

## **Altowfeek Investment Bank Limited**

Annual Report 1996

### CORPORATE INFORMATION

#### CHAIRMAN

Mr. Khalid Mahmood Bhaimia  
- Nominee AlBaraka Investment & Development Co, Jeddah

#### CHIEF EXECUTIVE

Mr. Salman Ali Shaikh  
- Nominee AlBaraka Investment & Development Co, Jeddah

#### DIRECTORS

Mr. Osman. A.Suleiman  
- Nominee AlBaraka Investment & Development Co, Jeddah  
Mr. Yelcin Oner  
- Nominee AlBaraka Investment & Development Co, Jeddah  
Mr. Iftikhar Soomro  
- Nominee AlBaraka Investment & Development Co, Jeddah  
Mr. S.M. Siddiqui  
- Nominee National Investment Trust  
Dr. Omar Zohair Hafez  
-Nominee Islamic Development Bank, Jeddah

#### COMPANY SECRETARY

Farooq Ahmed

#### AUDITORS

Taseer Hadi Khalid & Co. Chartered Accountants

#### SHARE REGISTRARS

Software (Pvt) Limited  
5/79 Usman Block New Garden Town Lahore

#### REGISTERED OFFICE

63- Shahrah-e-Quaid-e-Azam Lahore

#### LEGAL ADVISORS

Salim & Baig Advocates

#### BANKERS

AlBaraka Islamic Investment Bank B.S.C.(E.C)  
Allied Bank of Pakistan Limited  
Faisal Bank Limited  
Habib Bank Limited  
Muslim Commercial Bank Limited  
National Bank of Pakistan  
Prime Commercial Bank Limited  
Soneri Bank Limited  
Schon Bank Limited  
Union Bank Limited  
United Bank Limited

#### BRANCHES

-63- Shahrah-e-Quaid-e-Azam. Lahore  
-Lakhani Centre I.I.Chundrigar Road. Karachi  
-Hotel East Inn Building Sheikhpura Rd. Faisalabad  
-Sialkot Chamber of Commerce Building. Sialkot  
-6-A Islamia Road Peshawar Cantt.

### **NOTICE OF THE ANNUAL GENERAL MEETING**

Notice is hereby given that the 6th Annual General Meeting of Altowfeek Investment Bank Limited will be held at Avari Hotel, Shahrah-e-Quaid-e-Azam, Lahore on Saturday January 25,1997 at 4.00 P.M to transact the following business:

#### **ORDINARY BUSINESS**

- 1) To confirm the minutes of the last Annual General Meeting of the company held on May 21, 1995.
- 2) To receive, consider, and adopt the audited accounts of the Company for the eighteen months period

ended June 30,1996 together with the Directors' and Auditors' Reports thereon.

3) To appoint the auditors for the next term and to fix their remuneration. One of the shareholders of the company has given a notice for appointment of M/S Sidat Hyder Qamar Magbool & Co, Chartered Accountants as auditors in place of the retiring auditors M/S Taseer Hadi Khalid & Co, Chartered Accountants.

#### **SPECIAL BUSINESS**

4) To approve the remuneration of the Chief Executive. Further, to authorize the Board of Directors to revise the remuneration of the Chief Executive of the company, as and when considered necessary.

A statement under section 160 of the Companies Ordinance 1984 pertaining to the special business is being sent to the shareholders with a copy of the notice.

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

Lahore  
December 31,1996

By order of the Board  
FAROOQ AHMED  
COMPANY SECRETARY

#### **NOTES**

(i) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. Form of Proxy is enclosed with the annual report. Proxies in order to be effective, must be received at the registered office of the Company, at least 48 hours before the time of holding the meeting.

(ii) The members are requested to immediately notify the change in address, if any.

(iii) The share transfer books of the Company will remain closed from January 19, 1997 to January 25, 1997 both days inclusive.

#### **STATEMENT U/S 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984**

The members' approval is sought for the payment of remuneration and the provision of certain other utilities to the Chief Executive as per the bank's service rules and as per recommendations of the Board of Directors of the Company. Further, members' approval is sought for authorizing the Board of Directors to revise the remuneration of the Chief Executive as and when considered necessary. For the purpose it is proposed to pass with or without amendment the following resolution.

"Resolved that Mr. Salman All Shaikh Chief Executive shall be paid w.e.f September 15, 1996 the gross remuneration of Rs. 250,000 per month along with other benefits as per bank's service rules.

Further resolved that the Board of Directors be and is hereby authorized to revise the remuneration of the Chief Executive of the company from time to time in accordance with the company's rules and policies".

#### **CHAIRMAN'S REPORT TO THE SHAREHOLDERS**

Dear Shareholders,  
AS SLAAM O'ALAIKUM

The Directors of the Bank have the pleasure to present the Sixth Annual Report of the Bank.

1995-96 was a most difficult period in your Bank's short life. It was full of changes. To comply with changes in the Income Tax Ordinance, we had to change our fiscal year end to June 30 instead of December 31. As a result, this report covers an 18 months period from January 1,1995 to June 30,1996.

Our 1994 report was rather optimistic about the economy and its prospects. Unfortunately the stock market has been on a downward path since 1994. The KSE index, having peaked at 2661 in March 1994, had dropped to 1703 as of June 30,1996. Since then, index has even fallen further. As of December 31,1996 it was 1340. As a result of this overall decline in stock markets, our Investment Portfolio values have also declined substantially - more so than the KSE index. Your Board does not believe that the drop in prices is temporary. Accordingly, we have changed our accounting policy to value the portfolio at the current market price. This mark to market valuation has resulted in a provision of Rs. 124 million for the period. It is most unfortunate that we have to take such a large provision since we only invested in equities to comply with SBP rules of 15% liquidity reserve requirements. As an Islamic Bank, we cannot invest in FIB's/T- Bill's which would not normally lead to capital losses.

The slowing down of the Pakistani economy has also effected our customers, since they are part of the overall market place. Again, being a conservative institution, we have strictly applied SBP rules - have reversed the income and have provided for these classified assets. Furthermore, in compliance with our

external auditors judgment, we have also provided on other classified assets. Our results thus reflect a total provision of Rs.63.9 million.

We have an operating income before provisions of Rs.83.2 million. However, the above major provisions have eliminated the profits and we have a post tax loss of Rs.63.7 million. Since we had unappropriated profit brought forward of Rs.33.1 million, we have ended-up with a carry forward loss of Rs.30.6 million, at the end of June 1996. We believe that as shareholders you would recognize your Board's policy of transparency and full disclosure. These financial prudent actions have put your bank way ahead of most of our local competitors and at par with major global banks in Pakistan.

During the period, our deposits grew by Rs.696 million to Rs. 2954 million. Furthermore, our deposit base has been diversified with a balance between individual and corporate clients on one side and banks and financial institutions on the other side. We are not heavily dependent on one particular source of funding.

There has been a limited growth in customer assets. and portfolio grew by 18.7% in the 18 month-period. This limited growth is a reflection of our conservative outlook as well as difficult operating environment.

1995-96 period reflects a major shift in the market place. Competitive pressures are increasing both from traditional as well as Islamic Banks. Even traditional banks are going into Islamic Banking. We believe the banking industry requires consolidation and deep pockets of capital. There is a very limited role for small players in today's market place. Altowfeek is in a unique situation being part of Dallah Albaraka Group worldwide. This networking, referral of business, and direct funding support is a major plus for Altowfeek. As of this fiscal year end Group deposits were in excess of Rs 788 million. Furthermore ,the Group has a commercial bank, Albaraka, with 3 branches in Pakistan, as well as investment in Jahangir Siddiqui & Co., a full service brokerage house- giving our customers a comprehensive product range in Pakistan. We have a unique franchise in Pakistan.

Mr. Mahmoud Jameel Hassoubah, your last Chairman had to give up his responsibilities in Pakistan as a result of his significantly increased responsibilities in the Group Head Office in Jeddah. We thank him for his continuous contributions, guidance and support through the initial years of the bank. The Group has nominated Mr. Khalid Mahmood Bhaimia to fill in for Mr. Hassoubah. Mr. Bhaimia is an international banker with wide Pakistan and Islamic Banking experience. Your Board has also nominated him as the Chairman.

Islamic Development Bank has changed their nominee on our Board. In place of Mr. Omer Abdullah Sejiyen? they have nominated Dr. Omer. Z. Hafez, a senior member of IDB Management. Mr. Adeel Y. Siddiqui, a founder director, has resigned. In his place Mr. Yelcin Oner, has been co-opted. Mr. Oner is a director of Albaraka Turkish Finance House, Istanbul. We welcome Dr. Omer and Mr. Yelcin and look forward to their continuing contributions, especially in the coming years as we reposition Altowfeek Bank. We also thank the directors who have retired for their close support.

Mr. A.Waheed Alavi, CEO has resigned. Mr. Alavi has been associated with the bank since its inception. We wish Mr. Alavi well in his future endeavors and thank him for his contributions in building the Bank from inception. Mr. Salman Ali Shaikh has been appointed CEO effective December 22, 1996. Mr. Shaikh is a senior banker with broad experience. We welcome him and look forward to his positive contributions.

Despite our unequivocal commitment to provide only Islamic Banking, we have not been totally successful in our delivery-especially on fund mobilization. We have been led to believe that many investors do not wish to participate in true profit & loss accounts. Investors seem to be seeking full security of a bank deposit. We are not convinced that these generalized observations are correct. We sincerely believe that there is a market for true Islamic Banking and we have accepted the challenge to be the first truly Islamic Bank in Pakistan.

As a result of our total provisioning, we are looking somewhat tight on our capital requirements. This tightness is likely to affect our ability to grow total balance sheet, since current SBP rules require 10% capital adequacy ratio. Again, SBP rules do not recognize that in a true Profit & Loss System (PLS), bank's capital is not critical, since investors 'in PLS take actual transaction risk. At this point of time we are not in a position to seek further capital, since the markets are not conducive to right issues. Accordingly, we are looking into alternative means to facilitate growth of business and enhance the profitability of the bank in coming years. In the medium term, under current SBP rules, there is no substitute/'or a direct capital increase.

As part of the recent change in management, there will be a new organizational structure focusing on:

- Difficult portfolio and extracting values
- Islamization of activities
- Re-assessing current network and franchise
- Upgrading staff quality

You will start to see the benefits of these actions in the current fiscal year.

The Board has also decided to change our external auditors. Arthur Anderson are the Group auditors worldwide. In Pakistan they are represented by Sidat Hyder Qamar Maqbool & Co. Our change is for the fiscal year ending June 30,1997. We will be seeking your approval at the forthcoming AGM.

As a result of mark to market, our Investment Portfolio has some upside potential, when the stock market improves. In many cases, current prices are below break-up values of the underlying assets of the companies. Furthermore, once new laws have been issued for recovery of bad debts, we believe we will have an upside from our classified portfolio as a result of current provisioning. Both these potentials can only be realized with time, environmental changes, and focused management efforts.

We foresee difficult days ahead for the banking industry in Pakistan. It is critical that your Bank remains extremely conservative and prudent in this environment.

Finally, we would like to express our sincere thanks to the Government of the Islamic Republic of Pakistan and the State Bank of Pakistan for their guidance and close co-operation; to our customers, correspondent banks, and our sister companies for their continued support, and to the officials and staff of the bank for their hard and dedicated work.

Thank you.

For and on behalf of the Board of Directors

Khalid Mahmood Bhaimia  
Chairman

Date: December 31, 1996

**PATTERN OF SHARE HOLDING  
AS ON JUNE 30, 1996**

**FORM 34**

FROM	TO	NO.OF SHAREHOLDERS	TOTAL SHARES HELD
	1	100	80
	101	500	970
	501	1000	1,343
	1001	5000	563
	5001	10000	83
	10001	15000	17
	15001	20000	13
	20001	25000	13
	25001	30000	4
	30001	35000	6
	35001	40000	2
	40001	45000	1
	45001	50000	3
	65001	70000	1
	85001	90000	1
	90001	95000	1
	115001	120000	1
	145001	150000	1
	150001	155000	1
	155001	160000	1
	180001	185000	1
	215001	220000	2
	245001	250000	1
	680001	6850000	1
	1545001	1550000	1
	3300001	3305000	1
	8595001	8600000	1
		-----	-----
		3,113	31,000,000
		=====	=====

SHARE HOLDERS	NO. OF SHARE HOLDERS	TOTAL SHARES HELD	PERCENTAGE
Individuals	3,060	5,185,300	16.73
Financial Institutions	4	61,800	0.20
Public Limited Companies	7	353,800	1.11
Private Limited Companies	6	283,800	0.95
Banking/Investment Companies	16	24,551,300	79.20
Insurance Companies	5	213,700	0.69
Modarabas	11	320,300	1.03
Leasing Companies	3	29,000	0.09
Proprietor/Partnership	1	1,000	0.00
	-----	-----	-----
	3,113	31,000,000	100.00
	=====	=====	=====

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of ALTOWFEEK INVESTMENT BANK LIMITED as at June 30, 1996 and the related profit and loss account and statement of changes in financial position, together with the notes forming part thereof for, the eighteen months period then ended 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 and, after due verification thereof, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

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 Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the period was for the purposes of the company's business; and

iii) the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the Company.

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 and the statement of changes in financial position, together with the notes forming part thereof, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 1996 and of the loss and the changes in financial position for the period then ended.

d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**BALANCE SHEET AS AT JUNE 30, 1996**

(Rupees in thousand)

	Note	1996	1994
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital:			
100,000,000 ordinary shares of Rs. 10/- each		1,000,000	1,000,000
		=====	=====
Issued, subscribed and paid-up capital:			
31,000,000 ordinary shares of Rs. 10/- each			
fully paid up in cash		310,000	310,000
<b>RESERVES AND SURPLUS</b>			
Reserve for contingencies	3	0	30,000
Statutory reserve	4	25,826	25,826
(Loss)/Unappropriated profit		(30,634)	33,092
		-----	-----
		(4,808)	88,918
		-----	-----
		305,192	398,918
CUSTOMER DEPOSITS - DUE AFTER ONE YEAR	5	77,391	6,492
<b>CURRENT LIABILITIES</b>			
Customer deposits - Due within one year	5	2,876,786	2,251,309
Accrued and other liabilities	6	147,233	113,384
Proposed dividend		0	46,500
Unclaimed dividend		93	0
Provision for taxation		12,000	20,536
		-----	-----
		3,036,112	2,431,729
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
	7	0	0
		-----	-----
		3,418,695	2,837,139
		=====	=====

The annexed notes form an integral part of these accounts.

AUDITORS' REPORT TO THE MEMBERS IS ANNEXED.

**ASSETS**

## CURRENT ASSETS

Cash and bank balances	8	331,124	166,519
Short term placements		70,000	90,000
Advances, deposits, prepayments and other receivables	9	234,323	152,218
Investments	2.3& 10	280,426	276,147
Morabaha finance	2.8& 11	2,460,164	2,125,940
		-----	-----
		3,376,037	2,810,824

## LONG TERM INVESTMENTS

LONG TERM SECURITY DEPOSITS	13	5,198	4,684
DEFERRED TAX ASSET		23,022	0
TANGIBLE FIXED ASSETS	14	11,938	8,997
		-----	-----
		3,418,695	2,837,139
		=====	=====

**PROFIT AND LOSS ACCOUNT**

FOR THE 18 MONTHS PERIOD ENDED JUNE 30, 1996

(RS. IN THOUSAND)

	Note	1996 (18 months)	1994 (12 months)
<b>INCOME</b>			
Profit on morabaha finance		573,580	284,224
Profit on bank deposits		54,608	22,180
Non fund based income		30,428	13,570
Income from investments:			
- Dividends		9,206	12,220
- Income from purchase & resale transactions		3,451	0
- Gain on sale of investments		44,125	29,884
		-----	-----
		56,782	42,104
Gain/(loss) on disposal of fixed assets	15	285	(120)
		-----	-----
		715,683	361,958
<b>EXPENSES</b>			
Return on deposits		(577,150)	(232,706)
Administrative and operating expenses	16	(55,315)	(24,335)
		-----	-----
		(632,465)	(257,041)
<b>OPERATING INCOME BEFORE PROVISIONS</b>			
		83,218	104,917
Provision for doubtful morabaha financing	11	(33,949)	0
Diminution in value of investments	2.3 & 10.2	-124,017	0
		-----	-----
		(157,966)	0
		-----	-----
(LOSS)/PROFIT BEFORE TAX		(74,748)	104,917
<b>PROVISION FOR TAXATION</b>			
- Current year		(12,000)	23,022
- Deferred	2.4	(23,200)	0
		-----	-----
		11,022	23,022
		-----	-----
(LOSS)/PROFIT AFTER TAX		(63,726)	81,717
UNAPPROPRIATED PROFIT BROUGHT FORWARD		33,092	37,218
(LOSS)CARRIED FORWARD/PROFIT		-----	-----
AVAILABLE FOR APPROPRIATION		(30,634)	118,935
<b>APPROPRIATIONS:</b>			
Statutory reserve		0	16,343
Reserve for contingencies	3	0	23,000
Proposed dividend @ Rs.Nil (1994: Rs. 1.5) per share		0	46,500
		-----	-----
		0	85,843

(LOSS)/UNAPPROPRIATED PROFIT	(30,634)	33,092
	=====	=====

The annexed notes form an integral part of these accounts.

**STATEMENT OF SOURCES AND APPLICATION OF FUNDS  
FOR THE EIGHTEEN MONTHS PERIOD ENDED JUNE 30, 1996**

(Rupees in thousand)  
1996                      1995

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
(Loss)/Profit after tax	-63,726	81,717
Adjustment of items not involving movement of cash		
(Gain)/loss on disposal of fixed assets	(285)	120
Gain on disposal of investments	(44,125)	(29,884)
Income from purchase and resale transactions	(3,451)	0
Provision for doubtful advances	33,949	0
Provision for diminution in value of investments	124,017	0
Provision for deferred tax	(23,022)	0
Depreciation	2,544	1,238
	-----	-----
Cash generated from operations	89,627	(28,526)
	-----	-----
	25,901	53,191
	-----	-----
(Increase)/Decrease in term finance	(398,173)	(259,096)
(Increase)/Decrease in advances, deposits, prepayments and other receivables	(82,105)	(97,015)
(Increase)/Decrease in accrued and other liabilities	33,849	39,668
(Increase)/Decrease in provision for taxation	(8,536)	5,089
(Increase)/Decrease in deposits of fixed maturities and term accounts	696,376	439,093
	-----	-----
	241,411	127,739
Dividend paid	(46,407)	0
	-----	-----
Net cash flow from operating activities	195,004	127,739
	-----	-----
	220,905	180,930
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Increase in security deposits	(514)	(4,335)
Addition to fixed assets	(6,056)	(5,331)
Sale proceeds of fixed assets	856	321
Purchase of investments	(573,352)	(377,425)
Sale proceeds from investments	502,766	178,661
	-----	-----
Net cash flow from investing activities	(76,300)	(208,109)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of share capital	0	155,000
	-----	-----
Net cash flow from financing activities	0	155,000
Net increase in cash and cash equivalents	144,605	127,821
<b>CASH AND CASH EQUIVALENTS</b>		
AT THE BEGINNING OF THE YEAR	256,519	128,698
	-----	-----
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	401,124	256,519
	=====	=====

**NOTES TO THE ACCOUNTS  
FOR THE 18 MONTHS PERIOD ENDED JUNE 30, 1996**

**1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Altowfeek Investment Bank Limited is a Public Limited Company incorporated in Pakistan under the Companies Ordinance, 1984. The Company is quoted on the Karachi, Lahore and Islamabad Stock Exchanges, The Company has been registered as an "Investment Bank" to carry on investment finance business in accordance with the objects and functions contained in SRO 585(1)/87 dated July 13, 1987 and further in accordance with principles of Islamic Banking.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Accounting convention**

These accounts have been prepared under the historical cost convention.

**2.2 Fixed capital expenditure and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation on fixed assets is charged to income on the straight line method over their expected useful life at rates given in Note 14.

Half year's depreciation is charged on additions made in the second half of the year and deletions in the first half, while full year's depreciation is charged on assets deleted during the second half year.

Normal repairs and maintenance and gain or loss on disposal of fixed assets are included in income currently. Major renewals and improvements are capitalized.

**2.3 Investments**

Long term investments are stated at cost. Provision for diminution in value is made only if considered permanent, for quoted companies, and in case of unquoted investments decrease in the value of underlying assets.

Short term investments are carried at market value.

Investments held under repurchase agreements are stated at the contracted resale price.

**2.4 Provision for taxation**

The charge for taxation for the year is based on taxable income at the current rates of taxation. The company accounts for deferred taxation, if any, using the liability method, on all major timing differences.

**2.5 Revenue recognition**

Returns on profit and loss sharing (PLS) deposits with banks and on rnorabaha finance are deemed to be earned evenly over the term of the transaction.

Return on Government and Government guaranteed securities is accrued.

Returns on other investments is recognized as income, if declared on or before the balance sheet date.

Fee and commission is recorded on actual receipt basis except guarantee commission received in advance which is deferred over the guarantee period.

**2.6 Foreign currencies**

Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the balance sheet date. However, liabilities representing deposits in foreign currencies and returns on these are converted at the rate prevailing on the date of deposits where the option of exchange risk cover has been exercised.

Other foreign currency transactions are converted at the rate prevailing on the date of the transactions.

Exchange differences are included in income currently.

**2.7 Retirement benefits**

The company operates a contributory provident fund scheme covering all regular employees. Equal monthly contributions are made by the company and employees to the fund,

**2.8 Receivables and provision for doubtful debts**

The provision for doubtful debt is calculated in accordance with the State Bank of Pakistan's classification guidelines for doubtful debts. The provision is reduced from the receivables and charged against earnings.

(Rupees in thousand)

	June 30, 1996	December 31, 1994
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**3. RESERVE FOR CONTINGENCIES**

Opening balance	30,000	7,000
Add: Appropriation	0	23,000
	-----	-----
	30,000	30,000
Less: Adjustment against provision for doubtful advances	(30,000)	0
	-----	-----
	0	30,000
	=====	=====



The principal purpose of this reserve is to strengthen the financial soundness of the company and for meeting any future losses arising from doubtful morabaha financing. The reserve has therefore been adjusted against the provision for doubtful advances.

#### 4. STATUTORY RESERVE

Opening balance	25,826	9,483
For the period	0	16,343
	-----	-----
	25,826	25,826
	=====	=====

This reserve has been created to meet the State Bank of Pakistan's requirement for non-banking financial institutions (NBFI's) according to which 20% of the after tax profits are to be appropriated towards this reserve. No appropriation has been made for the period because of the loss for the period.

#### 5. CUSTOMER DEPOSITS

Due after one year	77,391	6,492
Due within one year	2,876,786	2,251,309
	-----	-----
	2,954,177	2,257,801
	=====	=====

These can be reclassified as under:

Deposits from banks and financial institutions	1,517,371	336,631
Deposits from corporate and other clients	1,436,806	1,921,170
	-----	-----
	2,954,177	2,257,801
	=====	=====

The Company issues Certificates of Deposits with maturities ranging from 30 days to 5 years. The schemes offer varying features and returns. Included in the above are cash management deposits of Rs.407.620 million (1994: Rs.331.432 million) obtained from customers under specific mandates for investment purposes and are invested in various alternatives depending on investment opportunities available at the time. Expected rate of return payable ranges from approximately 11% to 18.25% (1994: 11% to 22.50%).

Included in the above are foreign currency deposits equivalent to Rs.584.91 million and rupee deposits of Rs.203.5 million mobilized from various companies of the Dallah Albaraka Group.

Also included are Rs. 11.63 million (1994: Rs.30.663 million) representing customers credit balances which have matured. No profit is payable on these balances as they are held temporarily until claimed.

#### 6. ACCRUED AND OTHER LIABILITIES

Margin deposits	26,705	49,838
Accrued expenses and other liabilities	37,856	11,815
Accrued return on deposits	69,753	31,247
Excise duty payable	8,198	5,844
Tax deduction payable	876	815
Cheques awaiting clearance	1,067	0
Shares transaction account	2,778	13,825
	-----	-----
	147,233	113,384
	=====	=====

#### 7. COMMITMENTS AND CONTINGENT LIABILITIES

7.1 Commitments for minimum lease payments under operating leases in respect of vehicles under various lease agreements are Rs.5.546 million (1994: Rs.2.96 million).

	(Rupees in thousand)		
	1996-97	1997-98	1998-99
International Multi Leasing Corporation Limited	155	0	0
BRR Capital Modaraba	326	0	0
Askari Leasing Limited	571	571	0
Atlas Lease Company Limited	1,380	1,380	1,070
AI-Zamin Leasing Modaraba	115	115	0
Pacific Leasing Company Limited	273	273	68
	-----	-----	-----
	2,820	2,339	1,138
	=====	=====	=====

#### 7.2 Bank's liability on:

Acceptances	61,175	24,580
Letter of credit	54,748	529,718
Guarantees	177,667	203,773
Shares underwriting	25,000	10,000
	-----	-----
	318,590	768,071
	=====	=====

7.3 The company has used income tax rates applicable to public limited companies (other than banking companies) on its returns filed since its inception. Assessments upto assessment year 1993-94 have been completed and the tax department has levied income tax rates as applicable to banking companies. The appeals in this regards to Commissioner of Income Tax (Appeals) have been decided in favour of the company. However, the department has gone into 2nd appeal agitating the decision of the Commissioner of Income Tax (Appeals). The matter is still pending before the learned Appellate Tribunal. Management of the company is confident that the outcome of the 2rid appeals filed by the department will also be in its favour as it is not a banking company as defined in Banking Companies Ordinance, 1961 (see Note 1).

No provision has been made in these accounts to reflect the additional tax liability, in case the Company is assessed as a banking company. If the rates applied by the Income Tax Department are accepted by the Income Tax Appellate Tribunal, additional tax liability is estimated at Rs.2.818 million for the completed assessments of 1990 and 1991 and Rs. 16.79 million for years ended 1992 and 1993. Tax return for the year 1994 and six months ended 1995 has been filed and decision awaited.

	Note	(Rupees in thousand)	
		June 30, 1996	December 31, 1994
<b>8. CASH AND BANK BALANCES</b>			
Cash at banks:			
- In current accounts		285,389	113,121
- In PLS deposits		44,606	53,348
		-----	-----
		329,995	166,469
Cheques in clearing		1,067	0
Cash in hand		62	50
		-----	-----
		331,124	166,519
		=====	=====

#### 9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Accrued return on: - Morabaha finance		88,223	92,126
- Deposits with banks		12,540	6,064
- Investments		8,081	6,630
Excise duty receivable		2,125	5,292
Advances - Considered good	9.1	3,118	326
Prepaymerits		2,741	2,723
Due from brokers		12,880	0
Forward cover fee		39,718	14,115
Advance tax		37,682	2,664
Other receivables		27,215	22,278
		-----	-----
		234,323	152,218
		=====	=====

9.1 Includes advance to an executive representing secured house building advance as per service rules and is recoverable in equal monthly installments. The maximum outstanding balance during the period was Rs.2.9 million (1994: Rs.250,000). This was also the maximum outstanding balance at the end of any month during the period.

Due within one year		348	250
Due after one year		2,770	76
		-----	-----
		3,118	326
		=====	=====

#### 10. INVESTMENTS

10.1 The investments are held to meet the requirements of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions, which require a liquidity reserve of 15% of specified liabilities to be maintained by investment in Government Securities, N.I.T. Units, or shares in quoted companies.

The management has reclassified the following investments from long term to short

term, which according to the policy have been stated at cost less diminution in value to bring carrying value in line with the market value. However, comparative figures are stated at cost.

## 10.2 NIT Units

		93,613	80,075
Quoted:			
- Ordinary shares of Joint Stock Companies	10.3	289,406	173,889
- Modaraba certificates	10.4	21,424	22,183
		-----	-----
		310,830	196,072
Less: Provision for diminution in the value of investments		-124,017	0
		-----	-----
		186,813	196,072
		-----	-----
		280,426	276,147
		=====	=====

## 10.3 Ordinary shares of Joint Stock Companies of Rs. 10/- each (fully paid)

Name of company	(Rupees in thousand)				
	1996 No. of shares	Market value	Cost	1994 Market value	Cost
Askari Commercial Bank Limited	765,265	24,488	37,775	34,675	39,402
Prosperity Weaving Mills Limited	1,600,000	17,480	16,000	0	0
Sana Industries Limited	111,800	10,046	10,244	9,927	9,306
Pakistan State Oil Company Limited	23,335	9,800	5,472	12,410	7,676
P.T.C. Vouchers	232,000	9,105	9,961	3,299	5,148
Sazgar Engineering Works Limited	904,000	9,040	9,040	0	0
Javed Omer Vohra & Co. Limited	300,000	9,000	39,672	0	0
Shell Pakistan Limited	42,605	6,995	6,752	0	0
First Capital Mutual Fund	1,030,000	6,180	9,482	0	0
KASB Premier Fund Limited	980,000	4,802	9,800	0	0
EMCO Industries Limited	200,000	4,500	5,100	5,000	5,100
First Capital Securities Corp. Ltd.	415,000	3,943	8,870	9,648	8,870
Nestle Milkpak Limited	21,734	3,639	3,477	0	0
Sitara Chemicals Industries Limited	71,155	3,487	6,113	3,544	6,113
Engro Chemicals Limited	20,928	3,348	3,179	1,426	1,564
American Life Insurance Co. Limited	94,000	3,290	4,669	0	0
Karachi Electric Supply Corp. Ltd.	70,500	2,591	2,595	1,638	2,295
Gulistan Textile Mills Limited	34,108	2,335	3,232	7,880	5,940
Ravi Textile Mills Limited	898,000	2,245	3,143	3,104	3,343
Fazal Textiles Limited	68,475	1,986	4,699	2,407	3,703
Genertech Pakistan Limited	149,500	1,944	3,638	0	0
Kohinoor Genertek Limited	200,000	1,900	5,140	0	0
Paramount Leasing Corp. Limited	250,000	1,750	2,500	0	0
Cherat Cement Limited	64,861	1,705	1,844	3,679	4,153
Confidence Mutual Fund	216,650	1,648	2,166	0	0
Ibrahim Leasing Limited	500,000	1,600	5,000	7,250	5,000
Crescent Textiles Limited	105,116	1,576	3,947	1,358	2,803
Lucky Cement Limited	100,000	1,500	2,314	0	0
24th ICP Mutual Fund	249,400	1,434	2,494	0	0
Hub Power Co. Limited	40,000	1,372	1,257	0	0
Crescent Investment Bank Limited	78,235	1,329	2,602	758	766
Crescent Steel & Allied Prod. Ltd.	27,400	1,288	1,479	299	123
AI-Faysal Investment Bank Limited	58,435	950	3,544	3,210	3,648
Essa Cement Industries Limited	69,650	898	6,571	4,488	6,695
23rd ICP Mutual Fund	197,900	891	1,979	2,193	2,249
ICI (Pakistan) Limited	16,000	848	1,260	1,210	1,150
Pak Suzuki Motor Company Limited	20,000	830	819	0	0
Tripack Films Limited	63,500	826	1,909	0	0
Indus Motors Company Limited	35,000	823	1,660	945	1,660
Pakistan Ind Leasing Corp. Ltd.	54,900	796	2,301	1,000	1,103
Millat Tractors Limited	15,844	795	770	20	24
Sui Southern Gas Company Limited	23,805	768	818	736	749
Faysal Bank Limited	22,550	716	836	0	0
D.G. Khan Cement Limited	48,550	680	2,089	0	0
Crown Textile Mills Limited	445,155	668	4,335	1,068	4,335
Pacific Leasing Company Limited	150,000	638	1,457	0	0
Elahi Electric Co. Limited	101,200	633	1,474	0	0

Adamjee Insurance Company Limited	4,375	569	484	0	0
Capital Asset Leasing Corp Ltd	81,500	558	1,202	678	952
Searle Pakistan Limited	13,225	499	1,202	1,075	1,202
Quetta Textiles Limited	20,000	475	388	5,078	5,000
Pioneer Cement Limited	50,000	413	2,376	1,550	2,350
Askari Leasing Limited	21,000	415	432	638	296
Asian Stocks Funds Limited	100,000	400	1,000	0	0
Pak Synthetic Limited	31,325	399	1,381	0	0
National Devp. Leasing Corp. Ltd.	26,875	396	890	463	670
Pakistan Oilfields Limited	6,300	378	503	0	0
LTV Redeemable Capital Certificates	3,737	374	355	0	0
The Bank of Punjab	19,500	365	714	479	764
Dewan Salman Fibres Limited	8,000	320	455	2,800	2,248
Gaddoon Textiles Limited	10,000	307	543	0	0
First Leasing Corporation Limited	25,000	275	361	325	361
Fidelity Investment Bank Limited	39,110	270	1,695	1,139	1,169
Standard Chartered Leasing Limited	12,000	258	534	0	0
Sapphire Fibre Limited	10,000	255	350	0	0
EFU Life Assurance Limited	20,000	240	388	0	0
Shadman Cotton Mills Limited	24,255	224	612	526	612
Pakistan Industrial Credit and Investment Corporation Limited	26,700	214	1,800	1,463	1,800
Tristar Shipping Lines Limited	30,000	180	383	122	831
Gulshan Spinning Mills Limited	11,000	173	439	275	439
Mandviwala Mauser Limited	35,500	169	397	248	397
Idrees Textile Mills Limited	63,000	167	1,084	473	1,084
Ibrahim Energy Limited	18,750	159	726	0	0
Saif Textiles Mills Limited	11,000	151	419	0	0
Fauji Fertilizer Company Limited	2,000	147	124	0	0
Trust Leasing Limited	19,776	129	335	13	13
Dhan Fibres Limited	21,000	126	226	944	1,092
Raza Textile Mills Limited	17,160	112	266	154	266
Faisal Spinning Mills Limited	8,500	106	165	22	9
Soneri Bank Limited	2,910	84	126	22	26
I.C.P. State Enterprises Mutual Fund	1,000	74	84	64	84
Crescent Leasing Company Limited	7,500	69	125	0	0
First Int'l Investment Bank Ltd.	6,540	69	180	0	0
Ghazi Fabrics Int'l Limited	25,000	63	350	187	350
Chashma Sugar Mills Limited	10,000	57	125	79	125
Shakarganj Mills Limited	2,985	45	95	68	92
Golden Arrow Selected Stocks Fund Ltd.(*)	10,000	28	184	76	184
J.A. Textile Mills Limited	20,000	25	220	125	220
Gharibwal Cement Limited	640	17	43	2,232	2,175
Mohib Exports Limited	5,300	11	79	42	79
Orix Leasing Limited	180	9	11	3,318	3,324
Nishat Mills Limited	402	6	12	0	0
Tristar Mutual Fund	1,500	5	33	14	33
Suzuki Motorcycles (Pakistan) Ltd	1,000	3	28	6	28
Nishat (Chunnian) Limited	300	2	4	0	0
Reliance Cotton Spinning Mills Ltd.	0	0	0	2,679	2,270
International Industries Limited	0	0	0	8,200	10,000
Shabbir Tiles & Ceramics Limited	0	0	0	276	195
Mohib Textiles Limited.	0	0	0	252	231
		-----	-----	-----	-----
		178,896	289,406	159,277	173,889
		=====	=====	=====	=====

**10.4 Modaraba certificates of Rs. 10/- each**

B.F. Modaraba	2,240	4	7	12	7
B.R.R. First Capital Modaraba	10,000	53	221	160	221
Financial Link Modaraba	50,000	45	505	300	505
First Al-Noor Modaraba	784,400	3,334	7,419	6,306	7,419
First Confidence Modaraba	476,630	2,383	8,563	7,366	9,497
First Crescent Modaraba	36,750	83	604	390	604
First Hajveri Modaraba	57,489	201	357	402	357
First Islamic Modaraba	223,500	1,229	2,235	1,620	2,235
First Pak Modaraba	3,500	11	9	18	9
First Professional Modaraba	3,480	15	15	29	15
LTV Capital Modaraba (*)	105,000	488	984	578	834
Punjab Modaraba	2,000	11	25	0	0
Unicap Modaraba	20,000	60	480	150	480
		-----	-----	-----	-----
		7,917	21,424	17,331	22,183

(\*) Certificates of Rs.5 each

(Rupees in thousand)  
June 30      December 31,  
1996      1994

#### 11. MORABAHA FINANCE

Morabaha finance	2,524,113	2,125,940
Provision against doubtful financing	(63,949)	0
	-----	-----
	2,460,164	2,125,940
	=====	=====

These are fully secured finance facilities provided to corporate and other customers and are repayable within one year. These are principally secured by hypothecation of or a charge on assets of customers, mortgage of property of customers, bank guarantees, corporate guarantees, lien over deposits of customers amounting to Rs. 1,419.941 million and pledge of shares of listed companies. Profit rates applicable on these facilities range from 14% to 22% approximately (1994: 10% to 22%).

#### 12. LONG TERM INVESTMENTS

(Rupees in thousand)

Name of company	1996		1994
	No. of shares	Cost	Cost
Kohinoor Genertek Limited (Chief Executive Mr. Jehangir Elahi)	200,000	0	5,140
First Capital Investment (Pvt) Limited (Chief Executive Mr. Salman Taseer)	250,000	2,500	0
24th ICP Mutual Fund (Managed by Investment Corporation of Pakistan)	249,400	0	2,494
Paramount Leasing Corporation Limited {Chairman Mr. Naseem S. Mirza}	250,000	0	2,500
Asian Stocks Fund Limited (Chief Executive Mr. Ismail Abdul Shakoor)	250,000	0	2,500
		-----	-----
		2,500	12,634
		=====	=====

The above represent shares acquired as one of the sponsors.

#### 13. LONG TERM SECURITY DEPOSITS

Lahore Stock Exchange membership (seat)	4,000	4,000
Lahore Stock Exchange office	271	271
Deposits against leased assets	427	285
Telephone security	495	123
Gas security	5	5
	-----	-----
	5,198	4,684
	=====	=====

#### 14. TANGIBLE FIXED ASSETS

(Rupees in thousand)

DESCRIPTION	COST			RATE %	DEPRECIATION		As at 30.06.96	NET BOOK VALUE AS AT 30.06.96
	As at 1/1/1995	Additions/ (Deletions) during the period	As at 6/30/1996		As at 1/1/1995	For the period		
Office equipment	3,127	1,620	4,747	10	702	581	1,283	3,464
Furniture and fixture	2,841	1,089	3,820	10	440	528	959	2,861
		-110				-9		
Vehicles	2,327	1,128	2,168	20	1,051	795	1,029	1,139
		-1,287				-817		
Leasehold improvements	3,217	2,219	5,436	10	322	640	962	4,474
	-----	-----	-----		-----	-----	-----	-----
	11,512	6,056	16,171		2,515	2,544	4,233	11,938
		-1,397				-826		

1994	6,772	5,331	11,512	1,428	1,238	2,515	8,997
		-591			-151		

Entire depreciation has been charged to administrative and operating expenses.

#### 15. DISPOSAL OF FIXED ASSETS

(Rupees in thousand)

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Profit/loss	Mode of	Sold to
Charade Car	98	29	69	97	28	Negotiation	Mr. Khwaja Tauqeer Employee
Pajero	868	694	174	348	174	Negotiation	Abdul Waheed Alvi Chief Executive
Suzuki Car	123	43	80	112	32	Negotiation	Mr. Tahir Hussain Employee
Charade Car	42	20	22	42	20	Negotiation	Masood Wahedna Ex-Employee
Motor cycle Honda	156	31	125	156	31	Negotiation	Insurance Claims EFU General Ins. Ltd.
Refrigerator	20	2	18	18	0	Negotiation	Awais Tahir Ex-Employee
Furniture & fixture	90	7	83	83	0	Negotiation	G. Mustafa, Awais Tahir & Amir Butt Ex-Employees
	1397	826	571	856	285		
1994	591	151	440	320	-120		

Note (Rupees in thousand)  
June 30, 1996 (18 months)      December 31, 1994 (12 months)

#### 16. ADMINISTRATIVE AND OPERATING EXPENSES

##### Staff related:

Salaries, wages and other benefits	17,014	7,143
Lease rentals and costs	5,194	1,774
Travelling and conveyance	3,836	2,031
Repair and maintenance	1,051	640
Entertainment	521	184
Insurance	368	135

##### Premises related:

Repair and maintenance	1,338	529
Rent, rates and taxes	4,201	1,983
Insurance	806	314
Security services	695	247

##### Other operating expenses:

Telephones and telex	4,125	1,678
Fines and penalties	2,127	0
Bank charges	914	684
Printing and stationary	2,795	1,308
Consultancy charges	614	92
Auditors' remuneration	16.1	600
Courier and postage	356	153
Subscription and fees	300	357
Depreciation	14.0	2,544
Utilities	1,927	240
Advertising and promotion	247	350
Donation	16.2	26

Legal and other consultancy charges	969	181
Brokerage commission	1,075	1,931
Registrar services fee	285	492
Miscellaneous	1,387	564
	-----	-----
	55,315	24,335
	=====	=====

**16.1 Auditors' remuneration**

Audit fee - 1995	75	0
Audit fee - 1996	75	75
Sundry accounting services	400	0
Out of pocket expenses	50	3
	-----	-----
	600	78
	=====	=====

16.2 None of the directors of the Company or their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Company during the period.

**17. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS**

The aggregate amounts in respect of transactions with associated undertakings are; cumulative deposits received Rs.780.41 million (1994:Rs.91.831 million), return on deposits received Rs.22.1 \$ million( 1994: Rs. 1.771 million), finance provided Rs.Nil (1994:Rs.5.021 million), income from finance Rs.Nil (1994:Rs.0.192 million), cumulative sums of guarantees and letters of credit on account of customers Rs. 140.00 million (1994:Rs.90.429 million).

In addition, the Company has current accounts with Al-Baraka Islamic Investment Bank, B.S.C. (E.C.) branches at Lahore, Karachi and Faisalabad, a scheduled bank branch of a Bahrain incorporated associated undertaking, with which it also shares premises at Lahore and Karachi. The commissions on the guarantees and letters of credit above have been shared equally between the two on terms and conditions similar to arrangements with other correspondent banks. Rental, utilities, communications, and sundry expenses relating to Lahore and Karachi offices are shared in accordance with predetermined percentages.

**18. REMUNERATION OF DIRECTORS AND EXECUTIVES**

	(Rupees in thousand)					
	Chief Executive		Executives		Total	
	1996	1994	1996	1994	1996	1994
Managerial remuneration	587	350	4,502	2,609	5,089	2,959
House rent allowance	264	139	2,023	1,057	2,287	1,196
Utilities	59	31	451	236	510	267
Leave fare	50	40	469	311	519	351
Conveyance allowance	0	0	25	0	25	0
	960	560	7,470	4,213	8,430	4,773
	-----	-----	-----	-----	-----	-----
No. of persons	1	1	18	17	19	18
	=====	=====	=====	=====	=====	=====

In addition to above, the Chief Executive and certain executives are provided free use of cars and reimbursement of residence telephone expenses.

**19. FIGURES**

\* have been rearranged and regrouped wherever necessary to facilitate comparison.

\* have been rounded off to the nearest thousand rupee.

