647	132,249	140,126	-	272,375
Present value of minimum ijarah payments	<u>741,657</u>	<u>2,471,923</u>	<u>7,426</u>	<u>3,221,006</u>	<u>493,596</u>	<u>946,757</u>	<u>-</u>	<u>1,440,353</u>

10.3 During the year a revised scheme of arrangement was sanctioned by the High Court of Sindh in respect of Pakland Cement Limited (PCL). Under the revised scheme of arrangement:

- TFCs having a face value of Rs. 40.589 million were issued; and
- MBL has waived mark up aggregating Rs. 36.347 million (note 10.8.3) which represents Rs. 23.286 million in respect of accrued mark up from January 1, 2001 to May 31, 2004 and Rs 13.061 million in respect of TFC Series B.

These TFCs have been issued by PCL in two series, series 'A' represents the principal amount and will carry a yield of 6 months ask KIBOR + 2.5 percent whereas series 'B' has been issued for accrued mark up and carries no yield. The TFCs will be redeemed between the period January 15, 2005 to July 15, 2013. The transfer of these TFCs can only be effected among the creditors of PCL and transfer to third party (other than a creditor) will require prior written consent of the issuer. The outstanding amount of the original loan is fully provided.

10.4 This includes Rs 57.079 million representing mark-up free loans to staff advanced under the Group's human resource policies. Included therein are loans to executives and directors as shown in note 10.4.1 below.

### 10.4.1 Loans to executives and directors

	EXECUTIVES		DIRECTORS	
	2004	2003	2004	2003
	Rupees in '000			
Opening balance	23,730	16,355	1,093	1,226
Loans disbursed during the year	14,495	8,835	-	-
Loans repaid during the year	(3,774)	(1,460)	(133)	(133)
Closing balance	<u>34,451</u>	<u>23,730</u>	<u>960</u>	<u>1,093</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.5 Particulars of loans and financings to directors, associated companies etc.

	<b>Balance as at December 31, 2004</b>	<b>Maximum total amount of financings including temporary financings granted during the year*</b>
	Rupees in '000	
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons	57,079	57,079
Debts due by companies or firms in which the directors of MBL are interested as directors, partners or in the case of private companies as members - note 10.5.1	146,917	146,917
	<u>203,996</u>	<u>203,996</u>

\*The maximum amount has been calculated by reference to month end balances.

10.5.1 This represents musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs. 94.500 million and ijarah facilities outstanding from The General Tyre and Rubber Company Limited (an associated company) amounting to Rs. 52.417 million. The musharakah facility is secured against equitable mortgage over property whereas ijarah facility is secured against the respective assets.

10.6 Financings include Rs. 59.971 million (2003: Rs. 62.192 million) 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	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	59,971	-	59,971	59,971	59,971
	<u>59,971</u>	<u>-</u>	<u>59,971</u>	<u>59,971</u>	<u>59,971</u>

## 10.7 Particulars of provision against non-performing financings:

	2004			2003		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	62,192	-	62,192	175,257	-	175,257
Charge for the year	2,620	18,851	21,471	-	-	-
Reversals	(4,480)	-	(4,480)	(17,769)	-	(17,769)
	(1,860)	18,851	16,991	(17,769)	-	(17,769)
Amounts written off - note 10.8.1	(361)	-	(361)	(95,296)	-	(95,296)
Closing balance	<u>59,971</u>	<u>18,851</u>	<u>78,822</u>	<u>62,192</u>	<u>-</u>	<u>62,192</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

10.7.1 MBL has maintained a general reserve (provision) in accordance with the applicable requirements of Prudential Regulations for consumer financing issued by the State Bank of Pakistan

## 10.8 Particulars of write offs

10.8.1 Against provision – note 10.7  
Directly charged to profit and loss account

10.8.2 Write offs of Rs. 500,000 and above  
Write offs below Rs. 500,000

	<b>2004</b>	<b>2003</b>
	Rupees in '000	
	361	95,296
	-	-
	<u>361</u>	<u>95,296</u>
	-	95,296
	361	-
	<u>361</u>	<u>95,296</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 10.8.3 Details of loan write off of Rs 500,000 and above.

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees or above allowed to any person during the year ended December 31, 2004 is as follows:

S. No	Name and address of the borrower	Name of directors* (with NIC number)	Father's name	Outstanding liabilities at the date of write off				Principal written off	Mark-up waived	Other financial relief provided	Total
				Principal	Mark-up	Other	Total				
Rupees in '000											
1.	Pakland Cement Limited Dewan Centre, 3-A, Lalazar Beach Hotel Road, Karachi	Syed Moonis Abdullah Alvi Esq. 42201-6886191-3	Syed Riaz uddin Alvi Esq.	30,959	16,134	-	47,093**	-	-	36,347	36,347
		Mr. Muhammad Khubaib 42301-5462662-3	Mr. Ghulam Nabi								
		Mr. Aziz-ul-Haque 42301-8514003-5	Mr. Noor- ul-Haque								
		Mr. Farrukh Viqaruddin Junaidy 42301-7518478-7	Mr. Muhammad Viqaruddin Junaidy								
		Mr. Zaheer Mustafa Jaleel 420007-245886-7	Mr. Ahmed Jaleel Siddiqui								
		Mr. Khursheed Anwer Jamal 42201-0763190-5	Mr. Muhammad Yaqoob								
		Mr. Muhammad Shabbir Alem 516-73-164873 (Nominee director on behalf of NIT)	Mr. Muhammad Mobin								
		Mr. Wajahat A. Baqai *** (Nominee director on behalf of creditors)	Mr. Tasleem Uddin Baqai								
		Mr. Wasif Mustafa Khan *** (Nominee director on behalf of creditors)	***								

\* Information as available in the records of MBL.

\*\* In addition to the above amounts aggregating Rs. 50.797 million were recoverable as markup, however, as a matter of prudence the Bank had not recognised this balance in its books. Out of this balance the Bank has waived mark up aggregating Rs. 36.347 million.

\*\*\* Information not available in the records of the MBL.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

11. OTHER ASSETS	2004	2003
	Rupees in '000	
Profit / return accrued in local currency	106,555	66,690
Profit / return accrued in foreign currency	1,945	2,451
Advances, deposits, advance rent and other prepayments	150,353	30,837
Advance taxation (payments less provisions)	177,252	183,012
Receivable on account of sale of securities	318,524	35,907
Dividends receivable	3,716	2,436
Receivable from associated undertakings / a related party of AMIML	24,069	8,985
Stamps	1,494	879
Advance against future murabaha	324,177	298,921
Advance against future ijarah	247,632	67,020
Security deposits	6,222	2,670
Prepaid exchange risk fee	42	129
Other – note 11.1	444	1,452
	<u>1,362,425</u>	<u>701,389</u>

11.1 This represents amount recoverable from the SBP upon encashment of various instruments on behalf of the SBP by the Bank.

12. NEGATIVE GOODWILL	2004	2003
	Rupees in '000	
On acquisition of a subsidiary	(16,192)	(16,192)
Amortisation:		
Periods upto December 31, 2003 / 2002	4,733	1,114
Current period - note 29	6,764	3,619
Adjustment of negative goodwill on disposal of shares	775	-
	<u>12,272</u>	<u>4,733</u>
	<u>(3,920)</u>	<u>(11,459)</u>

12.1 Negative goodwill is amortised over the weighted average useful life, estimated as twenty five months, of depreciable / amortisable non-monetary assets of AMIML as on the date of its becoming a subsidiary.

13. OPERATING FIXED ASSETS	2004	2003
	Rupees in '000	
Tangible assets		
- Capital work-in-progress – note 13.1	12,830	9,268
- Property, equipment and others – note 13.2	186,991	65,415
	<u>199,821</u>	<u>74,683</u>
- Intangible assets – note 13.3	9,603	5,167
	<u>209,424</u>	<u>79,850</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 13.1 Capital work-in-progress

- Advances to suppliers and contractors for building renovation
- Advances for purchase of vehicles

2004	2003
Rupees in '000	
4,792	6,708
8,038	2,560
<b>12,830</b>	<b>9,268</b>

## 13.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2004	Rate of depreciation %
	As at January 1, 2004	Additions/ (disposals) balance of AMIML*/ transferred**	As at December 31, 2004	As at January 1, 2004	Charge/ (on disposals) balance of AMIML*/ transferred**	As at December 31, 2004		
Rupees in '000								
Land and buildings - note 13.2.1	-	55,329	55,329	-	2,766	2,766	52,563	5
Leasehold improvements	26,534	34,487	61,021	3,298	6,102	9,400	51,621	10
Furniture and fixtures	6,212	6,298	12,510	1,174	1,245	2,419	10,091	10 and 20
Electrical, office and computer equipments	34,780	44,198 (667)	78,311	18,045	23,521 (255)	41,311	37,000	20 and 33
Vehicles	33,447	28,876 (2,741) 555**	60,137	13,133	12,365 (1,540) 463**	24,421	35,716	20 and 33
Assets held under finance lease	555	(555)**	-	463	(463)**	-	-	33
2004	101,528	169,188 (3,408)	267,308	36,113	45,999 (1,795)	80,317	186,991	
2003	43,143	58,811 (3,646) 3,220*	101,528	16,732	19,349 (2,461) 2,493*	36,113	65,415	

\* This represents cost and accumulated depreciation of fixed assets of AMIML on the date of its becoming a subsidiary.

13.2.1 The break-up of cost of land and buildings between the two separate categories has not been disclosed as the subject purchase was made for an overall price.

13.2.2 Included in cost of property, equipment and others are fully depreciated items of the Group still in use aggregating Rs. 6.986 million (2003: Rs. 8.251 million).

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

13.2.3 Details of disposal of fixed assets of MBL to executives and other persons are as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser	Addresses
Rupees in '000							
<b>Electrical, office and computer equipments</b>							
Generator	550	181	369	250	Negotiation	Base Ten International	Suit # 1007, Pak Avenue, 10th Floor, Block 6, 24-A, P.E.C.H.S, Main Shahrah-e-Faisal, Karachi-75400.
Toshiba photocopier	-	-	-	29	Negotiation	General Traders (Private) Limited	1st Floor, Al-Falah Courts, I.I Chundrigar Road, Karachi.
Mobile	12	4	8	5	Insurance claim	Adamjee Insurance Company Ltd.	6th Floor, Adamjee House, I.I. Chundrigar Road, Karachi-74000.
Laptop	104	68	36	36	MBL's policy	Emad-ul-Hasan (Ex-employee)	B-53, Block 4-A Gulshan-e-Iqbal, Karachi.
<b>Vehicles</b>							
Honda Civic	1,241	497	744	915	MBL's policy	Chaudhry Naeem Yasin (Ex-employee)	161-M, Lahore Cantt. Cooperative Housing Society, Lahore.
Honda City	735	662	73	159	MBL's policy	Sohail Khan (Employee)	A-228, Block D, North Nazimabad, Karachi.
Honda City	766	383	383	383	MBL's policy	Emad-ul-Hassan (Ex-Employee)	B-53, Block 4-A, Gulshan-e-Iqbal, Karachi.
Honda Civic	-	-	-	465	Negotiation	Nadeem Ahmed (Individual)	House No. 66, Muslim Town, Faisalabad.
Honda Civic	-	-	-	75	MBL's policy	Saleem Khan (Employee)	Apartment No. 701, Margalla Towers, F-10, Islamabad.
	3,408	1,795	1,613	2,317			

## 13.3 Intangible assets

	COST			AMORTISATION			Net book value as at December 31, 2004	Rate of amortisation %
	As at January 1, 2004	Additions	As at December 31, 2004	As at January 1, 2004	Charge	As at December 31, 2004		
Computer software	5,921	5,668	11,589	754	1,232	1,986	9,603	10 and 20
2003	1,621	4,300	5,921	162	592	754	5,167	10 and 20

Rupees in '000



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>2004</b>	2003
	Rupees in '000	
<b>14. BILLS PAYABLE</b>		
In Pakistan	196,145	163,008
Outside Pakistan	-	6,054
	<u>196,145</u>	<u>169,062</u>
<b>15. DUE TO FINANCIAL INSTITUTIONS</b>		
In Pakistan	2,835,274	988,964
Outside Pakistan	26,865	-
	<u>2,862,139</u>	<u>988,964</u>
<b>15.1 Particulars of due to financial institutions</b>		
In local currency	2,835,274	988,964
In foreign currencies	26,865	-
	<u>2,862,139</u>	<u>988,964</u>
<b>15.2 Details of due to financial institutions</b>		
Secured		
Under Islamic export refinance scheme – note 15.2.1	2,665,274	988,964
Unsecured		
Call borrowing	170,000	-
Others	26,865	-
	<u>2,862,139</u>	<u>988,964</u>

15.2.1 These borrowings are on a profit and loss sharing basis maturing between January 17 to June 30, 2005 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs. 3,000 million has been allocated to MBL by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2005.

	<b>2004</b>	2003
	Rupees in '000	
<b>16. DEPOSITS AND OTHER ACCOUNTS</b>		
Customers		
- Fixed deposits schemes	4,628,446	3,102,645
- Savings deposits	5,089,027	3,557,698
- Current accounts – remunerative	-	-
- Current accounts - non-remunerative	3,134,172	601,349
- Margin	90,675	11,496
	<u>12,942,320</u>	<u>7,273,188</u>
Financial institutions		
- Remunerative deposits	784,038	474,712
- Non-remunerative deposits	19,349	467
	<u>803,387</u>	<u>475,179</u>
	<u>13,745,707</u>	<u>7,748,367</u>
<b>16.1 Particulars of deposits</b>		
In local currency	12,890,524	6,974,442
In foreign currencies	855,183	773,925
	<u>13,745,707</u>	<u>7,748,367</u>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 17. LIABILITIES AGAINST AN ASSET SUBJECT TO A FINANCE LEASE

	2004			2003		
	Minimum lease payments	Financial charges for future periods	Present value of minimum lease payments	Minimum lease payments	Financial charges for future periods	Present value of minimum lease payments
	Rupees in '000					
Not later than one year	-	-	-	138	7	131

## 18. OTHER LIABILITIES

Return on deposits and other dues

- payable in local currency - note 18.1

- payable in foreign currency

Unearned commission

Accrued expenses

Advance payments

Unclaimed dividends

Unrealised loss (net) on forward foreign exchange contracts

Payable to defined benefit plan - note 36.3

Provision against off-balance sheet obligations - note 18.2

Security deposits against ijarah

Payable on account of purchase of securities

Payable to a related party of AMIML

Other staff benefits

Proposed dividend

Others – notes 18.3 and 18.4

	2004	2003
	Rupees in '000	
	76,211	40,764
	818	526
	7,803	7,159
	24,982	15,514
	10,879	2,493
	862	107
	1,184	386
	6,530	2,889
	1,600	1,600
	480,863	188,401
	64,449	23,917
	4,054	1,299
	64,808	69,605
	-	53,202
	36,621	28,247
	<u>781,664</u>	<u>436,109</u>

18.1 It includes Rs. 10.375 million (2003: Rs. 3.143 million) in respect of return accrued on borrowings from the SBP under the Islamic export refinance scheme.

### 18.2 Provision against off-balance sheet obligations

Opening balance - note 18.2.1

Charge for the year

Amount written off

Closing balance

	1,600	1,600
	-	-
	-	-
	<u>1,600</u>	<u>1,600</u>

18.2.1 This represents provision made against a bail bond issued on behalf of former employees of Societe Generale, The French and International Bank in a suit pending before a court.

18.3 It includes charity payable aggregating Rs. 2.889 million (2003: Rs. 2.773 million). Charities amounting to Rs. 0.200 million and Rs. 0.350 million during the year ended December 31, 2004 were paid to Memon Hospital and Sindh Institute of Urology and Transplantation respectively. None of the other individuals received charity in excess of Rs. 100,000 each.

Charity was not paid to any individual / organisation in which a director or his spouse had any interest at any time during the year.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

- 18.4 It includes an aggregate amount of Rs. 7.200 million which MBL had earned from murabaha financings and which has not been recognised as income on the directive of the Executive Committee of the Shariah Supervisory Board of MBL that pending a detailed review of the underlying transactions the related income may not be in accordance with the principles of Islamic Shariah.

## 19. DEFERRED TAXATION

(Debit) / credit balances arising on account of:

Excess of tax written down values over accounting net book values of owned assets	1,429	(1,416)
Other staff benefits	(24,461)	(26,488)
Liability against assets subject to finance lease	(118)	17
Excess of ijarah financings over tax written down values of ijarah assets	113,504	67,063
Carried forward unassessed losses	(86,284)	(28,149)
Excess of tax written down values over accounting net book values of investments	(2,404)	(1,876)
Provision against non-performing financings	(858)	-
Others	(608)	-
	200	9,151

2004	2003
Rupees in '000	
1,429	(1,416)
(24,461)	(26,488)
(118)	17
113,504	67,063
(86,284)	(28,149)
(2,404)	(1,876)
(858)	-
(608)	-
200	9,151

- 19.1 MBL has an aggregate amount of Rs. 227.062 million available as carried forward unassessed tax losses as at December 31, 2004. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

## 20. SHARE CAPITAL

### 20.1 Authorised, issued, subscribed and paid-up capital

A summary of the movement on ordinary share capital is given below:

#### Authorised capital

As at January 1, 2004	150,000,000	1,500,000
Increase during the year	50,000,000	500,000
As at December 31, 2004	200,000,000	2,000,000

#### Issued capital

As at January 1, 2003	100,145,425	1,001,454
Ordinary shares of Rs 10 each issued as bonus shares	6,259,089	62,591
As at December 31, 2003	106,404,514	1,064,045
Ordinary shares of Rs. 10 each issued as bonus shares	28,197,195	281,972
Right issue at Rs. 10 each	35,113,489	351,135
As at December 31, 2004	169,715,198	1,697,152

#### Subscribed and paid-up capital

As at January 1, 2003	100,145,425	1,001,454
Issue of bonus shares	6,259,089	62,591
As at December 31, 2003	106,404,514	1,064,045
Issue of bonus shares	28,197,195	281,972
As at December 31, 2004	134,601,709	1,346,017



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

20.1.1 In accordance with the directive of the State Bank of Pakistan, all banks were required to increase their paid up capital to Rs. 1.5 billion by December 31, 2004. To comply with that requirement, MBL has issued 35,113,489 right shares having a paid up value of Rs 351.135 million as at December 31, 2004. MBL had received an aggregate amount of Rs. 192.312 million against such right issue upto December 31, 2004. A further amount of Rs 120.585 million has been received upto February 9, 2005, the last date of renunciation of the rights. The remaining amount was received by March 3, 2005.

20.2 MBL intends to issue 9.9 million ordinary shares of Rs 10 each having a face value of Rs. 99 million under an employee stock option plan.

20.3 **Shares of the MBL held by a subsidiary:**

Subsidiary	Number of Shares	
	As at December 31, 2004	As at December 31, 2003
- Al-Meezan Investment Management Limited	-	20,904

**21. CAPITAL RESERVES**

	2004	2003
	Rupees in '000	
Share premium account	-	33,333
Statutory reserve - note 21.1	256,578	211,706
Reserve for issue of bonus shares	-	106,405
	<u>256,578</u>	<u>351,444</u>

21.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount not less than 20% of the profit of MBL is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital.

**22. REVENUE RESERVES**

General reserve-opening balance	241,764	209,000
Adjustment relating to periods upto December 31, 2002	-	32,764
	<u>241,764</u>	<u>241,764</u>
Less: Reserve for issue of bonus shares	142,234	-
Surplus on revaluation of investment due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition)	8,448	-
	<u>91,082</u>	<u>241,764</u>
Unappropriated profit		
Consolidated as at January 1, 2004 / 2003	28,322	630
Profit after taxation and minority interest for the year ended December 31, 2004 attributable to holding company's shareholders	369,810	230,062
Less: Transferred to		
- Statutory reserve	(44,872)	(42,763)
- Reserve for issue of bonus shares	-	(106,405)
- Proposed final cash dividend	-	(53,202)
	<u>324,938</u>	<u>27,692</u>
Consolidated as at December 31, 2004	<u>353,260</u>	<u>28,322</u>
	<u>444,342</u>	<u>270,086</u>



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>23. SURPLUS ON REVALUATION OF INVESTMENTS</b>		
Considered as a part of equity		
Quoted shares	-	21,500
Other securities	-	1,297
	-	22,797
Less: Share of minority interest – note 25	-	6,839
	-	15,958
Less: Surplus on revaluation of an investment arising due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition amount)	-	8,448
	-	7,510
<b>24. SURPLUS ON REVALUATION OF INVESTMENTS</b>		
Shown below equity		
Surplus on revaluation of investments accounted for in accordance with BSD 20		
Quoted shares	40,866	111,270
Other securities	4,284	643
	45,150	111,913
Less: Reversal of surplus on revaluation of investments in an associate accounted for under the equity method of accounting	-	21,437
	45,150	90,476
<b>25. MINORITY INTEREST</b>		
Opening balance	52,272	33,188
Surplus on revaluation of investments as part of equity	-	6,839
Elimination of surplus on revaluation of an associate now accounted for under the equity method	(6,839)	-
	24,890	-
Charge for the year	10,187	12,245
Increase in minority holding on disposal of shares by MBL	(7,000)	-
Dividend paid to minority shareholders	(49,089)	-
Minority's share in the subsidiaries holding in its associates	24,421	-
	-	52,272
<b>26. CONTINGENCIES AND COMMITMENTS</b>		
<b>26.1 Direct credit substitutes</b>		
Government	66,587	62,587
<b>26.2 Transaction related contingent liabilities</b>		
<b>Guarantees favouring</b>		
- Government	2,188,156	1,976,350
- Banks	32,717	9,634
- Others	714,812	372,420
	2,935,685	2,358,404
<b>26.3 Trade related contingent liabilities</b>		
Import letters of credit	2,880,866	1,487,620
Acceptances	1,236,296	666,632
	4,117,162	2,154,252

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

26.4 While finalising the assessment of MBL for the income year ended June 30, 2001 (assessment year 2001-2002) the assessing officer has subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income. The matter has been set aside by the Commissioner of Income Tax, Appeals for re-examination by the assessing officer, recognising the fact that the State Bank of Pakistan through its letter No. 6226/Sec-296-2001 dated October 3, 2001 has confirmed that the assessee's deposits in its opinion were covered under the Protection of Economics Reforms Act, 1992.

The amount of tax levied by the assessing officer on such gain aggregated Rs. 141.689 million, whereas the net tax liability for the aforesaid assessment year and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs. 41 million. The management is confident that the ultimate outcome of the fresh assessment would be in favour of MBL and accordingly no provision has been recognised in the financial statements in this regard.

	2004	2003
	Rupees in '000	
<b>26.5 Commitments in respect of</b>		
Financings	10,754,024	5,954,993
<b>26.6 Commitments in respect of forward exchange contracts</b>		
Purchases	573,145	279,873
Sales	1,808,208	483,936
<b>26.7 Other commitments</b>		
Bills for collection (inland)	32,249	8,052
Bills for collection (foreign)	934,538	489,177
	966,787	497,229
<b>27. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED</b>		
On financings to:		
- Customers - note 27.1	513,342	347,713
- Financial institutions	-	-
On investments in:		
- Held for maturity securities – note 27.2	1,639	212
- Available for sale securities	5,327	5,129
On deposits with financial institutions	14,950	22,770
	535,258	375,824

27.1 It includes return aggregating Rs. 18.757 million (2003: Rs. 0.600 million) on financing under musharika arrangements.

27.2 It represents return on investments made in Qatar and Dubai Global Sukuk Bonds.

## 28. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

	2004	2003
	Rupees in '000	
Deposits	195,018	176,244
Other short term borrowings	54,844	6,131
	249,862	182,375



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 29. OTHER INCOME

Gain on sale of property, equipment and others  
 Advisory services  
 Amortisation of negative goodwill  
 Sales load  
 Gain on termination of ijarah financing  
 Others - note 29.1

	2004	2003
	Rupees in '000	
	704	1,391
	689	300
	6,764	3,619
	6,123	187
	3,897	792
	138	6,326
	<u>18,315</u>	<u>12,615</u>

29.1 It includes reversal of provision amounting to Rs Nil (2003: Rs 5 million) for the proposed small business support fund.

## 30. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.  
 Charge for defined benefit plan – note 36.4  
 Contribution to defined contribution plan  
 Directors' fees – note 37  
 Rent, taxes, insurance, electricity, etc.  
 Legal and professional charges  
 Communication  
 Repairs and maintenance  
 Stationery and printing  
 Advertisement and publicity  
 Auditors' remuneration – note 30.1  
 Depreciation – note 13.2  
 Amortisation – note 13.3  
 Travelling  
 Entertainment  
 Local transportation and car running  
 Clearing charges and subscription fees  
 Security charges  
 Office supplies  
 Service charges – note 37.2  
 Brokerage and commission  
 Hardware and software maintenance  
 Transfer agency fees  
 Others

	2004	2003
	Rupees in '000	
	179,409	111,792
	3,641	2,889
	4,606	4,126
	8,824	9,596
	62,909	34,591
	8,116	5,917
	20,404	13,510
	3,439	3,041
	14,459	6,992
	23,956	13,069
	4,975	2,547
	45,999	19,349
	1,232	592
	14,834	4,015
	2,753	1,262
	-	4,716
	7,128	1,134
	3,646	2,356
	2,013	966
	13,585	14,448
	4,655	2,451
	2,760	1,986
	-	104
	5,518	4,186
	<u>438,861</u>	<u>265,635</u>

### 30.1 Auditors' remuneration

#### Holding company

Audit fee  
 Fee for audit of employees' funds  
 Special certifications and sundry advisory services  
 Tax services  
 Out of pocket expenses

	850	750
	75	75
	2,566	1,518
	1,304	89
	130	95
	<u>4,925</u>	<u>2,527</u>

#### Subsidiary company

Audit fee

	50	20
	<u>4,975</u>	<u>2,547</u>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

	Note	2004 Rupees in '000	2003
<b>31. OTHER CHARGES</b>			
Penalties imposed by the SBP		185	20
		185	20
<b>32. TAXATION</b>			
Current year			
• Group		22,897	9,088
• Associates	9.7	1,028	1,537
		23,925	10,625
Deferred			
• Group		(8,951)	21,220
• Associates		-	(21)
		(8,951)	21,199
		14,974	31,824

32.1 As the provision for current taxation of MBL for the year ended December 31, 2004 has been made on the basis of presumptive tax therefore a relationship between the tax expense and the accounting profit has not been disclosed.

	2004 Rupees in '000	2003
<b>33. BASIC EARNINGS PER SHARE</b>		
Profit for the year (Rupees in '000)	369,810	230,062
Weighted average number of ordinary shares	134,601,709	134,601,709
Basic earnings per share (Rupees) – note 33.1	2.75	1.71

33.1 The number of ordinary shares as at December 31, 2003 has been adjusted for issue of bonus shares.

33.2 There was no convertible potential ordinary shares outstanding on December 31, 2004 and 2003.

	2004 Rupees in '000	2003
<b>34. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks – note 7	2,624,217	1,042,311
Balances with other banks – note 8	1,748,912	685,586
	4,373,129	1,727,897

	2004	2003
<b>35. STAFF STRENGTH</b>		
Total number of employees of the Group including 73 (2003: 63) contracted employees at the end of the year	522	245

## 36. DEFINED BENEFIT PLAN

### 36.1 Principal actuarial assumptions

Discount rate	9% p.a	7% p.a
Expected rate of increase in salaries	9% p.a	7% p.a
Expected rate of return on investments	9% p.a	7% p.a
Normal retirement age	60 years	60 years



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003
	Rupees in '000	
<b>36.2 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations	10,972	7,332
Fair value of plan assets - note 36.6	(1,956)	(1,931)
Net actuarial losses not recognised	(2,486)	(2,512)
	6,530	2,889
<b>36.3 Movement in payable to defined benefit plan</b>		
Opening balance	2,889	1,113
Charge for the year – note 36.4	3,641	2,889
Contribution made during the year	-	(1,113)
Closing balance	6,530	2,889
<b>36.4 Charge for defined benefit plan</b>		
Current service cost	3,126	2,450
Interest cost	513	354
Expected return on plan assets	(135)	(63)
Actuarial losses	137	148
	3,641	2,889
<b>36.5 Actual return on plan assets</b>	473	315

36.6 It includes a balance of Rs 1.223 million (2003: Rs 1.636 million) kept in a savings account with MBL.

36.7 The above disclosure relates to MBL's benefit plan only as the related information of the subsidiary was not available.

## 37. REMUNERATION OF THE PRESIDENT AND CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The amounts charged in these consolidated financial statements are as follows

	President and Chief Executive		Directors		Executives	
	2004	2003	2004	2003	2004	2003
	Rupees in '000					
Fees	899	899	7,925*	8,697	-	-
Managerial remuneration	8,945	7,931	12,116	10,568	30,417	25,494
Charge for defined benefit plan	-	-	513	440	1,327	1,308
Contribution to defined contribution plan	-	-	615	528	1,517	1,523
House rent	-	-	135	-	3,846	85
Utilities	-	-	615	528	2,091	1,675
Medical	69	113	723	332	2,059	1,575
Conveyance	506	233	259	-	-	-
Leave fare assistance	-	-	138	-	-	-
Others	218	56	128	515	788	1,953
	10,637	9,232	23,167	21,608	42,045	33,613
Number of persons	1	1	10	12	20	18

\*This includes amounts charged in these financial statements as fees to nine (2003: eleven) non-executive directors.

37.1 Certain executives are provided with free use of MBLs cars and certain items of household furniture and fixtures in accordance with their entitlements.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

37.2 In addition to the above, service charges (note 30) include Rs. 12.997 million (2003: Rs. 11.489 million) in respect of reimbursement, to a related party, of salary and other benefits paid by that related party to the chief executive as he is on secondment from that related party.

## 38. MATURITIES OF ASSETS AND LIABILITIES

	<b>2004</b>				
	<b>Total</b>	<b>Upto three months</b>	<b>Over three months to one years</b>	<b>Over one year to five years</b>	<b>Over five years</b>
	Rupees in '000				
<b>Assets</b>					
Cash and balances with treasury banks	2,624,217	2,624,217	-	-	-
Balances with other banks	1,748,912	1,591,083	157,829	-	-
Investments	1,613,957	255,745	235,794	30,600	1,091,818
Financings	12,339,660	6,056,861	2,526,321	2,711,395	1,045,083
Other assets	1,362,425	1,357,755	-	-	4,670
Negative goodwill	(3,920)	-	(3,920)	-	-
Operating fixed assets	209,424	-	-	-	209,424
	<u>19,894,675</u>	<u>11,885,661</u>	<u>2,916,024</u>	<u>2,741,995</u>	<u>2,350,995</u>
<b>Liabilities</b>					
Bills payable	196,145	196,145	-	-	-
Due to financial institutions	2,862,139	2,045,339	816,800	-	-
Deposits and other accounts – note 38.1	13,745,707	10,227,140	1,801,837	1,716,730	-
Liability against an asset subject to a finance lease	-	-	-	-	-
Other liabilities					
Deferred taxation	781,664	234,787	139,486	406,212	1,179
	200	-	-	200	-
Net assets	<u>17,585,855</u>	<u>12,703,411</u>	<u>2,758,123</u>	<u>2,123,142</u>	<u>1,179</u>
	<u>2,308,820</u>	<u>(817,750)</u>	<u>157,901</u>	<u>618,853</u>	<u>2,349,816</u>
Share capital	1,346,017				
Capital reserves	256,578				
Revenue reserves	444,342				
Revaluation surplus	-				
Surplus on revaluation of investments	45,150				
Advance against issue of shares	192,312				
Minority interest	24,421				
	<u>2,308,820</u>				

38.1 Current and saving deposits have been classified as maturity upto three months as these do not have any contracted maturity. Further, MBL estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

## 39. YIELD / PROFIT RATE RISK

Yield / profit rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective yield / profit rate	Total	2004				Not exposed to yield / profit risk
			Exposed to yield / profit risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
Rupees in '000							
<b>On-balance sheet financial instruments</b>							
<b>Assets</b>							
Cash and balances with treasury banks	-	2,624,217	-	-	-	-	2,624,217
Balances with other banks	1.77	1,748,912	749,301	160,000	-	-	839,611
Investments	4.10	1,613,957	-	-	30,600	178,290	1,405,067
Financings	6.04	12,339,660	6,055,322	2,522,198	2,693,050	1,012,399	56,691
Other assets	-	1,008,627	-	-	-	-	1,008,627
		19,335,373	6,804,623	2,682,198	2,723,650	1,190,689	5,934,213
<b>Liabilities</b>							
Bills payable	-	196,145	-	-	-	-	196,145
Due to financial institutions	2.78	2,862,139	2,045,339	816,800	-	-	-
Deposits and other accounts	2.80	13,745,707	6,958,844	1,825,937	1,716,730	-	3,244,196
Liability against an asset subject to a finance lease	-	-	-	-	-	-	-
Other liabilities	-	264,386	-	-	-	-	264,386
		17,068,377	9,004,183	2,642,737	1,716,730	-	3,704,727
<b>On-balance sheet gap</b>		2,266,996	(2,199,560)	39,461	1,006,920	1,190,689	2,229,486
Non-financial assets		559,302					
Non-financial liability		(517,388)					
Total net assets		2,308,910					
<b>Off-balance sheet financial instruments</b>							
Forward lendings		-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-	-
<b>Total yield/ profit risk sensitivity gap</b>			(2,199,560)	39,461	1,006,920	1,190,689	
<b>Cumulative yield/profit risk sensitivity gap</b>			(2,199,560)	(2,160,099)	(1,153,179)	37,510	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 40. CURRENCY RISK

	2004			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	17,227,267	16,185,511	1,235,063	2,276,819
United States dollars	2,001,045	799,105	(1,242,450)	(40,510)
Great Britain pounds	26,716	40,231	(685)	(14,200)
Japanese yen	1,797	-	(1,571)	226
Euro	75,338	43,530	9,643	41,451
Singapore dollars	632	-	-	632
Australian dollars	1,152	-	-	1,152
Canadian dollars	872	-	-	872
Swiss francs	554	-	-	554
	<u>19,335,373</u>	<u>17,068,377</u>	<u>-</u>	<u>2,266,996</u>

The currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. MBL does not take any currency exposure except to the extent of statutory net open position prescribed by the SBP. Foreign exchange open and mismatch positions are controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

## 41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities, except investments categorised as 'held to maturity' securities and investments in subsidiaries and associates is based on quoted market prices.

The fair value of advances, other assets, other liabilities and deposits and other accounts cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of financings has been calculated in accordance with the Group's accounting policy as stated in note 5.3. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values as these assets and liabilities are either short term in nature or in the case of advances and deposits are frequently repriced.

## 42. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. However, the Group does not believe that it is exposed to major concentration of credit risk. The Group manages its exposure to credit risk by portfolio diversification and adequate collateral, wherever applicable.

MBL has well-defined credit structure duly approved by the Board of Directors, under which delegated authorities at various levels are operating which critically scrutinise and sanction financings. The emphasis is to provide short to medium term trade related financing to reputable names which are self-liquidating and Shariah compatible. The risk appraisal system of MBL has enabled it to build a sound portfolio. MBL has developed system to monitor problem accounts so that instant instructions based on early warning signals are passed on to units to deal with potential problem accounts.



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

	2004					
	Financing		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
<b>42.1 Segment by class of business</b>						
Chemical and pharmaceuticals	430,552	3.49%	202,821	1.48%	1,105,579	5.20%
Agribusiness	-	-	19,730	0.14%	193,278	0.91%
Textile	4,787,252	38.79%	391,921	2.85%	6,452,318	30.35%
Cement	-	-	201,063	1.47%	-	-
Sugar	228,290	1.85%	50,676	0.37%	693,090	3.26%
Shoes and leather garments	622,576	5.04%	39,071	0.28%	670,562	3.15%
Automobile and transportation equipment	666,544	5.40%	311,360	2.27%	756,381	3.56%
Financial	55,000	0.45%	803,387	5.84%	3,623,130	17.04%
Insurance	-	-	9,626	0.07%	-	-
Electronics and electrical appliances	173,374	1.41%	60,756	0.44%	602,276	2.83%
Production and transmission of energy	148,200	1.20%	1,235,953	8.99%	100,000	0.47%
Individuals	1,259,375	10.21%	6,630,929	48.24%	30,724	0.14%
Others	3,968,497	32.16%	3,788,414	27.56%	7,035,260	33.09%
	<u>12,339,660</u>	<u>100%</u>	<u>13,745,707</u>	<u>100%</u>	<u>21,262,598</u>	<u>100%</u>
<b>42.2 Segment by sector</b>						
Public / Government	-	-	-	-	-	-
Private	12,339,660	100%	13,745,707	100%	21,262,598	100%
	<u>12,339,660</u>	<u>100%</u>	<u>13,745,707</u>	<u>100%</u>	<u>21,262,598</u>	<u>100%</u>

## 43. GEOGRAPHICAL SEGMENT ANALYSIS

	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	409,674	19,894,675	2,308,820	21,262,598
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>409,674</u>	<u>19,894,675</u>	<u>2,308,820</u>	<u>21,262,598</u>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED DECEMBER 31, 2004

## 44. RELATED PARTY TRANSACTIONS

44.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors and key management personnel.

44.2 A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The service charges relating to secondment are on actual basis.

### 44.3 Names and nature of related party relationship

Associated companies / related parties

- Al-Meezan Mutual Fund Limited
- Faysal Management Services (Private) Limited
- Faysal Bank Limited
- Fayzan Manufacturing Modaraba
- Pakistan Kuwait Investment Company (Private) Limited
- Plexus (Private) Limited
- The General Tyre and Rubber Company of Pakistan Limited
- Al-Meezan Investment Bank Limited Staff Provident Fund
- Al Meezan Investment Bank Staff Gratuity Fund
- Meezan Balanced Fund
- Meezan Islamic Fund
- Blue Water (Private) Limited
- Falcon Greenwood (Private) Limited

### 44.4 Key management personnel

- Mr. Irfan Siddiqui (President and Chief Executive Officer)
- Mr. Ariful Islam (Chief Operating Officer)



# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

44.5 The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2004	2003
	Rupees in '000	
<b>Financings</b>		
At January 1	100,000	25,000
Disbursed during the year	245,109	150,000
Repaid during the year	(198,192)	(75,000)
At December 31	146,917	100,000
<b>Deposits</b>		
At January 1	444,155	213,447
Deposited during the year	23,677,536	2,501,790
Repaid during the year	(22,886,472)	(2,271,082)
At December 31	1,235,219	444,155
Bank balance	4,715	188,549
Profit receivable on murabaha financing	408	181
Advisory services income from a related party	-	300
Service charges payable by MBL	-	208
Acceptances	57,714	25,351
Letters of credit (unfunded)	180,890	31,518
Profit earned on murabaha financing	2,546	854
Profit earned on a bank account	5,560	12,472
Return on deposits expensed	15,041	3,684
Remuneration earned	-	14,996
Dividend income earned	31,747	7,580
Service charges incurred	13,174	14,068
Fees and commission earned	4,113	-
Commission earned on letters of credit	892	269
Dividend paid	31,295	30,431
Transactions with retirement benefits funds		See notes 18, 30 and 36
Remuneration to directors and key management personnel		See note 37

## 45. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on March 3, 2005 by the Board of Directors of the MBL.

Chairman

President and Chief Executive

Director

Director



# PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2004

No. of Shareholders	Having Shares		Shares held	Percentage
	From	To		
113	1	100	5,125	0.0038
180	101	500	42,983	0.0319
186	501	1,000	133,741	0.0994
261	1,001	5,000	621,488	0.4617
79	5,001	10,000	533,693	0.3965
41	10,001	15,000	508,231	0.3776
16	15,001	20,000	263,998	0.1961
10	20,001	25,000	213,150	0.1584
9	25,001	30,000	245,028	0.1820
8	30,001	35,000	262,332	0.1949
3	35,001	40,000	111,749	0.0830
7	40,001	45,000	299,039	0.2222
5	45,001	50,000	231,539	0.1720
3	50,001	55,000	153,968	0.1144
8	55,001	60,000	459,767	0.3416
6	60,001	65,000	374,959	0.2786
1	65,001	70,000	69,722	0.0518
2	70,001	75,000	148,159	0.1101
4	75,001	80,000	306,199	0.2275
1	80,001	85,000	82,225	0.0611
1	100,001	105,000	102,088	0.0758
2	105,001	110,000	212,831	0.1581
3	110,001	115,000	343,217	0.2550
2	115,001	120,000	236,655	0.1758
1	130,001	135,000	134,878	0.1002
1	135,001	140,000	136,275	0.1012
1	145,001	150,000	145,417	0.1080
1	150,001	155,000	150,405	0.1117
1	155,001	160,000	156,212	0.1161
2	175,001	180,000	357,687	0.2657
1	195,001	200,000	200,000	0.1486
1	220,001	225,000	221,058	0.1642
1	225,001	230,000	225,166	0.1673
3	245,001	250,000	740,245	0.5500
3	250,001	255,000	759,000	0.5639
1	255,001	260,000	255,115	0.1895
2	285,001	290,000	575,230	0.4274
1	355,001	360,000	356,500	0.2649
1	450,001	455,000	451,270	0.3353
1	460,001	465,000	464,908	0.3454
1	575,001	580,000	576,553	0.4283
1	605,001	610,000	609,068	0.4525
1	765,001	770,000	767,363	0.5701



# PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2004

No. of Shareholders	Having Shares		Shares held	Percentage
	From	To		
1	815,001	820,000	816,500	0.6066
1	995,001	1,000,000	1,000,000	0.7429
1	1,000,001	1,005,000	1,002,703	0.7449
1	1,010,001	1,015,000	1,011,250	0.7513
1	1,145,001	1,150,000	1,449,992	1.0772
1	1,455,001	1,460,000	1,455,093	1.0810
1	1,635,001	1,640,000	1,636,980	1.2162
1	1,795,001	1,800,000	1,798,500	1.3362
1	3,235,001	3,240,000	3,239,704	2.4069
1	9,700,001	9,705,000	9,700,625	7.2069
1	10,910,001	10,915,000	10,913,202	8.1078
1	34,860,001	34,865,000	34,861,619	25.8998
1	52,470,001	52,475,000	52,471,305	38.9826
989			134,601,709	100.0000

## CATEGORIES OF SHAREHOLDERS

AS AT DECEMBER 31, 2004

Particulars	Number of Shareholders	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	7	5,710,756	4.2427
Associated Companies, undertakings and related parties	1	52,471,305	38.9826
Banks, Development Financial Institutions and Non Banking Financial Institutions	7	1,555,535	1.1557
Insurance Companies	3	735,913	0.5467
Modaraba and Mutual Funds	1	55,777	0.0414
<b>General Public</b>			
a. Local	895	9,446,061	7.0178
b. Foreign	11	218,705	0.1625
Others	64	64,407,657	47.8505
<b>Total</b>	<b>989</b>	<b>134,601,709</b>	<b>100.0000</b>



# PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2004

## ADDITIONAL INFORMATION

Particulars	Number of Shareholders	Shares held	Percentage
<b>Associated Companies &amp; Shareholders with more than 10% shareholding</b>			
Pakistan Kuwait Investment Co. (Pvt.) Ltd.	1	52,471,305	38.9826
Shamil Bank of Bahrain	1	34,861,619	25.8998
<b>Chairman</b>			
H.E.Shaikh Ebrahim Bin Khalifa Al-Khalifa	1	1	0.0000
<b>NIT/ ICP</b>			
National Bank of Pakistan, Trustee Department	1	151	0.0001
<b>Directors, Chief Executive Officer, and their spouse and minor children</b>			
Mr. Naser Abdul Mohsen Al-Marri	1	1	0.0000
Mr. Zaigham Mahmood Rizvi	1	767,363	0.5701
Mrs. Talat Rizvi W/o Mr. Zaigham Mahmood Rizvi	1	695	0.0005
Mr. Rana Ahmad Humayun	1	253,000	0.1880
Mr. Irfan Siddiqui	1	3,239,704	2.4069
Mr. Ariful Islam	1	1,449,992	1.0772
<b>Executives</b>	16	1,943,981	1.4442
<b>Public Sector Companies, Corporations, Banks, DFI's, NBFIs, Insurance Companies, Modaraba, Mutual Funds and other Organizations</b>	73	31,893,112	23.6944
<b>General Public</b>	890	7,720,785	5.7360
	989	134,601,709	100.0000

# CORRESPONDENT BANKING NETWORK







# CORRESPONDENT BANKING NETWORK

## Country Bank

Argentina	Fleet National Bank American Express Bank Banca Nazionale del Lavarò SpA Bank of America, N.A. Santander Central Hispano
Australia	ABN AMRO Bank N.V. Commonwealth Bank of Australia HSBC Bank St Georges Bank Limited Bank of America, N.A.
Austria	Bank Austria Creditanstalt AG Société Générale San Paolo IMI SpA Societe Generale
Bahamas	Bank of America, N.A. Fleet National Bank Santandar Central Hispano
Bahrain	ABC Islamic Bank (E.C) Citibank NA Gulf International Bank B.S.C. Shamil Bank of Bahrain Denizbank AS United Bank Limited Turk Dis Ticaret Bankasi AS Woori Bank
Bangladesh	Standard Chartered Bank American Express Bank Habib Bank Limited Woori Bank
Belgium	Commerz Bank Bank of America, N.A. Deutsche Bank AG ING Belgium NV/SA (Banque Brussels Lamberg) KBC Bank NV Bank of New York Fortis Bank SA/NV Habib Bank Limited Santander Central Hispano Sumitomo Mitsui Banking Corporation, The Santandar Central Hispano
Bolivia	
Bosnia & Herzegovina	Bank Austria AG
Botswana	Firststrand Bank Ltd
Brazil	Fleet National Bank BankBoston N.A. Santandar Central Hispano Société Générale
Bulgaria	Bank Austria AG
Canada	HSBC Bank Royal Bank of Canada Bank of America, N.A. Société Générale
Cayman Islands	Bank of America, N.A. Commerz Bank Gulf International Bank B.S.C.

## Country Bank

Chile	Nordea Bank Sweden AB (publ) Santandar Central Hispano Santander Central Hispano S.A. BankBoston N.A. Bank of America Fleet National Bank
China	ABN AMRO Bank N.V. Bank of America, N.A. Bank of China KBC Bank NV Sumitomo Mitsui Banking Corporation, The Woori Bank Bank of New York Commerz Bank Agricultural Bank of China, The Bank of Communications Citibank NA HSBC Bank Société Générale Standard Chartered Bank Santandar Central Hispano
Colombia	Bank Austria AG
Croatia	Commerz Bank
Czech Republic	Bank Austria AG
Denmark	Nordea Bank Sweden AB (publ) Danske Bank A/S
Egypt	Egyptian Saudi Finance Bank American Express Bank Mashreq Bank Limited
Estonia	Nordea Bank Sweden AB (publ)
Ethiopia	Dashen Bank SC Commercial Bank of Ethiopia
Finland	Nordea Bank Sweden AB (publ)
France	Société Générale Banca Nazionale del Lavarò SpA Bank of America, N.A. Commerz Bank KBC Bank NV National Bank of Pakistan Santandar Central Hispano Sumitomo Mitsui Banking Corporation, The U.B.A.F.
Germany	Bayerische Hypo-und Vereinsbank AG Sumitomo Mitsui Banking Corporation, The American Express Bank Banca Monte Dei Paschi di Sienna SpA Bank of America, N.A. Bank of New York KBC Bank NV National Bank of Pakistan Santandar Central Hispano Deutsche Bank AG Dresdner Bank AG San Paolo IMI SpA Vereins-und Westbank AG Commerz Bank

## CORRESPONDENT BANKING NETWORK

### Country Bank

Greece	Nordea Bank Sweden AB (publ)	
	General Bank of Greece (SG)	
	American Express Bank	
	Bank of America, N.A.	
	San Paolo IMI SpA	
	Guernsey, C.I.	Fleet National Bank
		Citibank NA
	Hong Kong	American Express Bank
		Banca Monte Dei Paschi di Sienna SpA
		Banca Nazionale del Lavarò SpA
Bank of America, N.A.		
Bank of New York		
Commerz Bank		
Fleet National Bank		
HBZ Finance Limited		
KBC Bank NV		
Mashreq Bank Limited		
National Bank of Pakistan		
San Paolo IMI SpA		
Sumitomo Mitsui Banking Corporation, The		
Wachovia Bank, NA		
Woori Bank		
Commonwealth Bank of Australia		
HSBC Bank		
Société Générale		
Standard Chartered Bank		
U.B.A.F.		
Hungary	Commerz Bank	
	Standard Chartered Bank	
India	American Express Bank	
	Bank of America, N.A.	
	Bank of Ceylon	
	Mashreq Bank Limited	
	Sumitomo Mitsui Banking Corporation, The	
	HSBC Bank	
Indonesia	American Express Bank	
	Bank Central Asia	
	Bank of America, N.A.	
	Woori Bank	
	Standard Chartered Bank	
Iran	Bank Saderat Iran	
	Ireland	AIB Bank
Bank of Ireland International Banking		
San Paolo IMI SpA		
Bank of America, N.A.		
Commerz Bank		
Italy	HSBC Bank	
	Banca Monte Dei Paschi di Sienna SpA	
	Banca Nazionale del Lavarò SpA	
	Banca Popolare di Vicenza SCPARL	
	Commerz Bank	
	San Paolo IMI SpA	
	American Express Bank	
	Bank of America, N.A.	
	Santandar Central Hispano	
	Société Générale	

### Country Bank

Japan	ABN AMRO Bank N.V.
	American Express Bank
	Bank of America, N.A.
	Bank of New York
	Commerz Bank
	Commonwealth Bank of Australia
	National Bank of Pakistan
	San Paolo IMI SpA
	Wachovia Bank, NA
	Woori Bank
	Citibank NA
	HSBC Bank
	Société Générale
Jersey, C.I.	Standard Chartered Bank
	Sumitomo Mitsui Banking Corporation, The
U.B.A.F.	
Bank of America, N.A.	
Jordan	Housing Bank of Trade & Finance
	Jordan Islamic Bank for Finance & Investment
Kenya	Habib Bank AG Zurich
	Kenya Commercial Bank Limited
Korea	ABN AMRO Bank N.V.
	Bank of America, N.A.
	Kookmin Bank
	Pusan Bank
	Kyongnam Bank
	American Express Bank
	Bank of New York
	Fleet National Bank
	National Bank of Pakistan
	Sumitomo Mitsui Banking Corporation, The
	Wachovia Bank, NA
	Korea Exchange Bank
	Société Générale
	Standard Chartered Bank
	U.B.A.F.
	Woori bank
Kuwait	Kuwait Finance House
	National Bank of Kuwait
Nordea Bank Sweden AB (publ)	
Latvia	Nordea Bank Sweden AB (publ)
	Lithuania
Commerz Bank	
Nordea Bank Sweden AB (publ)	
Société Générale	
American Express Bank	
Banca Nazionale del Lavarò SpA	
Bank of New York	
HSBC Bank	
Bank of America, N.A.	
RHB Bank Berhad	
Commerz Bank	
KBC Bank NV	
Standard Chartered Bank	
Turk Dis Ticaret Bankasi AS	
Mauritius Post and Coopertaive Bank Ltd	

## CORRESPONDENT BANKING NETWORK

Country	Bank	Country	Bank
Mexico	Fleet National Bank Bank of America, N.A.	Serbia & Montenegro	Bank Austria AG
Monaco	American Express Bank Ltd	Singapore	Citibank NA American Express Bank Ltd Banca Monte Dei Paschi di Siena SpA Bank of America, N.A. Bank of New York Commerz Bank Fleet National Bank Habib Bank Limited HSBC Bank USA KBC Bank NV Nordea Bank Sweden AB (publ) Rabobank Asia Ltd San Paolo IMI SpA Sumitomo Mitsui Banking Corporation, The Woori Bank Commonwealth Bank of Australia HSBC Bank Société Générale Standard Chartered Bank U.B.A.F.
Morocco	Société Générale	Slovakia	Bank Austria AG
Namibia	Firststrand Bank	Slovenia	SKB Bank D.D. Bank Austria AG
Netherlands	ABN AMRO Bank N.V. Commerz Bank Société Générale Bank of America, N.A. San Paolo IMI SpA Lanschot Bankiers NV F.van Habib Bank Limited KBC Bank NV	South Africa	ABSA Bank Limited Citibank NA Habib Bank AG Zurich Commerz Bank American Express Bank Ltd Firststrand Bank Société Générale Santander Central Hispano S.A. Bilbao Bizkaia Kutxa Banca Monte Dei Paschi di Siena SpA Bank of America, N.A. KBC Bank NV Banca Nazionale del Lavarò SpA Caja De Ahorros Del Mediterraneo Commerz Bank HSBC Bank Standard Chartered Bank Habib Bank Limited HSBC Bank Bank of Ceylon
New Zealand	Bank of New Zealand	Spain	Santander Central Hispano S.A. Bilbao Bizkaia Kutxa Banca Monte Dei Paschi di Siena SpA Bank of America, N.A. KBC Bank NV Banca Nazionale del Lavarò SpA Caja De Ahorros Del Mediterraneo Commerz Bank HSBC Bank Standard Chartered Bank Habib Bank Limited HSBC Bank Bank of Ceylon
Norway	Nordea Bank Sweden AB (publ)	Sri Lanka	Farmers Commercial Bank Firststrand Bank Nordea Bank Sweden AB (publ) Svenska Handelsbanken Skandinaviska Enskilda Banken AB (Publ)
Pakistan	Mashreq Bank PICIC Commercial Bank Standard Chartered Bank American Express Bank Ltd Askari Commercial Bank Bank AlFalah Limited Habib Bank AG Zurich Habib Bank Limited National Bank of Pakistan United Bank Limited	Sudan	Firststrand Bank
Panama	Santander Central Hispano	Swaziland	Nordea Bank Sweden AB (publ)
Papua New Guinea	Bank of South Pacific Ltd	Sweden	Svenska Handelsbanken Skandinaviska Enskilda Banken AB (Publ)
Paraguay	Santander Central Hispano	Switzerland	Habib Bank AG Zurich United Bank Limited American Express Bank Ltd Bank of America, N.A.
Peru	Santander Central Hispano		
Philippines	American Express Bank Ltd Bank of America, N.A. Equitable PCI Bank, Inc. KBC Bank NV Santander Central Hispano		
Poland	Nordea Bank Sweden AB (publ) Société Générale Bank of America, N.A.		
Portugal	San Paolo IMI SpA Santander Central Hispano Banco Totta Acores		
Puerto Rico	Fleet National Bank Santander Central Hispano		
Qatar	Mashreq Bank United Bank Limited		
Romania	Romanian Bank for Development Groupe Soc		
Russia	Bank Austria AG Bank Austria AG Bank of America, N.A. Commerz Bank Bank for Foreign Trade		
Saudi Arabia	National Commercial Bank Saudi Hollandi Bank Islamic Development Bank Gulf International Bank B.S.C.		

## CORRESPONDENT BANKING NETWORK

### Country Bank

	Clariden Bank AG
	Credit Suisse (First Boston)
	Nordea Bank Sweden AB (publ)
	HSBC Bank
	Société Générale
	Société Générale
◆ Taiwan	American Express Bank Ltd
	Bank of America, N.A.
	Bank of New York
	International Bank of Taipei
	International Commercial Bank of China, The
	KBC Bank NV
	Sumitomo Mitsui Banking Corporation, The
	Union Bank of Taiwan
	Wachovia Bank, NA
	Taiwan Cooperative Bank
	Standard Chartered Bank
◆ Thailand	HSBC Bank
	Standard Chartered Bank
	American Express Bank Ltd
	Bank of America, N.A.
	Sumitomo Mitsui Banking Corporation, The
	Standard Chartered Nakornthon Bank Public Company Limited
◆ Turkey	Al Baraka Turkish Finance House
	Citibank NA
	HSBC Bank
	Société Générale
	Türk Dis, Ticaret Bankasi AS,
	Habib Bank Limited
	Denizbank AS
	Tekstilbank
	Türkiye Garanti Bankasi AS
◆ UAE	Abu Dhabi Islamic Bank
	Abu Dhabi Commercial Bank
	Habib Bank AG Zurich
	HSBC Bank
	Mashreq Bank
	United Bank Limited
	United Arab Bank
	Citibank NA
	ABN AMRO Bank N.V.
	Standard Chartered Bank
◆ UK	Commonwealth Bank of Australia
	Habib Bank AG Zurich
	HSBC Bank
	AIB Bank
	Banca Monte Dei Paschi di Siena SpA
	Banca Nazionale del Lavarò SpA
	Bank of New York
	Fleet National Bank
	Gulf International Bank B.S.C.
	KBC Bank NV
	Mashreq Bank
	National Westminster Bank Plc

### Country Bank

	Nordea Bank Sweden AB (publ)
	San Paolo IMI SpA
	Santander Central Hispano
	Sumitomo Mitsui Banking Corporation, The
	United National Bank (UBL & NBP)
	Wachovia Bank, NA
	Woori Bank
	American Express Bank Ltd
	ABN AMRO Bank N.V.
	Bank of America, N.A.
	Commerz Bank
	Standard Chartered Bank
	Bank Austria AG
◆ Ukraine	Prominvest Bank
◆ Uruguay	American Express Bank Ltd
	Banca Nazionale del Lavarò SpA
	BankBoston N.A.
	Santander Central Hispano
	ABN AMRO Bank N.V.
◆ USA	American Express Bank Ltd
	Bank of America, N.A.
	Bank of New York
	Citibank NA
	Fleet National Bank
	Habib American Bank
	HSBC Bank
	JPMorgan Chase Bank
	Mashreq Bank
	Société Générale
	Standard Chartered Bank
	InterBusiness Bank, N.A.
	AIB Bank
	Banca Monte Dei Paschi di Siena SpA
	Banca Nazionale del Lavarò SpA
	Commonwealth Bank of Australia
	Credit Lyonnais
	Deutsche Bank Trust Company Americas
	Gulf International Bank B.S.C.
	Habib Bank Limited
	KBC Bank NV
	National Bank of Pakistan
	Nordea Bank Sweden AB (publ)
	San Paolo IMI SpA
	Santander Central Hispano
	Sumitomo Mitsui Banking Corporation, The
	Bank One, NA
	Commerz Bank
	United Bank Limited
	Woori Bank
	Wachovia Bank, NA
	Santander Central Hispano
	Vietnam Bank for Agriculture
◆ Venezuela	Woori Bank
◆ Vietnam	

# OUR BRANCH NETWORK



◆ Existing Branches    ◆ Proposed Branches

# OUR BRANCH NETWORK

## KARACHI

PNSC Branch  
Head Office, 3rd Floor, PNSC Building,  
M.T. Khan Road, Karachi.  
Tel: (92-21) 5610582  
Fax: (92-21) 5610375

FTC Branch  
Ground Floor, Block B, FTC Building,  
Shahrah-e-Faisal, Karachi.  
Tel: (92-21) 5650771  
Fax: (92-21) 5655964

Marriott Branch  
Marriott Hotel, Abdullah Haroon Road,  
Karachi.  
Tel: (92-21) 5683491  
Fax: (92-21) 5683291

Gulshan Branch  
B 41, Block 13 A, KDA Scheme 24,  
University Road, Gulshan-e-Iqbal, Karachi.  
Tel: (92-21) 4811901-6  
Fax: (92-21) 4822066

Jodia Bazaar Branch  
H-91A, Darya Lal Street,  
Jodia Bazaar, Karachi.  
Tel: (92-21) 2473326-29  
Fax: (92-21) 2473277

Federal 'B' Area Branch  
C-12, Block 10,  
Federal 'B' Area, Karachi.  
Tel: (92-21) 6805370-5 Fax: (92-21) 6805384

Clifton Branch  
Ground Floor, Al-Karam Centre, BC1, Block 7,  
Clifton, Main Clifton Road, Karachi.  
Tel: (92-21) 5372060-4 Fax: (92-21) 5372065

Korangi Branch  
Plot No. LS 3, ST-3/1, Sector No. 15, Korangi  
Industrial Area, Karachi.  
Tel (92-21) 5071044, 5077113  
Fax (92-21) 5071046

SITE Branch  
Plot No. B/9-C, Estate Avenue, SITE Area,  
Karachi.  
Tel: (92-21) 2586351-54  
Fax: (92-21) 2586373

## LAHORE

Gulberg Branch  
60-Main Boulevard,  
Gulberg, Lahore.  
Tel: (92-42) 5879870-2 Fax: (92-42) 5879873

Circular Road Branch  
Circular Road,  
Outside Shah Alam Gate,  
Lahore.  
Tel: (92-42) 7642001-05 Fax: (92-42) 7642009-10

Azam Cloth Market Branch  
61 Chandni Chowk ,  
Azam Cloth Market, Lahore.  
Tel: (92-42) 7642011-2 Fax: (92-42) 7642014

## FAISALABAD

Serena Hotel Branch  
Serena Hotel, Club Road, Faisalabad.  
Tel: (92-41) 602595-7  
Fax: (92-41) 602598

Kotwali Road Branch  
P-63, Kotwali Road, Faisalabad.  
Tel: (92-41) 602587- 8  
Fax: (92-41) 602589

## ISLAMABAD

Jinnah Avenue Branch  
32 Sohrab Plaza, Jinnah Avenue,  
Blue Area, Islamabad.  
Tel: (92-51) 2276712-5  
Fax: (92-51) 2824127

## MULTAN

Abdali Road Branch  
64, Abdali Road, Multan.  
Tel: (92-61) 588537-8  
Fax: (92-61) 588539

## SIALKOT

Kashmir Road Branch  
Kashmir Road, Sialkot.  
Tel: (92-432) 295301-4 Fax: (92-432) 295218







# PROXY FORM

The Company Secretary  
Meezan Bank Limited  
3rd Floor, P.N.S.C. Building  
M.T. Khan Road,  
Karachi-74000.

I/We .....

of .....

Folio No./ Participant's ID/CDC Sub-account No. ....

appoint .....

of ..... or failing him/her

of ..... who is/are also a member(s) of the Company as

my/our proxy to vote and act for me/us on my/our behalf at the 9th Annual General Meeting of Meezan Bank Limited to be held on Wednesday, March 30, 2005 at Beach Luxury Hotel, M.T. Khan Road, Karachi, and at any adjournment thereof.

As witness my/our hand/seal this ..... day of .....

Affix  
Correct  
Postage

Signature of Member(s)

NOTE: The Proxy Form should be deposited at the Registered Office of the Company not later than 48 hours before the time for holding the Meeting.

Affix  
Correct  
Postage

The Company Secretary  
**Meezan Bank Limited**  
3rd Floor, P.N.S.C. Building  
M.T. Khan Road,  
Karachi-74000.



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The Premier Islamic Bank

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