

ANNUAL REPORT 2003



Meezan Bank
The Premier Islamic Bank

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the name of Allah, The most Beneficent, The most Merciful

ANNUAL
REPORT
2003



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.

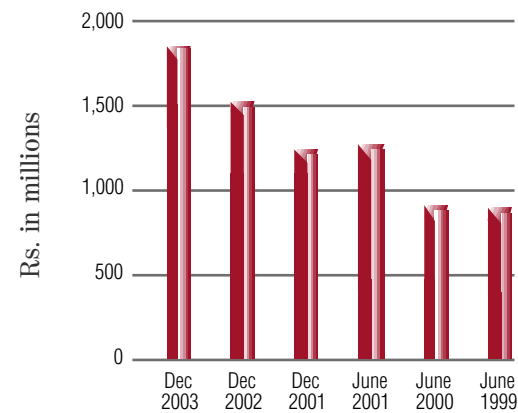


KEY FIGURES AT A GLANCE

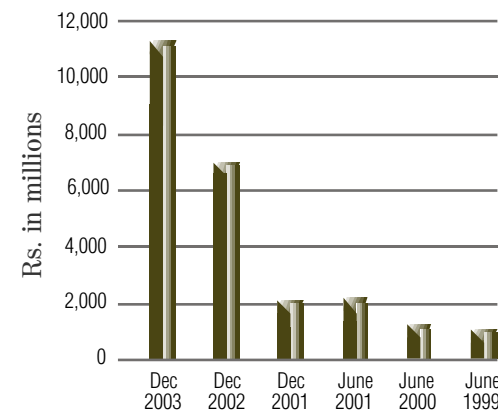
Rupees in millions

	Dec. 2003	Dec. 2002	Dec. * 2001	June 2001	June 2000	June 1999
Paid-up Capital	1,064	1,001	901	901	721	721
Shareholders' Equity	1,748	1,586	1,203	1,257	878	850
Total Assets	11,102	6,971	2,053	2,179	1,314	1,180
Financing	7,397	3,532	865	1,242	482	525
Deposits	7,757	5,079	637	644	214	231
Total Income	679	660	30	554	288	192
Operating Expenses	255	195	36	101	64	13
Profit/(Loss) Before Taxation	241	270	(35)	397	170	141
Profit/(Loss) After Taxation	214	223	(54)	366	126	91
Earnings per share - pre tax (Rs.)	2.26	2.81	(0.38)	4.44	2.36	1.96
Earnings per share - after tax (Rs.)	2.01	2.10	(0.58)	4.09	1.75	1.26
Break-up Value (Rs.)	16.43	15.84	13.35	13.95	12.17	11.80
Cash Dividend (%)	5.00	5.00	-	17.50	15.00	-
Stock Dividend (%)	10.00	10.00	-	-	-	-

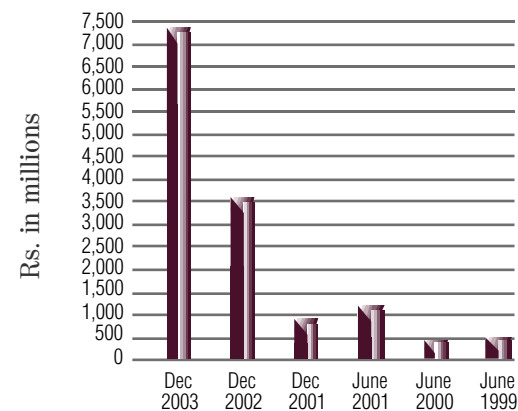
* Represents figures for the six-month period ended December 31, 2001 due to change in year end from June to December.



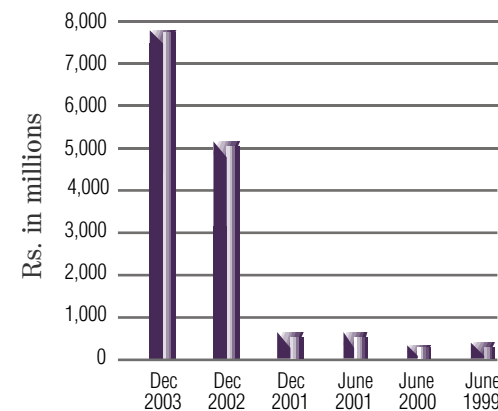
SHAREHOLDER'S EQUITY



TOTAL ASSETS



TOTAL FINANCING



TOTAL DEPOSITS



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Enlightenment comes into the life of one who lets the purity of light enter. The enrichment that follows is two fold: a comfortable life fulfilling all your basic needs in this world, and a conformity with the Shariah laws that makes the Hereafter better.



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.



CORPORATE INFORMATION

BOARD OF DIRECTORS

H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa
 Naser Abdul Mohsen Al Marri
 Irfan Siddiqui
 Zaigham Mahmood Rizvi
 Mohamed Abdul-Rehman Hussain
 Tarik Kivanc
 Mazen Khalid Al-Braikan
 Ariful Islam
 Rana Ahmad Humayun
 Yousif Saleh Khalaf

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
 Zaigham Mahmood Rizvi
 Mohamed Abdul-Rehman Hussain
 Irfan Siddiqui

AUDIT COMMITTEE

Zaigham Mahmood Rizvi
 Mohamed Abdul-Rehman Hussain
 Irfan Siddiqui

COMPANY SECRETARY

Gohar Iqbal Shaikh

ADVISORY

Dr. Muhammad Imran Usmani
 Zafar Aziz Osmani

Shariah Advisor
 Human Resource Advisor



CORPORATE INFORMATION

MANAGEMENT

Irfan Siddiqui
 Ariful Islam
 Najmul Hassan
 Gohar Iqbal Shaikh
 Ayaz Wasay
 Aqeel Siddiqui
 Arshad Majeed
 Mohammad Haris
 Sohail Khan
 Emad ul Hasan
 Mehnaz Ikram
 Faiz-ur-Rehman
 Munawar Rizvi
 Zafar Ali Khan

President & CEO
 Chief Operating Officer
 Corporate & Business Development
 Finance & Human Resources
 Treasury & Financial Institutions
 Retail Banking
 Operations
 Corporate Finance
 SME & Auto Leasing
 Internal Audit & Compliance
 Legal Advisor
 Information Technology
 General Services & Administration
 Marketing & Housing Finance

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: 9221-5610582 Fax: 9221-5610375
 Website: www.meezanbank.com Email: info@meezanbank.com

REGISTRAR & SHARE TRANSFER OFFICE

THK Associates (Pvt.) Limited
 Ground Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530, Pakistan.
 Ph: 9221-5689021 Fax: 9221-5655595

The Story of Riba-free Banking in Pakistan

One tree gives rise to a forest of trees over a period of years. This principle works with Meezan Bank products because of their convenience and versatility. They are customized to your lifestyle and conform to the principles of Shariah, thus multiplying your returns quickly and efficiently.

- 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 Quran and Sunnah.
- 1962 The establishment of 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 Federal Shariat Court.
- 1980 CII presents report on the elimination of interest genuinely considered to be the first major comprehensive work in the world undertaken on Islamic banking and finance.
- 1985 Commercial banks change their nomenclature stating all Rupee saving accounts as interest-free. However, foreign currency deposits in Pakistan and on lending of foreign loans continued as before.
- 1991 Procedure adopted by banks in 1985 was declared unIslamic by the Federal Shariat Court (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 an Islamic Investment Bank with Dr. 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 off a high level commission, task forces and committees to institute and promote Islamic banking on parallel basis with conventional system.
- 2001 The Shariah Supervisory Board is established at Al-Meezan Investment Bank led by Justice (Retd.) Muhammad Taqi Usmani as Chairman. The State Bank sets criteria for establishment of Islamic commercial banks in 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. Simultaneously, Meezan Bank acquires the Pakistan operations of Societe Generale, a French commercial bank. President General Pervez Musharraf inaugurates the Bank.
- 2003 A Musharakah-based Export Refinance Product is designed by the State 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 the banks in respect of liquidity and SLR management. In addition, a full fledged Islamic Banking Department has now been created in the SBF.



Nature brings to us flowers that spread their seeds far and wide to germinate and grow. Following in Nature's footsteps, Meezan Bank give its customers banking solutions through a branch network that is spread across the country and ever growing.

- Islamic commercial banking license
- Acquisition of Societe Generale, Pakistan
- Expansion of branch network nationwide
- Sitara Group Musharakah Term Finance Certificate
- Fayzan Modaraba – 1st Structured Off-Balance Sheet Project Finance
- Islamic Export Refinance Scheme



- Islamic Housing Finance

- Meezan Islamic Fund – Pakistan's 1st Shariah-compliant open-end equity fund



- Islamic Auto Leasing

- Development of Islamic banking software – Islamic Banker

Housing Finance

The nation's first Islamic housing facility, EasyHome was officially launched in December.

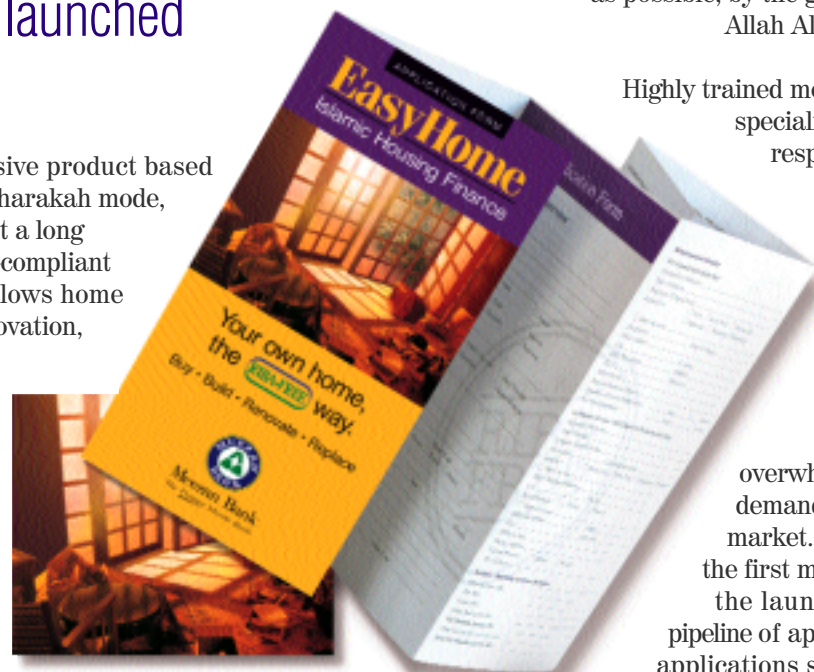
It is a very comprehensive product based on the Diminishing Musharakah mode, that provides the market a long awaited totally Shariah-compliant mortgage facility that allows home purchase, building, renovation, and even replacement of an existing mortgage.

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 our branch network and Call Center, and 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 access to all eligible applicants. As the pioneer, 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, by the grace of Allah Almighty.

Highly trained mortgage specialists are responding to the



overwhelming demand in the market. Just in the first month of the launch, the pipeline of approved applications stood at over PKR 100 million.

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Car Ijarah

Over the past year and a half, Meezan Bank's Car Ijarah (Auto Leasing) product has gained overall market recognition

and has developed into an important part of MBL's overall product offering. The product has grown all over the country with a portfolio of Rs. 291 million as of 31st Dec 2003 with no non-performing contracts.

The product is now offered in Karachi, Lahore, Faisalabad,

Our focus over the coming year is to take Car Ijarah to the next level of success by significantly increasing our investment in this business line.

Islamabad & Multan. The up-country markets have also shown tremendous acceptability of the product.

Our focus over the coming year is to take Car Ijarah to the next level of success by significantly increasing our investment in this business line. The product will target employees of well-reputed local and multinational companies and self-employed professionals. Active marketing and sales efforts will be employed over the coming year to increase public awareness of the product. A comprehensive dealer network is also being developed to establish a regular source of business leads.

In view of our past experience, we expect a very positive response to our marketing initiative and are in the process of actively building the human and infrastructural resources needed to achieve the targets set for this business line. Our experience



with the product over the last year has given us the confidence that with active marketing and resource allocation, Car Ijarah will very soon develop into a major profit-center of the Bank.

Small & Medium Enterprise (SME) Business

Water that is flowing is pure and sparkingly clean just like the Riba-Free banking solutions that Meezan Bank gives its customers to help make your money grow safely, securely and profitably within the parameters of Shariah.

The SME sector forms the backbone of any economy and is generally regarded as a high-return sector for banks with its unique set of risks and return. In Pakistan, this sector is yet largely untapped by the banking community, although awareness about the opportunities offered in this sector is on the rise. The government is also focusing on promoting this sector and the State Bank has recently issued a separate set of Prudential Regulations for SMEs, under which the regulatory compliance requirements for SME customers have been structured keeping in view the set-up, constraints and dynamics of SME business entities.

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The SME business is a priority sector for Meezan Bank because of its socio-economic importance and the need to strengthen the building blocks of the nation. The sector is also important because of the huge business opportunity it offers and the fact that a vast majority of entrepreneurs in this sector have a very keen Shariah mindset, placing Meezan Bank in a unique advantageous position as the preferred bank for this sector.

After starting our SME business operations in October 2002, the business portfolio grew to an asset size of Rs. 341 million spread over 35

Our targets for the upcoming year aggressively focus on increasing our SME portfolio. We are actively developing the human and infrastructural resources.

clients by 31st December 2003, with no non-performing contracts. The initiative also generated non-funded business of Rs. 520 million over the year.

Our targets for the upcoming year aggressively focus on increasing our SME portfolio. We are actively developing the human and infrastructural resources necessary to manage this business and are keenly looking forward towards building this business line as a major profit center in the near future.

Corporate & Investment Banking

The Corporate & Investment Banking Unit continues to provide comprehensive and innovative financial solutions to the Bank's client base through a diverse product offering. We nurture and develop long-term relationships with clients by understanding their unique financing requirements and providing Shariah-compliant financing solutions.

The focus continues on tailoring solutions to meet customer financing needs which are changing in a fast changing global environment. These solutions include use of different modes of Islamic finance and/or their hybrids for meeting short & long-term financing and other trade related requirements of our customers. Murabaha and Ijarah continue to be the most actively used financing contracts, which enable MBL to meet the working capital needs of its customers and to finance purchase of plant and machinery. The Bank also undertook various innovative transactions during the year by developing financial structures based on the concepts of Diminishing Musharakah, Shirkatul Wujooth and Musharakah.

Under Diminishing Musharakah, Meezan Bank structured a financing arrangement for Sitara Energy Limited (SEL). The asset purchased under this financing is divided into a number of notional

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units and it is agreed that SEL will purchase the units of the share of the Bank gradually, thus increasing its own share until all the units of the Bank are purchased by SEL so as to become the sole owner of the asset after a specified period. SEL pays rent for using the Bank's share in the asset and thus the transaction ensures a Shariah-compliant solution for the Customer as well as for the Bank.

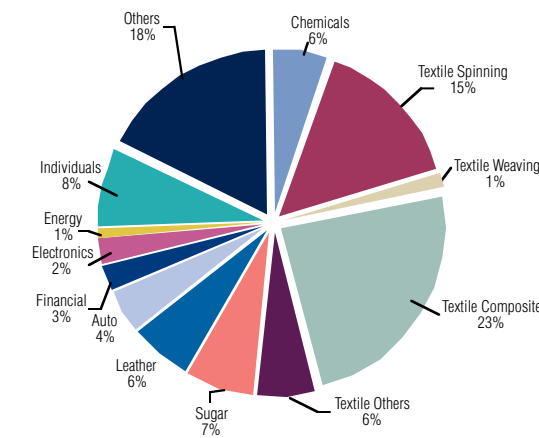
MBL has entered into a Musharakah arrangement using the concept of Shirkatul Wujooth with a reputable supplier of engineering equipments. In Shirkatul Wujooth one or more partners have no investment in the venture. They purchase commodities on deferred price, and sell them at spot. The profit earned is distributed between them at an agreed ratio. By using this concept MBL has opened a Usance LC for the import of certain engineering equipments. After the arrival of equipment, MBL's partner would sell the imported equipments in local market on cash and the profit so earned would be shared between MBL and its partner according to the agreed ratios. Loss, if any, would also be shared between the partners as per their investment ratio.

MBL during the year also structured a landmark Musharakah transaction with Associated Constructors Limited (ACL) – a leading contracting company, to participate in Phase 2 of Creek City project of Defence Housing Authority (DHA). The Creek City housing development is expected to be a landmark project for the city of Karachi.

These products are being used to further diversify the Bank's expanding financing portfolio and they demonstrate the focus and expertise the Bank possesses in developing new and innovative products. With the help of existing and new products, we continue to aggressively expand our

corporate portfolio by adding large multinationals and prime local corporates/groups which currently include names such as Al-Abid Silk, Al-Karam Textile, Alcatel, Crescent Textile, Crescent Steel, Dawood Group, Dewan Group, Engro Chemical, Fatima Group, Fazal Group, General Tyre, Gul Ahmed Textile, Ibrahim Fibres, ICI, MIMA Group, Nishat Group, PSO, Premier Group, Rafhan Maize, Shafi Group, Siemens and Sitara Group.

The total financing portfolio of the Bank as on December 31, 2003 amounted to Rs. 7.40 billion as compared to Rs. 3.53 billion as on December 31, 2002, representing an increase of 110%. The portfolio is well diversified with major concentration in the textile sector since that is the backbone of the Pakistan economy. Sector distribution of the financing portfolio is shown below:



SECTORAL BREAKUP OF FINANCING PORTFOLIO

Another major breakthrough for Meezan Bank during the year was the launch of the Islamic Export Refinance Scheme Part II which was developed in close coordination with the State Bank of Pakistan. This has now enabled exporters to avail financing at concessional rates under both Part I and Part II schemes of the SBP, Islamic Export Refinance Scheme. Meezan Bank has already disbursed funds to many customers under this scheme some of whom are: Al-Karam Textile,

The total financing portfolio of the Bank as on December 31, 2003 amounted to Rs. 7.40 billion as compared to Rs. 3.53 billion as on December 31, 2002, representing an increase of 110%.

Fatima Group, Gul Ahmed Textile, MIMA Group, Nishat Group, Shafi Group and Sitara Group.

The Corporate & Investment Banking Unit also provides a range of advisory services integrating industry, product and regional specialization to help businesses address their strategic issues and formulate and execute dynamic business strategies. The Unit put together a PKR 910 million Syndicated Short Term Islamic Finance Facility to Saadullah Khan & Brothers, one of the leading construction firms of Pakistan. The Unit also advised the Privatisation Commission, Government of Pakistan on the divestment of shares of Sui Southern Gas Company Limited as part of a consortium through the domestic stock exchanges. The offer represents a record setting issue as it was over-subscribed by fifteen times.

The ongoing success of Meezan Bank is not just an accomplishment for its employees and stakeholders, it is in fact a clear success for Islamic Banking, both in Pakistan as well as across the globe. As more and more people realize the benefits of the Islamic model of finance, what began as a little known alternative system has grown into a full-fledged global industry experiencing phenomenal growth in assets, market penetration, and new products. Meezan Bank, with its expanding product menu and branch network, is allowing people from all walks of life to undertake Riba-free financial transactions.



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It is a privilege for me to present Meezan Bank's annual report for the year 2003. As before, the Bank continues to carry forward its mission at the forefront of Islamic banking in Pakistan. As an institution dedicated solely to offering Shariah-compliant avenues, it leads the market with innovative research and development in providing a variety of products and services that are in adherence to the dictates of Shariah. Since the Bank's inauguration in September 2002, it is already successfully operating 10 branches across Pakistan with more planned for this year as well. Our goal is to provide the highest quality customer service using innovative Shariah compatible products, which cater to all modern day customer needs.

In the banking industry, commercial banks were initially reluctant in starting Islamic banking on a wide scale, fearing uncertainty in market potential. Today however, large banks are beginning to flex their muscles as they now see an enabling environment that offers Islamic banking the opportunity to compete as well as a market that has clearly

shown its demand for such products. Key market players are opening Islamic windows in an effort to attain some of this lucrative market share. With this increased competition, the industry will only benefit, as all participants strive to offer effective value propositions coupled with service efficiency.

Meezan Bank, while welcoming and supporting this new strategic shift by conventional banks, is gearing up strategically for the increased competition and is focused on maintaining a lean and fit organization by controlling costs and maximizing our depositors and share-holders' profits. The issue of excess liquidity and product development remain challenges for Islamic Banks. We welcome the establishment of Islamic Banking Division at the SBP which will enable it to regulate the Islamic Banks effectively.

In all, we remain very confident that Meezan Bank is positioned to continue to lead the Islamic banking forum in Pakistan. We believe so because:

- Meezan Bank has a team of experienced banking professionals who have shared values towards the development of Islamic banking.
- The Bank has a very pro-active Shariah Supervisory Board comprising of leading internationally renowned scholars.
- A Shariah scholar of sound standing and repute supervises the day-to-day activities of the Bank.
- The Bank remains committed in maintaining a full range of internal control systems and procedures, which ensures best management practices.
- The main shareholders of the Bank are leading financial institutions that add significant value to the Bank either directly through its Board representation, or indirectly by way of synergies through regional cooperation and syndications.

Since the Bank's inauguration in September 2002, it is already successfully operating 10 branches across Pakistan with more planned for this year as well.

The Government of Pakistan and the State Bank of Pakistan continue to give us support in all spheres to provide impetus to the growth of Islamic banking. We express our gratitude for the commitment shown by them towards the establishment of an Islamic financial economy. The SBP now has an independent Islamic Banking Department that ensures effective regulation of all Islamic banks and is taking a

proactive role in meeting the various challenges we face. The Government of Pakistan also continues to facilitate the Islamic banking industry by introducing more and more investment opportunities. We would like to thank the President of Pakistan, General Pervez Musharraf once again for his continued support and for his landmark inauguration in 2002, to the finance Minister Mr. Shaukat Aziz and Governor SBP, Dr. Ishrat Husain, for their encouragement and great personal interest in promoting the cause of Islamic banking in Pakistan.

We congratulate the government in successfully reviving an economy that is paving the way for Pakistan in becoming a regional and global economic player. I would like to thank the State Bank of Pakistan for its continuous support in the regulatory framework and further development in Islamic Banking. I 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.



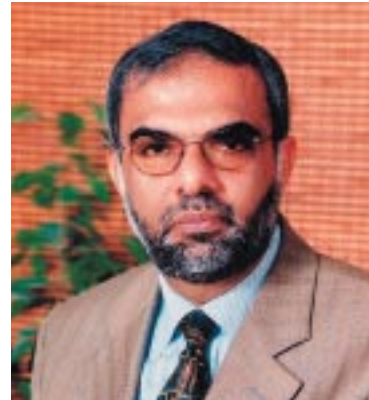
H.E. SHEIKH EBRAHIM BIN KHALIFA AL-KHALIFA
Chairman

Meezan Bank: Shariah Compliant Financial Solutions

Meezan Bank stands today, Alhamdulillah, at a noteworthy and critical juncture of its evolution as the premier Islamic Bank in Pakistan. The banking sector is showing a significant paradigm shift away from traditional means of business and is catering to an increasingly astute and demanding financial consumer who is also becoming keenly aware of Islamic Banking. Meezan Bank bears the critical responsibility of leading the way forward in establishing a real, stable, and dynamic Islamic banking system in Pakistan.

Meezan Bank was first established as an investment banking entity in October of 1997, and entered the market with the clear but formidable mandate of establishing and promoting Islamic banking. Embedded within a deep-rooted conventional financial system and faced with a somewhat skeptical public viewpoint doubtful of the effective applicability and even veracity of the Islamic financial model, the Bank faced an uphill task enormous by any measure. But with the mercy of Allah Almighty, Meezan Bank made fundamental and significant progress forwards, and in doing so established a strong and credible management team comprised of experienced professionals, which achieved a strong balance sheet with excellent operating profitability, including a capital adequacy ratio that placed the Bank at the top of the industry, a long-term entity rating of A+, and a short-term entity rating of A1+, the highest short-term rating.

Meezan Bank, we strive to find commonalities with the conventional banking system with absolutely no compromise on Shariah rulings. The Bank has developed an extraordinary



research and development capability by combining investment bankers, commercial bankers, Shariah scholars and legal experts to develop innovative, viable, and competitive value propositions that not only meet the requirements of today's complex financial world, but do so with the world-class service excellence that our customer's demand, all within the bounds of Shariah. Furthermore, the Bank has built a strong Information Technology and customer knowledge-based focus that continues to use state-of-the-art technology and

At Meezan Bank, we strive to find commonalities with the conventional banking system with absolutely no compromise on Shariah rulings.

systems. The Bank's Corporate and Investment Banking business unit is geared towards nurturing and developing a long-term relationship with clients by understanding their unique financing requirements and providing Shariah-compliant financing solutions. On the asset side, the Murabaha product is the most actively used financing contract which enables an Islamic bank to finance the acquisition of fixed capital assets and meet the working capital needs of

clients. The essential feature of this instrument is the requirement for an underlying asset that is financed by the Bank on a deferred payment basis. This mode of finance provides a fixed rate of return to the Bank, which is acceptable from the Shariah perspective. Other financing modes include Ijarah, Mudaraba and Musharakah. One major recent breakthrough for Meezan Bank was the pioneering introduction of an Islamic Export Refinance Scheme, which enables us to provide export refinance at concessional rates under Shariah-compliant instruments.

We are also implementing robust and aggressive strategic initiatives on the consumer banking side. The Bank has grown its branch network to ten branches across all major cities nation-wide to date, and we envision growing this network to some 15 branches in the very near future. Providing our customers accessibility and convenience is a prime target, within an atmosphere and culture of dedicated service and recognition of their needs. Our expanding product menu provides a range of depository products that ensure easy accessibility, unmatched stability, and strong return on investment. On the financing side, we provide Islamic auto finance with Car Ijarah, a product that offers very competitive pricing and quick turn around time. We have also launched our Islamic Home Finance proposition, Easy Home, a very comprehensive product that provides the market a long awaited totally Shariah-compliant mortgage facility that allows home purchase, building, renovation, and even replacement of an existing mortgage. In fact, the market response to EasyHome has been phenomenal, as people have been very desirous of a Halal facility with which to acquire their own homes.

Our Call Center is geared to attain the next level in alternate distribution by ensuring dedicated convenience and personalized customer attention, while nation-wide ATM access is also being put in place. We are hence very excited and eager to provide the market with a broad range of consumer banking products and services, ones that not only meet

our customers' needs, but do so in a veritably confirmed Shariah-compliant manner coupled with dedicated service excellence.

Meezan Bank will successfully fulfill its responsibility to play a pioneering role in setting the true foundation of Islamic banking in Pakistan, Inshallah.

We gratefully acknowledge the unwavering commitment and support demonstrated by the State Bank of Pakistan to Meezan Bank, and in particular Governor Dr. Ishrat Husain as well as the Federal Minister for Finance, Mr. Shaukat Aziz, in setting the path for Islamic banking in Pakistan. We believe that the future of Islamic banking is bright and with the support of the Government and our customers, Meezan Bank will successfully fulfill its responsibility to play a pioneering role in setting the true foundation of Islamic banking in Pakistan, Inshallah.



IRFAN SIDDIQUI
President & CEO



Pak-Kuwait

Pakistan Kuwait Investment Company (Private) Limited (PKIC) is a 50:50 joint venture between the Governments of Pakistan and Kuwait. With a shareholders' equity of Rs. 9.9 billion and an asset base of approximately Rs. 16.5 billion (December 2003), PKIC is one of the most profitable and respected financial institutions in Pakistan. It is commonly referred to as the epitome of a successful sovereign joint venture. PKIC 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

Shamil Bank of Bahrain E.C. is a leading financial institution and is a subsidiary of the globally renowned Dar-Al-Maal-Al-Islami Group (DMI) based in Geneva. The Group has sizeable investments in Pakistan and has played a dominant role in the economic development of Pakistan by arranging cross border funds.



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

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.



Saudi Pak

Saudi Pak Industrial & Agricultural Investment Company (Private) Limited is a joint venture between the Kingdom of Saudi Arabia and the Government of Pakistan to promote industrial development in Pakistan. It has a total balance sheet size of Rs. 10 billion with a shareholders' equity amounting to Rs. 3.5 billion.

Shareholding Structure	Rs in millions
Pakistan Kuwait Investment Company (Pvt.) Limited	340
Shamil Bank of Bahrain E.C.	276
Islamic Development Bank, Jeddah	99
Kuwait Awqaf Public Foundation	88
Saudi Pak Ind. & Agricultural investment Company	49
General Public	212
Paid up Capital	1,064

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, Saudia 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 Saudia 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 M. Phil, Ph.D in Islamic Economics and graduated as a scholar from Jamia Darul-Uloom, Karachi. He has done a specialization course in Islamic Jurisprudence as well. He is also involved in conducting training sessions for Meezan Bank staff on Islamic Finance and Shariah issues. Dr. Usmani has been teaching several branches of Islamic learning since 1998 at Jamia Darul-Uloom, Karachi.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 8th Annual General Meeting of the members of Meezan Bank Limited will be held Inshallah on Tuesday March 30, 2004 at 11:00 a.m. at Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the Directors' and Auditors' Reports and Audited Accounts for the year ended December 31, 2003.
2. To consider and approve cash dividend @ 5% as recommended by the Directors.
3. To appoint the auditors for the year ending December 31, 2004 and 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:

- a) a sum of Rs. 106,404,514 (Rupees one hundred and six million four hundred and four thousand five hundred and fourteen only) out of the free reserves of the Company be capitalized and applied towards the issue of 10,640,451 ordinary shares of Rs. 10/- each as bonus shares in the ratio of 1:10 i.e. 10% on ordinary shares held by the members whose names appear on the Members' Register on March 30, 2004. These bonus shares shall rank pari passu in all respects with the existing shares.
- b) Members entitled to fractions of shares as a result of their holding either being less than 10 ordinary shares or in excess of an exact multiple of 10 ordinary shares shall be given the sale proceeds of their fractional entitlements for which purposes the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.

- c) For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to give such directions as they deem fit to settle any question or any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions."

5. Amendment in the Articles of Association

To consider and approve the amendments in the Articles of Association of the Company to bring it in accordance with requirements of the Companies Ordinance 1984.

A statement under Section 160 of the Companies Ordinance 1984 setting forth all material facts concerning the Resolutions contained in items (4) and (5) of the Notice which will be considered for adoption at the Meeting is annexed to this Notice of Meeting being sent to Members.

GENERAL BUSINESS

6. To transact any other business that may be placed before the Meeting with the permission of the chair.

By Order of the Board

(Gohar Iqbal Shaikh)
Company Secretary
Date: March 9, 2004
Karachi

NOTES:

- i) The Members' Register will remain closed from March 22, 2004 to March 30, 2004 (both days inclusive). Transfer received in order at the office of the Share Registrar of the Bank by the close of the business hours on March 21, 2004 will be treated in time for the entitlement of dividend payment.
- ii) A member eligible to attend and vote at this Meeting may appoint another member as proxy to attend and vote in the Meeting.



NOTICE OF ANNUAL GENERAL 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.

Statement Under Section 160 of the Companies Ordinance, 1984

This statement is annexed to the Notice of the Eighth Annual General Meeting of Meezan Bank Limited to be held on March 30, 2004 at which certain special business is to be transacted. The purpose of this statement is to set forth the material facts concerning such special business.

Item (4) of the Agenda

The Board of Directors recommend that taking into account the financial position of the Company the issued capital of the Company be increased by capitalization of free reserves amounting to Rs. 106,404,514 (Rupees one hundred and six million four hundred and four thousand five hundred and fourteen only) by way of issuing bonus shares in the ratio of 1:10 i.e. 10%. The Directors of the Company are interested in the business to the extent of their shareholding in the Company.

Item (5) of the Agenda

In order to bring the Articles of Association of the Company in accordance with the Companies Ordinance 1984, the following amendments are proposed to be made:

- i) Clause 27 to be amended to read as follows:
Annual General Meeting

The Company shall hold a general meeting, designated as the annual general meeting, within three (3) months following the close of each financial year of the Company, but so that an annual general

meeting is held in every calendar year (except that the first annual general meeting may be held within eighteen (18) months from the date of incorporation) and not more than fifteen (15) months elapse between any two (2) consecutive annual general meetings, and subject as aforesaid each such annual general meeting shall be held at such time as may be determined by the Directors.

- ii) Clause 31 to be amended to read as follows:
Quorum

No business shall be transacted at any general meeting unless a quorum of Members is present at the time of the commencement of proceedings. Ten (10) Members present personally who represent not less than twenty-five per cent (25%) of the total voting power, either on their own account or as proxies shall be a quorum.

- iii) Clause 49 to be amended to read as follows:

Qualification of Directors

Save as provided in Section 187 of the Ordinance, no person shall be appointed as a Director unless he is a Member and holds qualification shares of Rs. 5000.00 (Rupees five thousand only). For the purposes of this Article, the Director may hold the qualification shares in his own name relaxable in the case of a Director representing interest holding shares of the requisite value. Further, no person shall be appointed as a Director if he has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution, exceeding, such amount as may be notified by the Commission from time to time and is a member of a Stock Exchange engaged in the business of brokerage, or is a spouse of such member.

By Order of the Board

(Gohar Iqbal Shaikh)
Company Secretary
Date: March 9, 2004
Karachi



The Directors of Meezan Bank Limited are pleased to present the seventh 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 31st December 2003.

Meezan Bank was the first bank to be granted the license of a Scheduled Islamic Commercial Bank in January 2002. Over the past two years Meezan Bank has played a key developmental role in promoting Islamic finance in Pakistan and Alhamdulillah today is recognized as an icon in the Islamic financial industry. Over this two-year period no other license for a dedicated Islamic bank has been issued and we continue to be the only dedicated scheduled Islamic bank in Pakistan.

and house financing product. Now, a growing range of financially savvy individuals across the socio-economic spectrum are realizing the value of Meezan Bank's competitive, solid, and effective products and services, all coupled with our unique advantage of Shariah compliance.

As a new commercial bank, we embarked on an aggressive program of expanding our branch network and overall reach. This required extensive market presentation and dissemination

FINANCIAL RESULTS	AMOUNT (Rs. in 000s)
Authorised Share Capital	1,500,000
Paid up Capital	1,064,045
Capital Reserve	351,444
Revenue Reserve	221,073
Total Shareholders' Funds	1,748,475
Profit before taxation	240,828
Less: Taxation	27,015
Net Profit for the year	213,813

The Bank's experience to date has, Alhamdulillah been very dynamic and growth oriented. Within a short span of time the Bank has 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 a Car Ijarah (leasing)

of information. Although this resulted in high expenditure levels, by the Grace of Allah, our profitability remained robust with a net profit after tax of Rs. 214 million on a balance sheet footing of Rs. 11.1 billion, up from Rs. 7.0 billion for the corresponding period last year. We are also pleased to report that there are no bad debts in the portfolio.



ECONOMIC REVIEW

The Pakistan economy continues to post impressive gains and the macro-economic indicators of the country all indicate a positive trend. A strong surge in aggregate demand, sustained external account

The State Bank of Pakistan continued to maintain easy monetary policy posture adopted in June 2001 with the lowering of discount rate to kick-start the process of economic recovery and accelerate the pace of economic development.

improvement, the resilience endowed by sound macro-economic foundations, and good fortune, contributed to a broad-based acceleration in Pakistan's economy during 2003, raising real GDP growth to 5.1%. A distinguishing characteristic of the performance in the year 2003, relative to that of 2002, is the scale and depth of the improvement. The agricultural sector growth was recorded at 4.1% as compared to a negative growth of 0.1% in 2002, industrial growth comfortably reached 5.4%, the same as achieved in 2002, large scale manufacturing grew by 8.7% in 2003 as compared to 4.9% in 2002, exports increased to a record US \$ 11.1 billion, and the current account surplus jumped to an all-time high of US \$ 4 billion. Remittances also accelerated to a new high of US \$ 4.2 billion, underpinning a substantial improvement in national savings as well as supporting the

increase in the SBP forex reserves to a record US \$ 12 billion. The achievement of tax collection target that, together with disciplined spending, pushed the fiscal deficit to a 27 year low. The confluence of low government borrowings and adroit management of external inflows by the SBP also pushed interest rates to historic lows while supporting exports through the relative stability of the exchange rate. The government has also been able to repay its expensive debts to multilateral organizations and has also recently successfully launched a US \$ 500 million Eurobond issue which taps the international financial markets after a lapse of many years.

MONEY MARKET

The State Bank of Pakistan continued to maintain easy monetary policy posture adopted in June 2001 with the lowering of the discount rate to kick-start the process of economic recovery and accelerate the pace of economic development. The lending rates, deposit rates

The banking industry turned in an exceptional performance for the second successive year leveraging on a spectacular growth in deposits, aggressive marketing and investments, and increased efficiency, to counteract the impact of a sharp decline in interest rates.

and yields on T-bills and PIBs (Government Securities) of different maturities came down considerably. The weighted average lending rates decreased by 229 basis points to 5.29% during July 2003 to November 2003. This was on the back of 459 basis points reduction that took place between July 2002 and June 2003 making the total reduction to 688 basis points in 18 months. Simultaneously the weighted average deposit rates also decreased by 45 basis points to 1.45% during the same period. During July to June 2003 the deposit rates had already declined by 212 basis points resulting in an overall decrease of 257 basis points in 18 months. This resulted in the narrowing down of the differential between the average lending and borrowing rates by 184 basis points to 3.86 percent by November 2003 down from 5.86 percent in June 2003. The above reduction in the interest rates scenario resulted in substantial growth of private sector credit off-take, however on the other hand resulted in reduced spreads and reduction in income from core banking activities. Rates are now stable at the current levels and the Central Bank has re-affirmed that the rate scenario in the country is not unlikely to change substantially.

THE BANKING SECTOR

The banking industry turned in an exceptional performance for the second successive year leveraging on a spectacular growth in deposits, substantial capital gains from the stock market and long-term government securities, and also in some cases increased efficiency, to counteract the impact of a sharp decline in interest rates. As a result, not only did the profitability of the sector increase, but selected industry indicators also depicted major improvements relative to the preceding year. In addition, the industry took important strides in improving governance, the furtherance of Islamic banking, and the privatisation of government owned-banks. The Central Bank focus continued on strengthening the supervisory and regulatory

framework, instilling a competitive business environment both by promoting the role of the private sector and liberalizing the financial markets, and to improve financial health of the banking sector. During the year the policy of privatizing government-owned banks continued and the government divested 51% shares of Habib Bank Limited and is in the process of further reducing its share in Allied Bank Limited. During the year the Central Bank granted licences to Muslim Commercial Bank, Bank of Khyber and Bank Al Falah to open dedicated branches that offer Islamic banking products to customers. This would allow Islamic banks to increase their market share on the one hand which is a positive development for Meezan Bank. However, the presence of these banks will inevitably increase competition and may lead to a further drop in spreads.

The balance sheet of the Bank grew from Rs. 7 billion to Rs. 11.1 billion reflecting an increase of 59%, with the financing and investment portfolio increasing by 96%.

The Central Bank has issued new Prudential Regulations which are in effect from 1st January 2004. These new regulations govern not only corporate but also consumer financing and provide an effective framework for the banking sector as a whole.

CAPITAL MARKETS

The capital markets of the country continued their upward journey during 2003 and the benchmark Karachi Stock Exchange Index increased by a phenomenal 66% to reach a high of 4471 points as at 31st December 2003.

The journey has continued in the current year as well and the index is trading well above the 4700 level. The increase in the index is mainly attributable to expectations of significant increase in profitability, burgeoning market liquidity and substantial decline in interest rates, hopes for the early privatisation of state owned enterprises and the general increase in optimism based on hopes of a broader recovery in the economy. Banks have also been able to realize substantial income from capital market operations, however since the market is already trading at its all time high levels, similar profits may not be booked during the forthcoming year.

OPERATING RESULTS OF THE BANK

The year 2003 was the first full year of the bank as a Scheduled Islamic Commercial Bank. The balance sheet of the Bank grew from Rs. 7 billion to Rs. 11.1 billion reflecting an increase of 59%, with the financing and investment portfolio increasing by 96% and deposits growing by 53% during the year. The Bank earned a profit after tax of Rs. 214 million, 4% lower than the corresponding figure reported in the previous year. An analysis of the results shows that although the bottom line is marginally lower, income from core banking business has increased by 62% which reflects a healthy trend

The Bank is putting in place state-of-the-art IT systems so as to enable it to provide the highest level of service to its customers.

despite the shrinking spreads which have beset the banking industry as a whole. Other income is also in line with the previous year if one adjusts for the one-time recovery made from bad debts in 2002. It is also encouraging to note that the

Bank recorded very good capital gains from the equity markets despite the constraint faced by the Bank in not being able to trade Government Securities which has been one of the main factors contributing to the impressive figures reported by other banks for 2003.

The significant achievements during the year may be highlighted as follows:

- Opening of four new branches, two in Karachi, and one each in Multan and Faisalabad, and relocation of two branches i.e. Lahore and Islamabad to more convenient and customer friendly locations.
- Approval of the Islamic Export Refinance Scheme Part II by the State Bank of Pakistan.
- Introduction of Islamic Housing Finance.
- Acquisition, implementation of new software to cater to the needs of retail banking.
- Acquisition of 40% shares of Al-Meezan Investment Management Limited resulting in an aggregate holding of 70% and thus making it a subsidiary of the Bank, enabling it to launch an Islamic open end fund namely Meezan Islamic Fund.
- Providing training to the staff of Bank of Khyber for undertaking Islamic banking.

FUTURE OUTLOOK

We welcome the entrance of other banks in the field of Islamic banking since this would help the players in the market to work together to increase the market share of Islamic banks. However, it is also critical that the new entrants ensure that they maintain a high degree of credibility with regard to Shariah compliance. We are confident that the State Bank of Pakistan would continue to provide effective policy guidelines to ensure a level playing field for Islamic Banks. Meezan Bank,



realizing the cost of setting up a brick and mortar structure of branches would cautiously increase its branch network enabling easy access to customers. The Bank is putting in place state-of-the-art IT systems so as to enable it to provide the highest level of service

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 Securities and Exchange Commission of Pakistan.

to its customers. The Bank is in the advanced stages of setting up its own ATM network and will soon be connected to the 1 Link switch allowing its customers access to a large nationwide network of ATMs. Extensive research and development work would also be undertaken to ensure that the Bank is able to meet the requirements of its customers in all areas of operation.

The Bank expects that the State Bank of Pakistan would soon launch the Ijarah Sukuk, an alternate to government bonds which are eligible for the purpose of Statutory Liquidity Requirement. This would help the Bank in managing its excess liquidity thereby ensuring better profitability.

DIVIDEND

The Board is pleased to recommend a 5 % Cash Dividend and a 10% Stock Dividend for the year 2003 continuing its payout record since the date of listing on the stock exchange.

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 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.
4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

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.



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 six years in summarized form is annexed to the report.
9. The Bank has fully complied with the 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.

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.

10. The value of investments of the Bank's recognized Provident Fund based on audited accounts as at June 30, 2002 amounted to Rs. 4.7 million and based on un-audited accounts as at 31st December 2003 amounted to Rs. 11.4 million. The value of investments of Gratuity Fund

amounted to Rs. 1.93 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 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 31st December 2004.

H.E. SHEIKH EBRAHIM BIN KHALIFA AL-KHALIFA
Chairman



ANNEXURE TO THE DIRECTORS' REPORT

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

DIRECTORS, CEO & THEIR SPOUSES:

Name	Number of shares as at January 01, 2003	Number of shares purchased during the year	Bonus shares received during the year	No. of shares sold during the year	Number of shares as at December 31, 2003
Mr. Irfan Siddiqui	194,315	2,354,574	12,144	NIL	2,561,033
Mr. Zaigham Mahmood Rizvi	519	606,061	32	NIL	606,612
Mrs. Talat Rizvi w/o Mr. Zaigham Mahmood Rizvi	518	NIL	32	NIL	550
Mr. Rana Ahmad Humayun	NIL	200,000	NIL	NIL	200,000
Mr. Ariful Islam	136,803	1,000,887	8,550	NIL	1,146,240

CFO & COMPANY SECRETARY:

Name	Number of shares as at January 01, 2003	Number of shares purchased during the year	Bonus shares received during the year	No. of shares sold during the year	Number of shares as at December 31, 2003
Mr. Gohar Iqbal Shaikh	69	78,261	4	NIL	78,334



ANNEXURE TO THE DIRECTORS' REPORT

BOARD OF DIRECTORS' MEETINGS

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

NAME OF DIRECTOR	MEETINGS ATTENDED
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	4
Mr. Naser Abdul Mohsen Al-Marri	2
Mr. Yousif Saleh Khalaf	- *
Mr. Tarik Kivanc	3
Mr. Mohamed Abdul-Rehman Hussain	4
Mr. Mazen Khalid Al-Braikan	4
Mr. Zaigham Mahmood Rizvi	3
Mr. Rana Ahmad Humayun	2
Mr. Abdulazim M.A. Al-Shamali	1
Mr. Ziad Rawashdeh	-
Mr. Mohammad Ali Qureshi	2
Mr. Irfan Siddiqui	4
Mr. Ariful Islam	4

During the year Mr. Ziad Rawashdeh nominee of Shamil Bank of Bahrain, Mr. Abdulazim M.A. Al-Shamali and Mr. Mohammad Ali Qureshi, both nominees of Pakistan Kuwait Investment Co. (Pvt.) Ltd. were replaced by Mr. Yousif Saleh Khalaf, Mr. Naser Abdul Mohsen Al-Marri and Mr. Rana Ahmad Humayun respectively.

* No meeting was held after his appointment as Director

PATTERN OF SHAREHOLDING

The pattern of shareholding is annexed to the 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 first full year of Islamic Commercial Banking for Meezan Bank. During the year, the Bank has continued with the development of Islamic Commercial Banking Products. Three new products have been launched successfully after the approval of the Shariah Supervisory Board (SSB), which are as follows:

1. Islamic Housing Finance based on Al Musharakat AlMutanaqisa (Diminishing Musharakah): The Bank's product development team has developed this product after extensive research. Since it was the first Islamic Housing finance product approved by the Shariah Scholars, it has gained widespread interest among the masses within a short span of time. We hope that it would provide a great facility for consumers who want to get home financing in a Shariah compliant way.
2. Islamic Export Refinance Scheme Part II: Islamic Export Refinance Scheme based on Musharakah was Pakistan's first Islamic Export Refinance Scheme (IERS). It was launched last year successfully. This year another Shariah-compliant product for Part II of the Scheme has been developed and the State Bank of Pakistan has also approved that product. The current portfolio outstanding under the scheme is Rs. 989 million.
3. Equity Investments: As a part of its investment activities, the Bank also invests in listed securities. For this purpose, during the previous year the Shariah Supervisory Board developed a list of criteria to be followed to ensure that the investments are made within the bounds of Shariah. Following the same criterion the Bank's subsidiary Al Meezan Investment Management Ltd. has successfully launched Meezan Islamic Fund. Initial Public Offering of the Fund got record subscriptions of Rs. 900 million.

It is appreciated that the management of the Bank worked closely with the member(s) of the SSB to develop and implement innovative Islamic Banking products to fulfill the needs of a diverse range of commercial banking customers under one roof. During the year, at the time of approval of any financing facility, it was checked by myself or Executive Committee (EC) of the SSB that the facility is given under Shariah compliant mode. However, due to the repetitive nature of disbursement under the approved facilities, each disbursement was not checked and therefore the procedure of Shariah Audit has been adopted. The report of which is as follows:

ACTIVITIES ON THE ASSET SIDE OF THE BANK:

On the asset side, the two primary modes of financing used were Murabaha and Ijarah. However two new transactions of Musharakah and Tawarruq have also been used for financing during this period after the approval of EC of SSB.

The Bank's total financing portfolio reached Rs. 7.4 billion as of December 31, 2003. 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.

During the Shariah audit of 2002 some technical mistakes in the process of execution of Murabaha and Ijarah transactions were found. EC of SSB directed to ensure non-repetition of such mistakes in future. The directions of EC were scrutinized during the current year's audit and the following matters were specifically reviewed:

- Standard agreements
- Murabaha declarations
- The attached description of assets
- The relevant invoices
- The proportionate ownership/equity of the Bank in description of asset

- The sequence/order of the documents
- The purchase deed in the leasing transactions

After auditing these transactions, we conclude that utmost care has been taken to ensure the compliance of the transactions within the guidelines of EC or SSB and the previous mistakes have not re-occurred.

It is recommended to physically check the Assets of Murabaha and Lease on a time-to-time basis.

It was also noted that other products of the Bank including Trade Finance, Treasury, Car Ijarah and Home Financing are being used in accordance with the approved format of SSB.

ACTIVITIES ON THE LIABILITIES SIDE:

On the liability side, the Bank offers a variety of deposit products which include current account, savings account, US\$ deposits, Certificates of Islamic Investment, Monthly Musharakah Certificates and Riba Free Certificates. SSB has also duly approved these products. Currently, Meezan Bank's product range on the deposit side offers alternatives for almost all conventional deposit schemes. The total deposits of the Bank reached Rs. 7.8 billion rupees as at December 31, 2003. The procedure of calculation of profit, weightage and redemption has been approved by SSB for these liability side products. The implementation of the procedure of calculation of profit is also being checked quarterly and it is noted that due to the excess liquidity of the Bank and the decrease of profit rates on the asset side, the rate of profit for the deposit schemes have been reduced. To overcome this problem, the management has occasionally lowered its management fee to the extent of 0% voluntarily.

To cover this problem, the Bank will have to seek innovative, profitable and Shariah-compliant products and increase the transactions of Musharakah and Mudaraba on

the asset side, as well as develop and implement new liability products for liquidity management.

It is also recommended to increase the portfolio of SME and micro financing to help small enterprises and entrepreneurs. The Qurdh-e-Hasanah and Charity should also be used from the Charity fund of Rs.2.7 million to give away amounts of charity to various hospitals, schools or any other institutions for welfare, health and development. (The amount of the Charity Fund includes the amounts of late payment and some non-Shariah compliant transactions directed by EC of SSB to give it to charity.)

It is appreciated that the Bank is working with SSB to develop new commercial banking products conforming to the tenets of Islamic Shariah. These products include Takaful, alternative of Carry Over Transactions and Future transactions. Efforts are also underway to refine the existing products of the Bank.

May Allah bless us with 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
& Shariah Advisor



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan 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. 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. Three directors retired during the year and were replaced. No casual vacancy occurred during the year ended December 31, 2003.
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. The Bank after amalgamation with Societe Generale has adopted its policies and procedures, wherever these are not contradictory to the Shariah Principles. The Board has adopted three significant policies of the Bank and is in the process of approving further eight policies in the forthcoming meeting. In addition, the management has

issued various directives for different products and procedures to ensure smooth operations of the Bank. A complete record of the significant policies along with the dates on which they were approved or amended has been maintained.

7. All 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. There was no new appointment of CFO, Company Secretary or Head of Internal Audit during the year ended December 31, 2003.
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, 2003. Written notices of the Board meetings, along with 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, 2003 has been prepared in

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE



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 the CEO and 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 effective 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.
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 the 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, 2003.

A.F. FERGUSON & CO.
Chartered Accountants
Karachi
March 8, 2004



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Meezan Bank Limited as at December 31, 2003 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (herein-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 three 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;
- 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, 2003 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 8, 2004



BALANCE SHEET AS AT DECEMBER 31, 2003

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003



	Note	2003 (Rupees in '000)	2002 (Rupees in '000)
ASSETS			
Cash and balances with treasury banks	6	1,042,285	659,349
Balances with other banks	7	683,596	1,058,074
Due from financial institutions		-	-
Investments	8	1,211,667	855,766
Financings	9	7,397,078	3,532,188
Other assets	10	689,226	818,081
Operating fixed assets	11	78,537	35,942
Deferred taxation	12	-	12,048
		11,102,389	6,971,448
LIABILITIES			
Bills payable	13	169,062	46,842
Due to financial institutions	14	988,964	11,831
Deposits and other accounts	15	7,756,862	5,079,478
Subordinated loan		-	-
Liabilities against assets subject to finance leases		-	-
Other liabilities	16	429,790	247,389
Deferred taxation	12	9,236	-
		9,353,914	5,385,540
NET ASSETS		1,748,475	1,585,908
REPRESENTED BY			
Share capital	17	1,064,045	1,001,454
Capital reserves	18	351,444	264,867
Revenue reserves	19	221,073	209,630
		1,636,562	1,475,951
Surplus on revaluation of investments	20	111,913	109,957
		1,748,475	1,585,908
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes 1 to 40 form an integral part of these financial statements.

	Note	2003 (Rupees in '000)	2002 (Rupees in '000)
Profit/return on financings and placements earned	22	375,567	311,183
Return on deposits and other dues expensed	23	182,354	191,673
Net spread earned		193,213	119,510
Reversal of provision against non-performing financings (net)	9.9	17,769	67,184
Provision for diminution in value of investments	8.2	(1,995)	(2,320)
Bad debts written off directly	9.10	-	(4,187)
		15,774	60,677
Net spread after provisions		208,987	180,187
OTHER INCOME			
Fee, commission and brokerage income		53,869	71,968
Capital gain on sale of investments		105,339	52,809
Dividend income		114,625	111,302
Income from dealing in foreign currencies		5,215	5,799
Other income	24	8,262	46,129
Total other income		287,310	288,007
		496,297	468,194
OTHER EXPENSES			
Administrative expenses	25	255,449	195,045
Other provisions / write offs		-	-
Other charges	26	20	2,619
Total other expenses		255,469	197,664
		240,828	270,530
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		240,828	270,530
Taxation - current for the year	27	5,731	59,429
- prior years		-	-
- deferred	27	21,284	(12,048)
		27,015	47,381
PROFIT AFTER TAXATION - CARRIED FORWARD		213,813	223,149

Chairman

President and CEO

Director

Director



PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003



Note	2003 (Rupees in '000)	2002 (Rupees in '000)
PROFIT AFTER TAXATION - BROUGHT FORWARD	213,813	223,149
Profit / (loss) brought forward	630	(53,865)
	<u>214,443</u>	<u>169,284</u>
APPROPRIATIONS AND TRANSFERS		
Transferred to		
Statutory reserve	(42,763)	(44,630)
Reserve for issue of bonus shares	(106,405)	(62,591)
Proposed final cash dividend at Rs. 0.50 (2002: Rs 0.50) per share on 106,404,514 (2002: 100,145,425) ordinary shares	(53,202)	(50,073)
Revenue reserves	-	(11,360)
	<u>(202,370)</u>	<u>(168,654)</u>
Unappropriated profit carried forward	<u>12,073</u>	<u>630</u>
Basic earnings per share	28	2.01
	<u>2.01</u>	<u>2.10</u>

The annexed notes 1 to 40 form an integral part of these financial statements.

CASH FLOW FROM OPERATING ACTIVITIES

	2003 (Rupees in '000)	2002 (Rupees in '000)
Profit before taxation	240,828	270,530
Dividend income	(114,625)	(111,302)
Net gain on foreign currency deposits under arrangements with the SBP	-	(21,509)
	<u>126,203</u>	<u>137,719</u>
Adjustments for non-cash charges		
Provision against non-performing financings	-	386
Provision for diminution in value of investments (net)	1,995	2,320
Gain on sale of property, equipment and others	(1,391)	(6,740)
Finance charges on leased assets	-	287
Depreciation	19,066	8,564
Amortisation	533	162
	<u>20,203</u>	<u>4,979</u>
	<u>146,406</u>	<u>142,698</u>
(Increase) / decrease in operating assets		
Due from financial institutions	-	1,200,000
Net investments in held for trading securities	(147,393)	5,605
Financings	(3,864,890)	(733,961)
Other assets	204,228	(149,094)
	<u>(3,808,055)</u>	<u>322,550</u>
Increase / (decrease) in operating liabilities		
Bills payable	122,220	34,405
Due to financial institutions	977,133	(2,631,469)
Deposits and other accounts	2,677,384	2,499,329
Other liabilities	179,186	(196,944)
	<u>3,955,923</u>	<u>(294,679)</u>
	<u>294,274</u>	<u>170,569</u>
Income tax paid	(106,736)	(156,815)
NET CASH FLOW FROM OPERATING ACTIVITIES - CARRIED FORWARD	<u>187,538</u>	<u>13,754</u>

Chairman

President and CEO

Director

Director



CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

Note	2003 (Rupees in '000)	2002 (Rupees in '000)
NET CASH FLOW FROM OPERATING ACTIVITIES - BROUGHT FORWARD	187,538	13,754
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in		
- held to maturity securities	(20,263)	(35,020)
- available for sale securities	(345)	(130,570)
- unquoted subsidiary	(67,900)	-
- quoted associated undertakings	(132,939)	(424)
- unquoted associated undertakings	12,900	-
Increase in cash and bank balances on amalgamation	-	1,587,786
Dividends received	140,257	102,164
Investments in operating fixed assets	(63,379)	(37,557)
Sale proceeds on disposal of property, equipment and others	2,576	7,113
Amount paid on foreign currency deposits under arrangements with the SBP	-	(60,211)
Net cash flow from investing activities	(129,093)	1,433,281
CASH FLOW FROM FINANCING ACTIVITIES		
Payments of lease obligations	-	(9,449)
Amount received against issue of shares	-	100,000
Dividend paid	(49,987)	(825)
Net cash flow from financing activities	(49,987)	89,726
Net increase in cash and cash equivalents	8,458	1,536,761
Cash and cash equivalents as at January 1	29 1,717,423	180,662
Cash and cash equivalents as at December 31	29 1,725,881	1,717,423

The annexed notes 1 to 40 form an integral part of these financial statements.

Chairman

President and CEO

Director

Director



STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2003

	Share capital	Capital reserves			Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit/(loss)	
Rupees in '000							
Balance as at January 1, 2002	901,000	27,000	124,313	-	204,427	(53,865)	1,202,875
Transfer to reserve for issue of bonus shares	-	(27,000)	-	33,787	(6,787)	-	-
Issue of bonus shares	33,787	-	-	(33,787)	-	-	-
Issue of share capital	66,667	33,333	-	-	-	-	100,000
Profit for the year	-	-	-	-	-	223,149	223,149
Transfer to statutory reserve	-	-	44,630	-	-	(44,630)	-
Transfer to reserve for issue of bonus shares	-	-	-	62,591	-	(62,591)	-
Proposed dividend @ 5%	-	-	-	-	-	(50,073)	(50,073)
Transfer to general reserve	-	-	-	-	11,360	(11,360)	-
Balance as at December 31, 2002	1,001,454	33,333	168,943	62,591	209,000	630	1,475,951
Issue of bonus shares	62,591	-	-	(62,591)	-	-	-
Profit 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

The annexed notes 1 to 40 form an integral part of these financial statements.

Chairman

President and CEO

Director

Director



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 and Societe Generale, the French and International Bank – Pakistan branches (SG) amalgamated their operations under a sanction order of the SBP in accordance with section 48 of the Banking Companies Ordinance, 1962 with effect from April 1, 2002.

The Bank was operating through ten branches as at December 31, 2003 (2002: six). 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 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.

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 for the year ended December 31, 2003.

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 BSD circular 20 dated August 4, 2000.

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 and Islamic interbank placements having maturities of three (3) months or less.

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.
- (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.
- (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 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 there is no realistic prospect of recovery.

5.4 Investments

5.4.1 Consistent with prior years the Bank values its marketable investments (including investments in associates) at market value at the balance sheet date. Any surplus / (deficit) arising on revaluation of investments is kept in a separate account titled 'surplus on revaluation of investments' and is shown below equity. Surplus / (deficit) is recognised in the profit and loss account when it is actually realised. Cost is determined on a moving average basis.



5.4.2 Unquoted securities including investments in associates, a subsidiary company and bonds are stated at cost less provision for impairments, if any.

5.4.3 Investments in units of an open end fund are valued at its redemption price as at the balance sheet date.

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

5.4.5 In accordance with the requirements of BSD circular No. 36 dated October 10, 2001 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.

5.5 Operating fixed assets

5.5.1 Tangible fixed 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.

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

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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. 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, 2003. The projected unit credit method, as allowed under IAS 19 'Employee Benefits (revised 2002)', was used for actuarial valuation.

Consistent with prior years 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, 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, 2003

NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2003



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 the realisation of the asset is virtually certain 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. Consistent with prior years acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.10 **Related party transactions**

Transaction between the bank and its related parties are carried out on arm's length basis determined in accordance with the methods prescribed.

5.11 **Offsetting**

Consistent with prior years 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**

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

6. **CASH AND BALANCES WITH
TREASURY BANKS**

	2003	2002
	(Rupees in '000)	
In hand		
- local currency	95,870	70,861
- foreign currency	47,870	35,502
With the SBP in		
- local currency current accounts - note 6.1	812,868	460,404
- foreign currency deposit accounts - note 6.1	85,292	92,197
With National Bank of Pakistan in		
- a local currency current account	385	385
	1,042,285	659,349

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

2003 2002
(Rupees in '000)

7. **BALANCES WITH OTHER BANKS**

In Pakistan		
- on current accounts	13,335	7,120
- on deposit accounts - note 7.1	388,549	553,563
Outside Pakistan		
- on current accounts	73,198	29,234
- on deposit accounts - note 7.2	208,514	468,157
	683,596	1,058,074

7.1 It includes Rs 188.549 million (2002: Rs 553.563 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.

7.2 This represents placement of funds with an Islamic financial institution in Bahrain which have been generated through the foreign currency deposit scheme (FE-25). These placements have been made on profit and loss sharing basis and have maturities upto a week.



NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2003

8. INVESTMENTS

	2003			2002		
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total
	Rupees in '000					
Investments by types						
Held for trading securities - note 8.3	423,291	-	423,291	275,898	-	275,898
Held to maturity securities - note 8.4	57,397	-	57,397	37,134	-	37,134
Available for sale securities - note 8.5	130,915	-	130,915	130,570	-	130,570
Subsidiary (unquoted) - note 8.6	67,900	-	67,900	-	-	-
Associates (quoted) - note 8.7	355,826	-	355,826	222,887	-	222,887
Associates (unquoted) - note 8.8	69,000	-	69,000	81,900	-	81,900
	<u>1,104,329</u>	<u>-</u>	<u>1,104,329</u>	<u>748,389</u>	<u>-</u>	<u>748,389</u>
Add: Surplus on revaluation of investments - note 20	111,913	-	111,913	109,957	-	109,957
	<u>1,216,242</u>	<u>-</u>	<u>1,216,242</u>	<u>858,346</u>	<u>-</u>	<u>858,346</u>
Less: Provision for diminution in value of investments - note 8.2	4,575	-	4,575	2,580	-	2,580
	<u>1,211,667</u>	<u>-</u>	<u>1,211,667</u>	<u>855,766</u>	<u>-</u>	<u>855,766</u>

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	2003	2002
	(Rupees in '000)	
8.1 Investments by segments		
Fully paid up ordinary shares		
- Listed companies	754,432	629,355
- Unlisted companies	136,900	81,900
Musharika term finance certificates	30,600	36,365
Bonds	57,397	-
Units of an open end fund	125,000	-
Other investment		
- Certificate of investment	-	769
	<u>1,104,329</u>	<u>748,389</u>
Add: Surplus on revaluation of investments - note 20	111,913	109,957
Less: Provision for diminution in value of investments - note 8.2	4,575	2,580
	<u>1,211,667</u>	<u>855,766</u>
8.2 Particulars of provision		
Opening balance	2,580	260
Charge for the year	1,995	2,580
Reversals	-	(260)
	<u>1,995</u>	<u>2,320</u>
Closing balance	<u>4,575</u>	<u>2,580</u>
8.2.1 This provision is against investment in an unquoted associated undertaking.		



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8.3 **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	2003	2002	2003	2002
	Number of shares		Cost Rupees in '000	
Textile composite				
Nishat (Chunian) Limited	-	100,000	-	3,514
Nishat Mills Limited	-	29,500	-	508
Legler Nafees Denim Mills Limited	500,000	-	6,250	-
Synthetic and rayon				
Dewan Salman Fibres Limited	-	100,240	-	1,578
Ibrahim Fibres Limited	-	83,000	-	1,388
Cement				
Cherat Cement Limited	-	500,000	-	15,058
Meple Leaf Cement Limited	-	32,500	-	277
Lucky Cement Limited	100,000	-	2,481	-
Refinery				
National Refinery Limited	26,000	30,000	3,524	2,087
Power generation and distribution				
Hub Power Company Limited	1,240,000	1,298,000	46,913	40,720
Kohinoor Energy Limited	-	25,000	-	383
Southern Electric Power Company Limited	100,000	-	2,091	-
Oil and gas marketing				
Pakistan State Oil Company Limited	406,900	-	112,928	-
Sui Northern Gas Pipelines Limited	969,012	194,512	36,932	3,930
Shell Pakistan Limited	17,500	20,600	7,337	6,336
Sui Southern Gas Company Limited	310,212	122,202	8,543	1,659
Oil and gas exploration				
Pakistan Oil Fields Limited	97,500	57,000	21,215	8,560
Oil and Gas Development Company Limited	451,987	-	14,468	-
Automobile assembler				
Dewan Farooque Motors Limited	-	151,500	-	1,514
Honda Atlas Cars Pakistan Limited	-	35,000	-	1,517
Indus Motors Company Limited	-	74,500	-	3,197
Technology and communication				
Pakistan Telecommunication Company Limited (A)	840,000	2,945,000	29,461	69,285
World Call Payphone Limited	105,375	129,300	1,621	1,791
Fertilizer				
Engro Chemical Pakistan Limited	522,001	240,401	45,145	17,833
Fauji Fertilizer Bin Qasim Company Limited	100,000	25,000	1,765	190
Fauji Fertilizer Company Limited	481,300	995,000	41,926	65,758
Pharmaceutical				
Glaxo Smithkline Pakistan Limited	-	16,000	-	1,347
Chemical				
ICI Pakistan Limited	25,000	29,830	2,130	1,325
Paper and board				
Packages Limited	56,712	69,212	5,387	4,221
Food and personal care products				
Unilever Pakistan Limited - note 8.3.1	24,475	18,000	29,432	16,062
Nestle Milkpak Limited	-	25,150	-	4,799
Miscellaneous				
Tri-Pack Films Limited	44,000	25,000	3,742	1,061
			423,291	275,898

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

8.4 **Held to maturity securities**

Name of the investee company	2003	2002	2003	2002
	Number of certificates		Cost Rupees in '000	
Certificate of investment				
First Leasing Corporation Limited	-	1	-	769
Bonds				
Qatar Global Sukuk Bonds (Sukuk) - note 8.4.1	1,000,000	-	57,397	-
Musharika term finance certificates (MTFCs)				
Sitara Chemicals Limited - note 8.4.2	-	7,273	-	36,365
			57,397	37,134

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

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



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8.5 Available for sale securities

The Bank 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	2003	2002	2003	2002
	Number of shares/certificates		Cost Rupees in '000	
Ordinary shares				
Power generation and distribution				
Hub Power Company Limited	1,500,000	1,500,000	54,194	42,101
Oil and gas marketing				
Pakistan State Oil Company Limited	280	48,280	33	5,756
Sui Northern Gas Pipelines Limited	-	250,000	-	3,813
Shell Pakistan Limited	45,000	30,000	15,305	7,863
Sui Southern Gas Company Limited	-	200,000	-	2,717
Technology and communication				
Pakistan Telecommunication Company Limited (A)	160,000	1,500,000	4,323	29,710
Fertilizer				
Fauji Fertilizer Company Limited	50,000	250,000	2,733	13,663
Paper and board				
Packages Limited	30,000	50,000	1,829	3,049
Food and personal care products				
Unilever Pakistan Limited - note 8.3.1	24,540	24,540	21,898	21,898
MTFCs				
Sitara Chemicals Limited - note 8.4.2	6,120	-	30,600	-
			<u>130,915</u>	<u>130,570</u>

8.6 Subsidiary (unquoted)

Particulars	2003	2002	2003	2002	Percentage of equity holding %	Break up value per share Rupees	Latest available financial statements	Name of the chief executive
	Number of shares		Rupees in '000					
Al-Meezan Investment Management Limited (ordinary shares) - notes 8.6.1 and 8.6.2	700,000	-	67,900	-	70	142.50	December 31, 2003**	Mr. Muhammad Shoaib
Total			<u>67,900</u>	<u>-</u>				

**Half yearly unaudited financial statements.

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

8.6.2 As at December 31, 2003, the Bank's investment in Al-Meezan Investment Management Limited amounted to Rs 67.9 million (2002: Rs 12.9 million) representing a 70% holding (2002: 30%) in that investee company. 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 the Bank's holding in the subsidiary to approximately 65%. Subsequent to December 31, 2003 the Bank has disposed off the shares held in excess of the limit specified by the SBP.

8.7 Associates (quoted)

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	2003	2002	Percentage of direct equity holding %	2003	2002
	Number of shares / certificates / units			Rupees in '000	
Ordinary shares					
Close end mutual fund					
Al-Meezan Mutual Fund Limited	1,965,500	1,250,000	2.54	16,230	8,291
Modaraba					
Fayzan Manufacturing Modaraba	21,457,500	21,457,500	23.84	214,596	214,596
Units of an open end fund					
Meezan Islamic Fund - note 8.7.1	2,500,000	-	N/A	<u>125,000</u>	<u>-</u>
				<u>355,826</u>	<u>222,887</u>

8.7.1 The nominal value of these units is Rs. each.



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8.8 Associates (unquoted)

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

Particulars	2003		2002		Percentage of equity holding	Break up value per share	Latest available financial statements	Name of the chief executive
	Number of shares	Rupees in '000	Number of shares	Rupees in '000				
Plexus (Private) Limited [formerly Al - Meezan Education and Development (Private) Limited]	1,499,980	15,000	1,499,980	15,000	50	6.96	December 31, 2003*	Mr. Ariful Islam
Al-Meezan Investment Management Limited	-	-	150,000	12,900	30	-	-	-
Faysal Management Services (Private) Limited - note 8.8.1	540,000	54,000	540,000	54,000	30	123.17	December 31, 2003	Mr. Khalid S. Tirmizey
Total		<u>69,000</u>		<u>81,900</u>				

*Unaudited

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

9. FINANCINGS

In Pakistan

	2003	2002
- Murabaha financings	4,678,811	2,850,720
- Net investment in ijarah - note 9.2	1,440,353	643,656
- Export refinance under Islamic scheme - (Istisna)	988,964	16,000
- Financings against bills	145,564	1,425
- Loans, cash credit, running finances, etc. - notes 9.4 and 9.5	101,498	195,644
- Musharika financings	95,700	-
- House financings	8,380	-
Total financing - note 9.6	<u>7,459,270</u>	<u>3,707,445</u>

Less: Provision against non-performing financings

- notes 9.8 and 9.9

	2003	2002
	<u>62,192</u>	<u>175,257</u>
	<u>7,397,078</u>	<u>3,532,188</u>

2003
2002
(Rupees in '000)

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9.1 Particulars of financings

9.1.1 In

- local currency
- foreign currencies

2003
2002
(Rupees in '000)

9.1.2 Short-term (for upto one year)
Long-term (for over one year)

9.2 Net investment in ijarah

	2003			Total	2002			Total
	Not later than one year	Later than one and less than five years	Over five years		Not later than one year	Later than one and less than five years	Over five years	
Ijarah rentals receivable	600,299	946,778	-	1,547,077	248,950	532,353	-	781,303
Residual value	25,546	140,105	-	165,651	-	41,233	-	41,233
Minimum ijarah payments	625,845	1,086,883	-	1,712,728	248,950	573,586	-	822,536
Profits for future periods	132,249	140,126	-	272,375	76,517	102,363	-	178,880
Present value of minimum ijarah payments	493,596	946,757	-	1,440,353	172,433	471,223	-	643,656

9.3 During the year the Bank has received Rs 16.449 million from Joint Official Liquidators of Mohib Textile Mills Limited (MTML) as full and final settlement against running finance facility and export refinance facility of Rs 51.826 million and Rs 59.919 million respectively. The amount received was adjusted against the running finance facility outstanding. The balance amount of Rs 95.296 was written off against the provision. Further, suspended income aggregating Rs 137.685 million thereon was also waived.

9.4 Pakland Cement Limited (PCL) has issued TFCs under a scheme of arrangement sanctioned by the High Court of Sindh. The TFCs have been issued at a face value of Rs 102.120 million in place of various financing facilities granted by the Bank to PCL aggregating Rs 34.989 million. These TFCs will be redeemed between the period June 30, 2003 to June 30, 2009 and a further grace period of two and a half years was completed on June 30, 2003. The TFCs have been issued by PCL in two



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series, series 'A' represents the principal amount and will carry a yield of 16 percent per annum, whereas series 'B' has been issued for accrued mark-up and carries no yield. The transfer of these TFCs can only be effected among the creditors of PCL and transfer to a third party (other than a creditor) will require prior written consent of the issuer. The amount is fully provided.

- 9.5 It includes Rs 39.306 million representing mark-up free loans to staff advanced under the Bank human resource policies.
- 9.6 It includes Rs 4.367 million which is due for payment after a period of twelve months from the date of balance sheet and is outstanding for period exceeding three years.
- 9.7 Particulars of loans and financings to directors, associated companies etc.

	Balance as at December 31, 2003	Maximum total amount of financings including temporary financings granted during the year*
	(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	39,306	39,306
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	100,000	100,000
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
	<u>139,306</u>	<u>139,306</u>

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



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- 9.8 Financings include Rs 62.192 million (2002: Rs 175.257 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	62,192	-	62,192	62,192	62,192
	<u>62,192</u>	<u>-</u>	<u>62,192</u>	<u>62,192</u>	<u>62,192</u>

- 9.9 Particulars of provision against non-performing financings:

	2003			2002		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	175,257	-	175,257	-	-	-
On amalgamation	-	-	-	257,754	-	257,754
Charge for the year	-	-	-	386	-	386
Reversals	(17,769)	-	(17,769)	(67,570)	-	(67,570)
	<u>(17,769)</u>	<u>-</u>	<u>(17,769)</u>	<u>(67,184)</u>	<u>-</u>	<u>(67,184)</u>
Amounts written off						
- note 9.10.1	(95,296)	-	(95,296)	(15,313)	-	(15,313)
Closing balance	<u>62,192</u>	<u>-</u>	<u>62,192</u>	<u>175,257</u>	<u>-</u>	<u>175,257</u>

9.10 Particulars of write offs	2003	2002
	(Rupees in '000)	
9.10.1 Against provision - note 9.9	95,296	15,313
Directly charged to profit and loss account	-	4,187
	<u>95,296</u>	<u>19,500</u>
9.10.2 Write offs of Rs 500,000 and above	95,296	19,500
Write offs below Rs 500,000	-	-
	<u>95,296</u>	<u>19,500</u>



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9.11 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, 2003 is as follows:

1. Name and address of the borrower	Name of directors* Father's name (with NIC number)	Outstanding liabilities at the date of write off				Principal written off	Mark-up waived	Other financial relief provided	Total	
		Principal	Mark-up	Others	Total					
Rupees '000										
Mohib Textile Mills Limited	Mr. Asif Saigol (270-57-00602)	Mr. Rafique Saigol	95,296	137,685	-	232,981	95,296	137,685	-	232,981
	Mr. Arif Saigol (270-57-00603)	Mr. Rafique Saigol								
	Mr. Abid Saigol (270-57-00604)	Mr. Rafique Saigol								
	Mr. Shahzad Saigol (270-87-432238)	Mr. Shafique Saigol								
	Mr. Shahid Saigol (270-87-432240)	Mr. Shafique Saigol								
	Mr. Shafiq Saigol Jr (BEL's nominee)	Mr. Shafique Saigol (Details not available)								

* As available in the records of the Bank.

10. OTHER ASSETS

	2003	2002
	(Rupees in '000)	
Profit / return accrued in local currency	66,690	40,378
Profit / return accrued in foreign currency	2,451	1,822
Advances, deposits, advance rent and other prepayments	30,837	14,950
Advance taxation (payments less provisions)	186,077	85,072
Unrealised gain (net) on forward foreign exchange contracts	-	786
Receivable on account of sale of securities	31,339	530,462
Dividends receivable	2,242	27,874
Stamps	879	471
Advance against future murabaha	298,921	61,516
Advance against future ijarah	67,020	51,748
Security deposits	2,594	2,463
Prepaid exchange risk fee	129	415
Other - note 10.1	47	124
	<u>689,226</u>	<u>818,081</u>

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

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11. OPERATING FIXED ASSETS

2003 2002
(Rupees in '000)

Tangible assets		
- Capital work-in-progress - note 11.1	9,268	8,072
- Property, equipment and others - note 11.2	64,636	26,411
	<u>73,904</u>	<u>34,483</u>
Intangible assets - note 11.3	4,633	1,459
	<u>78,537</u>	<u>35,942</u>
11.1 Capital work-in-progress		
- Advances to suppliers and contractors for building renovation	6,708	8,072
- Advances for purchase of vehicles	2,560	-
	<u>9,268</u>	<u>8,072</u>

11.2 Property, equipment and others

	COST		DEPRECIATION			Net book value as at December 31, 2003	Rate of depreciation %	
	As at January 1, 2003	Additions / (disposals) As at December 31, 2003	As at January 1, 2003	Charge / (on disposals)	As at December 31, 2003			
Rupees in '000								
Leasehold improvements	6,445	20,089	26,534	645	2,653	3,298	23,236	10%
Furniture and fixtures	1,927	4,228	6,155	505	616	1,121	5,034	10%
Electrical, office and computer equipments	12,409	20,562	32,971	7,426	9,468	16,894	16,077	33%
Vehicles	22,362	13,597	32,313	8,156	6,329	12,024	20,289	20%
		(3,646)			(2,461)			
2003	<u>43,143</u>	<u>58,476</u>	<u>97,973</u>	<u>16,732</u>	<u>19,066</u>	<u>33,337</u>	<u>64,636</u>	
2002	<u>16,982</u>	<u>27,864</u>	<u>43,143</u>	<u>9,498</u>	<u>8,564</u>	<u>16,732</u>	<u>26,411</u>	
		<u>(1,703)</u>			<u>(1,330)</u>			

11.2.1 Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs 6.721 million.



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11.2.2 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	Addresses
Rupees in '000							
Vehicles							
Toyota Corolla	1,079	971	108	108	Bank policy	Ariful Islam (Employee)	77-B, Khayaban-e-Shahbaz, Phase-VI, DHA, Karachi.
Honda City	735	366	369	282	Bank policy	Arshad Majeed (Employee)	B-213, 13-D/1, KDA Scheme No.24, Gulshan-e-Iqbal, Karachi
Honda City	800	400	400	482	Bank policy	Muhammad Haris (Employee)	18, B-2 Street Khayaban-e-Ghazi, Phase-VI, DHA, Karachi
Suzuki Cultus	516	362	154	181	Bank policy	Samin Atique (Ex-employee)	A-288, Block-5, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	516	362	154	146	Bank policy	Muhammed Farhanullah Khan (Ex-employee)	51/1, Lane B-6, Phase V, DHA, Karachi
Mitsubishi Pajero	-	-	-	1,343	Negotiation	Yasir Ahmed (unrelated party)	C-4, Block 8, Gulshan-e-Iqbal Karachi
Office equipment	-	-	-	34	Negotiation	General Traders	1st Floor, Alfalah Court I. I. Chundrigar Road Karachi
	3,646	2,461	1,185	2,576			

11.3 Intangible assets

	COST		AMORTISATION		Net book value as at December 31, 2003	Rate of Amortisation %		
	As at January 1, 2003	Additions	As at December 31, 2003	As at January 1, 2003			Charge	
Rupees in '000								
Computer software	1,621	3,707	5,328	162	533	695	4,633	10
2002	-	1,621	1,621	-	162	162	1,459	

12. DEFERRED TAXATION

Debit / (credit) balances arising on account of:

	2003	2002
(Rupees in '000)		
Excess of tax written down values over accounting net book values of owned assets	1,314	2,245
Other staff benefits	26,488	24,235
Excess of ijarah financings over tax written down values of ijarah assets	(67,063)	(14,432)
Carried forward unassessed losses	28,149	-
Provision for diminution in value of investments	1,876	-
	<u>(9,236)</u>	<u>12,048</u>

13. BILLS PAYABLE

	2003	2002
In Pakistan	163,008	46,842
Outside Pakistan	6,054	-
	<u>169,062</u>	<u>46,842</u>

14. DUE TO FINANCIAL INSTITUTIONS

	2003	2002
In Pakistan	988,964	10,000
Outside Pakistan	-	1,831
	<u>988,964</u>	<u>11,831</u>

14.1 Particulars of due to financial institutions

	2003	2002
In local currency	988,964	10,000
In foreign currencies	-	1,831
	<u>988,964</u>	<u>11,831</u>

14.2 Details of due to financial institutions

	2003	2002
Secured		
Under Islamic export refinance scheme – note 14.2.1	988,964	10,000
Unsecured		
Overdrawn nostro accounts	-	1,831
	<u>988,964</u>	<u>11,831</u>



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14.2.1 These borrowings are on a profit and loss sharing basis maturing between January 30 to June 23, 2004 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 1,496 million has been allocated to the Bank by SBP under Islamic export refinance scheme for the financial year ending June 30, 2004.

	2003 (Rupees in '000)	2002 (Rupees in '000)
15. DEPOSITS AND OTHER ACCOUNTS		
Customers		
- Fixed deposits schemes	3,102,645	2,806,612
- Savings deposits	3,566,193	1,871,950
- Current accounts - remunerative	-	-
- Current accounts - non-remunerative	601,349	193,109
- Margin	11,496	4,384
	<u>7,281,683</u>	<u>4,876,055</u>
Financial institutions		
- Remunerative deposits	474,712	201,526
- Non-remunerative deposits	467	1,897
	<u>475,179</u>	<u>203,423</u>
	<u>7,756,862</u>	<u>5,079,478</u>
15.1 Particulars of deposits		
In		
- local currency	6,982,937	4,203,756
- foreign currencies	773,925	875,722
	<u>7,756,862</u>	<u>5,079,478</u>

16. OTHER LIABILITIES

	2003 (Rupees in '000)	2002 (Rupees in '000)
Return on deposits and other dues		
- payable in local currency - note 16.1	40,764	36,009
- payable in foreign currency	526	513
Unearned commission	7,159	4,193
Accrued expenses	15,494	11,818
Advance payments	2,493	1,983
Unclaimed dividends	107	21
Unrealised loss (net) on forward foreign exchange contracts	386	-
Payable to defined benefit plan - note 31.3	2,889	1,113
Provision against off-balance sheet obligations - note 16.2	1,600	1,600
Security deposits against ijarah	188,401	53,199
Payable on account of purchase of securities	23,917	-
Other staff benefits	64,605	55,079
Proposed dividend	53,202	50,073
Others - note 16.3	28,247	31,788
	<u>429,790</u>	<u>247,389</u>

16.1 It includes Rs 3.143 million (2002: Rs Nil) in respect of return accrued on borrowings from the SBP under the Islamic export refinance scheme.

	2003 (Rupees in '000)	2002 (Rupees in '000)
16.2 Provision against off-balance sheet obligations		
Opening balance	1,600	-
On amalgamation - note 16.2.1	-	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 2.773 million (2002: Rs 2.935 million). Charity was neither paid in excess of Rs 0.100 million to any individual / organisation nor to whom in a director or his spouse had any interest at any time during the year.



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	2003	2002
	(Rupees in '000)	
17. SHARE CAPITAL		
17.1 Authorised capital		
150,000,000 ordinary shares of Rs 10 each	1,500,000	1,500,000
17.2 Issued, subscribed and paid up		
96,766,675 (December 31, 2002: 96,766,675) ordinary shares of Rs 10 each	967,667	967,667
9,637,839 (December 31, 2002: 3,378,750) ordinary shares of Rs 10 each issued as bonus shares	96,378	33,787
	1,064,045	1,001,454

17.2.1 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.

17.3 Reconciliation of number of shares at the beginning and end of the year:

	2003	2002
	(Rupees in '000)	
Opening balance	100,145,425	90,100,008
Issue of bonus shares	6,259,089	3,378,750
Issue of share capital	-	6,666,667
Closing balance	106,404,514	100,145,425

17.4 Shares of the Bank held by a subsidiary as at December 31, 2003:

	Number of shares
Subsidiary	
- Al-Meezan Investment Management Limited	20,904

18. CAPITAL RESERVES

	2003	2002
	(Rupees in '000)	
Share premium account	33,333	33,333
Statutory reserve - note 18.1	211,706	168,943
Reserve for issue of bonus shares	106,405	62,591
	351,444	264,867

18.1 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.

19. REVENUE RESERVES

	2003	2002
	(Rupees in '000)	
General reserve	209,000	209,000
Unappropriated profit	12,073	630
	221,073	209,630

20. SURPLUS ON REVALUATION OF INVESTMENTS

	2003	2002
Quoted shares	111,270	108,830
Other securities (Quoted MTFCs)	643	1,127
	111,913	109,957

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes

	2003	2002
Government	62,587	62,587



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	2003 (Rupees in '000)	2002 (Rupees in '000)
21.2 Transaction related contingent liabilities		
Guarantees favouring		
- Government	1,976,350	1,484,781
- Banks	9,634	3,902
- Others	372,420	378,568
	<u>2,358,404</u>	<u>1,867,251</u>
21.3 Trade related contingent liabilities		
Import letters of credit	1,487,620	605,208
Acceptances	666,632	390,012
	<u>2,154,252</u>	<u>995,220</u>
21.4		
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 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 reexamination 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.		
	2003 (Rupees in '000)	2002 (Rupees in '000)
21.5 Commitments in respect of		
Financings	<u>5,954,993</u>	<u>1,602,531</u>
21.6 Commitments in respect of forward exchange contracts		
Purchases	<u>279,873</u>	<u>250,831</u>
Sales	<u>483,936</u>	<u>399,547</u>

	2003 (Rupees in '000)	2002 (Rupees in '000)
21.7 Other commitments		
Bills for collection (inland)	8,052	7,550
Bills for collection (foreign)	489,177	168,367
	<u>497,229</u>	<u>175,917</u>
22. PROFIT / RETURN ON FINANCINGS AND PLACEMENTS EARNED		
On financings to:		
- Customers - note 22.1	352,842	282,187
- Financial institutions	212	2,888
On deposits with financial institutions	22,513	25,994
On securities purchased under resale agreements	-	114
	<u>375,567</u>	<u>311,183</u>
22.1		
It includes return aggregating Rs 5.942 million (2002: Rs 3.068 million) on investments made in Qatar Global Sukuk Bonds, MTFCs and financing under musharika arrangements.		
	2003 (Rupees in '000)	2002 (Rupees in '000)
23. RETURN ON DEPOSITS AND OTHER DUES EXPENSED		
Deposits	176,244	157,680
Other short term borrowings	6,110	33,335
Borrowings from banks abroad	-	658
	<u>182,354</u>	<u>191,673</u>
24. OTHER INCOME		
Gain on sale of property, equipment and others	1,391	6,740
Gain on realisation of other assets	-	17,488
Net gain on foreign currency deposits under arrangements with the SBP	-	21,509
Others - note 24.1	6,871	392
	<u>8,262</u>	<u>46,129</u>



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24.1 It includes reversal of provision amounting to Rs 5 million (2002: Rs Nil) for the proposed small business support fund.

25. ADMINISTRATIVE EXPENSES

	2003	2002
	(Rupees in '000)	
Salaries, allowances, etc.	108,547	94,948
Charge for defined benefit plan - note 31.3	2,889	994
Contribution to defined contribution plan	3,985	2,160
Directors' fees, allowances and other expenses	9,596	9,445
Rent, taxes, insurance, electricity, etc.	34,491	19,188
Legal and professional charges	6,501	9,656
Communication	13,327	6,913
Repairs and maintenance	3,010	1,802
Finance charges on leased assets	-	287
Stationery and printing	6,758	5,382
Advertisement and publicity	9,164	6,980
Auditors' remuneration - note 25.1	2,527	3,024
Depreciation - note 11.2	19,066	8,564
Amortisation - note 11.3	533	162
Travelling	3,911	3,535
Entertainment	1,212	1,119
Local transportation and car running	4,616	2,849
Security charges	2,356	1,093
Office supplies	871	690
Service charges - note 32.2	13,812	11,302
Brokerage and commission	2,210	1,623
Hardware and software maintenance	1,986	1,520
Others	4,081	1,809
	<u>255,449</u>	<u>195,045</u>

25.1 Auditors' remuneration

	2003	2002
Audit fee	750	600
Fee for audit of employees' funds	75	50
Special certifications and sundry advisory services	1,518	1,755
Tax services	89	460
Out of pocket expenses	95	159
	<u>2,527</u>	<u>3,024</u>

26. OTHER CHARGES

	2003	2002
Penalties imposed by the SBP	20	30
Lease termination charges	-	1,968
Others	-	621
	<u>20</u>	<u>2,619</u>

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27. TAXATION

	2003	2002
	(Rupees in '000)	
- Current for the year	5,731	59,429
- Deferred	21,284	(12,048)
	<u>27,015</u>	<u>47,381</u>

27.1 Relationship between tax expense and accounting profit

	2003	2002
Profit before taxation	<u>240,828</u>	<u>270,530</u>
Tax at the applicable rate of 47%		127,149
Tax effect of expenses that are not allowable in determining taxable income		(30,350)
Tax effect of dividend income taxed at a different rate	See note 27.2 below	(46,747)
Effect of deferred taxation as of December 31, 2002 now recognised / not recognised		(1,850)
Effect of difference in tax rates considered for deferred and current taxation purposes		(821)
		<u>47,381</u>

27.2 The provision for current taxation for the year ended December 31, 2003 has been made on the basis of presumptive tax.

28. BASIC EARNINGS PER SHARE

	2003	2002
	(Rupees in '000)	
Profit for the year (Rupees in '000)	213,813	223,149
Weighted average number of ordinary shares	<u>106,404,514</u>	<u>106,404,514</u>
Basic earnings per share - note 28.1 (Rupees)	<u>2.01</u>	<u>2.10</u>

28.1 The number of ordinary shares as at December 31, 2002 has been adjusted for issue of bonus shares

28.2 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2003 and 2002.

29. CASH AND CASH EQUIVALENTS

	2003	2002
	(Rupees in '000)	
Cash and balances with treasury banks	1,042,285	659,349
Balances with other banks	683,596	1,058,074
	<u>1,725,881</u>	<u>1,717,423</u>



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30. STAFF STRENGTH

	2003	2002
Total number of employees at the end of the year	238	159

31. DEFINED BENEFIT PLAN

31.1 Principal actuarial assumptions

Discount rate	7% p.a.	8% p.a.
Expected rate of increase in salaries	7% p.a.	8% p.a.
Expected rate of return on investments	7% p.a.	8% p.a.
Normal retirement age	60 years	60 years

31.2 Reconciliation of payable to defined benefit plan

	2003	2002
	(Rupees in '000)	
Present value of defined benefit obligations	7,332	4,422
Fair value of plan assets - note 31.6	(1,931)	(785)
Net actuarial losses not recognised	(2,512)	(2,524)
	<u>2,889</u>	<u>1,113</u>

31.3 Movement in payable to defined benefit plan

Opening balance	1,113	119
Charge for the year	2,889	994
Contribution made during the year	(1,113)	-
Closing balance	<u>2,889</u>	<u>1,113</u>

31.4 Charge for defined benefit plan

Current service cost	2,450	858
Interest cost	354	167
Expected return on plan assets	(63)	(74)
Actuarial losses	148	43
	<u>2,889</u>	<u>994</u>

31.5 Actual return on plan assets

	<u>315</u>	<u>61</u>
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31.6 It includes a balance of Rs 1.636 million (2002: Rs 0.772 million) kept in a savings account with the Bank.

32. 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	
	2003	2002	2003	2002	2003	2002
	Rupees in '000					
Fees *	899	899	* 8,697	* 8,546	-	-
Managerial remuneration	7,931	10,492	10,568	9,779	25,494	15,131
Charge for defined benefit plan	-	-	440	355	1,308	865
Contribution to defined contribution plan	-	-	528	425	1,523	891
House rent	-	-	-	149	85	766
Utilities	-	-	528	426	1,675	1,094
Medical	113	126	332	38	1,575	281
Conveyance	233	-	-	-	-	-
Others	56	109	515	377	1,953	1,068
	<u>9,232</u>	<u>11,626</u>	<u>21,608</u>	<u>20,095</u>	<u>33,613</u>	<u>20,096</u>
Number of persons	<u>1</u>	<u>1</u>	<u>12</u>	<u>12</u>	<u>18</u>	<u>14</u>

* This represents amounts charged in these financial statements as fees to eleven (2002:eleven) non-executive directors.

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

32.2 In addition to the above, service charges (note 25) include Rs 11.489 million (2002: Rs 6.915 million) in respect of reimbursement, to a related party, of salary and other benefits paid by that associated company to the chief executive as he is on secondment from that related party.



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33. MATURITIES OF ASSETS AND LIABILITIES

Category of classification	2003				
	Total	Up to three months	Over three months to one year	Over one year to five years	Over five years
	Rupees in '000				
Assets					
Cash and balances with treasury banks	1,042,285	1,042,285	-	-	-
Balances with other banks	683,596	583,596	100,000	-	-
Investments	1,211,667	1,123,027	-	31,243	57,397
Financings	7,397,078	4,142,597	2,148,114	1,076,273	30,094
Other assets	689,226	686,632	-	-	2,594
Operating fixed assets	78,537	-	-	-	78,537
	11,102,389	7,578,137	2,248,114	1,107,516	168,622
Liabilities					
Bills payable	169,062	169,062	-	-	-
Due to financial institutions	988,964	526,964	462,000	-	-
Deposits and other accounts – note 33.1	7,756,862	5,228,963	708,505	1,819,394	-
Other liabilities	429,790	176,784	31,982	221,024	-
Deferred taxation	9,236	-	-	9,236	-
	9,353,914	6,101,773	1,202,487	2,049,654	-
Net assets	1,748,475	1,476,364	1,045,627	(942,138)	168,622
Share capital	1,064,045				
Capital reserves	351,444				
Revenue reserves	221,073				
Surplus on revaluation of investments	111,913				
	1,748,475				

33.1 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.



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34. 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	2003				to yield / profit risk
			Exposed to yield/profit risk Upto three months	Over three months to one year	Over one year to five years	Not exposed Over five years	
			Rupees in '000				
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	-	1,042,285	-	-	-	-	1,042,285
Balances with other banks	2.14	683,596	497,063	100,000	-	-	86,533
Investments	5.20	1,211,667	-	-	31,243	57,397	1,123,027
Financings	5.23	7,397,078	4,650,621	2,226,362	475,789	5,000	39,306
Other assets	-	471,304	-	-	-	-	471,304
		10,805,930	5,147,684	2,326,362	507,032	62,397	2,762,455
Liabilities							
Bills payable	-	169,062	-	-	-	-	169,062
Due to financial institutions	1.50	988,964	526,964	462,000	-	-	-
Deposits and other accounts	2.49	7,756,862	4,615,651	708,505	1,819,394	-	613,312
Other liabilities	-	226,862	-	-	-	-	226,862
		9,141,750	5,142,615	1,170,505	1,819,394	-	1,009,236
On-balance sheet gap		1,664,180	5,069	1,155,857	(1,312,362)	62,397	1,753,219
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-
Total yield / profit risk sensitivity gap			5,069	1,155,857	(1,312,362)	62,397	
Cummulative yield / profit risk sensitivity gap			5,069	1,160,926	(151,436)	(89,039)	

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.



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35. CURRENCY RISK

	2003			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	9,775,978	8,361,245	(204,061)	1,210,672
United States dollars	970,623	752,307	176,004	394,320
Great Britain pounds	12,395	7,608	3,695	8,482
Japanese yen	1,389	-	-	1,389
Euro	45,259	20,590	24,362	49,031
Singapore dollars	3	-	-	3
Swiss francs	283	-	-	283
	<u>10,805,930</u>	<u>9,141,750</u>	<u>-</u>	<u>1,664,180</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.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities is based on quoted market prices. Fair value of unquoted equity investments is determined on the basis of break-up value of those investments based on the latest available financial statements as disclosed in notes 8.6 and 8.8.

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.

37. 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.

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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.

37.1 Segment by class of business

	2003					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	413,799	5.59%	114,729	1.48%	1,334,566	11.28%
Agribusiness	5,964	0.08%	-	-	-	-
Textile	3,386,295	45.78%	97,847	1.26%	3,426,499	28.96%
Cement	13,362	0.18%	455	0.01%	62,587	0.53%
Sugar	486,997	6.58%	10,140	0.13%	211,864	1.79%
Shoes and leather garments	440,969	5.96%	23,666	0.31%	418,542	3.54%
Automobile and transportation equipment	305,266	4.13%	54,842	0.71%	749,489	6.33%
Financial	195,800	2.65%	475,179	6.13%	2,073,256	17.52%
Insurance	-	-	4,752	0.06%	-	-
Electronics and electrical appliances	175,584	2.37%	4,623	0.06%	502,232	4.24%
Production and transmission of energy	95,700	1.29%	25,218	0.33%	254,300	2.15%
Individuals	561,977	7.61%	4,688,883	60.43%	160,479	1.36%
Others	1,315,365	17.78%	2,256,528	29.09%	2,638,460	22.30%
	<u>7,397,078</u>	<u>100%</u>	<u>7,756,862</u>	<u>100%</u>	<u>11,832,274</u>	<u>100%</u>

37.2 Segment by sector

	2003					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	-	-	-	-
Private	7,397,078	100%	7,756,862	100%	11,832,274	100%
	<u>7,397,078</u>	<u>100%</u>	<u>7,756,862</u>	<u>100%</u>	<u>11,832,274</u>	<u>100%</u>



38. GEOGRAPHICAL SEGMENT ANALYSIS

	2003			
	Profit before taxation	Total assets Employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	240,828	11,102,389	1,748,475	11,832,274
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>240,828</u>	<u>11,102,389</u>	<u>1,748,475</u>	<u>11,832,274</u>

39. RELATED PARTY TRANSACTIONS

39.1 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, director, and key management personnel.

39.2 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. Transactions with related parties are executed on commercial terms.

39.3 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 [formerly Al-Meezan Education and Development (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
- Meezan Islamic Fund



39.4 Key management personnel:

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

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

	2003	2002
	(Rupees in '000)	
Bank balance	188,549	553,563
Murabaha financing outstanding	100,000	25,000
Murabaha financing disbursed during the year	150,000	25,000
Profit receivable on murabaha financing	181	52
Deposits and other accounts maintained with the Bank	441,235	157,662
Service charges payable by the Bank	208	5,380
Acceptances	25,351	-
Letter of credit (unfunded)	31,518	-
Profit earned on murabaha financing	854	52
Profit earned on a bank account	12,472	20,664
Return on deposits expensed	4,024	1,409
Dividend income earned	50,810	9,534
Service charges incurred	13,977	10,990
Dividend paid	30,443	-
Transactions with retirement benefits funds - notes 16, 25 and 31		
Remuneration to directors and key management personnel - note 32		

40. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 4, 2004 by the Board of Directors of the Bank.

Chairman

President and CEO

Director

Director

CONSOLIDATED
FINANCIAL STATEMENTS
2003



Meezan Bank
The Premier Islamic Bank



We have examined 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, 2003 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, 2003. We have expressed a separate opinion on the financial statements of the holding company while 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 auditors.

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 examination.

Our examination was made in accordance with the auditing standards as applicable in Pakistan and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the

circumstances.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Meezan Bank Limited and its subsidiary company as at December 31, 2003 and the results of their operations, changes in equity and cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'A.F. Ferguson & Co.'.

A.F. FERGUSON & CO.
Chartered Accountants
Karachi

March 8, 2004



CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003



	Note	2003 (Rupees in '000)
ASSETS		
Cash and balances with treasury banks	7	1,042,311
Balances with other banks	8	685,586
Due from financial institutions		-
Investments	9	1,292,461
Financings	10	7,397,479
Other assets	11	701,389
Negative goodwill	12	(11,459)
Operating fixed assets	13	79,850
Deferred taxation		-
		11,187,617
LIABILITIES		
Bills payable	14	169,062
Due to financial institutions	15	988,964
Deposits and other accounts	16	7,748,367
Sub-ordinated loan		-
Liabilities against an asset subject to a finance lease	17	131
Other liabilities	18	436,109
Deferred taxation	19	9,151
		9,351,784
NET ASSETS		1,835,833
REPRESENTED BY		
Share capital	20	1,064,045
Capital reserves	21	351,444
Revenue reserves	22	270,086
Surplus on revaluation of investments	23	7,510
		1,693,085
Surplus on revaluation of investments	24	90,476
MINORITY INTEREST	25	52,272
		1,835,833
CONTINGENCIES AND COMMITMENTS	26	

	Note	2003 (Rupees in '000)
Profit/return on financings and placements earned	27	375,824
Return on deposits and other dues expensed	28	182,375
Net spread earned		193,449
Reversal of provision against non-performing financings (net)	10.9	17,769
Provision for diminution in value of investments		-
Bad debts written off directly		-
		17,769
Net spread after provisions		211,218
OTHER INCOME		
Fee, commission and brokerage income		68,865
Capital gain on sale of investments		129,649
Dividend income		72,438
Income from dealing in foreign currencies		5,215
Other income	29	19,860
Total other income		296,027
		507,245
OTHER EXPENSES		
Administrative expenses	30	265,635
Other provisions / write offs		-
Other charges	31	20
Total other expenses		265,655
		241,590
Extraordinary / unusual items		-
Share of results of associates before tax	9.7	32,541
PROFIT BEFORE TAXATION		274,131
Taxation - current - for the year	32	10,625
- prior years		-
- deferred	32	21,199
		31,824
PROFIT AFTER TAXATION - CARRIED FORWARD		242,307

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

Chairman

President and CEO

Director

Director



CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003

	Note	2003 (Rupees in '000)
PROFIT AFTER TAXATION - BROUGHT FORWARD		242,307
MINORITY INTEREST	25	(12,245)
PROFIT AFTER TAXATION AND MINORITY INTEREST		230,062
Profit brought forward		630
		230,692
APPROPRIATIONS AND TRANSFERS		
Transferred to		
Statutory reserve		(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		-
		(202,370)
Unappropriated profit carried forward		28,322
		<u>28,322</u>
Basic earnings per share	33	2.16

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

Chairman

President and CEO

Director

Director



CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 (Rupees in '000)
CASH FLOW FROM OPERATING ACTIVITIES	
Profit before taxation	274,131
Dividend income	(72,438)
	201,693
Adjustments for non-cash charges	
Gain on re-measurement of held for trading investments	(7,245)
Amortisation of negative goodwill	(3,619)
Shares in results of associates	(32,541)
Gain on sale of property, equipment and others	(1,391)
Depreciation	19,349
Amortisation	592
	(24,855)
	176,838
(Increase) / decrease in operating assets	
Net investments in held for trading securities	(188,317)
Financings	(3,865,291)
Other assets	189,194
	(3,864,414)
Increase / (decrease) in operating liabilities	
Bills payable	122,220
Due to financial institutions	977,133
Minority interest	33,188
Deposits and other accounts	2,668,889
Other liabilities	185,505
	3,986,935
	299,359
	(108,565)
Income tax paid	
NET CASH FLOW FROM OPERATING ACTIVITIES - CARRIED FORWARD	190,794



CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2003



Note	2003 (Rupees in '000)
	190,794
NET CASH FLOW FROM OPERATING ACTIVITIES - BROUGHT FORWARD	
CASH FLOW FROM INVESTING ACTIVITIES	
Net investments in	
- held to maturity securities	(20,263)
- available for sale securities	(345)
- quoted associated undertakings	(226,587)
- unquoted associated undertakings	32,400
Dividends received	146,789
Investments in operating fixed assets	(65,034)
Sale proceeds on disposal of property, equipment and others	2,576
Net cash flow from investing activities	(130,464)
CASH FLOW FROM FINANCING ACTIVITIES	
Liability against an asset subject to a finance lease	131
Dividend paid	(49,987)
Net cash flow from financing activities	(49,856)
Net increase in cash and cash equivalents	10,474
Cash and cash equivalents as at January 1	1,717,423
Cash and cash equivalents as at December 31	1,727,897

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The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

	Share capital	Capital reserves			Surplus on revaluation of investments	Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares		General reserve	Unappropriated profit/(loss)	
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
	1,001,454	33,333	168,943	62,591	-	241,764	630	1,508,715
Issue of bonus shares	62,591	-	-	(62,591)	-	-	-	-
Profit 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 @ 5%	-	-	-	-	-	-	(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

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

Chairman

President and CEO

Director

Director

Chairman

President and CEO

Director

Director



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 and Societe Generale, the French and International Bank – Pakistan branches (SG) amalgamated their operations under a sanction order of the SBP in accordance with section 48 of the Banking Companies Ordinance, 1962 with effect from April 1, 2002.

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

The group comprises of the holding company, the following subsidiary and associates and a modaraba:

Company / *modaraba	Country of incorporation	Nature of business	Number of shares (direct holding) %	Number of shares (indirect holding) %	Total effective percentage holding %
Subsidiary					
Al-Meezan Investment Management Limited (AMIML)	Pakistan	Investment advisory, portfolio management, equity research, underwriting and corporate finance.	70	–	70
Associates					
Faysal Management Services (Private) Limited (FMSL)	Pakistan	Floataion and management of modarabas under Modarabas Companies and Modarabas (Floataion and Control) Ordinance, 1980.	30	–	30
Plexus (Private) Limited [formerly Al-Meezan Education and Development (Private) Limited] (PL)	Pakistan	Business of development and export of IT enabled services and internet solutions.	50	–	50



*Fayzan Manufacturing Modaraba (FMM)	Pakistan	Formed under the Modarabas Companies and Modarabas (Floataion 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
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2. ACQUISITION OF AMIML

During the year MBL has acquired a further forty percent holding in AMIML which has 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%. Subsequent to December 31, 2003 MBL has disposed off the shares held in excess of the limit specified by the SBP. The results of AMIML have been incorporated in the consolidated financial statements with effect from July 1, 2003. The purchase method of accounting has been used to account for acquisition. The cost of an acquisition is measured at the fair value of assets as of the date of acquisition plus costs directly attributable to acquisition.

The excess of the fair value of net assets of the subsidiary acquired over its cost of acquisition is recognised as negative goodwill (note 6.13).

MBL's holding of seventy percent in AMIML has resulted from a piecemeal acquisition i.e. a thirty percent holding was acquired in the year 2000 whereas the remaining forty percent was acquired during the year.

Accordingly, prior to qualifying as a subsidiary the holding in AMIML was considered as an investment in an associate (upto June 30, 2003) and was accounted for under the equity method in the consolidated financial statements.

For the purpose of calculating goodwill, the fair values as at September 30, 2000 and June 30, 2003 of identifiable assets and liabilities, except for certain assets and liabilities which were recognised at book values, were used. In the opinion of the management the fair values of those assets and liabilities were not materially different from their book values on the aforementioned dates. The negative goodwill arising on acquisition of shares in AMIML in the year 2003 is calculated on the basis of information available from the audited financial statements of that subsidiary for the year ended June 30, 2003.

Negative goodwill arising on acquisition of shares in AMIML in the year 2000 has been calculated from the information available in its unaudited balance sheet as at September 30, 2000 and details of costs and market values of long term and short term investments as at that date.



The management believes that the fair values of identifiable assets and liabilities as of September 30, 2000 and June 30, 2003 were not materially different from the respective fair values of identifiable assets and liabilities on the dates of successive purchases and therefore only the fair values of identifiable assets and liabilities as at September 30, 2000 and June 30, 2003 were considered for calculating the negative goodwill.

3. BASIS OF PRESENTATION AND CONSOLIDATION

3.1 Basis of presentation

3.1.1 Consequent to acquisition of AMIML during the year, MBL has prepared its statutory consolidated financial statements for the first time. Therefore corresponding figures have not been included. However, the corresponding figures of MBL were used for the purpose of preparing the consolidated cash flow statement for the year ended December 31, 2003. The amount paid on acquisition of AMIML and its related effects on assets and liabilities of AMIML have not been disclosed separately in the consolidated cash flow statement as it is not practical to determine the consequential effects on the related assets and liabilities due to piecemeal acquisition.

3.1.2 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, 2003 and the financial statements of AMIML for the six months period ended December 31, 2003 which have only been subjected to a review by its statutory auditors but 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, 2003 the results for the period January 1 to June 30, 2003 have been calculated from the audited financial statements of AMIML for the year ended June 30, 2003 after eliminating the results for the six months period ended December 31, 2002. AMIML's results for the six months period ended December 31, 2002 were neither reviewed nor audited. Certain disclosures relating to AMIML as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2003.

3.1.3 FMM and FMSL have been accounted for in these consolidated financial statements under the equity method from the information available in their audited financial statements for the years ended December 31, 2003. Further, PL has been accounted for under the equity method on the basis of information available from its unaudited financial statements for the six months period ended December 31, 2003 and for the remaining six months period i.e. January 1 to June 30, 2003 the results have been prorated from its audited financial statements for the year ended June 30, 2003.

3.1.4 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.

3.2 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-company balances, transactions and resulting unrealised profits / losses have been eliminated.

4. STATEMENT OF COMPLIANCE

4.1 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 Bank 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.

4.2 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, 2003.

5. 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 20 dated August 4, 2000 (BSD 20), except as stated otherwise.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 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 and Islamic interbank placements having maturities of three (3) months or less.

6.2 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, 2003



NOTES TO AND FORMING PART OF THE
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FOR THE YEAR ENDED DECEMBER 31, 2003

- (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.
- (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.
- (v) Commission on letters of credit, acceptances and guarantees is recognised by MBL 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.

6.3 **Financings**

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

MBL determines the 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.

6.4 **Investments**

6.4.1 MBL values its marketable investments at market value at the balance sheet date. Any surplus / (deficit) arising on revaluation of investments is kept in a separate account titled 'surplus on revaluation of investments' and is shown below equity. Surplus / (deficit) is recognised in the profit and loss account when it is actually realised. Cost is determined on a moving average basis.

AMIML and FMSL account 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 held for trading and available for sale investments is recognised in the profit and loss account and equity respectively.

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 4.2 to these consolidated financial statements.

6.4.2 Investments in associates in which the Group holds between 20% and 50% of the voting rights and over which the group has significant influence, but which it does not control 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 cost of the investment 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.

6.4.3 Unquoted securities are stated at cost less provision for impairments by MBL, if any.

6.4.4 Investments in units of an open end fund are valued at its redemption price by the Group as at the balance sheet date.

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

6.4.6 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.

6.5 **Operating fixed assets**

6.5.1 **Tangible fixed 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. However, FMM charges depreciation in the month in which an asset is acquired while no depreciation is charged in the month of disposal. 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.

6.5.2 Intangible

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

6.6 Taxation

Current

The charge for taxation is based on expected taxable income for the year at current rates of taxation by the Group, 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. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. 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.



6.7 Staff retirement benefits

Defined benefit plan

MBL 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, 2003. The projected unit credit method, as allowed under IAS 19 'Employee Benefits' (revised 2002), was used for actuarial valuation.

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

Defined contribution plan

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

6.8 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 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 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.

6.9 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 the realisation of the asset is virtually certain 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.



NOTES TO AND FORMING PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

6.10 **Related party transaction**

Transactions between the Group and its related parties are carried out on arm's length basis determined in accordance with the method prescribed.

6.11 **Off setting**

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.

6.12 **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.

6.13 **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.

6.14 **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.



NOTES TO AND FORMING PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

7. **CASH AND BALANCES WITH
TREASURY BANKS**

2003
(Rupees in '000)

In hand	
- local currency	95,890
- foreign currency	47,870
With the SBP in	
- local currency current accounts – note 7.1	812,868
- foreign currency deposit accounts – note 7.1	85,292
With National Bank of Pakistan in	
- local currency current accounts	391
	<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).

2003
(Rupees in '000)

8. **BALANCES WITH OTHER BANKS**

In Pakistan	
- on current accounts	13,531
- on deposit accounts - note 8.1	390,343
Outside Pakistan	
- on current accounts	73,198
- on deposit accounts - note 8.2	208,514
	<u>685,586</u>

8.1 It includes 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.

8.2 This represents placement of funds with an Islamic financial institution in Bahrain which have been generated through the foreign currency deposit scheme (FE-25). These placements have been made on profit and loss sharing basis and have maturities upto a week.



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9. INVESTMENTS

Notes	Held by the bank	Given as collateral	Total
	Rupees in '000		
Investments by types			
Held for trading securities	464,215	–	464,215
Held to maturity securities	57,397	–	57,397
Available for sale securities	130,915	–	130,915
Associates (quoted)	507,295	–	507,295
Associates (unquoted)	12,121	–	12,121
	<u>1,171,943</u>	<u>–</u>	<u>1,171,943</u>
Add: Surplus on revaluation of investments	120,518	–	120,518
	<u>1,292,461</u>	<u>–</u>	<u>1,292,461</u>

9.1 Investments by segments

	2003 (Rupees in '000)
Fully paid up ordinary shares	
- Listed companies	935,313
- Unlisted companies	12,121
Musharika term finance certificates	31,899
Bonds	57,397
Units of an open end fund	135,213
	<u>1,171,943</u>
Add: Surplus on revaluation of investments	120,518
	<u>1,292,461</u>



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9.2 Held for trading securities

The group holds investments in ordinary shares and Musharika term finance certificates (MTFC's) of Rs 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company	2003 Number of shares	2003 Cost Rupees in '000
Mutual funds		
5th ICP	105,000	1,685
22nd ICP	2,650	29
Al-Meezan Mutual Fund Limited	3,585,500	37,477
Commercial bank		
Meezan Bank Limited	20,904	279
Textile composite		
Legler Nafees Denim Mills Limited	500,000	6,250
Cement		
Lucky Cement Limited	100,000	2,481
Refinery		
National Refinery Limited	26,000	3,524
Power generation and distribution		
Hub Power Company Limited	1,240,000	46,913
Southern Electric Power Company Limited	100,000	2,091
Oil and gas marketing		
Pakistan State Oil Company Limited	406,900	112,928
Sui Northern Gas Pipelines Limited	969,012	36,932
Shell Pakistan Limited	17,500	7,337
Sui Southern Gas Company Limited	310,212	8,543
Oil and gas exploration		
Pakistan Oil Fields Limited	97,500	21,215
Oil and Gas Development Company Limited	456,823	14,623
Technology and communication		
Pakistan Telecommunication Company Limited (A)	840,000	29,461
World Call Payphone Limited	105,375	1,621
Fertilizer		
Engro Chemical Pakistan Limited	522,001	45,145
Fauji Fertilizer Bin Qasim Company Limited	100,000	1,765
Fauji Fertilizer Company Limited	481,300	41,926
Chemical		
ICI Pakistan Limited	25,000	2,130
Paper and board		
Packages Limited	56,712	5,387
Food and personal care products		
Unilever Pakistan Limited - note 9.2.1	24,475	29,432
Miscellaneous		
Tri-Pack Films Limited	44,000	3,742
		<u>462,916</u>
Musharika term finance certificates (MTFC's)		
Sitara Chemical Limited- note - 9.4.1	247	1,299
		<u>464,215</u>



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

9.3 **Held to maturities securities hold by MBL**

Name of the investee company	2003 Number of certificates	2003 Cost Rupees in '000
Bonds		
Qatar Global Sukuk Bonds (Sukuk) - note 9.3.1	1,000,000	57,397

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

9.4 **Available for sale securities**

MBL holds investments in ordinary shares and MTFCs of a nominal value of Rs 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company	2003 Number of shares /Certificates	2003 Cost Rupees in '000
Ordinary shares		
Power generation and distribution		
Hub Power Company Limited	1,500,000	54,194
Oil and gas marketing		
Pakistan State Oil Company Limited	280	33
Shell Pakistan Limited	45,000	15,305
Technology and communication		
Pakistan Telecommunication Company Limited (A)	160,000	4,323
Fertilizer		
Fauji Fertilizer Company Limited	50,000	2,733
Paper and board		
Packages Limited	30,000	1,829
Food and personal care products		
Unilever Pakistan Limited - note 9.2.1	24,540	21,898
MTFC's		
Sitara Chemicals Limited - note 9.4.1	6,120	30,600
		130,915

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

9.5 **Associates (quoted)**

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

Name of the investee company	2003 Number of shares / certificates / units	Percentage of direct equity holding %	2003 Rupees in '000
Ordinary shares			
Close end mutual fund			
Al-Meezan Mutual Fund Limited	9,715,500	12.54	91,217
Modaraba			
Fayzan Manufacturing Modaraba - note 9.7	21,457,500	23.84	280,865
Units of an open end fund			
Meezan Islamic Fund - note 9.5.1	2,706,000	N/A	135,213
			507,295

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

9.6 **Associates (unquoted)**

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

Particulars	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 [formerly Al-Meezan Education and Development (Private) Limited] - note 9.7	1,499,980	10,411	50	6.96	December 31, 2003*	Mr. Ariful Islam
Faysal Management Services (Private) Limited - note 9.6.1 and 9.7	540,000	1,710	30	123.17	December 31, 2003	Mr. Khalid S. Tirmizey
Total		12,121				

* Unaudited

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



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9.7 Associates accounted for under the equity method of accounting:

	Plexus (Private) Limited	Fayzan Manufactur- ing Modaraba	Faysal Management Services (Private) Limited	Al-Meezan Investment Management Limited	Total
	Rupees in '000				
Carrying values of investments as at December 31, 2003 according to MBL's financial statements	10,425	236,033	54,000	12,900	313,358
Group's share in results of associates relating to periods upto December 31, 2002	(3,553)	62,062	(43,020)	13,581	29,070
Group's share in results of associates in current period profit / (losses) before taxation	(1,032)	32,746	(86)	913	32,541
Taxation	(4)	-	(1,260)	(273)	(1,537)
Dividend income	-	(28,539)	(7,924)	(12,450)	(48,913)
Reversal of surplus on revaluation of investments	-	(21,437)	-	-	(21,437)
Reversal of provision for diminution in the value of an investment					
- upto December 31, 2002	2,580	-	-	-	2,580
- current year	1,995	-	-	-	1,995
Deferred taxation	-	-	-	21	21
Amortisation of negative goodwill relating to periods upto December 31, 2002	-	-	-	1,114	1,114
	10,411	280,865	1,710	15,806	308,792
	(note 9.6)	(note 9.5)	(note 9.6)	(note 9.7.1)	

9.7.1 Prior to qualifying as a subsidiary (i.e. as of July 1, 2003) the holding in AMIML was considered as an investment in an associate upto June 30, 2003 and was accounted for under the equity method of accounting in these consolidated financial statements.

10. FINANCINGS

	2003 (Rupees in '000)
In Pakistan	
- Murabaha financings	4,678,811
- Net investment in ijarah - note 10.2	1,440,353
- Export refinance under Islamic scheme - (Istisna)	988,964
- Financings against bills	145,564
- Loans, cash credit, running finances, etc. - notes 10.4 and 10.5	101,899
- Musharika financings	95,700
- House financings	8,380
Total financings - note 10.6	7,459,671
Less: Provision against non-performing financings - notes 10.8 and 10.9	62,192
	7,397,479

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	2003 (Rupees in '000)
10.1 Particulars of financing	
10.1.1 In	
- local currency	6,842,249
- foreign currencies	555,230
	7,397,479
10.1.2 Short-term (for upto one year)	6,290,736
Long-term (for over one year)	1,106,743
	7,397,479

10.2 Net investment in ijarah

	2003			Total
	Not later than one year	Later than one and less than five years	Over five years	
	Rupees in '000			
Ijarah rentals receivable	600,299	946,778	-	1,547,077
Residual value	25,546	140,105	-	165,651
Minimum ijarah payments	625,845	1,086,883	-	1,712,728
Profits for future periods	132,249	140,126	-	272,375
Present value of minimum ijarah payments	493,596	946,757	-	1,440,353

10.3 During the year MBL has received Rs 16.449 million from Joint Official Liquidators of Mohib Textile Mills Limited (MTML) as full and final settlement against running finance facility and export refinance facility of Rs 51.826 million and Rs 59.919 million respectively. The amount received was adjusted against running finance facility outstanding. The balance amount of Rs 95.296 million was written off against the provision. Further, suspended income aggregating Rs 137.685 million thereon was also waived.

10.4 Pakland Cement Limited (PCL) has issued TFCs under a scheme of arrangement sanctioned by the High Court of Sindh. The TFCs have been issued at face value of Rs 102.120 million in place of various financing facilities granted by the Group to PCL amounting to Rs 34.989 million. These TFCs will be redeemed between the period June 30, 2003 to June 30, 2009 and a further grace period of two and a half years was completed on June 30, 2003. The TFCs have been issued by PCL in two series, series 'A' represents the principal amount and will carry a yield of 16 percent per annum, whereas series 'B' has been issued for accrued mark-up and carries no yield. The transfer of these TFCs can only be effected among the creditors of PCL and transfer to a third party (other than a creditor) will require prior written consent of the issuer. The amount is fully provided.

10.5 It includes Rs 39.707 million representing mark-up free loans to staff advanced under the Group's policy.



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10.6 It includes Rs 4.743 million which is due for payment after a period of twelve months from the date of balance sheet and is outstanding for period exceeding three years.

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

	Balance as at December 31, 2003	Maximum total amount of financings including temporary financings granted during the year*
	(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	39,707	39,720
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	100,000	100,000
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
	<u>139,707</u>	<u>139,720</u>

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

10.8 Financings include 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	62,192	-	62,192	62,192	62,192
	<u>62,192</u>	<u>-</u>	<u>62,192</u>	<u>62,192</u>	<u>62,192</u>

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10.9 Particulars of provision against non-performing financings:

	2003		
	Specific	General	Total
	Rupees in '000		
Opening balance	175,257	-	175,257
Charge for the year	-	-	-
Reversals	(17,769)	-	(17,769)
	<u>(17,769)</u>	<u>-</u>	<u>(17,769)</u>
Amounts written off			
- note 10.10.1	(95,296)	-	(95,296)
Closing balance	<u>62,192</u>	<u>-</u>	<u>62,192</u>

10.10 Particulars of write offs

		2003 (Rupees in '000)
10.10.1	Against provision – note 10.9	95,296
	Directly charged to profit and loss account	-
		<u>95,296</u>
10.10.2	Write offs of Rs 500,000 and above	95,296
	Write offs below Rs 500,000	-
		<u>95,296</u>

10.11 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, 2003 is as follows:

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	Others	Total				
Rupees '000										
Mohib Textile Mills Limited	Mr. Asif Saigol (270-57-00602)	Mr. Rafique Saigol	95,296	137,685	-	232,981	95,296	137,685	-	232,981
	Mr. Arif Saigol (270-57-00603)	Mr. Rafique Saigol								
	Mr. Abid Saigol (270-57-00604)	Mr. Rafique Saigol								
	Mr. Shahzad Saigol (270-87-432238)	Mr. Shafique Saigol								
	Mr. Shahid Saigol (270-87-432240)	Mr. Shafique Saigol								
	Mr. Shafiq Saigol Jr (BEL's nominee)	Mr. Shafique Saigol	Details not available							

* As available in the records of MBL.



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11. OTHER ASSETS	2003 (Rupees in '000)
Profit / return accrued in local currency	66,690
Profit / return accrued in foreign currency	2,451
Advances, deposits, advance rent and other prepayments	30,837
Advance taxation (payments less provisions)	183,012
Receivable on account of sale of securities	35,907
Dividends receivable	2,436
Receivable from associated undertakings / a related party (considered good) - note 11.1	8,985
Stamps	879
Advance against future murabaha	298,921
Advance against future ijarah	67,020
Security deposits	2,670
Prepaid exchange risk fee	129
Other – note 11.2	1,452
	<u>701,389</u>

- 11.1 The maximum amount receivable at any time during the year was Rs 8.985 million.
- 11.2 This includes Rs 0.047 million recoverable from the SBP upon encashment of various instruments on behalf of SBP by MBL.

12. NEGATIVE GOODWILL	2003 (Rupees in '000)
On acquisition of a subsidiary	(16,192)
Amortisation :	
- Periods upto December 31, 2002	1,114
- Current period - notes 12.1 and 12.2	3,619
	<u>4,733</u>
	<u>(11,459)</u>

- 12.1 Negative goodwill is amortised over the weighted average useful life, estimated as two years, of depreciable/amortisable non-monetary assets of AMIML as on the date of its becoming a subsidiary.
- 12.2 This represents amortisation for the 6 months commencing from July 1, 2003.

13. OPERATING FIXED ASSETS	2003 (Rupees in '000)
- Capital work-in-progress – note 13.1	9,268
- Property, equipment and others – note 13.2	65,415
	<u>74,683</u>
Intangible assets – note 13.3	5,167
	<u>79,850</u>
13.1 Capital work-in-progress	
Advance to suppliers and contractors for building renovation	6,708
Advances for purchase of vehicles	2,560
	<u>9,268</u>

- 13.1 Capital work-in-progress
- Advance to suppliers and contractors for building renovation
- Advances for purchase of vehicles



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13.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2003	Rate of depreciation %
	As at January 1, 2003	Additions / (disposals) /balance of AMIML*	As at December 31, 2003	As at January 1, 2003	Charge / (on disposals) /balance of AMIML*	As at December 31, 2003		
	Rupees in '000							
Leasehold improvements	6,445	20,089	26,534	645	2,653	3,298	23,236	10
Furniture and fixtures	1,927	4,228	6,212	505	621	1,174	5,038	10 and 20
		57*			48*			
Electrical, office and Computer equipments	12,409	20,897	34,780	7,426	9,649	18,045	16,735	20 and 33
		1,474*			970*			
Vehicles	22,362	13,597	33,447	8,156	6,334	13,133	20,314	20 and 33
		(3,646)			(2,461)			
		1,134*			1,104*			
Assets held under finance lease								
Vehicle	-	555*	555	-	92	463	92	33
					371*			
2003	43,143	58,811	101,528	16,732	19,349	36,113	65,415	
		(3,646)			(2,461)			
		3,220*			2,493*			

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

13.2.1 Included in cost of property, equipment and others are fully depreciated items of the Group still in use aggregating Rs 8.251 million.



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13.2.2 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							
Vehicles							
Toyota Corolla	1,079	971	108	108	Bank policy	Ariful Islam (Employee)	77-B, Khayaban-e-Shahbaz, Phase-VI, DHA, Karachi.
Honda City	735	366	369	282	Bank policy	Arshad Majeed (Employee)	B-213, 13-D/1, KDA Scheme No.24, Gulshan-e-Iqbal, Karachi
Honda City	800	400	400	482	Bank policy	Muhammad Haris (Employee)	18, B-2 Street Khayaban-e-Ghazi, Phase-VI, DHA, Karachi
Suzuki Cultus	516	362	154	181	Bank policy	Samin Atique (Ex-employee)	A-288, Block-5, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	516	362	154	146	Bank policy	Muhammed Farhamullah Khan (Ex-employee)	51/1, Lane B-6, Phase V, DHA, Karachi
Mitsubishi Pajero	-	-	-	1,343	Negotiation	Yasir Ahmed (unrelated party)	C-4, Block 8, Gulshan-e-Iqbal Karachi
Office equipment	-	-	-	34	Negotiation	General Traders	1st Floor, Alfalah Court I. I. Chundrigar Road Karachi
	3,646	2,461	1,185	2,576			

13.3 Intangible assets

	COST			AMORTISATION			Net book value as at December 31, 2003	Rate of Amortisation %
	As at January 1, 2003	Additions	As at December 31, 2003	As at January 1, 2003	Charge	As at December 31, 2003		
	Rupees in '000							
Computer software	1,621	4,300	5,921	162	592	754	5,167	10 and 20

2003
(Rupees in '000)

14. BILLS PAYABLE

In Pakistan	163,008
Outside Pakistan	6,054
	<u>169,062</u>



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	2003 (Rupees in '000)
15. DUE TO FINANCIAL INSTITUTIONS	
In Pakistan	988,964
Outside Pakistan	-
	<u>988,964</u>
15.1 Particulars of due to financial institutions	
In local currency	988,964
In foreign currencies	-
	<u>988,964</u>
15.2 Details of due to financial institutions	
Secured	
Under Islamic export refinance scheme – note 15.2.1	<u>988,964</u>
15.2.1 These borrowings are on a profit and loss sharing basis maturing between January 30 to June 23, 2004 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 1,496 million has been allocated to MBL by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2004.	
	<u>988,964</u>
	<u>988,964</u>
16. DEPOSITS AND OTHER ACCOUNTS	
Customers	
- Fixed deposits schemes	3,102,645
- Savings deposits	3,557,698
- Current account - remunerative	-
- Current account - non-remunerative	601,349
- Margin	11,496
	7,273,188
Financial institutions	
- Remunerative deposits	474,712
- Non-remunerative deposits	467
	475,179
	<u>7,748,367</u>
16.1 Particulars of deposits	
In	
- local currency	6,974,442
- foreign currencies	773,925
	<u>7,748,367</u>

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17. LIABILITY AGAINST AN ASSET SUBJECT TO A FINANCE LEASE

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

The present value of minimum lease payment have been discounted at an effective rate of 17 % per annum. Lease period is for 36 months and the security deposit paid thereon is 5 % of the total lease amount.

18. OTHER LIABILITIES

	2003 (Rupees in '000)
Return on deposits and other dues	
- payable in local currency - note 18.1	40,764
- payable in foreign currency	526
Unearned commission	7,159
Accrued expenses	15,514
Advance payments	2,493
Unclaimed dividends	107
Unrealised loss (net) on forward foreign exchange contracts	386
Payable to defined benefit plan - note 36.3	2,889
Provision against off-balance sheet obligations - note 18.2	1,600
Security deposits against ijarah	188,401
Payable on account of purchase of securities	23,917
Payable to a related party	1,299
Other staff benefits	69,605
Proposed dividend	53,202
Others - note 18.3	28,247
	<u>436,109</u>

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



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		2003 (Rupees in '000)
18.2	Provision against off-balance sheet obligations	
	Opening balance - note 18.2.1	1,600
	Charge for the year	-
	Closing balance	<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 by MBL aggregating Rs 2.773 million. Charity was neither paid in excess of Rs 0.100 million to any individual / organisation nor to whom in a director or his spouse had any interest at any time during the year.

		2003 (Rupees in '000)
19.	DEFERRED TAXATION	
	Debit / (credit) balances arising on account of:	
	Excess of tax written down values over accounting net book values of owned assets	1,416
	Other staff benefits	26,488
	Liability against an asset subject to a finance lease	(17)
	Excess of ijarah financings over tax written down values of ijarah assets	(67,063)
	Carried forward unassessed losses	28,149
	Provision for diminution in value of investments	<u>1,876</u>
		<u>(9,151)</u>

20. SHARE CAPITAL

20.1	Authorised capital	
	150,000,000 ordinary shares of Rs 10 each	<u>1,500,000</u>
20.2	Issued, subscribed and paid up	
	96,766,675 ordinary shares of Rs 10 each	967,667
	9,637,839 ordinary shares of Rs 10 each issued as bonus share	<u>96,378</u>
		<u>1,064,045</u>

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20.2.1 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 Reconciliation of number of shares at the beginning and end of the year:

		2003 No.of shares
	Opening balance	100,145,425
	Issue of bonus shares	6,259,089
	Closing balance	<u>106,404,514</u>

		No.of shares
20.4	Shares of MBL held by AMIML as at December 31, 2003	<u>20,904</u>

20.4.1 AMIML had acquired these shares in the ordinary course of business. However, consequent to the acquisition of AMIML by MBL these shares were disposed of subsequent to the December 31, 2003. The investment represents less than two percent of the holding company's issued share capital and is therefore not considered material for any consequential adjustment.

		2003 (Rupees in '000)
21.	CAPITAL RESERVES	
	Share premium account	33,333
	Statutory reserve - note 21.1	211,706
	Reserve for issue of bonus shares	<u>106,405</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 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.



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22. REVENUE RESERVE

	2003 (Rupees in '000)
General reserve	209,000
Unappropriated profit	
Holding company: As at January 1, 2003	630
Group's share in results of associates relating to periods upto December 31, 2002	29,070
Reversal of provision for diminution in value of an unquoted investment in an associate - note 9.7	2,580
Amount of negative goodwill relating to periods upto December 31, 2002	1,114
Consolidated as at January 1, 2003	33,394
Profit after taxation and minority interest for the year ended December 31, 2003 attributable to holding company's shareholders	230,062
Less: Transferred to	
Statutory reserve	42,763
Reserve for issue of bonus shares	106,405
Proposed final cash dividend	53,202
	202,370
	27,692
Consolidated as at December 31, 2003	61,086
	<u>270,086</u>

23. SURPLUS ON REVALUATION OF INVESTMENTS

Considered as a part of equity	
Surplus on revaluation of investments accounted for in accordance with IAS-39 as at December 31, 2003	
Quoted shares	21,500
Other Securities	1,297
	<u>22,797</u>
Less: Share of minority interest - note 25	6,839
	<u>15,958</u>
Less: Surplus on revaluation of an investment arising due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition amount)	8,448
	<u>7,510</u>

24. SURPLUS ON REVALUATION OF INVESTMENTS

Shown below equity	
Surplus on revaluation of investments accounted for in accordance with BSD-20	
Quoted shares	111,270
Other securities	643
	<u>111,913</u>
Less: Reversal of surplus on revaluation of investments in an associate accounted for under the equity method of accounting - note 9.7	21,437
	<u>90,476</u>

25. MINORITY INTEREST

Share of minority in:	
- Share capital	30,000
- Reserves for the periods upto June 30, 2003	3,188
- Profit for the six months period ended December 31, 2003	12,245
- Surplus on revaluation of investments as a part of equity	6,839
	<u>52,272</u>

26. CONTINGENCIES AND COMMITMENTS

26.1 Direct credit substitutes	
Government	<u>62,587</u>
26.2 Transaction related contingent liabilities	
Guarantees favouring	
- Government	1,976,350
- Banks	9,634
- Others	372,420
	<u>2,358,404</u>
26.3 Trade related contingent liabilities	
Import letters of credit	1,487,620
Acceptances	666,632
	<u>2,154,252</u>



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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 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 these financial statements in this regard.

	2003 (Rupees in '000)
26.5 Commitments in respect of Financings	
	<u>5,954,993</u>
26.6 Commitments in respect of forward exchange contracts	
Purchases	<u>279,873</u>
Sales	<u>483,936</u>
26.7 Other commitments	
Bills for collection (inland)	8,052
Bills for collection (foreign)	<u>489,177</u>
	<u>497,229</u>
27. PROFIT / RETURN ON FINANCINGS AND PLACEMENTS EARNED	
	2003 (Rupees in '000)
On financings to:	
- Customers - note 27.1	352,842
- Financial institutions	212
On deposits with financial institutions	<u>22,770</u>
	<u>375,824</u>

27.1 It includes return aggregating Rs 5.942 million on investments made in Qatar Global Sukuk Bonds, MTFs and financing under musharika arrangements.



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	2003 (Rupees in '000)
28. RETURN ON DEPOSITS AND OTHER DUES EXPENSED	
Deposits	176,244
Other short term borrowings	<u>6,131</u>
	<u>182,375</u>
29. OTHER INCOME	
Gain on sale of property, equipment and others	1,391
Advisory services	300
Gain on re-measurement of held for trading investments	7,245
Amortisation of negative goodwill	3,619
Sales load	187
Others - note 29.1	<u>7,118</u>
	<u>19,860</u>
29.1 It includes reversal of provision by MBL amounting to Rs 5 million for the proposed small business support fund.	
	2003 (Rupees in '000)
30. ADMINISTRATIVE EXPENSES	
Salaries, allowances, etc.	111,792
Charge for defined benefit plan – note 36.3	2,889
Contribution to defined contribution plan	4,126
Directors' fees, allowances and other expenses	9,596
Rent, taxes, insurance, electricity, etc.	34,591
Legal and professional charges	7,051
Communication	13,510
Repairs and maintenance	3,041
Stationery and printing	6,992
Advertisement and publicity	13,069
Auditors' remuneration – note 30.1	2,547
Depreciation – note 13.2	19,349
Amortisation – note 13.3	592
Travelling	4,015
Entertainment	1,262
Local transportation and car running	4,716
Security charges	2,356
Office supplies	966
Service charges – note 37.2	14,448
Brokerage and commission	2,451
Hardware and software maintenance	1,986
Transfer agency fees	104
Others	<u>4,186</u>
	<u>265,635</u>



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	Note	2003 (Rupees in '000)
30.1 Auditors' remuneration:		
Holding company		
Audit fee		750
Fee for audit of employees' funds		75
Special certifications and sundry advisory services		1,518
Tax services		89
Out of pocket expenses		95
		2,527
Subsidiary company		
Audit fee		20
		2,547
31. OTHER CHARGES		
Penalty imposed by the SBP		20
32. TAXATION		
Current year		
- Group		9,088
- Associates	9.7	1,537
		10,625
Deferred		
- Group		21,220
- Associates	9.7	(21)
		21,199
		31,824
32.1		The provision for current taxation of MBL for the year ended December 31, 2003 has been made on the basis of presumptive tax.
33. BASIC EARNINGS PER SHARE		
Profit for the year (Rupees in '000)		230,062
Weighted average number of ordinary shares		106,404,514
Basic earnings per share (Rupees)		2.16
33.1		There were no convertible dilutive potential ordinary shares outstanding on December 31, 2003.

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	2003 (Rupees in '000)
34. CASH AND CASH EQUIVALENTS	
Cash and balances with treasury banks	1,042,311
Balances with other banks	685,586
	1,727,897
35. STAFF STRENGTH	
Total number of employees at the end of the year	245
36. DEFINED BENEFIT PLAN	
36.1 Principal actuarial assumptions	
Discount rate	7% p.a.
Expected rate of increase in salaries	7% p.a.
Expected rate of return on investments	7% p.a.
Normal retirement age	60 years
36.2 Reconciliation of payable to defined benefit plan	2003 (Rupees in '000)
Present value of defined benefit obligations	7,332
Fair value of plan assets - note 36.6	(1,931)
Net actuarial losses not recognised	(2,512)
	2,889
36.3 Movement in payable to defined benefit plan	
Opening balance	1,113
Charge for the year	2,889
Contribution made during the year	(1,113)
Closing balance	2,889
36.4 Charge for defined benefit plan	
Current service cost	2,450
Interest cost	354
Expected return on plan assets	(63)
Actuarial losses	148
	2,889



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36.5 Actual return on plan assets 315

36.6 It includes a balance of Rs 1.636 million kept in a savings account with MBL.

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

The amounts charged in these consolidated financial statements are as follows:

	2003		
	President and Chief Executive	Directors	Executives
	Rupees in '000		
Fees	899	* 8,697	-
Managerial remuneration	7,931	10,568	25,494
Charge for defined benefit plan	-	440	1,308
Contribution to defined contribution plan	-	528	1,523
House rent	-	-	85
Utilities	-	528	1,675
Medical	113	332	1,575
Conveyance	233	-	-
Others	56	515	1,953
	<u>9,232</u>	<u>21,608</u>	<u>33,613</u>
Number of persons	<u>1</u>	<u>12</u>	<u>18</u>

* This represents amounts charged in these consolidated financial statements as fees to eleven non-executive directors of MBL.

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

37.2 In addition to the above service charges (note 30) include 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.



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38. MATURITIES OF ASSETS AND LIABILITIES

	2003				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	Rupees in '000				
Assets					
Cash and balances					
with treasury banks	1,042,311	1,042,311	-	-	-
Balances with other banks	685,586	585,586	100,000	-	-
Investments	1,292,461	1,202,522	-	32,542	57,397
Financings	7,397,479	4,142,603	2,148,133	1,076,374	30,369
Other assets	701,389	698,719	-	-	2,670
Negative goodwill	(11,459)	-	-	(11,459)	-
Operating fixed assets	79,850	-	-	-	79,850
	<u>11,187,617</u>	<u>7,671,741</u>	<u>2,248,133</u>	<u>1,097,457</u>	<u>170,286</u>
Liabilities					
Bills payable	169,062	169,062	-	-	-
Due to financial institutions	988,964	526,964	462,000	-	-
Deposits and other accounts – note 34.1	7,748,367	5,220,468	708,505	1,819,394	-
Liability against an asset subject to a finance lease	131	-	131	-	-
Other liabilities	436,109	178,103	31,982	226,024	-
Deferred taxation	9,151	-	-	9,151	-
	<u>9,351,784</u>	<u>6,094,597</u>	<u>1,202,618</u>	<u>2,054,569</u>	<u>-</u>
Net assets	<u>1,835,833</u>	<u>1,577,144</u>	<u>1,045,515</u>	<u>(957,112)</u>	<u>170,286</u>
Share capital	1,064,045				
Capital reserves	351,444				
Revenue reserves	270,086				
Surplus on revaluation of investments	7,510				
Surplus on revaluation of investments	90,476				
Minority interest	52,272				
	<u>1,835,833</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.



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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	2003				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				
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	-	1,042,311	-	-	-	-	1,042,311
Balances with other banks	2.14	685,586	499,053	100,000	-	-	86,533
Investments	5.20	1,292,461	-	-	32,542	57,397	1,202,522
Financings	5.23	7,397,479	4,650,621	2,226,362	475,789	5,000	39,707
Other assets	-	486,532	-	-	-	-	486,532
		10,904,369	5,149,674	2,326,362	508,331	62,397	2,857,605
Liabilities							
Bills payable	-	169,062	-	-	-	-	169,062
Due to financial institutions	1.50	988,964	526,964	462,000	-	-	-
Deposits and other accounts	2.49	7,748,367	4,607,156	708,505	1,819,394	-	613,312
Liability against an asset subject to a finance lease	17	131	-	131	-	-	-
Other liabilities	-	233,181	-	-	-	-	233,181
		9,139,705	5,134,120	1,170,636	1,819,394	-	1,015,555
On-balance sheet gap		1,764,664	15,554	1,155,726	(1,311,063)	62,397	1,842,050
Non-financial assets		283,248					
Non-financial liability		(212,079)					
Total net assets		1,835,833					
Off-balance sheet financial instruments							
Forward lendings		-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-
Total yield / profit risk sensitivity gap			15,554	1,155,726	(1,311,063)	62,397	
Cummulative yield/profit risk sensitivity gap			15,554	1,171,280	(139,783)	(77,386)	

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.

40. CURRENCY RISK

	2003			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	9,874,417	8,359,200	(204,061)	1,311,156
United States dollars	970,623	752,307	176,004	394,320
Great Britain pounds	12,395	7,608	3,695	8,482
Japanese yen	1,389	-	-	1,389
Euro	45,259	20,590	24,362	49,031
Singapore dollars	3	-	-	3
Swiss francs	283	-	-	283
	10,904,369	9,139,705	-	1,764,664

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 is based on quoted market prices. Fair value of unquoted equity investments is determined on the basis of break-up value of those investments based on the latest available financial statements.

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 MBL's accounting policy as stated in note 6.3. 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.



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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.

42.1 Segment by class of business

	2003					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	413,799	5.59%	114,729	1.48%	1,334,566	11.28%
Agribusiness	5,964	0.08%	-	-	-	-
Textile	3,386,295	45.78%	97,847	1.26%	3,426,499	28.96%
Cement	13,362	0.18%	455	0.01%	62,587	0.53%
Sugar	486,997	6.58%	10,140	0.13%	211,864	1.79%
Shoes and leather garments	440,969	5.96%	23,666	0.31%	418,542	3.54%
Automobile and transportation equipment	305,266	4.13%	54,842	0.71%	749,489	6.33%
Financial	195,800	2.65%	466,684	6.02%	2,073,256	17.52%
Insurance	-	-	4,752	0.06%	-	-
Electronics and electrical appliances	175,584	2.37%	4,623	0.06%	502,232	4.24%
Production and transmission of energy	95,700	1.29%	25,218	0.33%	254,300	2.15%
Individuals	562,378	7.61%	4,688,883	60.51%	160,479	1.36%
Others	1,315,365	17.78%	2,256,528	29.12%	2,638,460	22.30%
	<u>7,397,479</u>	<u>100%</u>	<u>7,748,367</u>	<u>100%</u>	<u>11,832,274</u>	<u>100%</u>

42.2 Segment by sector

	2003					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	-	-	-	-
Private	7,397,479	100%	7,748,367	100%	11,832,274	100%
	<u>7,397,479</u>	<u>100%</u>	<u>7,748,367</u>	<u>100%</u>	<u>11,832,274</u>	<u>100%</u>

43. GEOGRAPHICAL SEGMENT ANALYSIS

	2003			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	274,131	11,187,617	1,835,833	11,832,274
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>274,131</u>	<u>11,187,617</u>	<u>1,835,833</u>	<u>11,832,274</u>

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, director 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 services charges relating to secondment are on actual basis. Transactions with related parties are executed on commercial terms.



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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 [formerly Al-Meezan Education and Development (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
- Meezan Islamic Fund

44.4 Key management personnel:

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

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:

	2003 (Rupees in '000)
Bank balance	188,549
Murabaha financing outstanding	100,000
Murabaha financing disbursed during the year	150,000
Profit receivable on murabaha financing	181
Advisory services income from a related party	300
Deposits and other accounts maintained with the Bank	432,740
Service charges payable by the Bank	208
Acceptances	25,351
Letter of credit (unfunded)	31,518
Profit earned on murabaha financing	854
Profit earned on a bank account	12,472
Return on deposits expensed	3,684
Remuneration earned	14,996
Dividend income earned	7,580
Service charges incurred	14,068
Dividend paid	30,431
Transactions with retirement benefits funds	See notes 18, 30 and 36
Remuneration to directors and key management personnel	See note 37



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45. ACQUISITION

During the year 2003 MBL acquired a further 40% of the share capital of AMIML which has increased the Group's holding to 70%.

The acquired subsidiary contributed revenues of Rs. 41.656 million and operating profit of Rs. 31.520 million including share of minority interest amounting to Rs 12.245 million to the Group during the period July 1 to December 31, 2003 and its assets and liabilities as at December 31, 2003 were Rs. 189.019 million and Rs. 14.780 million respectively.

The negative goodwill arising on acquisition of the subsidiary as at June 30, 2003 is as follows:

	(Rupees in '000)
Total purchase consideration paid in cash	49,900
Less: Fair value of net assets acquired	66,092
Negative goodwill	<u>(16,192)</u>

As at June 30, 2003 the holding company has subscribed to right issues amounting to Rs 18 million for acquiring 180,000 ordinary shares of Rs 100 each in the subsidiary.

46. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on March 4, 2004 by the Board of Directors of MBL.

Chairman

President and CEO

Director

Director



PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2003

Number of Shareholders	Having shares		Shares held	Percentage
	From	To		
62	1	100	2,267	0.0021
73	101	500	25,208	0.0237
180	501	1,000	139,403	0.1310
187	1,001	5,000	511,482	0.4807
57	5,001	10,000	445,960	0.4191
24	10,001	15,000	293,294	0.2756
11	15,001	20,000	207,437	0.1950
10	20,001	25,000	232,867	0.2189
7	25,001	30,000	197,288	0.1854
3	30,001	35,000	95,990	0.0902
7	35,001	40,000	267,445	0.2513
3	40,001	45,000	126,820	0.1192
5	45,001	50,000	245,258	0.2305
6	50,001	55,000	306,318	0.2879
5	55,001	60,000	289,148	0.2717
2	60,001	65,000	130,000	0.1222
2	70,001	75,000	146,151	0.1374
4	75,001	80,000	315,903	0.2969
2	80,001	85,000	165,551	0.1556
1	90,001	95,000	92,329	0.0868
3	95,001	100,000	298,500	0.2805
1	100,001	105,000	102,500	0.0963
1	105,001	110,000	106,624	0.1002
1	115,001	120,000	119,500	0.1123
1	120,001	125,000	125,000	0.1175
1	135,001	140,000	135,761	0.1276
1	145,001	150,000	150,000	0.1410
1	150,001	155,000	152,500	0.1433
1	155,001	160,000	155,030	0.1457
1	165,001	170,000	167,023	0.1570
1	175,001	180,000	177,998	0.1673
1	185,001	190,000	187,000	0.1757
6	195,001	200,000	1,200,000	1.1278
1	210,001	215,000	212,437	0.1997
1	245,001	250,000	250,000	0.2350
1	250,001	255,000	250,356	0.2353
1	330,001	335,000	333,500	0.3134
1	340,001	345,000	344,274	0.3236
1	365,001	370,000	367,517	0.3454
1	455,001	460,000	455,774	0.4283



PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2003

Number of Shareholders	Having shares		Shares held	Percentage
	From	To		
1	465,001	470,000	469,000	0.4408
2	605,001	610,000	1,212,386	1.1394
1	795,001	800,000	800,000	0.7518
1	895,001	900,000	900,000	0.8458
1	1,145,001	1,150,000	1,146,240	1.0772
2	910,001	915,000	1,823,098	1.7134
1	1,045,001	1,050,000	1,048,119	0.9850
1	1,615,001	1,620,000	1,615,029	1.5178
1	2,560,001	2,565,000	2,561,033	2.4069
1	4,930,001	4,935,000	4,933,718	4.6368
1	8,815,001	8,820,000	8,818,750	8.2879
1	9,920,001	9,925,000	9,921,093	9.3239
1	27,555,001	27,560,000	27,558,593	25.8998
1	34,070,001	34,075,000	34,070,042	32.0194
694			106,404,514	100.0000

CATEGORIES OF SHAREHOLDERS AS AT DECEMBER 31, 2003

Particulars	Number of		
	Shareholders	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	7	4,514,437	4.2427
Associated companies, undertakings and related parties	2	34,090,946	32.0390
Banks, Development Financial Institutions and Non Banking Financial Institutions	9	7,977,872	7.4977
Insurance Companies	3	546,297	0.5134
Modaraba and Mutual Funds	3	387,593	0.3643
General Public			
Local	616	6,299,017	5.9199
Foreign	16	2,031,586	1.9093
Others	38	50,556,766	47.5137
Total	694	106,404,514	100.0000



PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2003

Additional information

Particulars	Number of Shareholders	Shares held	Percentage
Associated companies & shareholders with more than 10% shareholding			
Pakistan Kuwait Investment Company (Private) Ltd.	1	34,070,042	32.0194
Shamil Bank of Bahrain	1	27,558,593	25.8998
Al-Meezan Investment Management Ltd.	1	20,904	0.0196
Chairman			
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	1	1	0.0000
NIT & ICP			
National Bank of Pakistan, Trustee Department	1	120	0.0001
Investment Corporation of Pakistan	1	150,000	0.1410
Directors, Chief Executive Officer, and their spouse and minor children			
Mr. Naser Abdul Mohsen Al-Marri	1	1	0.0000
Mr. Zaigham Mahmood Rizvi	1	606,612	0.5701
Mrs. Talat Rizvi W/o Mr. Zaigham Mahmood Rizvi	1	550	0.0005
Mr. Rana Ahmad Humayun	1	200,000	0.1880
Mr. Irfan Siddiqui	1	2,561,033	2.4069
Mr. Ariful Islam	1	1,146,240	1.0772
Executives	13	1,521,507	1.4299
Public Sector Companies, Corporations, Banks, DFTs, NBFIs, Insurance Companies, Modaraba, Mutual Funds and other Organizations	50	31,759,815	29.8482
General Public	619	6,809,096	6.3993
	694	106,404,514	100.0000



CORRESPONDENT BANKING NETWORK

COUNTRY	BANK
Argentina	Fleet National Bank
Australia	ABN AMRO Bank N.V. Commonwealth Bank of Australia HSBC Bank
Austria	Bank Austria Creditanstalt AG Société Générale
Bahrain	ABC Islamic Bank (E.C.) Citibank NA Gulf International Bank B.S.C. Shamil Bank of Bahrain
Bangladesh	Standard Chartered Bank
Belgium	Commerz Bank
Brazil	Fleet National Bank Société Générale
Canada	HSBC Bank Royal Bank of Canada Société Générale
Chile	Banco Santander Central Hispano S.A. Fleet National Bank
China	ABN AMRO Bank N.V. Agricultural Bank of China, The Bank of Communications Citibank NA HSBC Bank Société Générale Standard Chartered Bank
Czech Republic	Commerz Bank
Denmark	Nordea Bank Sweden AB (publ)
Egypt	Egyptian Saudi Finance Bank
Estonia	Nordea Bank Sweden AB (publ)
Finland	Nordea Bank Sweden AB (publ)
France	Société Générale U.B.A.F.
Germany	Bayerische Hypo-und Vereinsbank AG Commerz Bank Nordea Bank Sweden AB (publ)
Greece	Société Générale
Hong Kong	Citibank NA Commonwealth Bank of Australia HSBC Bank Société Générale Standard Chartered Bank U.B.A.F.
Hungary	Commerz Bank
India	Standard Chartered Bank
Indonesia	HSBC Bank Standard Chartered Bank



CORRESPONDENT BANKING NETWORK

COUNTRY	BANK
Italy	HSBC Bank Société Générale
Japan	ABN AMRO Bank N.V. Citibank NA HSBC Bank Société Générale Standard Chartered Bank Sumitomo Mitsui Banking Corporation, The U.B.A.F.
Kenya	Habib Bank AG Zurich Kenya Commercial Bank Limited
Korea	ABN AMRO Bank N.V. Korea Exchange Bank Société Générale Standard Chartered Bank U.B.A.F. Woori Bank
Kuwait	Kuwait Finance House National Bank of Kuwait
Latvia	Nordea Bank Sweden AB (publ)
Lithuania	Nordea Bank Sweden AB (publ)
Luxembourg	Banque de Commerce et de Placements Commerz Bank Nordea Bank Sweden AB (publ) Société Générale
Malaysia	HSBC Bank Standard Chartered Bank
Mexico	Fleet National Bank
Morocco	Société Générale
Netherlands	ABN AMRO Bank N.V. Commerz Bank Société Générale
New Zealand	Bank of New Zealand
Norway	Nordea Bank Sweden AB (publ)
Poland	Nordea Bank Sweden AB (publ) Société Générale
Russian Federation	Bank for Foreign Trade
Saudi Arabia	National Commercial Bank Saudi Hollandi Bank
Singapore	Citibank NA Commonwealth Bank of Australia HSBC Bank Société Générale Standard Chartered Bank U.B.A.F.



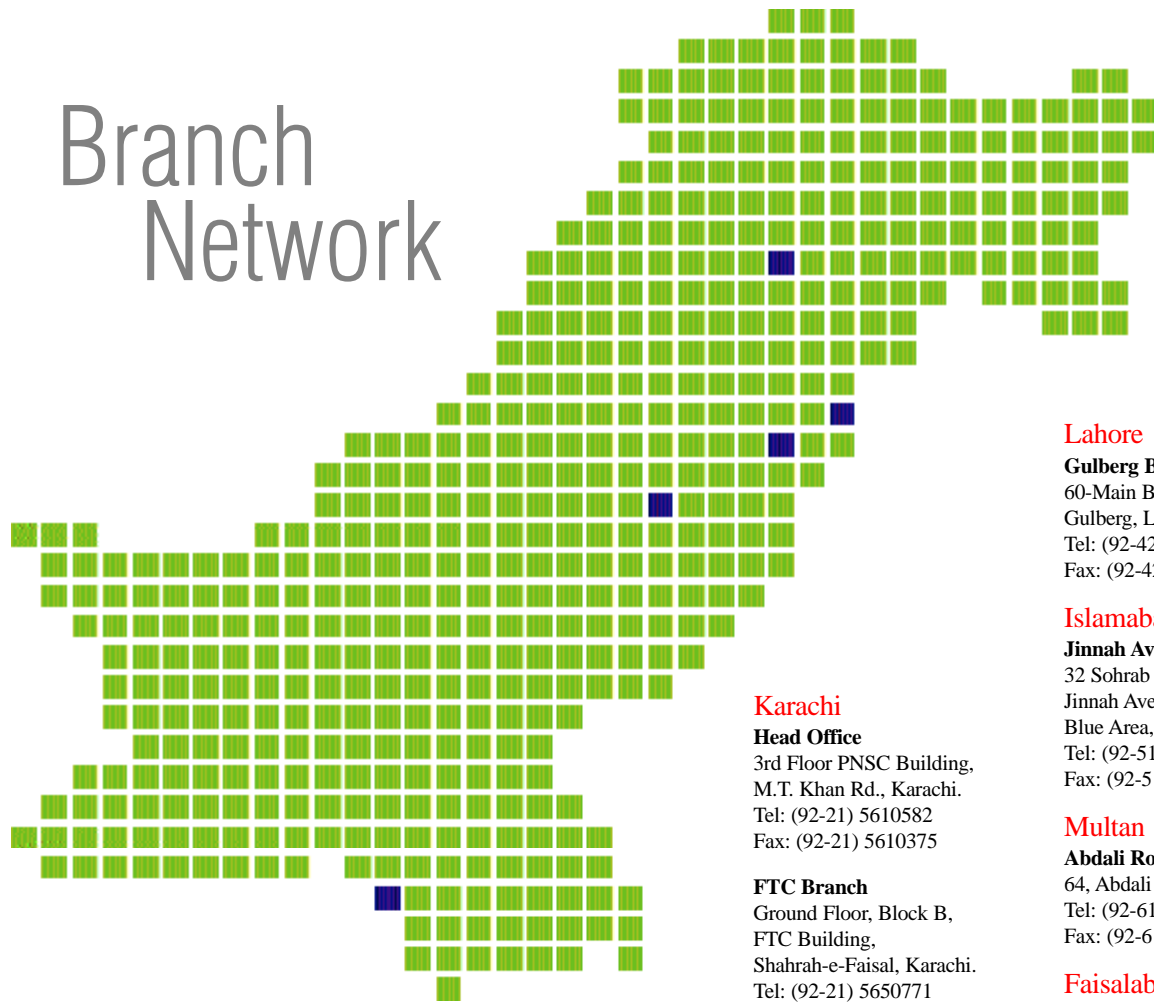
CORRESPONDENT BANKING NETWORK

COUNTRY	BANK
Slovenia	SKB Bank D.D.
South Africa	ABSA Bank Limited Citibank NA Habib Bank AG Zurich Société Générale
Spain	Banco Santander Central Hispano S.A. Commerz Bank HSBC Bank
Sri Lanka	Standard Chartered Bank
Sweden	Nordea Bank Sweden AB (publ)
Switzerland	Banque de Commerce et de Placements Habib Bank AG Zurich HSBC Bank Société Générale
Taiwan	Société Générale Standard Chartered Bank
Thailand	HSBC Bank Standard Chartered Bank Standard Chartered Nakornthon Bank Public Company Limited
Turkey	Al Baraka Turkish Finance House Citibank NA HSBC Bank Société Générale Türk Diş Ticaret Bankasi AŞ Türkiye Garanti Bankasi AS
UAE	Abu Dhabi Islamic Bank Habib Bank AG Zurich HSBC Bank Mashreq Bank Standard Chartered Bank
UK	Commonwealth Bank of Australia Habib Bank AG Zurich HSBC Bank Standard Chartered Bank
USA	ABN AMRO Bank N.V. 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 Wachovia Bank, NA
Vietnam	Vietnam Bank for Agriculture



PROXY FORM

Branch Network



Lahore

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

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

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

Karachi

Head Office
3rd Floor PNSC Building,
M.T. Khan Rd., 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 Hotel Branch

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

Gulshan-e-Iqbal Branch

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

Jodia Bazar Branch

H-91 A, Darya Lal Street,
Jodia Bazar, Karachi.
Tel: (92-21) 2473326-9
Fax: (92-21) 2473277

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

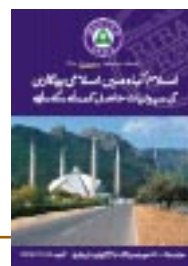
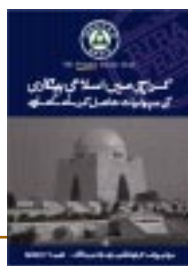
I/We _____
of _____ a member(s) of Meezan Bank Limited and holder of
_____ shares as per Registered
Folio No. _____ do hereby
appoint _____
of _____ or failing him/her
of _____ who is/are also a member(s) of the Company vide
us and on my/our behalf at the 8th Annual General Meeting of Meezan Bank Limited to be held on
Tuesday, March 30, 2004 at Beach Luxury Hotel, M.T. Khan Road, Karachi, and at any adjournment
thereof.

As witness my/our hand/seal this _____ day of _____ 2004

Affix
Correct
Postage

Signed by said member

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.