



The photograph shows star trails. Using a photography technique which employs long exposure times, the light trails that are created in the sky because of the rotation of the earth have been captured.



Stars, the hot luminous celestial bodies that punctuate the landscape of our night sky have fascinated man since the beginning of time. The 100 billion stars in the Milky Way galaxy have been intimately woven into the fabric of human artistic, literary and religious beliefs. As man understood the celestial constellations, stars were used for the accurate determination of time and direction. Since our planet is essentially a sphere, at every instant, each star in the sky is precisely overhead some observer on Earth. As the Earth rotates, stars follow imaginary lines drawn on the Earth's surface, much like the lines of Latitude and Longitude. When given stars have a specified geometrical relation to the meridian of Greenwich in England, a new sidereal, or stellar, day begins. The method of navigation using stars, the moon and planets as points of reference is attributed to Persians and Arabs, amongst others. The Arabs are generally accepted as the last known "star namers" of note. It is this history of navigation and time keeping using celestial bodies, and the religious symbolic importance of the star in Islam that forms the basis of the inspiration for our annual report concept this year.

As the pioneers of Islamic Banking in Pakistan, Meezan Bank is proud to be setting the direction and standards of Islamic banking in the country and paving the way for all others to follow.

## **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 enterprises and performances.



Meezan Bank

**RIBA  
FREE**

The Premier Islamic Bank

# Key Corporate Values

## Core Values

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

## Brand Personality

A sober and established, strong, empathic, 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 empathic 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 and timely service. The Meezan Bank experience is a unique one.

# Riba-free Banking Objectives

To provide Shariah-compliant products and services as a feasible and valuable alternative to conventional interest based finance.

To continue exploring, developing and delivering new products and services that fulfill all banking needs of the Pakistani market.

To achieve sustainable growth, maximum market share, and high profitability in all areas of banking and other affiliated Islamic financial services.

To maintain absolute world class service excellence, with a dedicated focus on value and recognition for our customers.

To build and sustain a high performance culture in accordance with Islamic values and Shariah principles.

To continuously foster an enabling and positive corporate environment, where all our employees have shared values, common goals and are motivated in maximizing their contribution towards the cause of Riba-free Banking.

To effectively manage and mitigate all kinds of risks involved in the Islamic Banking business.

To maximize use of state of the art technology to ensure cost effective operations, efficient management information systems, enhanced delivery capability and high service quality.

To effectively manage Meezan Bank's portfolio of businesses to achieve strong and sustainable return to our depositors and shareholders.

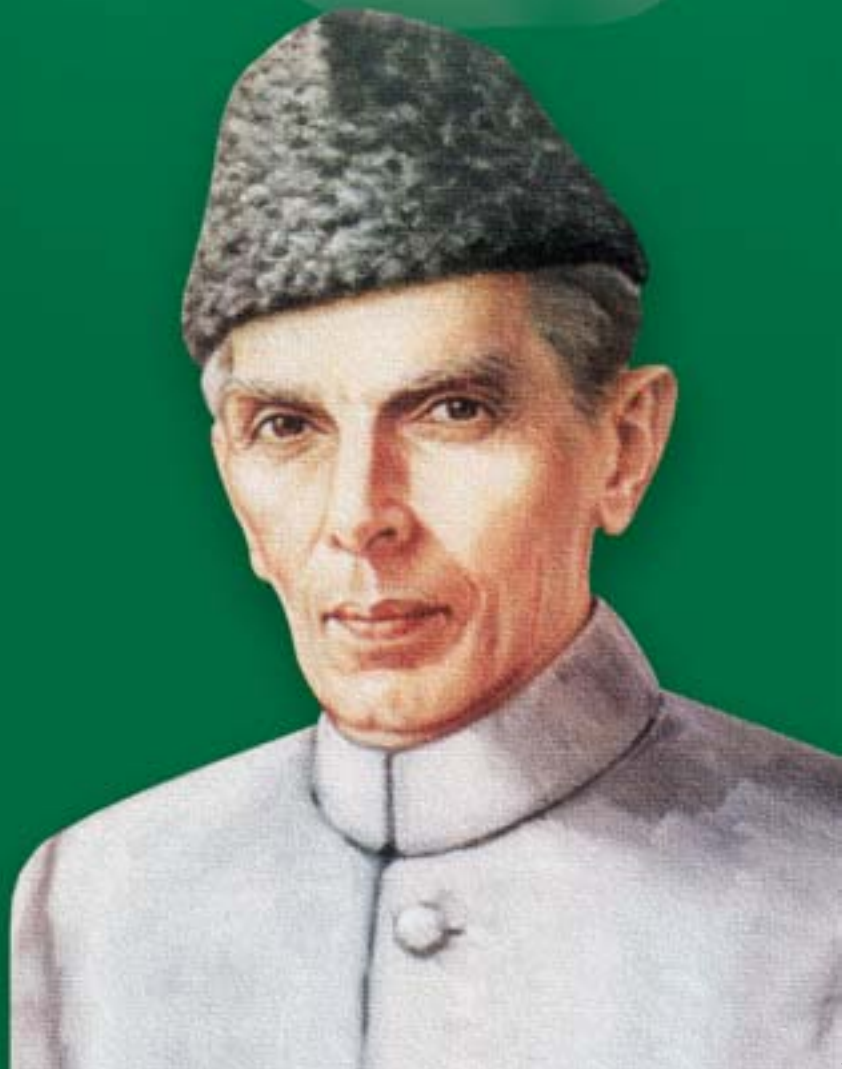
# Quaid's Concept of Islamic Banking

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

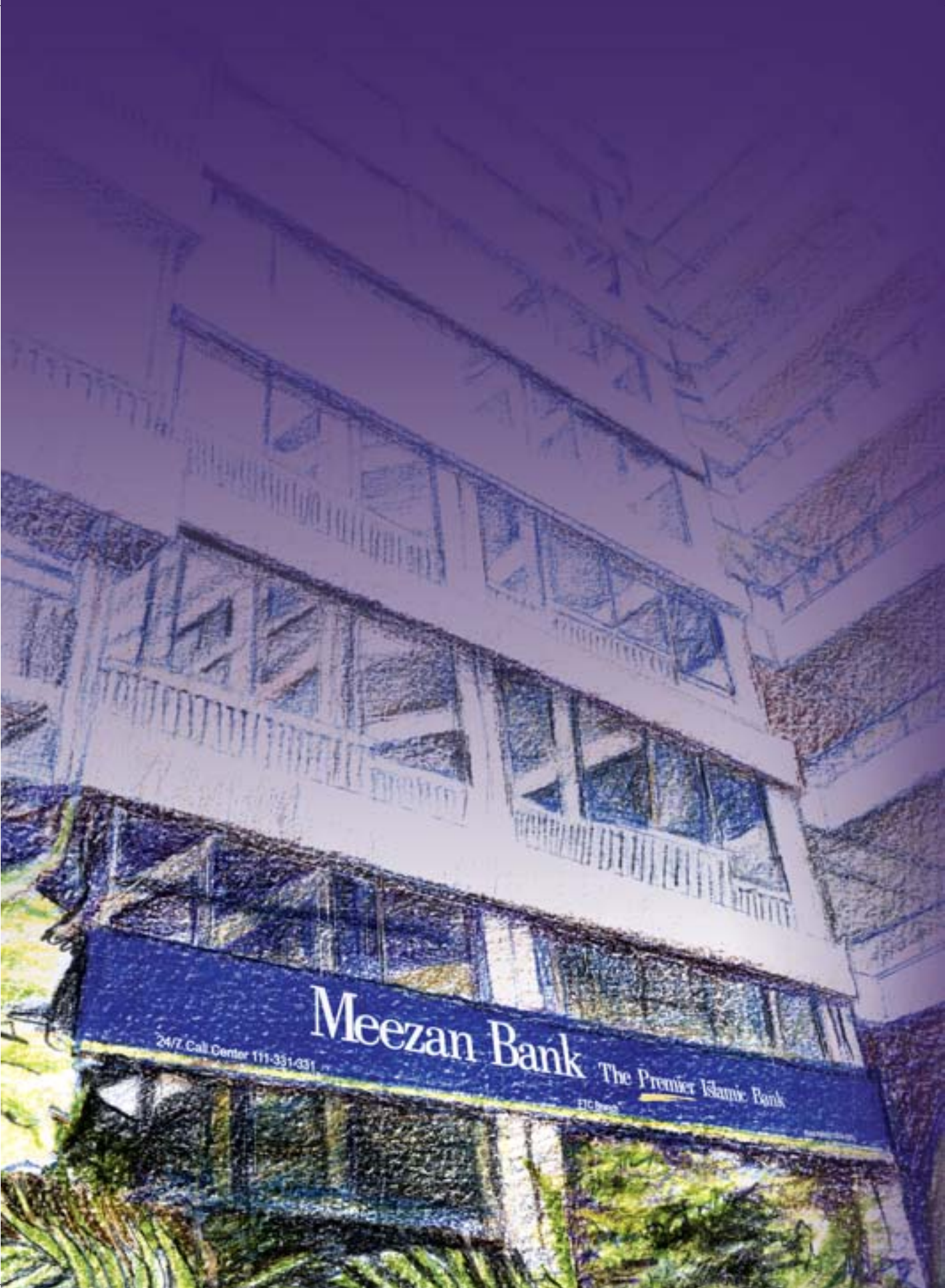
We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save it and secure the welfare,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

(On the occasion of the Opening Ceremony of  
The State Bank of Pakistan on July 1st, 1948.)

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







# Meezan Bank

The Premier Islamic Bank

24/7 Call Center 111-331-331

FCI Bank

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# Key Figures at a Glance

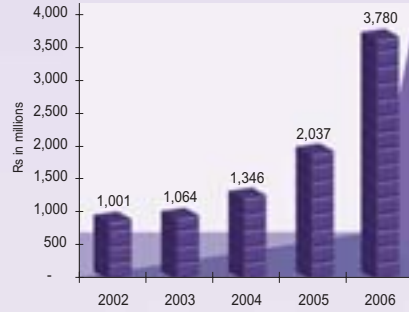
	2006	2005	2004
<b>Profit and Loss Account</b>			
Total return on financings, investments and placements	2,704	1,459	534
Total return to depositors	1,464	690	250
<b>Net Spread</b>	1,240	769	284
Fee, Commission, Brokerage and Exchange Income	418	253	128
<b>Core Banking Income</b>	1,658	1,022	412
Provisions	(123)	(39)	(19)
Other income	273	369	238
Operating expenditure	(1,028)	(719)	(409)
<b>Profit before tax</b>	780	633	221
Taxation	(176)	(214)	3
<b>Profit after tax</b>	604	419	224
<b>Balance Sheet</b>			
Total Financings Portfolio	27,031	19,741	12,340
Total Assets	46,439	30,676	19,697
Total Deposits	34,449	22,769	13,770
Share Capital	3,780	2,037	1,346
Total Shareholders Fund	4,763	3,025	2,098
Market Capitalization	7,465	4,736	2,247
Number of staff	1,389	786	511
Number of branches	62	28	16
<b>Ratio</b>			
Break up Value (Rs.)	12.60	14.85	15.59
Market Value per Share (Rs.)	19.75	23.25	16.70
Cash dividend (%)	-	-	-
Stock dividend (%)	10.00	16.00	15.00
Right shares at par (%)	50.00	20.00	30.00
Price earning ratio	10.51	15.92	10.02
Earning per Share (Rs.)	1.88	**1.46	1.67
Net Spread	45.86	52.69	53.15
Net profit before tax (%)	22.98	30.42	24.56
Net Profit after tax (%)	17.80	20.15	24.94
Operating Expense to income (%)	73.40	67.71	73.36
Financing to deposit ratio-ADR (%)	65.68	73.86	69.97
Capital Adequacy ratio	12.80	10.67	10.00
Return on average assets (%)	1.57	1.67	1.46
Return on average equity (%)	15.64	16.70	12.16

\* Profitability for 18 months ended December 31, 2001

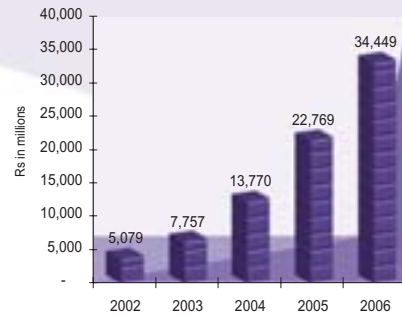
\*\*Restated

Rupees in millions		
2003	2002	2001*
376	311	210
182	192	71
193	120	139
59	78	423
252	197	562
16	60	5
228	210	(69)
(255)	(198)	(136)
241	270	362
(27)	(47)	(50)
214	223	312
7,397	3,532	860
11,102	6,971	2,053
7,757	5,079	637
1,064	1,001	901
1,748	1,586	1,203
1,649	1,151	-
238	159	30
10	6	1
16.43	15.84	13.35
15.50	11.50	-
5.00	5.00	17.50
10.00	10.00	-
-	-	-
7.71	5.16	-
2.01	2.32	3.46
51.45	38.41	66.28
36.33	45.15	64.16
32.26	37.24	55.30
66.05	64.98	36.76
82.61	69.22	134.96
15.62	22.99	-
2.37	4.95	14.74
13.74	16.66	29.98

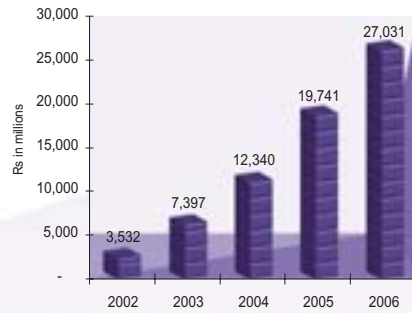
Share Capital



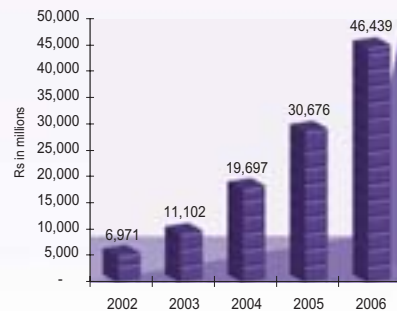
Total Deposits



Financings Portfolio



Total Assets



# Corporate Information

## Board of Directors

H.E. Sheikh Ebrahim Bin Khalifa Al-Khalifa  
Naser Abdul Mohsen Al-Marri  
Irfan Siddiqui  
Istaqbal Mehdi  
Mohamed Abdul-Rehman Hussain  
Nawid Ahsan  
Ariful Islam  
Rana Ahmed Humayun  
Mohammed Azzarog Rajab  
Ahmed Abdul Rahim Mohamed

Chairman  
Vice Chairman  
President & CEO

## Shariah Board

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

Chairman

## Executive Committee

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

## Audit Committee

Istaqbal Mehdi  
Rana Ahmed Humayun  
Ahmed Abdul Rahim Mohamed

## Risk Management Committee

Mohamed Abdul-Rehman Hussain  
Rana Ahmed Humayun  
Ariful Islam

## Human Resources Committee

Ahmed Abdul Rahim Mohamed  
Naser Abdul Mohsen Al-Marri  
Irfan Siddiqui

## Company Secretary

Shabbir Hamza Khandwala

## Management

Irfan Siddiqui  
Ariful Islam  
Najmul Hassan  
Mohammad Shoaib Qureshi  
Shabbir Hamza Khandwala  
Abdul Ghaffar Memon  
Rizwan Ata  
Saleem Khan  
Arshad Majeed  
Muhammad Haris  
Sohail Khan  
Mehnaz Ikram  
Faiz-ur-Rehman  
Munawar Rizvi  
Zafar Ali Khan  
Muhammad Abdullah Ahmed  
Saleem Wafai  
Zia-ul-Hasan  
Mohammad Raza  
Ahmed Ali Siddiqui  
Omer Salimullah  
Javed Ahmed Shaikh  
Syed Amir Ali

President & CEO  
Chief Operating Officer  
GM-Corporate & Business Development  
GM-Commercial Banking  
Chief Financial Officer  
Regional Manager - South  
Regional Manager - Central  
Regional Manager – North  
Operations  
Corporate & Structured Finance  
Human Resources & Administration  
Legal  
Information Technology  
Branch Expansion & Business Promotion  
Consumer Finance  
Treasury & Financial Institutions  
Compliance  
Internal Audit  
Liability Products & Service Quality  
Product Development & Shariah Compliance  
Alternate Distribution Channels  
Risk Management  
Investment Banking

## Shariah Advisor

Dr. Muhammad Imran Usmani

## Legal Advisor

Rizvi, Isa, Afridi & Angell

## Auditors

A.F. Ferguson & Co.

## Registered Office

3rd Floor, PNSC Building, M.T.Khan Road, Karachi-74000, Pakistan  
Ph : (9221)5610582, Fax: (9221)5610375,  
24/7 Call Centre 111-331-331 E-mail: info@meezanbank.com

## Website

www.meezanbank.com

## Shares Registrar

THK Associates (Pvt.) Ltd.  
State Life Building –3, Dr. Ziauddin Ahmed Road,  
Karachi-75530, Pakistan. Ph: (9221)5689021

# Meezan Team

Meezan Bank is managed by a team of professional bankers committed to the cause of Islamic Banking. This single unifying factor unleashes the tremendous power of a dedicated and motivated team committed to fulfilling the Vision and Mission of this Bank.

The business segments of the Bank are:

**Corporate and Investment Banking**

**Commercial and SME**

**Consumer Finance**

**Treasury & Financial Institutions**

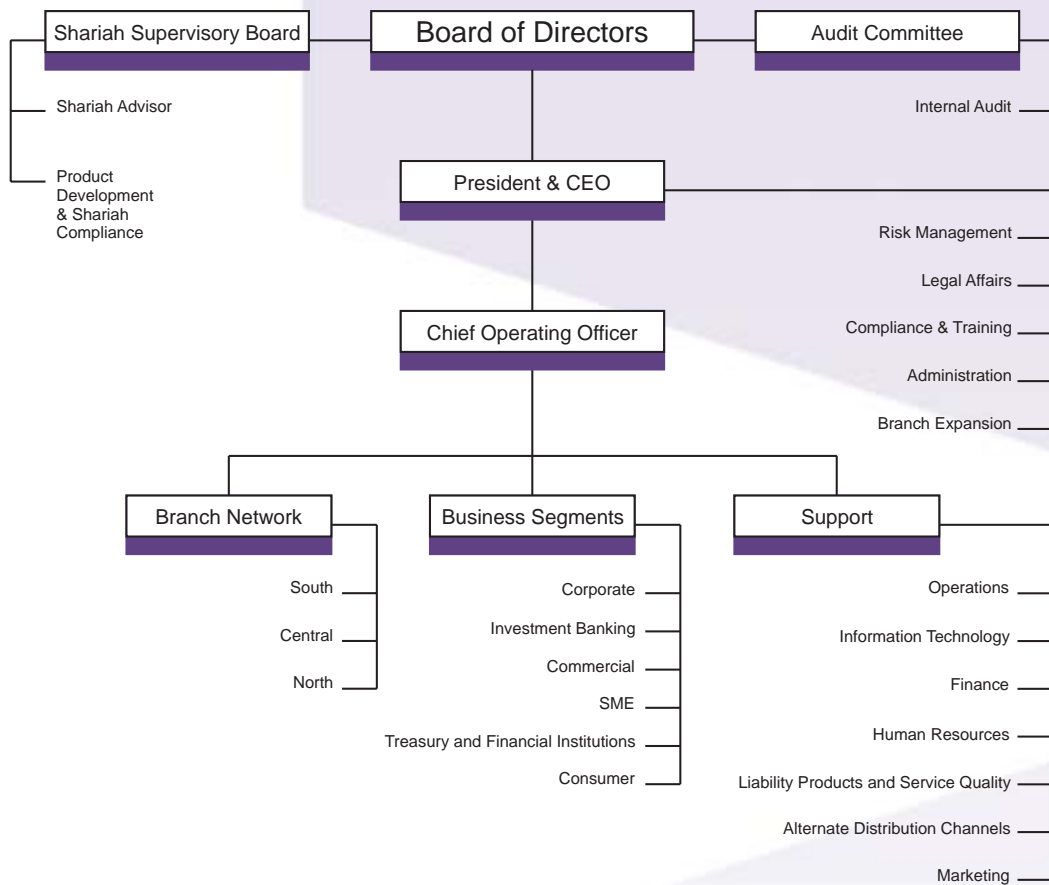
**Asset Management**

The Asset Management business is managed through a subsidiary Al Meezan Investment Management Limited.

The Retail Bank is organized in three Regions across Pakistan, namely South Region which has 25 branches, Central Region with 25 branches and North Region with 12 branches.

An overview of the organization structure is shown on the next page.





### Composition of Significant Management Committees





# History of Riba-Free Banking in Pakistan

## **1947**

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

## **1980**

Council of Islamic Ideology (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 transformed their nomenclature stating all Rupee saving accounts as interest-free. However, foreign currency deposits in Pakistan and 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 with a mandate to pursue Islamic Banking. Mr.Irfan Siddiqui appointed as first and founding Chief Executive Officer.

## **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 up 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. State Bank of Pakistan 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. Societe Generale', a French commercial bank, operations in Pakistan are acquired by Meezan Bank and concurrently Al Meezan Investment Bank converts itself into a full fledged Islamic commercial bank. The new bank is renamed Meezan Bank and President General Pervez Musharraf inaugurates the Bank at a formal ceremony in Karachi.

## **2003**

A Musharaka-based Export Refinance Scheme is designed by the State Bank in coordination with Meezan Bank Limited, 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.

Pakistan's first Shariah compliant house mortgage facility is launched by Meezan Bank. The product enables home purchase, home construction, renovation, as well as replacement of any existing mortgage.

Al Meezan Investment Management Limited (AMIM), a group company of Meezan Bank, introduces Meezan Islamic Fund (MIF), the country's first open-end Islamic Fund.

## **2004**

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

The Government of Pakistan awards the mandate for debut of international Sukuk (Bond) offering for USD 500 million. The offering is a success and establishes a benchmark for Pakistan. Meezan Bank acts as the Shariah Structuring Advisor for this historic transaction.

Al Baraka Islamic Bank was issued the second Islamic Banking license by the State Bank of Pakistan.

Meezan Bank's asset management arm, Al Meezan Investment Management Limited (AMIM), launches the Meezan Balance Fund (MBF). The offering is over subscribed 1.25 times.

## **2005**

Meezan Bank launches the Meezan Islamic Institution Deposit Account (MIIDA), a unique product tailored exclusively for Islamic Financial Institutions (IFIs). The facility is the first of its kind in Pakistan, whereby Islamic Banks (including dedicated, as well as conventional Islamic windows) now have the opportunity to manage excess liquidity by maintaining a checking account with Meezan Bank specifically designed for this purpose.

Meezan Bank becomes the first customer of Islamic Insurance (Takaful) by signing the first Memorandum of Understanding MoU with Pak-Kuwait Takaful Company Limited (PKTCL). The signing of this MoU has ushered Pakistan into a new era of Islamic Insurance (Takaful).

## **2006**

A number of new dedicated Islamic Banks, namely Bank Islami and Dubai Islamic Bank, commence operations in Pakistan. Meezan continues its leadership position in the industry by more than doubling its branch network to a total of 62 branches in 21 cities, clearly establishing itself as the largest Islamic Bank of the country.

Meezan Bank, becomes the first Islamic bank to introduce 8 am to 8 pm banking at select branches in Karachi.



# Our Foundations

The five pointed star, our theme for this year's annual report, hints not only at the importance and significance of the five pillars of Islam, but also at our five key strengths that make Meezan Bank the Premier Islamic Bank.

These five key strengths form the foundations of our Riba - free banking cause. They are:

**Shariah Strength**

**Financial Backing**

**Comprehensive Business Solutions**

**Largest Branch Network**

**Service Quality**

# Shariah Strength



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

The members of the Shariah Board are:

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

**Justice (Retd.) Muhammad Taqi Usmani** is a renowned figure in the field of Shariah, particularly Islamic Finance. He holds the position of Deputy Chairman at the Islamic Fiqh Academy, Jeddah and Chairman of the Accounting and Auditing Organization for Islamic Financial Institutions. He is also a member of Shariah advisory boards of a number of financial institutions practicing Islamic Banking and Finance including Abu Dhabi Islamic Bank, Dubai Bank, European Islamic Investment Bank, Capitas Group, and Dow Jones Islamic Shariah. He has been teaching various subjects on Islam for 39 years. He is also serving as the Vice President of Darul-Uloom, Karachi. He also served as a Judge in the Shariat Appellate Bench, Supreme Court of Pakistan.

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

**Dr. Abdul Sattar Abu Ghuddah** holds positions of Shariah Advisor and Director, Department of Financial Instruments at Al-Baraka Investment Co. of Saudi Arabia. He holds a Ph. D in Islamic Law from Al Azhar University Cairo, Egypt. He is an active member of Islamic 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 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 a LLB, M. Phil, and Ph. D. in Islamic Finance and graduated as a scholar from Jamia Darul-Uloom, Karachi. He has done a specialization course in Islamic Jurisprudence as well. He is the Shariah Advisor for Meezan Bank, where he is also involved in training sessions for the Bank staff on Islamic Finance and Shariah issues. Dr. Usmani has been teaching several branches of Islamic learning since 1990 at Jamia Darul-Uloom, Karachi.

Dr. Usmani serves as an advisor/ Member of Shariah Boards of the State Bank of Pakistan, HSBC Amana Finance, Guidance Financial Group in the USA, Lloyds TSB Bank in the UK, Japan Bank for International Cooperation (JABIC), Credit Suisse in Switzerland, Future Growth Equity in South Africa and Capitas Group in the USA.

# Financial Backing



Shareholding Structure as at February 28, 2007	%	Rs. in millions
Pakistan Kuwait Investment Company (Pvt.) Limited	30	1,134
Shamil Bank of Bahrain B.S.C	26	979
Islamic Development Bank	9	352
Noor Financial Investment Company	16	588
Others	19	727
Paid up Capital	100	3,780

**Pakistan Kuwait Investment Company (Private) Limited (PKIC)**, a joint venture between the Governments of Pakistan and Kuwait, is one of the most profitable and respected financial institutions in Pakistan. It is commonly referred to as a leading example of a successful sovereign joint venture. PKIC has nurtured a diversified experience in foreign currency transactions, project finance and syndications in over 25 years of its operations in Pakistan. It is the first financial institution in Pakistan that 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** is a leading Islamic commercial and investment bank incorporated in the Kingdom of Bahrain. The Bank has grown steadily since 1982 to become a leading Islamic financial Institution with a shareholding equity of USD 342 million as at 30 September 2006. The bank provides a diverse range of products and services that cater to the financing and investment needs of individuals and institutions.

Shamil Bank operates a network of local branches and maintains a presence in overseas market through its subsidiary, associated and affiliated companies. The Bank is listed on the Bahrain Stock Exchange.

**Islamic Development Bank (IDB)** is located in Jeddah and 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. IDB has a capital base of approximately USD 5 billion and enjoys a presence in 53 member countries. The Bank participates in equity capital and grants loans for productive projects and enterprises besides providing financial assistances in other forms for economic and social development.

**Noor Financial Investment Company** is a Kuwaiti investment company, engaged in investment and financial activities primarily in Kuwait, the Middle East, Asia and other emerging markets. The company was established as the financing arm of the National Industries Group (NIG), which is one of the largest private sector industrial groups in Kuwait.

Noor provides a broad range of financial services, which include advisory services, underwriting, guarantee or counter guarantee services, term financing and syndications. The company actively invests in local capital markets and also diversifies its investments through international capital markets.





Comprehensive Business Solutions

Meezan Bank has one of the largest offering of Shariah driven products and services under one roof. The Bank has developed an extraordinary research and development capability by combining investment bankers, commercial bankers, Shariah scholars, legal experts and product users that has led to the introduction of many products which satisfy business needs and meets world-class service standards. Some of the products and services are:

### **Corporate and Commercial Banking**

#### *Modes of Financing Facilities*

Murabaha  
Musharakah  
Diminishing Musharakah  
Ijarah  
Mudarabah  
Istijrar  
Istisna

#### *Other Shariah Driven Services*

Import & Export Facilities  
Guarantees  
Bill Discounting by using Dollar Salam or Murabaha  
Islamic Export Refinance

### **Investment Banking & Shariah Advisory Services**

#### *Investment Banking Services*

Syndication Structuring  
Privatization Mandates  
Mergers & Acquisitions

#### *Shariah Advisory Services*

Sukuk Bond Structuring  
Conventional Bank Conversion Advisory Service  
Islamic Banking Training

### **Retail Banking**

#### *Current & Savings Account*

Rupee Saving Account  
Current Account  
Dollar Saving Account  
Karoobar Munafa Account  
Meezan Islamic Institution Deposit Account

#### *Term Certificates*

Certificate of Islamic Investment  
Monthly Mudarabah Certificate  
Dollar Mudarabah Certificate  
Meezan Aamdan Certificate  
Meezan Providence Certificate

### **Consumer Financing**

Car Ijarah – Islamic Auto Finance

EasyHome – Islamic Housing Finance

### **24/7 Banking**

ATM/Debit Card  
ATM Outlets

Internet Banking  
Call Center

Meezan Bank continues to educate the market by offering various business value propositions in a transparent and open manner, in addition to addressing commonly asked questions about Islamic Banking and how it differs from the conventional system.



Largest Branch Network



Alhamdulillah, Meezan Bank has established 62 branches in 21 cities across Pakistan. This is a milestone that is not only the success story of Meezan Bank but also the continuing success story of Islamic Banking in Pakistan. With this extensive network our existing and potential customers are now closer than ever in attaining Islamic Banking at their doorstep. All branches provide real time online banking facilities to customers.

Having the recognition of being the first and largest dedicated Islamic Bank in Pakistan, Meezan Bank team continues to build on its Vision of making “Islamic Banking the Banking of First Choice”. One of the key objectives of the Bank is to have its footprint strategically placed in all major cities of the country enabling the public to avail the benefits of Shariah Compliant Banking in their neighborhood.

The Bank is currently segmented into three Regions of Pakistan. The cities in which the Bank presently operates are as follows:

#### **Southern Region**

Karachi  
Sukkur  
Hyderabad  
Quetta

#### **Central Region**

Lahore  
Gujranwala  
Kasur  
Sargodha  
Rahim Yar Khan  
Faisalabad  
Multan  
Sialkot  
Sadiqabad  
Dera Ghazi Khan  
Sahiwal

#### **Northern Region**

Islamabad  
Rawalpindi  
Gujar Khan  
Peshawar  
Swat  
Abbottabad

The goal is to increase the branch network to over 100 branches during 2007, subject to the approval from State Bank of Pakistan. Meezan Bank’s mission is to provide its customers dedicated and pure Islamic Banking facilities with the greatest of convenience and personalized service. It remains the Bank’s endeavor to establish solid foundations of Islamic Banking in Pakistan.

Service Quality



Meezan Bank is committed to delivering its products and services within the highest service quality parameters. The Bank prides itself for the relentless pursuit of excellence in all spheres of its activities.

The defining values that Islam itself inculcates, are in essence the source of what service quality itself means. Honesty, complete transparency, effective delivery, fair pricing, respect and recognition for the consumer are all clear aspects of our faith and belief. As an Islamic institution, Meezan Bank considers it a prime duty to adhere to these Shariah guidelines.

The aim is to be recognized for consistently providing superior service quality to the customers. The service mission of the Bank itself clearly defines the parameters of this goal:

**“To develop committed service culture which ensures the consistent delivery of our products and services, within the highest quality service parameters, promoting Islamic values and ensuring recognition and a quality banking experience to our customers.”**

Service excellence requires a special way of thinking, feeling and behaving towards customers. It is a state of mind, an attitude and a way of seeing the world that motivates our team members to give their best. It is in essence a service mindset, exemplified in every member of the Meezan Bank family.

To achieve and maintain this mindset, the Bank has a dedicated Service Quality department that is responsible to promote and implement our service mission at all levels. A Service Quality structure has been implemented throughout the Bank with dedicated staff assigned to each branch. Special attention is also being given to the training of staff and regular ‘service huddles’ are organized on a monthly basis to discuss service issues. Mystery Shopping is being carried out nationwide to analyze employee performance, transaction turn around time and overall perception of the Meezan Bank experience.

A centralized complaint resolution department (Customer Care Unit) has also been set-up to deal with all customer complaints and queries.

## Chairman's Review



“Inshallah, Meezan Bank will continue to lead the way, and I am confident that the committed management team coupled with the Bank’s other salient strengths will ensure this progress and bring the benefit of its value proposition to the market as a whole.”

Alhamdulillah,

It gives me great pleasure to present the Annual Report of Meezan Bank for the year ended December 31st 2006. Throughout 2006 Meezan Bank achieved a number of milestones which will Inshallah pave the way for its progress in the years to come.

Foremost of these milestones is the record addition of 34 new branches to the Bank's country-wide network, taking the total to 62 branches in 21 cities.

Secondly, the deposit base of the Bank crossed Rs. 34 billion, ranking it 22nd in commercial banks operating in Pakistan and securing its place as a medium sized Bank with a critical mass of assets and liabilities. Its market share of Islamic Banks operating in Pakistan now stands at 48%, by far the largest in the country.

Thirdly, the total staff strength of the Bank crossed 1300. An extensive training program is initiated for new employees inducted into the Bank. The program will ensure that Meezan has a steady supply of adequately trained manpower.

These milestones clearly establish Meezan Bank as one of the leading financial institutions in Pakistan, and I am confident that the management is well committed to take the bank to the next level over the coming years.

In its fifth year as a full fledged Islamic commercial bank, Meezan Bank continues to offer a wide range of Shariah-compliant financial products, and has once again been given the "Best Provider of Islamic Financial Services" award for Pakistan in 2006 by the Islamic Finance News.

The Vision of the Bank is to establish Islamic banking as banking of first choice in Pakistan and to be the 'Premier Islamic Bank' of the country. As a torchbearer of Riba-free Banking, Meezan Bank remains relentless in carrying forward its mission. As an institution dedicated from the outset to solely offering Shariah-compliant banking, it continues to lead the market with innovative and technologically advanced financial solutions supported by continuous research and development, culminating in the largest variety of products and services under one roof.

Thanks to its aggressive market presence, solid financial backing and phenomenal growth, Meezan Bank is well positioned to fulfill its goals in the future guided shared core values and heightened sensitivity to service excellence.

It is also gratifying that the Islamic Banking industry continues to grow at an exponential rate both in Pakistan and worldwide. There are now six dedicated Islamic Banks in the country, four of which have already commenced operations and 12 "Islamic windows" of conventional banks. The proliferation of Islamic banks/windows clearly reflects the strong market demand for this sector.

Given the magnitude of innovation injected in Pakistan's financial sector by new Islamic Banks and the considerable investment in training and infrastructure, a vibrant and strong Islamic Banking Industry is rapidly emerging in Pakistan and Inshallah poised to capture 10% of the total market share in the next five years.

Inshallah, Meezan Bank will continue to lead the way, and I am confident that the committed management team coupled with the Bank's other salient strengths will ensure this progress and bring the benefit of its value proposition to the market as a whole.

Finally, I would like to express our gratitude to the State Bank of Pakistan, Ministry of Finance and the Government of Pakistan for their continuous commitment to establish a viable Islamic financial system in the country. I also thank our shareholders, fellow Board Members, members of the Shariah Supervisory Board and the Bank's staff for their unrelenting mission in making Meezan Bank the premier and dedicated Islamic Bank of Pakistan.

May Allah grant us success in our endeavors.



Ebrahim Bin Khalifa Al-Khalifa  
Chairman





# Business and Operations Review

## Business Review

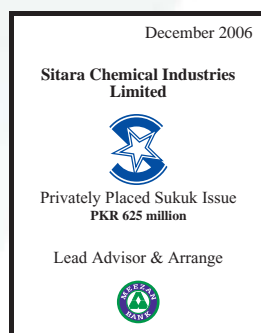
Alhamdulillah, the Bank has once again demonstrated excellent performance in each one of its business segments. This review focuses on performance of the Bank's main business segments namely, Corporate and Investment Banking, Commercial Banking and SME, Consumer Banking, Treasury & Financial Institutions and Asset Management.

### Corporate and Investment Banking (CIB)

The CIB department has a mission to build rewarding and sustainable 360-degree relationships with a broad range of corporate customers by offering the full spectrum of Shariah compliant financial solutions. The focus is on nurturing and developing such relationships with clients by understanding their diverse financing needs and working to develop innovative products to meet these needs. Of particular note is the initiative taken by the department to work with a number of customers and help them to convert their entire financial arrangements from interest-based banks to Islamic banking.

CIB achieved new milestones in the growth of their asset base, net spreads and fee income. Total corporate advances portfolio increased by 24% to Rs. 18.5 billion while income from the financing portfolio has also shown excellent growth of over 20% in 2006.

Due to the increasingly diverse needs of the corporate clients for advisory and structured finance transactions, a specialized unit focusing on Investment Banking has been established, so as meet this market need and establish a strong presence in this area. Islamic investment banking is emerging as a market with huge potential and Meezan Bank has successfully concluded the following deals during the year:



- Lead managed a Rs. 625 million privately placed Sukuk issue for Sitara Chemical Industries Limited to finance its power project.
- Participated with Rs. 280 million in Rs. 1,250 million Syndicate finance for plant expansion of Maple Leaf Cement Factory.
- Participated with Rs. 250 million and played an active role in structuring Rs. 1,200 million privately placed project financing Sukuk of Wateen Telecom (Pvt.) Limited.
- Participated with Rs. 280 million in Rs. 5,500 million Syndicate finance for plant expansion of Bestway Cement Limited.
- Structured an innovative transaction guaranteeing equity participation by sponsors in Fatima Fertilizer Ltd.

The unit's focus for the next year would be to enhance its profile in the industry by leading and participating in Syndications and providing financial advisory.

## Commercial Banking and SME (CBSME)

The CBSME department, which was set-up in 2005, consolidated its position during the year and focused on building a high quality portfolio. Meezan Bank recognizes the importance of this important segment of the economy and has accordingly added significant new resources in the area of its operation. The CBSME department has been organized into two distinct segments during the year. The Commercial Banking segment targets the 'middle-market' and handles all customers with a sales turnover of less than Rs. 600 million but more than Rs. 300 million and total exposure of up to Rs. 100 million. The SME segment targets all customers with sales turnover of up to Rs. 300 million and total financing exposure not exceeding Rs. 75 million. The total SME portfolio grew by 1,772 million during the year from Rs. 864 million to Rs. 2,636 million.

## Consumer Finance (CF)

The CF department is responsible for managing all consumer asset products and currently offers two products, Car Ijarah (Islamic Auto Leasing) and EasyHome (Islamic Housing Finance). In the short span of a few years, Meezan Bank's consumer business has achieved significant market share in Auto and Housing Finance with high quality portfolios evidencing excellent risk parameters and negligible non-performing cases.

### Car Ijarah

The Car Ijarah business was launched four years ago and now stands at Rs. 3,150 million. The Bank has financed over 6,000 vehicles till December 31, 2006. Growth has been steady during this period.

Healthy portfolio management and risk diversification is evident across the portfolio, with 54% of the car ijarah cases resting in the 3 year tenor, 18% in 4 years, and 28% in 5 years. Furthermore, over 50% of financing is done in the 800 – 1,000cc category, the most stable middle market consumer financing, with light commercial vehicles and imported units at 6% and 4% respectively.

The non-performing portfolio presents another Meezan Bank milestone at 0.5% of the total principal outstanding.



## EasyHome

As the nation's first Islamic Housing Finance facility, Meezan Bank's EasyHome completed its third year in December 2006. Meezan currently offers a number of variations of the product to suit different customer needs with options for buying, building or renovating a home, as well as replacing an existing mortgage. The total portfolio currently stands at Rs. 2,604 million. The Bank has financed over 1,200 home units across Pakistan till December 31, 2006.

The product variations are extremely well diversified between the key targeted segments of salaried, business and self-employed professionals, while also evidencing critical risk parameter health through a strong bank investment versus client investment ratio (BIR) as well as a very desirable debt burden ratio (DBR).

## Key Portfolio Statistics

Segment	Portfolio Ratio	BIR	DBR	Average Tenor (years)	Average Size (Rs. in Millions)
Salaried	41%	58%	35%	18	1.5
Business	52%	57%	41%	12	3.5
SEP	7%	65%	40%	18	4.0
Portfolio (Weighted Average)		59%	38%	17	2.4

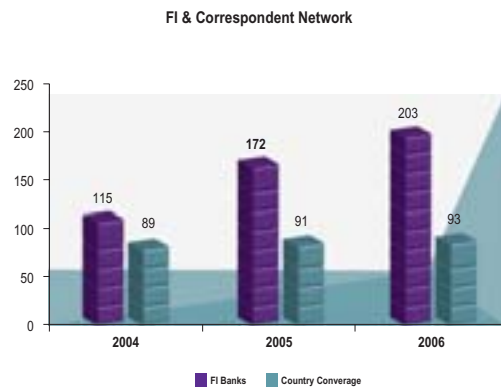
Portfolio credit quality highlights very strong risk management foundations evidenced by the fact that there are no installments overdue by more than 90 days.

## Treasury & Financial Institutions (TFI)

The TFI department is responsible for managing the treasury and financial institutions business of the Bank. Treasury manages treasury marketing, foreign exchange and money market and Shariah compliance income securities while Financial Institutions (FI) is responsible for building and managing the Bank's correspondent banking network i.e. relationships with other banks both local and foreign for trade and money transfers.

The TFI department faces special challenges in managing the liquidity of an Islamic Bank given the limited avenues available for the deployment of funds. At the start of the year, the much-awaited local currency WAPDA Sukuk (Islamic bond) was finally launched which partially addressed the Statutory Liquidity Reserve (SLR) needs of the Bank. However, the lack of other SLR instruments is seriously hampering the growth of Islamic Banks and it is hoped that the State Bank of Pakistan and Ministry of Finance will be able to address this matter soon.

FI focused on improving the efficiency of trade business conducted with our numerous counterparts worldwide. The number of correspondent banks increased by 18% and several banks increased the confirmation lines available to the Bank. This extensive coverage of 203 correspondents in 93 countries allows Meezan to provide a comprehensive network to customers to conduct trade finance business.



In June, 2006, the Bank signed a Memorandum of Understanding (MOU) with International Islamic Financial Markets (IIFM), whereby MBL has been appointed as IIFM's representative in Pakistan for the purpose of facilitating IIFM's activities locally. IIFM is a leading Bahrain based institution established with the objective of developing a global Islamic money and capital market. A first step in this regard in Pakistan was the hosting of a specialized conference-cum-workshop in January 2007 on the subject of Sukuk and REITS. The Governor SBP inaugurated the event, which was a great success attracting an unprecedented number of foreign delegates.



SBP Governor Dr. Shamshad Akhtar receiving memento from Meezan Bank CEO Mr. Irfan Siddiqui.

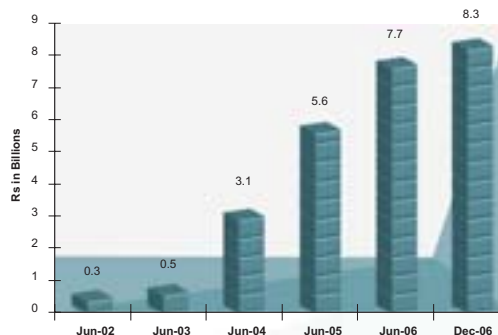
### Asset Management

The asset management business of Meezan Bank is managed by its subsidiary, Al Meezan Investment Management (AMIM). The company has been operational since 1995 and has one of the longest track records of managing mutual funds in the private sector in Pakistan. It is also the only asset management firm with a sole mandate of providing Shariah compliant investment solutions in the country. It is professionally managed by a team headed by Mr. Mohammad Shoaib, who is also the President of CFA Association of Pakistan, a member society of CFA Institute, USA and was nominated as one of the three "Most Influential CFA Charter holders" by the CFA Institute for the year 2006.

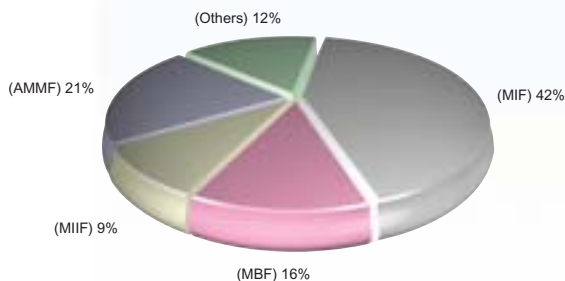
As part of the Bank's endeavour to maintain the highest standards of ethical and professional conduct, AMIM is the only asset management firm in Pakistan that has voluntarily adopted the CFA Institute's Asset Manager Code of Professional Conduct, which outlines the ethical and professional responsibilities of firms that manage client funds.

AMIM currently offers four mutual funds namely; Al Meezan Mutual Fund, Meezan Balanced Fund, Meezan Islamic Fund and Meezan Islamic Income Fund. In addition, the company also manages segregated private portfolios for some corporate clients. Meezan Bank acts as Shariah Advisor to AMIM and the strict Shariah standards, as practiced by Meezan Bank, are applicable to all activities of the Funds. The growth of total funds under management and the contribution of each Fund to the total are shown.

Funds Under Management of Al Meezan Investment



Composition of Asset under Management December 2006

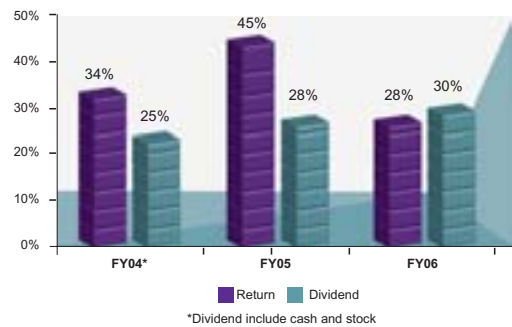


**Meezan Islamic Fund (MIF)** is the flagship open end equity fund of Al Meezan Investments. It primarily invests in Shariah compliant listed equity instruments. The fund was launched in August 2003 and since then has grown to a size of over Rs. 3.5 billion. MIF is not only the largest Shariah compliant fund in Pakistan but as at December 31, 2006, it was also the largest open-end equity fund in the private sector.

**MIF-Total return since inception 128%**

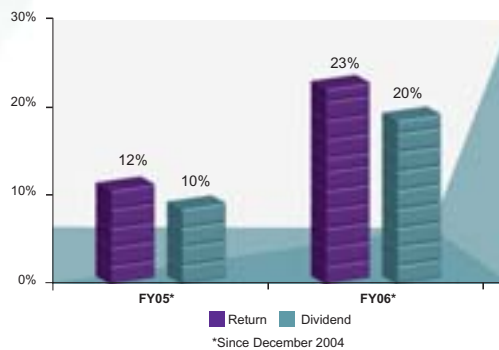


**AMMF-Total return since inception 581%**



**Al Meezan Mutual Fund (AMMF)** was the first fund launched by Al Meezan Investments (in 1996) and is one of the oldest mutual funds in the private sector. It is a closed end equity fund investing in Shariah compliant listed equity instruments. It has an impressive dividend payment track record and has paid over Rs. 800 million in dividends to its investors since inception. The fund's average annual return since inception has been 20%.

**MBF-Total return since inception 44%**



**Meezan Balanced Fund (MBF)** is Pakistan's only Shariah compliant balanced fund that invests 50-60% of its net assets in Shariah compliant listed equities while the remaining assets are deployed in Shariah compliant income instruments. MBF is a closed end fund that was launched in December 2004 and since then it has distributed Rs. 360 million cash as dividend amongst its investors.

**Meezan Islamic Income Fund (MIIF)** is yet another first by Al Meezan Investments as it is the only Shariah compliant income fund in the country. MIIF was launched in December 2006 and has received tremendous response from the investors. The fund's net assets have already crossed Rs 1.0 billion. MIIF is an open-end fund that invests in Shariah compliant income instruments including Sukuks, Musharakah Certificates and other Shariah compliant income instruments/contracts.

## Fund Ratings

Performance of funds under management of Al Meezan Investments has been exceptional over the years and these have been regularly ranked amongst the best funds within their respective categories. Currently, two of our mutual funds, Meezan Islamic Fund and Meezan Balanced are ranked 5-Star by PACRA, which is the best rating for a mutual fund and reflects the superior performance of these funds. Al Meezan Mutual Fund is currently rated 4-Star. Since Meezan Islamic Income Fund was recently launched, it has not been rated at the moment. Exceptional management quality of Al Meezan Investments has also been recognized by the rating companies and Al Meezan Investments has been awarded management quality rating of AM-2 by JCR-VIS which is again one of the highest in the asset management industry in Pakistan.

## Operations Review

We wish to reiterate the commitment of the Board to the shareholders that Meezan Bank is committed to the cause of Islamic Banking and all transactions undertaken by the Bank are in accordance with the directives of its Shariah Advisor and Shariah Board. It is the job of all support units to ensure this. These units comprise of:

### Product Development & Shariah Compliance (PDSC)

The PDSC department is a very important department and reflects the strong commitment of the Bank towards Islamic banking. PDSC works directly under the supervision of the Bank's Shariah Advisor – Dr. Muhammad Imran Usmani. The function is vital in ensuring strict Shariah compliance in all area of the Bank's operations. PDSC's role is manifold and comprises of facilitating new Product Development activities, refining existing products and procedures, providing Islamic Banking Training to new recruits and existing staff members, conducting regular Shariah Audit and reviews of branches and departments, coordinating with Bank's Shariah Board and providing Islamic Banking Advisory Services to both local and foreign financial institutions.

In the area of Product Development, the Bank has initiated several new structured Islamic Sukuk transactions and developed a new investment avenue of local Commodity Murabaha product to manage excess liquidity of the bank in a Shariah compliant manner. The Bank is also conducting research on several new Islamic products in the areas of consumer, corporate and retail banking level.

PDSC has played a vital role during the year in imparting Islamic banking training to bank employees, customers, Ulemas and Scholars throughout Pakistan. The department has carried out a number of training sessions ranging from basic to in-depth specialized workshops. A comprehensive Islamic Banker Certification (IBC) program was successfully introduced in Pakistan. The Bank has also conducted successful training programs in UK specially designed for Shariah scholars and bankers with 1st Ethical Charitable Trust, UK.

PDSC has conducted several Shariah compliance reviews with special focus on the development of Shariah compliance controls in all the activities of the Bank. In this regard, a Shariah Audit and Compliance Review Manual was also developed.

The PDSC department has also taken the lead in providing Product Development Advisory Services to different financial institutions interested in offering Islamic Banking products and services around the world. The main objective of Meezan Bank's Advisory function is to help financial institutions develop Islamic Banking Products by sharing the experience, research and success stories. During the year, PDSC has successfully entered into advisory arrangements with Capitas Group of USA and other Islamic banks.



Signing ceremony between INCEIF and Meezan Bank witnessed by Dr Zeti Akhtar Aziz, Governor Bank Negara Malaysia and Dr. Shamshad Akhtar, Governor State Bank of Pakistan.

The Bank has also executed MOUs with INCEIF, Malaysia and Utruj Foundation, UK to collaborate in the areas of training, research and product development. PDSC also provided Shariah Advisory Services to the funds managed by Al Meezan Investment Management (AMIM). Several advisory projects are in the pipeline and negotiations with interested institutions are already underway.

## Operations and Trade Finance

The Operations department is responsible for complete back office processing of transactions of the Bank. The total transaction volume of the Bank increased substantially during the year to more than 35,000 transactions per day. The primary objective of the Operations department is to ensure that all transactions are accurately processed in line with the SLA's agreed with the respective departments.

Extensive work was undertaken during the year to ensure that policies and procedures are put into place to ensure that the above objectives can be met. In addition, the department is continually mapping all processes with a view to evaluating ways of increasing efficiency and reducing weaknesses.

One of the initiatives taken was to introduce for the first time in Pakistan the concept of **'EIGHT to EIGHT banking'** that offers a limited range of banking services between 5 pm and 8 pm.



The Trade Finance unit, which is part of Operations, also had a busy year, handling a record volume of Rs.53 billion in trade finance (import and export) business. The department also manages the unique Islamic Export Refinance facility offered by the SBP, which is financing to exporters for certain stipulated types of export goods.

**BANKING**

## Information Technology (IT)

The IT department is the nucleus of all the transaction processing and service delivery channels of the Bank. The importance of IT, in this fast-paced environment, has never been more critical given the rapid changes in technology, the dynamism of the financial sector and the new paradigms that now define the manner in which people work and transact their business. IT has to play a proactive role to overcome these challenges.

All IT efforts are driven by business requirements and the overall goal of cost-effective infrastructure management. A more modern IT infrastructure increases the processing speed, reduces the risk of technological failure and improves the productivity of the bank.

This year the IT department and business groups have worked closely to implement not only new systems but also upgrade existing systems across the Bank to improve turn-around time and customer service levels. A few of the key initiatives undertaken this year include:

- Providing technologies to improve the way in which MBL accomplishes its business with customers by implementing workflow applications, augmenting financial/business applications and enhancing MIS capabilities.
- Implementing of a new middleware and Internet banking solution to further enhance the ways by which customer interact with bank round the clock.
- Promoting a robust and secured IT infrastructure that assures high level of integrity, confidentiality and availability of corporate information. All this has been achieved by undergoing extensive network penetration testing, placement of Firewalls, upgrading/commissioning of reliable backup links and implementing IT policy framework.
- Providing better decision support platform for management.

## Alternate Delivery Channels (ADC)

The ADC department seeks to access customers of the Bank through electronic channels. At the heart of the ADC philosophy is the motto – “banking when you want - where you want”. The current offerings of the ADC department include Internet Banking, ATMs and a 24/7 Call Centre.

Internet Banking was launched during the year and allows customers to perform transactions from the comfort of their own home or office. Customers can view and download account statements, apply for pay orders and cheque books, and receive e-mail alerts of account transactions.



The ATM network of the Bank also increased from 5 to 29 – a 480% increase. The Bank intends to add another 51 ATMs during 2007 to take the total ATM installations around the country to 90.



The 24/7 Call Centre of the Bank, which was set-up in 2003, ensures that the Bank is accessible to its customers at all times. Whether customers want to check their account balances, order cheque books or register a suggestion or complaint, the 24/7 Call Center is there to make it all happen. Customers have shown an increasing willingness to move from in-branch banking to using the call center as evidenced by a 95% increase in call volume – from 9,500 (December 2005) to 18,500 (December 2006).

The ADC department provides crucial support to customer service and is therefore a critical element of the Service Quality strategy of the Bank. The objective is to ensure that latest technology is used to enhance the customer service experience.

### Human Resources (HR)

The Bank has worked hard to build its human resource team and ensure that the quality of newly inducted staff is not comprised with growth. Senior management is invariably involved in the selection process, not only to evaluate the adequacy of job skills and experience but also the right Shariah mindset. The urge to contribute in the field of Islamic Banking is the single most powerful unifying factor in the organization and it is due to this spirit and zeal that the Bank has achieved results. The Bank ensures that staffs at all levels are focused on the Vision and Mission of the Bank.



As a result of the phenomenal growth in branches the total number of staff recruited during 2006 exceeded the bank's total staff strength at the end of 2005. One key HR initiative undertaken this year was the introduction of the Trainee Officers program. The Bank sourced fresh Bachelors and Masters level individuals with strong academic background, screened them through a two-tier process of a written test and interview, and arranged a two-week intensive classroom-training program for the selected batch. The success of this program has now made it a regular feature of the Bank's HR development strategy.

Another successful initiative of 2006 was the development and ongoing maintenance of a comprehensive database of individuals wishing to join Meezan Bank's team. This has been managed through the bank's Website where key profile data and resumes of individuals applying through the Bank's website are captured into a database. This data can then be accessed on various parameters, thus increasing the bank's efficiency in identifying individual applicants that meet key selection criteria for specific job profiles.

Particular attention has also been given to develop a comprehensive and meticulous training structure that helps groom staff, on both personal and professional level, by developing world class analytical, management, leadership and relationship building skills. Both internal and external training resources have been used for this purpose. In addition, special attention was given to Shariah training and the banks PDSC department played an invaluable role in providing such training to staff.



# Directors' Report

The Directors of Meezan Bank Limited are pleased to present the tenth Annual Report including audited financial statements, setting out the detailed financial results of the Bank together with the consolidated financial statements of the Group, including Al-Meezan Investment Management Limited (its asset management arm), for the financial year ended December 31, 2006.

## Economic Overview

Pakistan has enjoyed strong economic growth over the last few years that has transformed into a domestic consumption boom. This has benefited all sectors of the economy as well expanding the 'middle-class' that forms the backbone for the banking sector. On the back of this strong economic performance the banking sector has performed exceptionally well and we are optimistic that this trend will continue in the future. Overall, the economic performance of the country for fiscal year (FY) 2006 is expected to be good with satisfactory economic indicators including GDP growth rate of 6.5%. This has been made possible primarily due to the impressive growth of 8.8% in the services sector led by telecom and banks.

Inflation hovering at around 7.5% remains a concern, with the State Bank of Pakistan taking further steps to emphasize its continuation of tight monetary regime. The discount rate was hiked by 50 basis points from 9% to 9.5% to give a clear signal of the seriousness to tackle demand-pull inflation. T-bill rates and KIBOR rates remained stable during the year. The US dollar Pak rupee exchange rate also remained stable with no material change during the year.

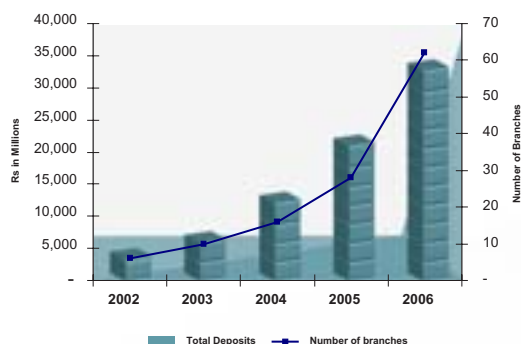
A key issue for long-term growth prospects of Pakistan is the unprecedented high trade deficit that is expected to exceed USD 13 billion for the current fiscal year. However, the trade deficit is expected to be counter-balanced by strong home remittance figures and FDI and the government is confident that the overall balance of payments position is positive as a result of which no reduction in the foreign exchange reserve is anticipated.

The capital market remained stable during the year with the KSE-100 index registering a marginal increase of 5.06% to close at 10,040 points on December 31, 2006. However, the market posted significant gains during the first two months of 2007 with the index crossing 11,400. It is also encouraging to note that during the year, GDR offerings of USD 811 million and USD 150 million of OGDCL and MCB were offered internationally, and both were listed on the London Stock Exchange. Both issues were over-subscribed which bodes well for other entities that wish to access the international capital markets for their funding needs.

## Operating Results

By the Grace of Allah, each year brings new benchmarks to celebrate the successes and achievements of Meezan Bank. From being a small niche player operating with only 6 branches and Rs. 5.1 billion in deposits at the end of 2002, the Bank now has 62 branches and a deposit base of Rs. 34.4 billion. This translates to a CAGR of 81% (branch growth) and 62% (Deposit growth) respectively, which is commendable when one compares this to the growth in deposits for the banking industry as a whole of around 19% during this period.

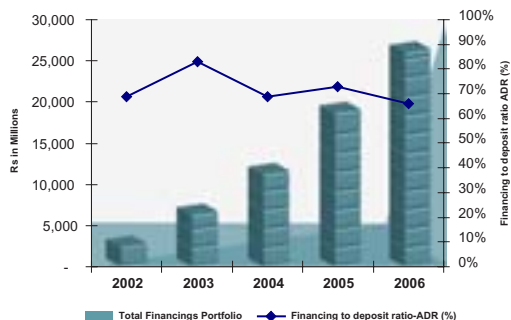
Branch Vs Deposits Growth



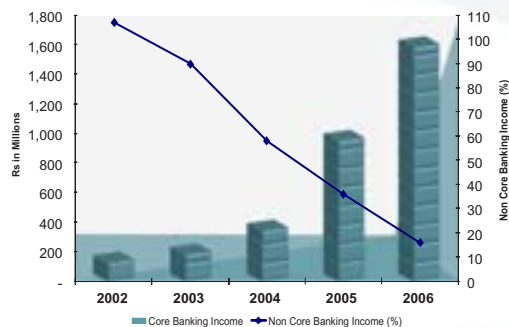
This growth now establishes Meezan Bank as one of the medium sized banks operating in Pakistan. It is ranked 22nd out of a total of 42 commercial banks currently operating in Pakistan. The strong growth is part of the Bank's strategy to acquire market share so as to enable it to fulfill its Vision of establishing Islamic Banking as banking of first choice. Accordingly, the branch network more than doubled from 28 at the end of 2005 to 62, an increase of 34 new branches. Despite the significant investment in infrastructure the profitability of the Bank remained robust with profit after tax increasing from Rs. 419 million in 2005 to Rs. 604 million in 2006, an increase of 44%. On average new branches break-even between 6 to 9 months, as a result it is expected that the Bank will reap the benefits of its investment in its branch network in the coming years.

The reliance on income from non-core banking activities continues to fall, ratio of non-core to core banking income has declined sharply over the last five years, reducing the chances of profit volatility in future years. This is due to strong growth in the Bank's financing portfolio where spreads are robust and asset quality remains very good. In addition Asset Deposit Ratio (ADR) has been reduced to a very comfortable level.

**Financing Portfolio Vs Financing to Deposit ratio - ADR%**

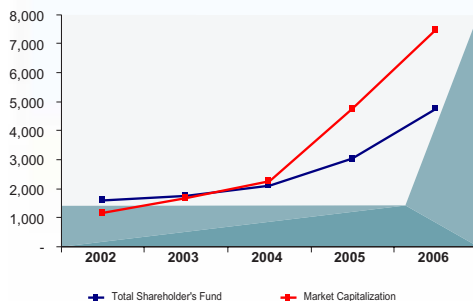


**Core Banking Income Vs Non Core Banking Income (%)**



The Share Capital of the Bank increased by 85% from Rs. 2,037 million to Rs. 3,780 million through a combination of Right and Bonus issues. The price of Meezan Bank shares has also remained stable despite the significant dilution impact of the increased number of shares following the Rights and Bonus issues. The market capitalization of the Bank continues to increase relative to the net asset value of the entity. The Board, representing the shareholders of the Bank, reiterates its commitment to Pakistan in general and Meezan Bank in particular, to meet all its present and future capital needs. The Board has already approved the plan under which the capital of the Bank will be increased in line with the requirements of the State Bank of Pakistan.

**Increase in Shareholder's Value**



## Financial Results

Rs in Millions

<b>PROFIT AND LOSS ACCOUNT</b>	<b>2006</b>	<b>2005</b>
Total returns on financing, investments and placements	2,704	1,459
Total return to depositors	1,464	690
<b>Net Spreads</b>	<b>1,240</b>	<b>769</b>
Fee, Commission, Brokerage and Exchange Income	418	253
<b>Core Banking Income</b>	<b>1,658</b>	<b>1,022</b>
Provisions	(123)	(39)
Other income	273	369
Operating expenditure	(1,028)	(719)
<b>Profit before tax</b>	<b>780</b>	<b>633</b>
Taxation	(176)	(214)
<b>Profit after tax</b>	<b>604</b>	<b>419</b>

## Future Outlook

Meezan Bank has firmly established its leadership position in the Islamic Banking industry and is recognized as a credible, pure, vibrant and successful Islamic bank of Pakistan. One of the key initiatives taken by the Bank during the year was to formulate and put into place a comprehensive Strategic Plan for the next five years. In formulating this Plan a very comprehensive methodology was followed using a 'bottom-up approach', which encouraged each business unit and department to involve its staff in the process. The key was to build consensus on a common vision and solicit maximum participation so as to ensure ownership at all levels. This plan has now been approved by the Board of Directors of the Bank and is being implemented using the 'Balanced Scorecard' concept that is widely accepted as a good template to effectively monitor the action steps required to achieve the strategic objectives identified in the Plan.

As reported to you in the previous years' Annual Report, the Bank's strategy is to continue to build market share through an aggressive branch expansion plan supported by a strong technology backbone. Subject to the approval of the SBP, Meezan plans to expand its branch network to over 100 branches by the end of the year that will give it a comprehensive network through which to access customers all across Pakistan, particularly the middle income group. The focus is to build on the service quality initiatives that were put into place during the previous year and instill a service quality culture at all levels throughout the organization. In addition, particular attention is being given to staff training and a number of programmes in this area are being initiated so as to ensure that the Bank has a regular supply of trained manpower.

As technology assumes ever increasing importance in the banking services industry, the Bank has developed a comprehensive IT strategy to see it through the coming years. One of the major projects that is currently underway is to implement a new core banking application that will provide a more robust, centralized, flexible and fast banking platform. The deployment will begin Inshallah in 2007 and will go on till at least 2008. Another important project, that is part of the Banks Business Continuity Planning, is the setting up of a dedicated online real time Disaster Recovery (DR) i.e. a 'hot' DR site.

Meezan Bank is well positioned to meet the challenges of the future. The Board is confident that the Bank will continue to play its leadership role in the Islamic Banking industry.

## Social Responsibility: Rehabilitation and Reconstruction of the Village of Jared

A powerful earthquake struck the Northern areas of Pakistan on October 8, 2005. With a magnitude of 7.6 on the Richter scale, it was the worst natural disaster to hit the region in decades. As a result of the quake, more than 75,000 people were killed, 80,000 injured and over 2.5 million people were left homeless.

Meezan Bank, as part of its efforts to undertake projects of social importance, rose to the occasion and in partnership with The Citizen Foundation (TCF) decided to take part in the rehabilitation and reconstruction of village of Jared. The rehabilitation includes construction of houses and supporting infrastructure including a water supply system for the residents of the village. The Project began in April 2006. The affected area was surveyed and feedback of the local community was taken. On the basis of this a rehabilitation plan has been implemented. The construction is underway and 75% work has been completed. The project will be handed over to the affectees by June 2007.



House under construction & ready for roofing

Meezan Bank together with its employees has also agreed in-principle to provide ongoing support to the affected families for a minimum of one year.

## Dividend and Right Issue

During the year the Bank declared interim 10% Stock Dividend (2005: 16%) continuing its unbroken payout record since the date of listing on the stock exchange.

Further the bank has issued 50% Rights Issue at par to the shareholders.

## Risk Management Framework

Risk management is an integral part of the business activities of the Bank. The Bank manages the risks through a framework of risk management policies and procedures, organizational structure and risk measurement and monitoring mechanism that are closely aligned with overall operations of the Bank. Risk management activities broadly take place at different hierarchy levels. The Board of Directors provides overall risk management supervision. The management of the Bank actively ensures that the risks are adequately identified, measured and managed. An independent and dedicated risk management department guided by a prudent and a robust framework of risk management policies and guidelines is in place.

The Board has constituted following committees for effective management of risks comprising of the Board members:

1. Risk Management Committee
2. Audit Committee

The Risk Management Committee is responsible for reviewing and guiding on risk policies and procedures and control over risk management. The Audit Committee which comprises of three non executive directors only monitors compliance with the best practices of the Code of Corporate Governance and determines appropriate measures to safeguard bank's assets. The Board has delegated the authority to monitor and manage different risks to the specialized committees at management level. These committees comprise of senior management with relevant experience and expertise, who meet regularly to deliberate on the matters pertaining to various risk exposures under their respective supervision. Such committees include:

1. Credit Committee
2. Asset Liability Management Committee (ALCO)

The Credit Committee is responsible for approving, monitoring and ensuring that financial transactions are within the acceptable risk rating criteria. Well defined policies, procedures and manuals are in place and authorities have been appropriately delegated to ensure credit quality, proper risk-reward trade off, industry diversification, adequate credit documentation, and periodic credit reviews.

ALCO is responsible for reviewing and recommending all market risk and liquidity risk policies and ensuring that sound risk measurement systems are established and compliance with internal and regulatory requirements. The bank applies Stress Testing and Value at Risk (VaR) techniques as market risk management tools. Contingency Funding Plan for managing liquidity crisis is in place. Liquidity management is done through cash flow matching, investment in equities and placements in foreign exchange. Treasury Middle office monitors and ensures that banks exposures are in line with the prescribed limits.

The Bank ensures that the key operational risks are measured and managed in a timely and effective manner through enhanced operational risk awareness, segregation of duties, dual checks and improving early warning signals. The Bank has developed effective manuals and procedures necessary for the mitigation of operational risk.

The Bank has an Internal Audit department that reports directly to the Audit Committee of the Board. The internal audit independently reviews various functional areas of the Bank to identify control weaknesses and implementation of internal and regulatory standards. The Compliance department ensures that all directives and guidelines issued by the State Bank of Pakistan are being complied with in order to manage compliance and operational risks.

The Board of Directors has been taking continuous measures to fully implement the SBP guidelines and those will be fully implemented by December 31, 2007.

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

The Board of Directors is fully cognizant of its responsibility under the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by 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 the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. An Audit Committee has been formed for the purpose that meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place, which are reviewed and monitored throughout the year to indicate and evaluate the variances from the budget.
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, categories and pattern of shareholding as required by the Companies Ordinance, 1984 are annexed to the report.

9. The value of investments of the Bank's recognized Provident Fund based on un-audited accounts as at December 31, 2006 amounted to Rs. 61.96 million. The value of investments of Gratuity Fund amounted to Rs. 19.46 million based on un-audited accounts as at December 31, 2006.
10. The purchase and sale of shares by the Directors, Chief Executive, Chief Financial Officer and Company Secretary, their pattern of shareholding and record of Board meetings during the year is included in the report.

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

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulation relevant for the year ended December 31, 2006 have been adopted by the bank and have been duly complied with. A statement to this effect is annexed with the report.

### **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 based on the results for the year ended December 31, 2005.

### **Pattern of Shareholding**

The pattern of Shareholding as at December 31, 2006 is annexed with the report.

### **Directors**

An Extraordinary General Meeting of the Bank was held on November 17, 2006 for the election of Directors. The Board wishes to place on record its appreciation of the services rendered by the retiring directors and wishes the newly constituted Board, the very best for the future.

### **Auditors**

The present auditors A.F. Ferguson & Co., Chartered Accountants have completed their five year duration and hence not eligible for reappointment in accordance with clause (xli) of the Code of Corporate Governance. On the recommendation of the Audit Committee, the Board of Directors has recommended appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants (a member firm of KPMG-International) as auditors of the Bank for the year ending December 31, 2007.

### **Acknowledgement**

The Board would like to express its sincere thanks and gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and our Shariah Supervisory Board for their continued guidance and support. We also take this opportunity to thank our valued customers for their patronage, the shareholders for their continued support and staff for their continuous efforts to make Meezan Bank a great success Alhamdulillah.

On behalf of the Board

**H.E. Sheikh Ebrahim Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President & CEO

March 01, 2007

# Annexure to the Directors' Report

## For the year ended December 31, 2006

The purchase and sale of shares by the Directors, Chief Executive, Chief Financial Officer (CFO) and Company Secretary and their spouses during the year are given below:

Directors and their spouses:	Number of shares as at January 01, 2006	Number of shares purchased during the year	Bonus Shares allotted during the year	Right shares allotted/ subscribed during the year	Number of shares sold during the year	Number of shares as at December 31, 2006
Name						
H.E. Sheikh Ebrahim Bin Khalifa Al-Khalifa	1,362,001	-	375,912	789,960	-	2,527,873
Mr. Naser Abdul Mohsen Al-Marri	1,362,001	-	375,912	789,960	-	2,527,873
Mr. Irfan Siddiqui	4,901,810	-	1,352,898	2,843,049	-	9,097,757
Mr. Istaqbal Mehdi	360,000	-	69,760	60,800	296,000	194,560
Mr. Mohamed Abdul-Rehman Hussain	60,000	-	16,560	34,800	69,600	41,760
Mr. Ariful Islam	2,143,899	-	568,415	1,166,961	319,000	3,560,275
Mr. Rana Ahmed Humayun	382,800	-	105,652	222,024	205,000	505,476
<b>CFO &amp; Company Secretary:</b>						
Name						
Mr. Shabbir Hamza Khandwala	164,875	-	45,505	111,627	-	322,007

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

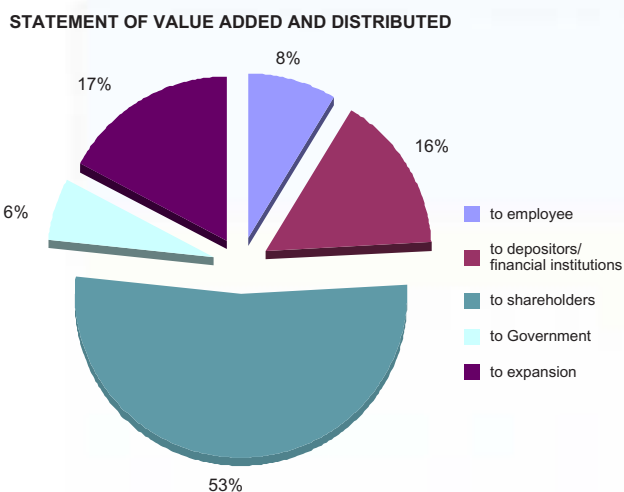
NAME OF DIRECTOR	Meetings Attended
H.E. Sheikh Ebrahim Bin Khalifa Al - Khalifa - Chairman	3
Mr. Naser Abdul Mohsen Al - Marri - Vice Chairman	2
Mr. Irfan Siddiqui - President & CEO	4
Mr. Istaqbal Mehdi	3
Mr. Mohamed Abdul-Rehman Hussain	4
Mr. Ariful Islam	4
Mr. Rana Ahmed Humayun	3
Mr. Mohammed Azzaroog Rajab	1
Mr. Mohammed Abdul Rahman Mohammed Bucheerei	-
Mr. Ahmad Mohammad Thane	-
Mr. Najmul Hassan (Alternate Director appointed in place of Mr. Mohammed Abdul Rahman Mohammed Bucheerei)	1

# Statement of Value Added and Distributed

	2006 Rupees in '000	Percent	2005 Rupees in '000	Percent
<b>Value Added</b>				
Profit/ return on financing, investments and placements-net of provisions	2,581,402	92	1,420,249	83
Fee, commission and brokerage income	216,216	8	174,750	10
Dividend income	165,228	6	92,569	6
Income from dealing in foreign currencies	201,519	7	77,961	5
Gain on sale of securities etc.	107,598	4	276,871	16
	3,271,963		2,042,400	
Administrative expenses	(487,138)	(17)	(338,765)	(20)
	2,784,825	100	1,703,635	100

## Value allocated as follows

<i>to employees</i>				
Salaries, allowances & other benefits	432,071	16	309,360	18
<i>to depositors/ financial institutions</i>				
Return on deposits and other dues expensed	1,464,173	53	690,418	41
<i>to shareholders</i>				
Bonus shares	236,244	8	325,853	19
<i>to Government</i>				
Income tax	175,772	6	213,661	12
<i>to expansion</i>				
Depreciation & amortisation	108,558	4	70,741	4
Retained in business	368,007	13	93,602	6
	476,565	17	164,343	10
	2,784,825	100	1,703,635	100





# Shariah Advisor's Report

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

By the Grace of Allah, the year under review was the fifth year of Islamic commercial banking for Meezan Bank Limited. During this year the bank developed and executed a variety of new as well as established Islamic banking products and transactions after due approval from the Shariah Supervisory Board and / or Shariah Advisor. During the year majority of the transactions and processes were presented and approved by the Shariah Advisor while the Shariah Supervisory Board (SSB) of Meezan Bank Limited and its Executive Committee (EC) held 3 (three) meetings to review various other transactions and processes and their Shariah compliance, referred to them by the Shariah Advisor.

**Following were the major developments that took place during the year:**

- 1. Deposit Products:** The profit sharing ratio of Mudarib & Rabb ul Maal was revised to pass the maximum benefits of Mudarabah to the investor as well as to keep the profit payments in line with the market trends and rates. During the year two new deposit products namely Karobari Munafa Account Plus and Meezan Aamdand Certificates were introduced while new tiers in various deposit products such as DMC and MIIDA were also introduced with the approval of Shariah Advisor.
- 2. Excess Liquidity Management:** The Bank was able to develop a new investment avenue in the form of Local Commodity Murabaha with which the bank is able to invest its excess liquidity within Pakistan. Due to non-availability of Rupee Shariah Compliant liquidity instrument such as Sukuk, the Islamic Banks were investing their surplus liquidity in Commodity Murabaha, outside Pakistan. With the introduction of this product, Islamic Banks are now able to invest surpluses locally. In addition we can control and supervise the activities under the local Commodity Murabaha more closely which also result in generating real economic activity, within the country, in a Shariah Compliant manner.
- 3. Shariah Audit and Compliance:** Major emphasis was given on the development of a system whereby all the control functions of the bank encompass Shariah Compliance in their scope. In this regard the internal audit and compliance department were given the training and the related information in the form of Checklists, Manuals and training courses to include the area of Shariah audit & compliance within their scope of work. In this regard a Shariah Audit and Compliance Review Manual was developed.
- 4. Takaful:** With the introduction of Takaful in Pakistan, the Bank has shifted its Car Ijarah business to Takaful. Further, it has been advised to the Bank to transfer all other business to Takaful as soon as the Takaful products are made available.
- 5. Training and Development:** Special focus was given to this important area of training and development. During the year more than 28 training sessions & courses were organized which includes Orientations, Islamic Banking Certification course and specialized workshops that mainly aimed at enhancing the level of understanding of the Islamic Banking concepts and products. However due to continuous increase in number of branches and employees, this focus on training and development needs to be carried on a continuous basis.
- 6. Shariah Advisory:** The Bank besides providing Shariah Advisory services to its subsidiary Al Meezan Investment Management Limited (AMIM), regarding shariah compliant investments and portfolio management of its funds, also entered into various advisory Agreements and Understandings to help others in developing Islamic Banking products and in imparting Islamic banking knowledge by sharing our experience, knowledge and research in Islamic Banking & Finance.

## Review of Assets

The Bank primarily used Murabaha, Ijarah, Diminishing Musharakah and Salam for its financing activities during the year.

Murabaha transactions (including Islamic Export Refinance Scheme) constitute around 59% of the total financing portfolio while the percentage of Diminishing Musharakah & Ijarah have moved to around 14% & 24% respectively. These ratios suggest that the percentage of Murabaha in the overall financing figure remains nearly the same as that of the last year identifying the room for increase in the percentage of Musharakah financing. The Bank's total financing portfolio reached Rs. 27.031 billion as of December 31, 2006. During the review the Bank used standard agreements as approved by the Shariah Advisor and are in accordance with the principles of Islamic Shariah.

## Review of Liabilities

On the liability side, the Bank offered different Shariah Compliant deposit products based on the mode of Mudarabah. The total deposits of the Bank reached Rs. 34.449 billion as at December 31, 2006. During the year, the bank accepted deposits on the modes of Musharakah for short-term liquidity management from inter-bank market and corporate.

## Shariah Audit

During the year 2006, Shariah Audit was carried out on random basis, in few branches, to check the overall Shariah compliance of the bank's operation and their alignment with the guidelines given by Shariah Advisor and SSB. In the audit process following areas have been checked:

- Standard Agreements for Murabaha, Ijarah, Diminishing Musharakah and Bai Salam.
- Declarations, description of Assets, relevant purchases Invoices, sequence and order of the documents and time difference between purchases and declaration in Murabaha.
- Murabaha Monitoring Sheets.
- Purchase deeds, treatment of ownership related cost & recovery of rentals in Ijarah transactions.
- Ownership ratio in Diminishing Musharakah for Housing and issuance of timely unit sale receipts.
- Investment made in stock with reference to the stock screening criteria and purification of dividend received.
- Import Finance transactions and related documentation.
- Other related documents and procedures followed by different functional areas.

Based on the Shariah review the Shariah Advisor has directed the Bank's management not to recognize income amounting to Rs 0.460 million earned on certain Murabaha transactions, as the assets underlying those Murabaha transactions at the respective date of declaration were not quantified. This reduction in the amount of charity income due to void Murabaha transaction is a result of the implementation of a proper Murabaha Monitoring system and increased training of the staff.

## Charity

During the year an amount of Rs 9.184 million was transferred to the Charity Account and an amount of Rs 6.699 million was disbursed after the approval of the Shariah Advisor.

## Recommendation

Based on the review of financing transactions we recommend that Corporate & Commercial Banking Departments of the Bank should establish a system of physical checking and verification of the goods in Murabaha & Ijarah transactions and increase the share of direct payment to supplier in overall Murabaha financing. We also recommend that the Bank should focus more on the development and offering of the financing products of social welfare such as education and micro finance. Islamic banks should come forward to serve the nation by providing the less privileged with the opportunity to meet their needs in the Shariah Compliant manner.

## Conclusion

It is the responsibility of the Bank's management & employees to ensure application of Shariah principles and guidelines issued by the Shariah Supervisory Board and Shariah Advisor and to ensure Shariah compliance in all activities of the bank.

Based on the random cases reviewed and management representations, in our opinion the activities and transactions performed by the Bank during the year in whole comply with the Principles and guidelines of Islamic Shariah, issued and directed by the Shariah Supervisory Board and Shariah Advisor of Meezan Bank Limited.

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

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



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

Dated: February 09, 2007

# Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank 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 on its Board of Directors. At present the Board has eight non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred in the Board during the year were duly filled on the same day.
5. Statement of Ethics and Business Practices has been approved and signed by the directors of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of the significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter during the year. 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.
9. 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.

10. The Board approved appointment of Head of Internal Audit. The remuneration and terms and conditions of his employment were determined by CEO as authorized by the Board. There was no new appointment of the CFO or Company Secretary during the year ended December 31, 2006.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and 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, all of whom are non-executive directors including the Chairman 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 and as required by the Code. The terms of reference of the Committee have been formed, approved by the Board and advised to the Committee for compliance.
17. The Board has set-up an internal audit function, the members of which are considered suitably qualified and experienced for the purpose and are conversent with the policies and procedures of the Bank.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.



**Irfan Siddiqui**  
President & Chief Executive

March 01, 2007

# 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 (the Code) prepared by the Board of Directors of Meezan Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan and 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, 2006.

A.F. FERGUSON & Co.  
Chartered Accountants  
Karachi.  
March 05, 2007

\*In case of any discrepancy on the bank's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the bank's registered office

# Statement of Internal Controls

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

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

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

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

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

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



**Irfan Siddiqui**  
President and Chief Executive



**Ariful Islam**  
Chief Operating Officer

# Notice of Annual General Meeting

Notice is hereby given that the 11th Annual General Meeting of the Members of Meezan Bank Limited will be held Insha-Allah on Thursday, March 29, 2007 at 4:00 p.m. at Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

## ORDINARY BUSINESS

1. To confirm the minutes of the Extraordinary General Meeting held on November 17, 2006.
2. To receive, consider and adopt the Audited Accounts (separate and consolidated) for the year ended December 31, 2006 together with the Auditors' and Directors' Reports thereon.
3. To appoint auditors of the Bank for the year ending December 31, 2007 and to fix their remuneration. M/s KPMG Taseer Hadi & Co., Chartered Accountants has consented to act as auditors. The retiring auditors M/s A.F. Ferguson & Co., Chartered Accountants have completed the period of five (5) years in accordance with the Clause (xli) (a) of the Code of Corporate Governance and therefore, are not eligible for re-appointment.

## SPECIAL BUSINESS

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

**"Resolved that the capitalization of a sum of Rs. 236,243,550 out of free reserves of the Bank as of June 30, 2006 for the purpose of issuance of 23,624,355 ordinary shares of Rs 10/- each as fully paid interim bonus shares be and is hereby approved."**

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

A statement under section 160 (1) (b) of the Companies ordinance, 1984 pertaining to special business is enclosed.

By Order of the Board



Shabbir Hamza Khandwala  
Company Secretary

Karachi  
March 01, 2007

## Notes:

- i) The Members' Register will remain closed from March 22, 2007 to March 29, 2007 (both days inclusive) to determine the names of members entitled to attend and vote in the meeting.
- ii) A member eligible to attend and vote at this meeting may appoint any person as proxy to attend and vote in the meeting. Proxies in order to be effective must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than forty eight (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 Computerized National Identity Card alongwith the participant ID numbers and sub account numbers with him / her to prove his / her identity, and in case of proxy must enclose an attested copy of his / her Computerized National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.

## STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the Resolution contained in item (4) of the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 29, 2007.

### Issue of Bonus Shares

In order to meet the requirements of State Bank of Pakistan to increase the paid up capital of the commercial banks to Rs 3 billion by December 31, 2006, the Board of Directors of the Bank in its meeting held on August 02, 2006 had also issued an interim bonus shares in the ratio of 10 ordinary shares for every 100 ordinary shares of Rs 10 each held by transferring a sum of Rs 236,243,550 from free reserves of the Bank.

The Directors of the Bank have no interest in the special business, save to the extent of their shareholding in the Bank.

# Financial Statements





# Auditors' Report to the Members

We have audited the annexed balance sheet of Meezan Bank Limited as at December 31, 2006 and the related profit and loss account, statement of changes in equity and cash flow statement, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for seven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 6.3.1, 6.10 and 7 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of changes in equity and cash flow statement 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, 2006 and its true balance of the profit, its changes in equity and cash flows 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 05, 2007

\* In case of any discrepancy on the bank's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the bank's registered office

# Balance Sheet

As at December 31, 2006



	Note	2006	2005 Restated
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	8	5,897,394	3,956,938
Balances with other banks	9	4,134,875	2,855,823
Due from financial institutions	10	3,700,000	-
Investments	11	2,877,554	1,606,490
Financings	12	27,031,016	19,740,886
Operating fixed assets	13	531,262	305,585
Other assets	14	2,266,522	2,210,100
		46,438,623	30,675,822
<b>LIABILITIES</b>			
Bills payable	15	563,228	260,732
Due to financial institutions	16	4,285,212	2,981,714
Deposits and other accounts	17	34,449,441	22,769,262
Sub-ordinated loans		-	-
Liabilities against assets subject to finance leases		-	-
Deferred taxation	18	398,304	170,274
Other liabilities	19	1,979,079	1,469,258
		41,675,264	27,651,240
<b>NET ASSETS</b>		<b>4,763,359</b>	<b>3,024,582</b>
<b>REPRESENTED BY</b>			
Share capital	20	3,779,897	2,036,582
Reserves	21	528,085	407,235
Unappropriated profit		448,427	527,123
		4,756,409	2,970,940
Surplus on revaluation of investments	22	6,950	53,642
		4,763,359	3,024,582
<b>CONTINGENCIES AND COMMITMENTS</b>	23		

The annexed notes 1 to 43 form an integral part of these financial statements.

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Profit and Loss Account

## For the year ended December 31, 2006



	Note	2006	2005 Restated
Rupees in '000			
Profit / return earned on financings, investments and placements	24	2,704,280	1,459,229
Return on deposits and other dues expensed	25	1,464,173	690,418
Net spread income		1,240,107	768,811
Provision against non-performing financings (net)	12.7	121,581	68,811
Provision / (reversal) for diminution in the value of investments	11.3	1,297	(29,831)
Bad debts written off directly		-	-
		122,878	38,980
Net spread after provisions		1,117,229	729,831
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		216,216	174,750
Dividend income		165,228	92,569
Income from dealing in foreign currencies		201,519	77,961
Capital gain on sale of securities	26	116,993	209,402
Unrealised (loss) / gain on revaluation of investments classified as 'held for trading'	11.5	(32,455)	57,792
Other income	27	23,060	9,677
Total other income		690,561	622,151
		1,807,790	1,351,982
<b>OTHER EXPENSES</b>			
Administrative expenses	28	1,022,991	718,384
Other provisions / write offs		-	-
Other charges	29	4,776	482
Total other expenses		1,027,767	718,866
Extraordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		780,023	633,116
Taxation - current - for the year	30	8,314	4,671
- prior years		(60,572)	39,002
- deferred		228,030	169,988
		175,772	213,661
<b>PROFIT AFTER TAXATION</b>		604,251	419,455
Unappropriated profit brought forward		527,123	191,559
Profit before appropriations		1,131,374	611,014
<b>Basic earnings per share (Rupees)</b>	31	1.88	1.46

The annexed notes 1 to 43 form an integral part of these financial statements.

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Arifur Islam**  
Director

# Cash Flow Statement

For the year ended December 31, 2006



	Note	2006	2005
Rupees in '000			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		780,023	633,116
Less: Dividend income		(165,228)	(92,569)
		614,795	540,547
Adjustments for non-cash charges			
Depreciation		103,024	67,410
Amortisation		5,534	3,331
Provision against non-performing financings (net)		121,581	68,811
Provision / (reversal) for diminution in the value of investments		1,297	(29,831)
Gain on sale of fixed assets		(1,823)	(163)
Unrealised loss / (gain) on held for trading investments		32,455	(57,792)
		262,068	51,766
		876,863	592,313
(Increase) / decrease in operating assets			
Due from financial institutions		(3,700,000)	-
Held for trading securities		(72,264)	(77,551)
Financings		(7,411,711)	(7,438,993)
Others assets		13,827	(901,393)
		(11,170,148)	(8,417,937)
Increase in operating liabilities			
Bills payable		302,496	64,587
Due to financial institutions		1,303,498	119,575
Deposits and other accounts		11,680,179	8,999,455
Other liabilities		509,821	698,634
		13,795,994	9,882,251
		3,502,709	2,056,627
Income tax paid		(17,478)	(6,147)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		3,485,231	2,050,480
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in:			
- held to maturity securities		(1,141,406)	(852)
- available for sale securities		(66,376)	54,262
- listed associated undertaking		200,038	6,640
- unlisted associated undertakings		(271,500)	(94,780)
Dividends received		164,715	95,520
Investments in operating fixed assets		(337,248)	(173,395)
Sale proceeds of property and equipment disposed-off		4,836	1,969
Net cash flow from investing activities		(1,446,941)	(110,636)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Amount received against issue of right shares		1,181,218	498,253
Dividend paid		-	(7)
Net cash flow from financing activities		1,181,218	498,246
Net increase in cash and cash equivalents		3,219,508	2,438,090
Cash and cash equivalents as at January 1	32	6,812,761	4,374,671
Cash and cash equivalents as at December 31	32	10,032,269	6,812,761

The annexed notes 1 to 43 form an integral part of these financial statements.

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Statement of Changes in Equity

For the year ended December 31, 2006



	Share capital	Capital reserves		Revenue reserves	Unappropriated profit	Total
		Statutory reserve	Reserve for issue of bonus shares	General reserve		
Rupees in '000						
Balance as at January 1, 2005	1,346,017	256,578	-	66,766	191,559	1,860,920
Issue of right shares – note 20.1	351,135	-	-	-	-	351,135
Issue of right shares – note 20.1	339,430	-	-	-	-	339,430
Profit after taxation for the year	-	-	-	-	419,455	419,455
Transfer to statutory reserve	-	83,891	-	-	(83,891)	-
Balance as at December 31, 2005 (restated)	2,036,582	340,469	-	66,766	527,123	2,970,940
Transfer to reserve for issue of bonus shares	-	-	325,853	-	(325,853)	-
Issue of bonus shares	325,853	-	(325,853)	-	-	-
Issue of right shares – note 20.1	1,181,218	-	-	-	-	1,181,218
Issue of bonus shares – interim	236,244	-	-	-	(236,244)	-
Profit after taxation for the year	-	-	-	-	604,251	604,251
Transfer to statutory reserve	-	120,850	-	-	(120,850)	-
Balance as at December 31, 2006	3,779,897	461,319	-	66,766	448,427	4,756,409

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 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' license 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, investment and retail banking activities.

The Bank was operating through sixty two branches as at December 31, 2006 (2005: twenty eight). Its registered office is at 3rd Floor, P.N.S.C. Building, Moulvi Tamizuddin Khan Road, Karachi.

## 2. BASIS OF PRESENTATION

These financial statements represent separate financial statements of Meezan Bank Limited. The consolidated financial statements of the group are being issued separately. The Bank provides financing mainly through murabaha, ijarah, musharakah, diminishing musharakah and export refinance under Islamic Export Refinance Scheme. Under Murabaha the goods are purchased and are then sold to the customers on credit. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financings is recognised in accordance with the principles of Islamic Shariah. However income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable if so directed by the Executive Committee of the Shariah Supervisory Board.

### Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

Following amendment to an existing standard and IFRS applicable to the Bank have been published that are mandatory for the Bank's accounting periods beginning on or after January 1, 2006 or later periods:

- |     |   |   |
|-----|---|---|
| i.  | IAS 1 Presentation of Financial Statements –<br>Capital Disclosures | effective from January 1, 2007                                  |
| ii. | IFRS 2 – Share based payments                                       | effective from periods starting on<br>or after December 6, 2006 |

Adoption of the above amendments in IAS (1) Presentation and Disclosure may only impact the extent of disclosures presented in the financial statements, while IFRS-2 shall be applicable when the stock option scheme of the Bank is approved by the Securities and Exchange Commission of Pakistan (SECP).

### Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendments) - Employees Benefits, is mandatory for the company's accounting period beginning on or after January 1, 2006. It introduces the options of an alternative recognition approach for actuarial gains and losses. The Bank does not intend to adopt the alternative recognition approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Critical judgement in classification of investments in accordance with the Bank's policy (notes 6.4.1 and 11).
- Provision for diminution in value of investments (note 11.3).
- Assumption and estimation in recognition of provision for current taxation (current and prior years) and deferred taxation (notes 18, 23.5, 23.6 and 30).
- Staff retirement benefits (notes 6.8, 6.9 and 34).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 4. STATEMENT OF COMPLIANCE

- 4.1 The financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance) and the directives issued by the SECP and the State Bank of Pakistan (SBP) including BSD Circular No. 04 of 2006. The approved accounting standards comprise of such International Financial Reporting Standards and Islamic Financial Accounting Standard 1 (IFAS 1) – Murabaha as are notified under the provision of the Companies Ordinance, 1984, however, wherever the requirements of the Ordinance or directives issued by the SECP and the SBP differ with the requirements of the approved accounting standards, the requirements of the Ordinance or the directives of the SECP or SBP have been followed.
- 4.2 The SBP through its BSD Circular No. 10 dated August 26, 2002 has deferred the implementation of International Accounting Standard (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.

## 5. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain investments and commitments in respect of certain foreign exchange contracts are valued at market rates in accordance with the requirements of SBP. Certain staff retirement benefits are carried at present value.

## 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.

### 6.2 Revenue recognition

- (i) Consistent with prior years, profit on murabaha is recognised on accrual basis. Effective January 1, 2006, profit on murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognised immediately upon the later date. Previously, profit on murabaha was recognised from the date of disbursement. The reason and effect of this change in accounting policy are stated in note 7.1.

Consistent with prior years, profit required to be suspended in compliance with the prudential regulations issued by the SBP is recorded on receipt basis.

- (ii) 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 and documentation charges 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 are recognised as income on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iii) Profits on diminishing musharakah financings are recognised on accrual basis. Profit on musharakah financings is recognised on declaration of profit by musharakah partner.
- (iv) 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.
- (v) Dividend income is recognised when the Bank's right to receive dividend is established.
- (vi) 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.

### 6.3 Financings

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

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## Murabaha

Effective January 1, 2006:

- Funds disbursed for purchase of goods are recorded as 'advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Previously, murabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously these were recorded as advance against future murabaha.

The reason and effect of this change in accounting policy are stated in note 7.1.

### 6.3.2 Provision against non-performing financings

The Bank determines provisions against financings on a prudent basis in accordance with the prudential regulations issued by the SBP.

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

## 6.4 Investments

### 6.4.1 The Bank classifies its investments as follows:

- Held for trading

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

- Held to maturity

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

- Available for sale

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

### 6.4.2 The Bank values its investments as follows:

- Quoted securities, excluding investments categorised as 'held to maturity' securities and investments in subsidiaries and associates, are stated at revalued amounts.
- Investments in quoted associates are stated at cost.
- Unquoted securities including investments in associates and subsidiaries are stated at cost less provision for impairment, if any.
- Investments in securities categorised as 'held to maturity' are carried at amortised cost.

**6.4.3** Any surplus / deficit arising as a result of revaluation of quoted securities categorised as 'available for sale' is presented below the shareholders' equity in the balance sheet while any surplus / deficit arising as a result of revaluation of 'held for trading' securities is credited / charged to the profit and loss account.

**6.4.4** Consistent with prior year all purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the investment.

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



# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



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

## **6.5 Operating fixed assets**

### **6.5.1 Tangible assets**

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

Useful lives and residual values are reviewed at each balance sheet date, and adjusted if impact on depreciation is significant. During the year the Bank has reassessed the useful lives of its assets and has revised the depreciation rates for office equipment from 33 % to 20%.

Had the useful lives of office equipment not been revised the profit after taxation for the year ended December 31, 2006 and the net book values of fixed assets as at that date would have been lower by Rs 5.684 million and Rs 10.932 million respectively. The effect of this revision on profit after taxation for future periods would not be material.

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

Items of fixed assets costing Rs 10,000 or less are not capitalised and are charged off in the year of purchase. Profit or loss on disposals of fixed assets is included in income currently.

The Bank assesses at each balance sheet date whether there is any indication that the operating fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceeds the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment charge is recognised in income.

### **6.5.2 Intangible assets**

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

### **6.5.3 Capital work-in-progress**

Consistent with prior years capital work-in-progress is stated at cost.

## **6.6 Inventories**

As stated in note 6.3.1, goods purchased but remaining unsold at the balance sheet date are recorded as inventories. The Bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase made by the customer as an agent on behalf of the Bank from the funds disbursed for the purposes of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

## **6.7 Taxation**

### **Current**

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

### **Deferred**

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

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 6.8 Staff retirement benefits

### Defined benefit plan

The Bank operates a funded gratuity scheme for all permanent employees who have completed the minimum qualifying eligible service of three years. The scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2006. The projected unit credit method was used for actuarial valuation.

Actuarial gains or losses are recognised over the expected average remaining working lives of employees.

### 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.

## 6.9 Compensated absences

The Bank recognises liability in respect of employees compensated absences in the period in which these are earned upto the balance sheet date. The provision has been recognised on the basis of actuarial valuation conducted as at December 31, 2006. Previously provision was made on the basis of last drawn salary.

Had the actuarial valuation not been conducted, accrued expenses would have been increased by Rs 17.732 million and the profit after tax would have been lowered by Rs 14.185 million.

## 6.10 Dividend and reserves

Dividend declared and appropriations, except for transfer to statutory reserve, made subsequent to the balance sheet date are recognised as liability and recorded as changes in reserves respectively in the period in which these are approved by the directors / shareholders as appropriate. Previously, dividend proposed and transfers from profit available for appropriation to reserves after balance sheet date but before the financial statements were authorised for issue by the board of directors were recorded as a liability and changes in reserves respectively. The reason and effect of this change in accounting policy is stated in note 7.2.

## 6.11 Foreign currency transactions

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

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

## 6.12 Provisions and contingent assets and liabilities

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

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

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

## 6.13 Offsetting

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

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 7. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES

7.1 Consequent to adoption of Islamic Financial Accounting Standard 1 – Murabaha issued by the Institute of Chartered Accountants of Pakistan, the Bank has changed its accounting policy in respect of recording of murabaha transactions. Effective January 1, 2006 the Bank accounts for murabaha as follows:

- Funds disbursed for purchase of goods are recorded as 'Advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Previously, murabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously, these were recorded as advance against future murabaha.
- Profit for the period from the date of disbursement to the date of culmination of murabaha is recognised from the date of disbursement.

Had there been no change in accounting policy the advance against future murabaha would have been Rs 579.897 million and there would have been no inventories.

The change in accounting policy is applied prospectively as the retrospective application was impracticable. The effect of this change in accounting policy on current period's profit is not expected to be material.

7.2 Consequent to change in the forms of the annual financial statements issued by the State Bank of Pakistan through its BSD circular No. 4 dated February 17, 2006, the Bank has changed its policy in respect of recognition of dividend declared and appropriations made, except for transfer to statutory reserve, subsequent to the year end.

- Upto December 31, 2005 dividend proposed after balance sheet date but before the financial statements were authorised for issue by the board of directors was recorded as liability. Effective January 1, 2006 dividend is recognised as liability in the period in which it is approved by the shareholders.
- Upto December 31, 2005 appropriations from reserves made after the balance sheet date but before the financial statements were authorised for issue by the board of directors was recorded as changes in reserves. Effective January 1, 2006 appropriations of reserves including transfer to reserves for issue of bonus shares and other appropriations, except that relating to statutory reserves, are recorded as changes in reserves in the period in which they are made.

This change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in this accounting policy, the 'unappropriated profit' brought forward would have been lower by Rs 325.853 million and the reserve for issue of bonus shares brought forward would have been higher by Rs 325.853 million

**2006**                      **2005**  
Rupees in '000

## 8. CASH AND BALANCES WITH TREASURY BANKS

In hand		
- local currency	411,016	715,331
- foreign currencies	176,276	117,213
With State Bank of Pakistan in		
- local currency current account - note 8.1	4,927,430	2,982,789
- foreign currency deposit account - note 8.1	256,140	136,043
With National Bank of Pakistan in		
- local currency current account	126,532	5,562
	5,897,394	3,956,938

8.1 These represent local and foreign currency accounts required to be maintained by the Bank with the SBP as stipulated by the SBP.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>9. BALANCES WITH OTHER BANKS</b>		
In Pakistan		
- on current account	105,526	57,689
Outside Pakistan		
- on current account	389,334	856,399
- on deposit account – note 9.1	3,640,015	1,941,735
	<u>4,134,875</u>	<u>2,855,823</u>

9.1 The return on these balances ranges from 5.06 to 5.35 (2005: 3.50 to 4.53) percent per annum.

	2006	2005
	Rupees in '000	
<b>10. DUE FROM FINANCIAL INSTITUTIONS</b>		
Commodity Murabaha	3,700,000	-

10.1 The return on these commodity murabaha ranges from 9.60 to 12.75 (2005: nil) percent per annum.

	2006	2005
	Rupees in '000	
<b>10.2 Particulars of due from financial institutions</b>		
In local currency	3,700,000	-
In foreign currencies	-	-
	<u>3,700,000</u>	<u>-</u>

	2006			2005		
	Held by the Bank	Given as Collateral	Total	Held by the Bank	Given as Collateral	Total
	Rupees in '000					
<b>11. INVESTMENTS</b>						
<b>11.1 Investments by types</b>						
Held for trading securities - note 11.4	428,505	-	428,505	298,449	-	298,449
Available for sale securities - note 11.7	233,358	-	233,358	166,982	-	166,982
Held to maturity securities - note 11.6	1,320,548	-	1,320,548	179,142	-	179,142
In related parties						
Associates (listed) - note 11.9	325,068	-	325,068	525,106	-	525,106
Associates (unlisted) - note 11.10	541,280	-	541,280	252,780	-	252,780
Subsidiary (unlisted) - note 11.8	63,050	-	63,050	63,050	-	63,050
Advance against issue of shares						
Pak-Kuwait Takaful Company Limited	-	-	-	17,000	-	17,000
Investment at cost / carrying value	2,911,809	-	2,911,809	1,502,509	-	1,502,509
Less: Provision for diminution in value of investments - note 11.3	8,750	-	8,750	7,453	-	7,453
Investments (net of provisions)	2,903,059	-	2,903,059	1,495,056	-	1,495,056
(Deficit) / surplus on revaluation of 'held for trading' securities	(32,455)	-	(32,455)	57,792	-	57,792
Surplus on revaluation of 'available for sale' securities	6,950	-	6,950	53,642	-	53,642
Total investments at market value	<u>2,877,554</u>	<u>-</u>	<u>2,877,554</u>	<u>1,606,490</u>	<u>-</u>	<u>1,606,490</u>

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>11.2 Investments by segments</b>		
Fully paid up ordinary shares		
- Listed companies	564,285	654,127
- Unlisted companies	191,050	174,050
Musharakah term finance certificates (MTFCs)	10,404	20,502
Term finance certificates (TFCs)	-	29,563
Preference shares	143,280	141,780
Sukuk Bonds	170,548	179,142
WAPDA First sukuk certificates	1,250,000	-
Units of open-ended funds	395,000	125,000
Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL)	897	-
Certificates of a closed-end fund	161,345	161,345
Advance against issue of ordinary shares	-	17,000
Advance against issue of units of United Composite Islamic Fund	25,000	-
<b>Total investment at cost / carrying value</b>	<b>2,911,809</b>	<b>1,502,509</b>
Less: Provision for diminution in value of investments - note 11.3	8,750	7,453
<b>Investments (net of provisions)</b>	<b>2,903,059</b>	<b>1,495,056</b>
(Deficit) / surplus on revaluation of held for trading securities – note 11.5	(32,455)	57,792
Surplus on revaluation of available for sale securities – note 22	6,950	53,642
<b>Total investments at market value</b>	<b>2,877,554</b>	<b>1,606,490</b>

### 11.3 Particulars of provision for diminution in value of investments

	2006			2005		
	Associates	Others	Total	Associates	Others	Total
	Rupees in '000					
Opening balance	7,453	-	7,453	6,325	-	6,325
Transferred from provision against non-performing financings	-	-	-	-	30,959	30,959
Charge for the year	1,297	-	1,297	1,128	-	1,128
Reversals	-	-	-	-	(30,959)	(30,959)
	1,297	-	1,297	1,128	(30,959)	(29,831)
Closing balance	8,750	-	8,750	7,453	-	7,453

#### 11.3.1 Particulars of provision in respect of type and segment

	2006	2005
	Rupees in '000	
<b>Associates - unlisted</b>		
Fully paid-up ordinary shares	8,750	7,453

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 11.4 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	2006	2005	2006	2005
	Number of Shares		Cost / carrying amount Rupees in '000	
<b>Textile composite</b>				
Nishat Mills Limited	335,830	125,000	35,887	13,021
<b>Synthetic and rayon</b>				
Dewan Salman Fibre Limited	-	905,000	-	18,611
<b>Cement</b>				
D.G. Khan Cement Company Limited	113,850	133,000	7,972	13,992
Fauji Cement Company Limited	100,000	-	1,773	-
Maple Leaf Cement Factory Limited	-	153,000	-	5,797
<b>Refinery</b>				
National Refinery Limited	72,000	72,000	26,045	27,295
<b>Power generation and distribution</b>				
Kot Addu Power Company Limited	-	50,000	-	1,941
The Hub Power Company Limited	84,000	882,500	2,273	23,955
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	80,600	22,500	24,642	8,447
Shell Pakistan Limited	16,750	-	6,714	-
Sui Southern Gas Company Limited	-	309,712	-	8,412
<b>Oil and gas exploration</b>				
Oil and Gas Development Company Limited	325,100	155,000	38,541	16,574
Pakistan Oilfields Limited	104,550	153,000	36,070	43,656
Pakistan Petroleum Limited	187,500	75,000	44,730	15,565
<b>Automobile assembler</b>				
Dewan Farooque Motors Limited	-	85,000	-	2,606
Indus Motor Company Limited	50,000	50,000	9,667	6,291
<b>Automobile parts and accessories</b>				
Agriauto Industries Limited - note 11.4.1	180,000	180,000	11,881	9,792
<b>Technology and communication</b>				
Callmate Telips Telecom Limited	-	354,750	-	10,020
Pakistan Telecommunication Company Limited (A)	1,398,500	-	70,870	-
<b>Fertilizer</b>				
Engro Chemical Pakistan Limited	246,500	120,000	41,203	18,437
Fauji Fertilizer Bin Qasim Limited	470,500	35,000	17,985	1,340
Fauji Fertilizer Company Limited	223,375	269,775	27,990	24,256
<b>Chemicals</b>				
ICI Pakistan Limited	-	50,000	-	7,008
<b>Paper and board</b>				
Packages Limited	120,116	120,116	24,262	21,433
<b>Total</b>			<b>428,505</b>	<b>298,449</b>

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



11.4.1 The nominal value of these shares is Rs 5 each.

11.5 Unrealised (loss) / gain on revaluation of investments classified as held for trading

	2006	2005
	Rupees in '000	
<b>Fully paid up ordinary shares</b>		
Listed shares	(32,455)	57,792

11.6 Held to maturity securities

Name of the investee entity	2006	2005	2006	2005
	Number of bonds/ certificates		Cost Rupees in '000	
<b>Sukuk bonds / certificates</b>				
Qatar Global Sukuk Bonds (Sukuk - Qatar) - note 11.6.1	1,000,000	1,000,000	48,728	59,714
Dubai Sukuk Bonds (Sukuk - Dubai) - note 11.6.2	2,000,000	2,000,000	121,820	119,428
WAPDA First Sukuk Certificates (Sukuk - WAPDA) - notes 11.6.3 and 11.7.2	230,000	-	1,150,000	-
			<u>1,320,548</u>	<u>179,142</u>

11.6.1 The paid up value of Sukuk – Qatar is US \$ 0.8 (2005: US \$ 1) per bond. The return on Sukuk – Qatar is on the basis of London inter-bank offered rate plus a fixed credit spread of forty basis points. These bonds will mature between 2007 to 2010.

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

11.6.3 The paid up value of Sukuk - WAPDA is Rs 5,000 per certificate. The return on Sukuk – WAPDA is on a six monthly Karachi inter-bank offered rate plus a fixed credit spread of thirty five basis points. These bonds will mature in 2012.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 11.7 Available for sale securities

The Bank holds investments in ordinary shares, musharakah term finance certificates (MTFCs), Sukuk certificates and other securities of a nominal value of 10 each, unless stated otherwise, in the following investee companies / fund:

Name of the investee company / fund	2006		2005		2006		2005	
	Number of Shares/ certificates		Cost Rupees in '000		Market value Rupees in '000	Rating entity long term/ short term	Market value Rupees in '000	Rating entity long term/ short term
<b>Ordinary shares</b>								
<b>Automobile assembler</b>								
Pak Suzuki Motor Company Limited	10,000	-	3,781	-	4,200	Unrated	-	-
<b>Power generation and distribution</b>								
The Hub Power Company Limited	1,225,000	1,500,000	40,016	49,000	33,075	Unrated	36,000	-
<b>Oil and gas marketing</b>								
Pakistan State Oil Company Limited	27,780	75,280	7,591	20,569	8,167	AAA / A1+	31,380	AAA / A1+
Shell Pakistan Limited	8,625	35,750	1,877	9,727	3,433	Unrated	28,314	Unrated
Sui Southern Gas Company Limited	-	600,000	-	16,422	-	Unrated	16,050	Unrated
<b>Automobile parts and accessories</b>								
Agriauto Industries Limited – note 11.4.1	120,000	120,000	8,762	5,929	9,120	Unrated	7,500	Unrated
<b>Fertilizer</b>								
Fauji Fertilizer Company Limited	288,586	288,586	31,297	11,537	30,461	Unrated	39,536	Unrated
<b>Paper and board</b>								
Packages Limited	44,100	44,100	3,733	3,733	9,261	AA / A1 +	8,908	AA / A1 +
<b>MTFCs</b>								
Sitara Chemical Industries Limited - note 11.7.1	6,120	6,120	10,404	20,502	11,861	AA -	23,373	AA -
<b>TFCs</b>								
Dewan Cement Limited	-	-	-	29,563	-	-	29,563	Unrated
<b>Sukuk certificates</b>								
Wapda First Sukuk Certificates – notes 11.6.3 and 11.7.2	20,000	-	100,000	-	104,833	Unrated	-	-
<b>Others</b>								
S.W.I.F.T. SCRL - note 11.7.3	5	-	897	-	897	Unrated	-	-
Advance against issue of units of United Composite Islamic Fund	-	-	25,000	-	25,000	Unrated	-	-
			<u>233,358</u>	<u>166,982</u>	<u>240,308</u>		<u>220,624</u>	

**11.7.1** The paid up value of MTFCs is Rs 1,700 per certificate. The return on MTFCs is on Musharakah basis and will mature in 2007.

**11.7.2** These sukuk certificates are backed by the Government of Pakistan's Sovereign guarantee.

**11.7.3** The nominal value of these shares is € 125 each.



# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 11.8 Subsidiary (unlisted)

Particulars	2006	2005	2006	2005	Percentage of equity holding	Break up value per share	Latest available financial statements	Name of the chief executive
	Number of Shares		Rupees in '000		%	Rupees		
Al Meezan Investment Management Limited (ordinary shares) – note 11.8.1	1,625,000	650,000	63,050	63,050	65	212.42	December 31, 2006*	Mr. Muhammad Shoaib
Total			63,050	63,050				

\*Half yearly unaudited financial statements.

**11.8.1** The nominal value of these shares is Rs 100 each. These shares are in the custody of Central Depository Company of Pakistan Limited. These shares cannot be sold without the prior approval of SECP in accordance with the SECP's circular No. 9 of 2006 dated June 15, 2006 in addition to mandatory holding period of 5 years from the last date of purchase of such shares.

## 11.9 Associates (listed)

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

Name of the investee entity	2006	2005	Percentage of direct equity holding %	2006	2005
	Number of shares / certificates / units			Rupees in '000	
<b>Ordinary shares</b>					
<b>Closed end mutual fund</b>					
Al Meezan Mutual Fund Limited	4,162,680	3,160,680	3.48	38,723	24,165
<b>Certificates of closed end fund</b>					
Meezan Balanced Fund	16,134,468	16,134,468	13.45	161,345	161,345
<b>Modaraba</b>					
Fayzan Manufacturing Modaraba	-	21,457,500	-	-	214,596
<b>Units of an open end fund</b>					
Meezan Islamic Fund – note 11.9.1	4,788,919	3,687,954	Open end fund	125,000	125,000
				325,068	525,106

**11.9.1** The nominal value of these units is Rs 50 each.

**11.9.2** The above associates are incorporated in Pakistan.

**11.9.3** Investments in listed associates have a market value of Rs 753.125 million (2005: Rs 726.009 million).

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 11.10 Associates (unlisted)

The Bank holds investments in ordinary shares of Rs 10 each, unless stated otherwise, and preference shares of Rs 100 each in the following unlisted investee companies / fund:

Particulars	2006	2005	2006	2005	Percentage of equity holding	Break up value per share	Latest available financial statements	Name of the chief executive/ asset management Company
	Number of Shares/ certificates/units		Rupees in '000		%	Rupees		
Plexus (Private) Limited	1,499,980	1,499,980	15,000	15,000	50	7.27	December 31, 2006*	Mr. Arif-ul- Islam
Faysal Management Services (Private) Limited - note 11.10.1	540,000	540,000	54,000	54,000	30	121.75	December 31, 2006*	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited- note 11.10.2	90,000	90,000	9,000	9,000	30	102.59	December 31, 2006*	Mr. Shuja-ul- Mulk
Falcon Greenwood (Private) Limited -Ordinary shares - note 11.10.2	250,000	250,000	25,000	25,000	25	100.00	December 31, 2006*	Mr. Abbas Khan
-Preference shares - note 11.10.3	1,432,800	1,417,800	143,280	141,780	N/A	N/A		
Pak Kuwait Takaful Company Limited	2,500,000	800,000	25,000	8,000	10	9.03	December 31, 2006*	Mr. Istaqbal Mehdi
Meezan Islamic Income Fund - note 11.10.4	5,400,000	-	270,000	-	N/A	50.00	First financial statements not issued	Al Meezan Investment Management Limited
<b>Total</b>			<u>541,280</u>	<u>252,780</u>				

\*Unaudited

**11.10.1** The nominal value of these shares is Rs 100 each. These shares are in the custody of SECP and cannot be sold without the prior approval of SECP in accordance with circular No. 9 of 2006 dated June 15, 2006 in addition to mandatory holding period of 5 years from the last date of purchase of these shares.

**11.10.2** The nominal value of these shares is Rs 100 each.

**11.10.3** The nominal value of these preference shares is Rs 100 each. The preference shares have no voting rights. These preference shares are redeemable at the option of the investee company.

**11.10.4** These are unlisted units of an open end fund. Subsequent to December 31, 2006 the fund has applied for listing in Karachi Stock Exchange.

**11.10.5** The above associates are incorporated in Pakistan.

**11.11** Investments in subsidiary and associates except Meezan Islamic Income Fund form part of strategic investment of the Bank and cannot be sold for a period of five (5) years from the last date of purchase of such securities.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>12. FINANCINGS</b>		
In Pakistan		
- Murabaha financings – note 12.1	11,430,720	8,117,096
- Net investment in ijarah – note 12.2	6,379,808	5,103,433
- Export refinance under Islamic scheme – note 12.3	4,403,667	2,923,000
- Diminishing musharakah financings – housing	2,604,096	1,900,763
- Diminishing musharakah financings – others	1,209,466	983,557
- Musharakah financings	130,500	104,500
- Financings against bills – salam	364,755	260,532
- Financings against bills – murabaha	573,961	353,433
- Loans and running finances – note 12.4	172,298	111,246
Total financings - note 12.6 and 12.8	<u>27,269,271</u>	<u>19,857,560</u>
Less: Provision against non-performing financings – note 12.7	238,255	116,674
Financings net of provision	<u>27,031,016</u>	<u>19,740,886</u>
<b>12.1 Murabaha receivable- gross – note 12.1.1</b>	11,871,350	8,117,096
Less: Deferred murabaha income	222,466	-
Profit receivable shown in other assets	218,164	-
Murabaha financings / receivables	<u>11,430,720</u>	<u>8,117,096</u>

**12.1.1** This includes advance for murabaha aggregating Rs 1,812 million. The comparative balances have not been stated as the change in accounting policy as stated in note 7.1 has been applied prospectively.

## 12.2 Net investment in Ijarah

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	2,390,143	3,956,829	35,736	6,382,708	1,748,678	2,918,730	677,989	5,345,397
Residual value	198,050	1,114,608	54,261	1,366,919	137,663	679,568	68,397	885,628
Minimum lease payments	2,588,193	5,071,437	89,997	7,749,627	1,886,341	3,598,298	746,386	6,231,025
Profit for future periods	558,457	804,764	6,598	1,369,819	467,125	572,543	87,924	1,127,592
Present value of minimum ijarah payments	<u>2,029,736</u>	<u>4,266,673</u>	<u>83,399</u>	<u>6,379,808</u>	<u>1,419,216</u>	<u>3,025,755</u>	<u>658,462</u>	<u>5,103,433</u>

	2006	2005
	Rupees in '000	
<b>12.3 Murabaha receivable under Islamic export refinance scheme - gross – note 12.3.1</b>	4,513,494	2,923,000
Less: Deferred murabaha income	50,257	-
Profit receivable shown in other assets	59,570	-
Export refinance under Islamic scheme / receivables	<u>4,403,667</u>	<u>2,923,000</u>

**12.3.1** This includes advance for murabaha under Islamic export refinance scheme aggregating Rs 846 million. The comparative balances have not been stated as the change in accounting policy as stated in note 7.1 has been applied prospectively.

**12.4** This includes Rs 109.051 million (2005: Rs 84.493 million) representing mark up free loans to staff advanced under Bank's human resource policies.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>12.5 Particulars of financings</b>		
<b>12.5.1 In</b>		
- local currency	25,772,701	18,894,113
- foreign currencies	1,258,315	846,773
	<u>27,031,016</u>	<u>19,740,886</u>
<b>12.5.2 Short-term (for upto one year)</b>	17,620,575	13,211,186
Long-term (for over one year)	9,410,441	6,529,700
	<u>27,031,016</u>	<u>19,740,886</u>

**12.6** Financings include Rs 408.442 million (2005: Rs 183.373 million) which have been placed under non-performing status detailed below:

Category of classification	Classified financings			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Substandard	148,774	-	148,774	35,557	-	35,557	35,557	-	35,557
Doubtful	92,948	-	92,948	25,921	-	25,921	25,921	-	25,921
Loss	166,720	-	166,720	102,234	-	102,234	102,234	-	102,234
	<u>408,442</u>	<u>-</u>	<u>408,442</u>	<u>163,712</u>	<u>-</u>	<u>163,712</u>	<u>163,712</u>	<u>-</u>	<u>163,712</u>

## 12.7 Particulars of provision against non-performing financings

	2006			2005		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	66,953	49,721	116,674	59,971	18,851	78,822
Transfer to available for sale securities	-	-	-	(30,959)	-	(30,959)
Charge for the year	98,296	24,822	123,118	37,941	30,870	68,811
Less: Reversals	1,537	-	1,537	-	-	-
Net (reversals) / charge	96,759	24,822	121,581	37,941	30,870	68,811
Closing balance	<u>163,712</u>	<u>74,543</u>	<u>238,255</u>	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>

**12.7.1** The Bank has maintained a general reserve (provision) in accordance with the applicable requirements of the prudential regulations for consumer financing issued by the State Bank of Pakistan.

### 12.7.2 Particulars of provision against non-performing financings

	2006			2005		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	154,346	74,543	228,889	51,651	49,721	101,372
In foreign currencies	9,366	-	9,366	15,302	-	15,302
	<u>163,712</u>	<u>74,543</u>	<u>238,255</u>	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>12.8</b> Particulars of loans and financings to directors, associated companies etc.		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at the beginning of the year	121,902	56,691
Financings granted during the year	105,534	71,444
Repayments	(58,320)	(6,233)
Balance at the end of the year – note 12.8.1	169,116	121,902
Debts due by companies or firms in which the directors of the company are interested as directors, partners or in the case of private companies as members		
Balance at the beginning of the year	311,912	146,917
Financings granted during the year	497,798	695,212
Repayments	(413,807)	(530,217)
Balance at the end of the year – note 12.8.2	395,903	311,912

Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties

	2006	2005
	Rupees in '000	
Balance at the beginning of the year	2,187	1,352
Financings granted during the year	-	1,877
Repayments	(699)	(1,042)
Balance at the end of the year – note 12.8.3	1,488	2,187

**12.8.1** The maximum total amount of financings including temporary financings granted during the year were Rs 169.116 million (2005: Rs 121.902 million). The maximum amount has been calculated by reference to the month end balance.

**12.8.2** This represents a musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs 120.500 million (2005: Rs 94.500 million), murabaha and ijarah facilities outstanding from The General Tyre and Rubber Company of Pakistan Limited (an associated company) (GTR) amounting to Rs 182.089 million (2005: Rs 122.015 million) and Rs 89.239 million (2005: Rs 95.396 million) respectively and ijarah facility outstanding from Pak-Kuwait Takaful Company Limited (an associated company) amounting to Rs 4.075 million (2005 : Rs Nil). The musharakah facility is secured against equitable mortgage over property, whereas murabaha and ijarah facilities are secured against hypothecation charge over present and future stocks, book debts and the rented assets of GTR and Pak-Kuwait Takaful Company Limited respectively. The maximum total amount of financings including temporary financings granted during the year were Rs 431.977 million (2005: Rs 311.912 million). The maximum amount has been calculated by reference to the month end balance.

**12.8.3** This represents an ijarah facility outstanding from Al Meezan Investment Management Limited (a subsidiary company). The ijarah facility is secured against the respective assets. The maximum total amount of financings including temporary financings granted during the year were Rs 2.129 million (2005: Rs 2.541 million). The maximum amount has been calculated by reference to the month end balance.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 12.8.4 Loans and financings to executives and a director

	Executives		Director	
	2006	2005	2006	2005
	Rupees in '000			
Opening balance	54,318	36,087	827	960
Loans disbursed during the year	25,957	24,871	-	-
Loans repaid during the year	(55,342)	(6,640)	(133)	(133)
Closing	24,933	54,318	694	827

## 13. OPERATING FIXED ASSETS

Tangible assets

Capital work-in-progress - note 13.1

Property and equipment - note 13.2

Intangible assets – note 13.4

**2006**                      **2005**  
Rupees in '000

	66,795	26,895
	445,659	265,367
	512,454	292,262
	18,808	13,323
	<u>531,262</u>	<u>305,585</u>
	39,630	15,455
	9,385	1,806
	15,331	3,999
	2,449	5,635
	<u>66,795</u>	<u>26,895</u>

### 13.1 Capital work-in-progress

Advances to suppliers and contractors for building renovation

Advances for computer hardware

Advances for purchase of vehicles

Advances for computer software

### 13.2 Property and equipment

	COST			DEPRECIATION			Net book value as at December 31, 2006	Rate of depreciation %	
	As at January 1, 2006	Additions/ (disposals)	As at December 31, 2006	As at January 1, 2006	Charge/ (on disposal)	As at December 31, 2006			
	Rupees in '000								
Land and buildings - note 13.3.1	55,329	16,641	71,970	5,532	3,599	9,131	62,839	5	
Leasehold improvements	118,092	102,607	220,699	21,210	22,070	43,280	177,419	10	
Furniture and fixtures	26,293	22,232	48,525	4,991	5,108	10,099	38,426	10	
Electrical, office and computer equipments	126,911	97,710	224,621	77,360	49,198	126,558	98,063	20 and 33	
Vehicles	78,288	47,139	116,098	30,453	23,049	47,186	68,912	20	
		(9,329)			(6,316)				
<b>2006</b>	<u>404,913</u>	<u>286,329</u>	<u>681,913</u>	<u>139,546</u>	<u>103,024</u>	<u>236,254</u>	<u>445,659</u>		
		(9,329)			(6,316)				
2005	258,016	151,816	404,913	75,249	67,410	139,546	265,367		
		(4,919)			(3,113)				

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 13.3 Property, equipment and others - movement of net book value

	Land and buildings	Leasehold improvements	Furniture and fixtures	Electrical, office and computer equipments	Vehicles	Total
Rupees in '000						
<b>At January 1, 2005</b>						
Cost	55,329	61,021	12,453	75,999	53,214	258,016
Accumulated depreciation	2,766	9,400	2,366	39,852	20,865	75,249
Net book value	52,563	51,621	10,087	36,147	32,349	182,767
<b>Year ended December 31, 2005</b>						
Additions	-	57,071	13,840	51,372	29,533	151,816
Net book value of disposals	-	-	-	22	1,784	1,806
Depreciation charge	2,766	11,810	2,625	37,946	12,263	67,410
Net book value as at December 31, 2005	49,797	96,882	21,302	49,551	47,835	265,367
<b>Year ended December 31, 2006</b>						
Additions	16,641	102,607	22,232	97,710	47,139	286,329
Net book value of disposals	-	-	-	-	3,013	3,013
Depreciation charge	3,599	22,070	5,108	49,198	23,049	103,024
Net book value as at December 31, 2006	62,839	177,419	38,426	98,063	68,912	445,659

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

**13.3.2** Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs 55.026 million (2005: Rs 15.058 million).

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



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

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees in '000					
<b>Vehicles</b>						
Honda Civic	1,161	1,161	-	116	Bank Policy	Mr. Najam ul Hasan (Employee)
Honda Civic	1,003	451	552	1,003	Insurance claim	Adamjee Insurance Company Limited
Honda Civic	1,042	174	868	1,000	Insurance claim	Adamjee Insurance Company Limited
Suzuki Cultus	560	336	224	224	Bank policy	Mr. Nisar Ahmed (Employee)
Honda Citi	735	441	294	282	Bank policy	Mr. Faiz ur Rehman (Employee)
Honda Civic	1,154	923	231	288	Bank policy	Mr. Rizwan Atta (Employee)
BMW	1,330	1,330	-	650	Negotiation	International Motors
Honda Citi	785	471	314	314	Bank policy	Mr. Zafar A. Khan (Employee)
Suzuki Alto	469	375	94	133	Bank policy	Mr. Ismail Aswani (Employee)
Santro	499	299	200	200	Bank policy	Ms. Naheed Ashfaq (Employee)
Suzuki Cultus	591	355	236	236	Bank policy	Mr. Mashkoor A. G. Khan (Employee)
<b>Electrical, office and computer equipments</b>						
Miscellaneous office equipment	-	-	-	390	Negotiation	Various buyers
	<u>9,329</u>	<u>6,316</u>	<u>3,013</u>	<u>4,836</u>		

### 13.4 Intangible assets

	COST			AMORTISATION			Net book value as at December 31, 2006	Rate of amortisation %
	Opening balance as at January 1, 2006	Additions	Closing balance as at December 31, 2006	Opening balance as at January 1, 2006	Amortisation as at December 31, 2006	Closing balance as at December 31, 2006		
	Rupees in '000							
Computer software	18,442	11,019	29,461	5,119	5,534	10,653	18,808	20
2005	10,928	7,514	18,442	1,788	3,331	5,119	13,323	



# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 13.5 Intangible assets-movement of net book value

	Year ended December 31, 2005			Year ended December 31, 2006			
	Net book value as at January 1, 2005	Addition	Amortisation charge for the year	Net book value as at December 31, 2005	Addition	Amortisation charge for the year	Net book value as at December 31, 2006
	Rupees in '000						
Computer software	9,140	7,514	3,331	13,323	11,019	5,534	18,808

## 14. OTHER ASSETS

	2006	2005
	Rupees in '000	
Profit/return accrued in local currency	450,390	308,282
Profit/return accrued in foreign currency	15,986	7,144
Advances, deposits, advance rent and other prepayments - note 14.1	256,299	203,208
Advance taxation (payments less provisions)	219,929	150,193
Receivables on account of sale of securities	12,209	761,543
Dividend receivable	1,278	765
Stamps	3,997	2,202
Inventories – note 14.2	579,897	-
Advance against future murabaha	-	368,818
Advance against future ijarah	714,928	382,981
Security deposits	10,701	6,208
Unrealised gain on forward foreign exchange contracts	-	17,038
Prepaid exchange risk fee	121	47
Others - note 14.3	787	1,671
	2,266,522	2,210,100

14.1 This includes prepaid rent and prepaid insurance aggregating Rs 121.205 million (2005: 43.684 million) and Rs 78.187 million (2005: 70.678 million) respectively which are being amortised over a period of one year.

14.2 These represent goods purchased for murabaha but remaining unsold at the balance sheet date.

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

## 15. BILLS PAYABLE

	2006	2005
	Rupees in '000	
In Pakistan	563,228	260,732
Outside Pakistan	-	-
	563,228	260,732

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>16. DUE TO FINANCIAL INSTITUTIONS</b>		
In Pakistan	4,264,642	2,981,714
Outside Pakistan	20,570	-
	4,285,212	2,981,714
<b>16.1 Particulars of due to financial institutions with respect to currencies</b>		
In local currency	4,252,460	2,922,000
In foreign currencies	32,752	59,714
	4,285,212	2,981,714
<b>16.2 Details of due to financial institutions secured / unsecured</b>		
<b>Secured</b>		
Borrowing from State Bank of Pakistan Under Islamic export refinance scheme – note 16.2.1	4,252,460	2,922,000
<b>Unsecured</b>		
Overdrawn nostro accounts	20,570	-
Others	12,182	59,714
	32,752	59,714
	4,285,212	2,981,714

**16.2.1** The borrowings are on a profit and loss sharing basis maturing between January 8, 2007 and June 27, 2007 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 5,000 million has been allocated to the Bank by the SBP under Islamic Export Refinance Scheme for the financial year ending June 30, 2007.

	2006	2005
	Rupees in '000	
<b>16.3 Particulars of due to financial institutions</b>		
Short-term	4,285,212	2,981,714
Long-term	-	-
	4,285,212	2,981,714
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	12,993,315	6,492,676
Savings deposits	9,837,816	7,500,017
Current Accounts - non-remunerative	7,779,810	5,028,807
Margin	342,301	207,290
	30,953,242	19,228,790
<b>Financial institutions</b>		
Remunerative deposits	3,489,614	3,534,865
Non-remunerative deposits	6,585	5,607
	3,496,199	3,540,472
	34,449,441	22,769,262

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
Rupees in '000

## 17.1 Particulars of deposits

	2006	2005
In		
- local currency	32,096,664	21,605,754
- foreign currencies	2,352,777	1,163,508
	34,449,441	22,769,262

## 18. DEFERRED TAXATION

Credit / (debit) balances arising on account of:		
Excess of accounting net books values over tax written down values of owned assets	61,808	2,919
Other staff benefits	(40,702)	(37,926)
Excess of ijarah financings over tax written down values of ijarah assets	488,844	253,400
Carried forward assessed and unassessed tax losses – note 18.1	(60,122)	(29,480)
Excess of tax written down values over accounting net book values of investments	(3,063)	(2,609)
Provision against non-performing financings	(47,901)	(14,070)
Others	(560)	(1,960)
	398,304	170,274

**18.1** The Bank has an aggregate amount of Rs 171.778 million (2005: 84.229 million) available as carried forward assessed and unassessed tax losses as at December 31, 2006. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

**18.2** A deferred tax asset on deficit on revaluation of listed equity shares amounting to approximately Rs 11.128 million has not been recognised by the Bank in the financial statements as the management is confident that the existing exemption on capital gains arising on listed shares will be extended by the Government of Pakistan beyond the tax year 2007.

**2006**                      **2005**  
Rupees in '000

## 19. OTHER LIABILITIES

Return on deposits and other dues:		
- payable in local currency – note 19.1	305,264	171,182
- payable in foreign currency	6,429	1,436
Unearned commission	20,738	11,869
Accrued expenses – note 19.2	32,664	51,000
Advance payments	318	7,720
Unclaimed dividends	855	855
Unrealised loss on forward foreign exchange contracts	409	-
Payable to defined benefit plan – note 34.3	7,929	5,627
Provision against off-balance sheet obligations – note 19.3	1,600	1,600
Security deposits against Ijarah	1,400,061	885,628
Payable on account of purchase of securities	-	149,552
Other staff benefits	116,290	108,361
Charity payable – note 19.4	9,549	6,740
Others	76,973	67,688
	1,979,079	1,469,258

**19.1** It includes Rs 57.528 million (2005: Rs 49.006 million) in respect of return accrued on borrowings from SBP under Islamic export refinance scheme.

**19.2** It includes Rs 0.120 million (2005: Rs 7.4 million) payable to a subsidiary company.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>19.3 Provision against off-balance sheet obligations</b>		
Opening balance – note 19.3.1	1,600	1,600
Charge for the year	-	-
Reversals	-	-
Amount Written off	-	-
Closing balance	<u>1,600</u>	<u>1,600</u>

**19.3.1** 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.

	2006	2005
	Rupees in '000	
<b>19.4 Reconciliation of charity payable</b>		
Balance as at January 1	6,740	2,890
Additions during the year – note 19.4.1	9,508	5,386
Payments made during the year – note 19.4.2	(6,699)	(1,536)
Balance as at December 31	<u>9,549</u>	<u>6,740</u>

**19.4.1** It includes charity payable on last year's income amounting to Rs 0.324 million.

**19.4.2** Charity amounting to Rs 6 million and Rs 0.200 million during the year ended December 31, 2006 was paid to The Citizen Foundation and Idara Al Khair respectively. None of the other individuals / organisation received charity in excess of Rs 100,000 each.

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

## 20. SHARE CAPITAL

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

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

	Ordinary shares	
	Number	Amount Rupees in '000
<b>Authorised capital</b>		
As at January 1, 2006	300,000,000	3,000,000
Increase during the year	500,000,000	5,000,000
As at December 31, 2006	<u>800,000,000</u>	<u>8,000,000</u>
<b>Issued, subscribed and paid-up capital</b>		
As at January 1, 2005	134,601,709	1,346,017
Right issue at Rs 10 each	69,056,528	690,565
As at December 31, 2005	<u>203,658,237</u>	<u>2,036,582</u>
Issue of bonus shares	56,209,672	562,097
Right issue at Rs 10 each	118,121,777	1,181,218
As at December 31, 2006	<u>377,989,686</u>	<u>3,779,897</u>

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

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
**Restated**  
**Rupees in '000**

## 21. RESERVES

Statutory reserve – note 21.1	461,319	340,469
General reserve	66,766	66,766
	528,085	407,235

**21.1** Under section 21 of the Banking Companies Ordinance, 1984 an amount not less than 20% of the profit to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of paid up capital.

**2006**                      **2005**  
**Rupees in '000**

## 22. SURPLUS ON REVALUATION OF INVESTMENTS

Quoted shares	660	50,772
Other securities - quoted MTFCs	1,457	2,870
- certificates	4,833	-
	6,950	53,642

## 23. CONTINGENCIES AND COMMITMENTS

### 23.1 Direct credit substitutes

Government	201,279	82,298
------------	---------	--------

### 23.2 Transaction-related contingent liabilities

Guarantees favouring		
- Government	1,805,745	1,851,267
- Banks	29,273	18,397
- Others	2,224,786	1,224,058
	4,059,804	3,093,722

### 23.3 Trade-related contingent liabilities

Import letter of credit	4,802,859	5,880,513
Acceptances	2,300,062	2,242,686
	7,102,921	8,123,199

### 23.4 Commitments in respect of forward exchange contracts

Purchase	2,808,751	1,908,163
Sales	6,297,464	4,641,603

**23.5** The assessing officer had subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income in respect of assessment year 2001-2002 and tax year 2003. During the year the ITAT has decided the matter in favour of the Bank in respect of assessment year 2001-2002.

The amount of tax levied by the assessing officer on such gain aggregated Rs 151.798 million, whereas the net tax liability for the aforesaid assessment years and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs 41 million. The management is confident that even at the superior judicial forums the Bank's position will be sustained.

**23.6** The tax department has not accepted the Bank's contention on the matter of allocation of expenses on exempt capital gains and dividend income subject to reduced rate of tax. Order to this effect has already been framed for the tax year 2003. For the following years this matter has not yet emerged as there have been deemed assessments which are expected to be amended on this issue.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



While finalising the assessment of the Bank for the tax year 2003 the assessing officer made certain disallowance of financial charges and administrative expenses on this account. After considering the effect of apparent rectifications the disallowances will aggregate to Rs 106.635 million. If the assessing officer's basis of allocation is applied for the following years, the expected disallowances may amount to Rs 647 million resulting in tax impact of Rs 257 million in respect of tax year 2003 and the following years. The Bank had filed an appeal with CIT (A) on the subject matter. The CIT (A) in his order confirmed the assessment in respect of the principle of allocation of expenses, however, directions have been given for necessary rectification on certain facts and basis underlying that assessment.

The Bank has challenged the matter in an appeal on the issue with the ITAT. In the case of another company, the issue of allocation of expenses has been set aside by the ITAT with certain positive assertions.

The management is confident that the ultimate outcome of the appeal would be in favour of the Bank inter alia on facts of the case. In the management view this could result in the maximum liability aggregating to Rs 163 million in respect of tax year 2003 and following years which has been provided for.

	2006	2005
	Rupees in '000	
<b>23.7</b> Commitments in respect of financings	16,704,510	13,417,146
<b>23.8 Other commitments</b>		
Bills for collection (inland)	42,784	16,108
Bills for collection (foreign)	2,088,795	1,146,365
	<u>2,131,579</u>	<u>1,162,473</u>
<b>24. PROFIT / RETURN EARNED ON FINANCINGS, INVESTMENTS AND PLACEMENTS</b>		
On financings to		
- Customers	2,349,404	1,422,098
On investments in		
- Available for sale securities	4,548	3,066
- Held to maturity securities	125,513	6,667
On deposits with financial institutions	224,815	27,398
	<u>2,704,280</u>	<u>1,459,229</u>
<b>25. RETURN ON DEPOSITS AND OTHER DUES EXPENSED</b>		
Deposits and other accounts – note 25.1	1,227,139	520,946
On other short term borrowings	237,034	169,472
	<u>1,464,173</u>	<u>690,418</u>
<b>25.1</b> It includes Rs 229.491 million (2005: Rs 144.025 million) paid / payable to SBP under Islamic export refinance scheme.		
	2006	2005
	Rupees in '000	
<b>26. CAPITAL GAIN ON SALE OF SECURITIES</b>		
Shares-listed	114,308	209,402
WAPDA first sukuk certificates	2,344	-
Term finance certificates	341	-
	<u>116,993</u>	<u>209,402</u>
<b>27. OTHER INCOME</b>		
Gain on termination of ijarah financings	10,297	9,186
Gain on termination of diminishing musharakah financings	10,069	-
Gain on sale of property, equipment and others	1,823	163
Others	871	328
	<u>23,060</u>	<u>9,677</u>

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
Rupees in '000

## 28. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc. – note 36	412,602	295,957
Charge for defined benefit plan – note 34.4	7,929	5,627
Contribution to defined contribution plan	11,540	7,776
Non-executives directors' fees – note 36	5,373	6,163
Rent, electricity, taxes, insurance etc.	135,024	79,140
Insurance on consumer car ijarah	101,040	58,862
Communication	38,325	32,386
Stationery and printing	26,431	20,998
Entertainment	9,977	6,576
Local transportation and car running	26,266	15,806
Fees, subscription and clearing charges	21,210	5,309
Security charges	12,332	7,439
Repairs and maintenance	12,056	6,699
Hardware and software maintenance	4,492	3,813
Advertisement and publicity	28,157	30,294
Depreciation – note 13.2	103,024	67,410
Amortisation – note 13.3	5,534	3,331
Travelling	11,627	7,195
Service charges – notes 36.2 and 28.1	12,022	23,460
Brokerage and commission	13,686	9,660
Legal and professional charges – note 28.2	7,315	8,876
Auditors' remuneration – note 28.3	6,303	5,360
Donations	-	4,000
Others	10,726	6,247
	1,022,991	718,384

**28.1** It includes fee charged by the subsidiary in respect of the management of investment portfolio of the Bank.

**28.2** It includes remuneration to Shariah board amounting to Rs 2.100 million (2005: Rs 2.437 million).

**2006**                      **2005**  
Rupees in '000

## 28.3 Auditors' remuneration

Audit fee	1,100	950
Fee for audit of employees' funds	150	75
Special certifications and sundry advisory services	1,800	1,892
Tax services	2,750	2,253
Out of pocket expenses	503	190
	6,303	5,360

## 29. OTHER CHARGES

Penalties imposed by State Bank of Pakistan

4,776                      482

## 30. TAXATION

Current		
- For the year	8,314	4,671
- Prior years	(60,572)	39,002
	(52,258)	43,673
Deferred	228,030	169,988
	175,772	213,661

**30.1** As the provision for current taxation for the year ended December 31, 2006 has been made on the basis of presumptive tax, therefore a relationship between the tax expense and the accounting profit has not been disclosed.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
Rupees in '000

## 31. BASIC EARNINGS PER SHARE

Profit for the year	604,251	419,455
Weighted average number of ordinary shares	321,685,172	287,888,288
Basic earnings per share	1.88	1.46

31.1 The number of ordinary shares as at December 31, 2005 have been adjusted for element of bonus in issue of right shares and bonus shares.

31.2 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2006 and 2005.

**2006**                      **2005**  
Rupees in '000

## 32. CASH AND CASH EQUIVALENTS

Cash and balance with treasury banks	5,897,394	3,956,938
Balance with other banks	4,134,875	2,855,823
	10,032,269	6,812,761

**2006**                      **2005**  
Number of Staff

## 33. STAFF STRENGTH

Permanent	779	442
Contractual basis	449	239
Bank's own staff strength at the end of the year	1,228	681
Outsourced	161	105
Total staff strength	1,389	786

## 34. DEFINED BENEFIT PLAN

34.1 The projected unit credit method, as allowed under the International Accounting Standard 19 'Employee Benefits' (revised 2005), was used for actuarial valuation based on the following significant assumptions:

	<b>2006</b>	<b>2005</b>
Discount rate	10% p.a	10% p.a
Expected rate of increase in salaries	10% p.a	10% p.a
Expected rate of return on investments	10% p.a	10% p.a
Normal retirement age	60 years	60 years

The disclosures made in notes 34.1 to 34.13 are based on the information included in the actuarial valuation as of December 31, 2006.

**2006**                      **2005**  
Rupees in '000

### 34.2 Reconciliation of payable to defined benefit plan

Present value of defined benefit obligations – note 34.7	29,117	17,640
Fair value of plan assets – note 34.8	(11,531)	(6,841)
Net actuarial gains or losses not recognised – note 34.11	(9,657)	(5,172)
	7,929	5,627

### 34.3 Movement in payable to defined benefit plan

Opening balance	5,627	6,530
Charge for the year – note 34.4	7,929	5,627
Contribution to fund made during the year	(5,627)	(6,530)
Closing balance	7,929	5,627



# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>34.4 Charge for defined benefit plan</b>		
Current service cost	6,539	4,700
Interest cost	1,764	987
Expected return on plan assets	(684)	(176)
Actuarial gains and losses	310	116
	7,929	5,627
<b>34.5 Actual return / (loss) on plan assets</b>	659	(380)
<b>34.6</b> It includes a balance of Rs 1.086 million (2005: Rs 6.841 million) and Rs 10.445 million (2005: Rs Nil) kept in a saving account and Meezan Aamdhan Certificate with the Bank respectively.		

	2006	2005
	Rupees in '000	
<b>34.7 Reconciliation of present value of obligation</b>		
Present value of obligation as at January 1	17,640	10,972
Current service cost	6,539	4,700
Interest cost	1,764	987
Benefits paid	(1,596)	(1,265)
Actuarial loss on obligation	4,770	2,246
Present value of obligation as at December 31	29,117	17,640
<b>34.8 Changes in the fair value of plan assets are as follows:</b>		
Opening fair value of plan assets	6,841	1,956
Expected return	684	176
Contributions by the Bank	5,627	6,530
Benefits paid	(1,596)	(1,265)
Actuarial loss	(25)	(556)
	11,531	6,841

	2006		2005	
	Rupees in '000	%	Rupees in '000	%
<b>34.9 The plan assets comprise as follows:</b>				
Meezan Aamdhan Certificates	10,445	90.58	-	-
Saving account with Meezan Bank	1,086	9.42	6,841	100.00
	11,531		6,841	

	2006	2005
	Rupees in '000	
<b>34.10 Actuarial loss to be recognised</b>		
Corridor Limit		
The limits of the corridor as at January 1		
10% of obligations	1,764	1,097
10% of plan assets	684	196
Which works out to	1,764	1,097
Unrecognised actuarial gain / (losses) as at January 1	(5,172)	(2,486)
Excess	(3,408)	(1,389)
Average expected remaining working lives in years	11	12
Actuarial loss to be recognised	(310)	(116)

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>34.11 Unrecognised actuarial losses</b>		
Unrecognised actuarial losses at January 1	(5,172)	(2,486)
Actuarial loss on obligations – note 34.7	(4,770)	(2,246)
Actuarial loss on assets – note 34.8	(25)	(556)
Subtotal	(9,967)	(5,288)
Actuarial loss recognised – note 34.10	310	116
Unrecognised actuarial gain / (losses) as at December 31	(9,657)	(5,172)

**34.12** Amount for the current year and previous four years of the present value of the defined benefit obligation, the fair value of plan assets, surplus / deficit and experience adjustments arising thereon are as follows:

	2006	2005	2004	2003	2002
	Rupees in '000				
Present value of defined benefit obligation	29,117	17,640	10,972	7,332	4,422
Fair value of plan assets	(11,531)	(6,841)	(1,956)	(1,931)	(785)
Deficit	17,586	10,799	9,016	5,401	3,637
Actuarial loss on obligation	(4,770)	(2,246)	(449)	(389)	(1,725)
Actuarial gain / (loss) on assets	(25)	(556)	338	252	(27)

**34.13 Expected gratuity expense for the next year**

The expected gratuity expense for the year ending December 31, 2007 works out to Rs.13.648 million.

**35. 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.

	2006	2005
	Rupees in '000	
Contribution from the Bank	11,540	7,776
Contribution from the employee	11,540	7,776
	23,080	15,552

**36. COMPENSATION OF DIRECTORS AND EXECUTIVES**

	President and Chief Executive		Director		Executives	
	2006	2005	2006	2005	2006	2005
	Rupees in '000					
Fees	285	923	5,691*	7,020	-	-
Managerial remuneration	16,086	16,086	20,230	18,764	78,556	48,456
Charge for defined benefit plan	-	-	731	617	2,790	1,790
Contribution to defined contribution plan	-	-	878	741	3,097	2,118
House rent	-	-	270	270	9,948	6,606
Utilities	-	-	878	741	4,196	2,484
Medical	162	176	937	846	4,317	2,619
Conveyance	639	537	230	145	-	-
Others	171	143	63	14	-	-
	17,343	17,865	29,908	29,158	102,904	64,073
Number of persons	1	1	10	10	39	26

\*This includes amounts charged in these financial statements as fees to nine (2005: nine) non-executive directors.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



36.1 Certain executives are provided with free use of the Bank cars.

36.2 In addition to the above, service charges (note 28) include Rs 15.946 million (2005: Rs 13.892 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.

## 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 The fair value of investments in listed securities, except investments categorised as 'held to maturity' securities and investments in subsidiaries and associates is based on quoted market prices. The value of unquoted equity investments is reduced, if required, on the basis of break-up value of those investments based on the latest available financial statements as disclosed in notes 11.8 and 11.10.

The fair value of financings, 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 6.3.2. 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 financings and deposits are frequently repriced.

## 38. SEGMENT ANALYSIS

38.1 Segment details with respect to business activities

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
	Rupees in '000								
<b>2006</b>									
Total income	1,925	824,585	252,634	2,271,256	36,123	8,318	-	-	-
Total expenses	(1,877)	(708,772)	(184,732)	(1,882,774)	(11,969)	(466)	-	-	-
Net income	48	115,813	67,902	388,482	24,154	7,852	-	-	-
Segment assets	386,800	19,407,607	2,636,029	24,008,187	-	-	-	-	-
Segment non performing loans	-	-	103,800	304,642	-	-	-	-	-
Segment provision required	-	-	20,416	217,839	-	-	-	-	-
Segment liabilities	-	32,752	34,449,441	7,193,071	-	-	-	-	-
Segment return on assets (ROA) (%)	0.01	0.60	2.58	1.59	-	-	-	-	-
Segment cost of funds (%)	4.93	4.93	4.93	4.93	-	-	-	-	-
<b>2005</b>									
Total income	-	474,855	63,934	1,497,400	41,644	3,547	-	-	-
Total expenses	-	(293,704)	(43,496)	(1,313,923)	(10,359)	(443)	-	-	-
Net income	-	181,151	20,438	183,477	31,285	3,104	-	-	-
Segment assets	-	8,419,250	863,857	21,392,715	-	-	-	-	-
Segment non performing loans	-	-	-	183,373	-	-	-	-	-
Segment provision required	-	-	-	116,674	-	-	-	-	-
Segment liabilities	-	136,597	22,769,262	4,745,381	-	-	-	-	-
Segment return on assets (ROA) (%)	-	2.15	2.37	0.86	-	-	-	-	-
Segment cost of funds (%)	-	3.91	3.91	3.91	-	-	-	-	-

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 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, directors, 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 service charges relating to secondment are on actual basis.

### 39.3 Subsidiary company

- Al Meezan Investment Management Limited

### 39.4 Key management personnel:

- President and Chief Executive Officer  
- 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:

	Total		Subsidiary		Associates		Key Management Personnel		Other Related Parties	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Financings</b>										
Rupees in '000										
At January 1,	314,926	149,229	2,187	1,352	311,912	146,917	827	960	-	-
Disbursed during the year	497,798	697,089	-	1,877	497,798	695,212	-	-	-	-
Repaid during the year	(414,639)	(531,392)	(699)	(1,042)	(413,807)	(530,217)	(133)	(133)	-	-
At December 31,	398,085	314,926	1,488	2,187	395,903	311,912	694	827	-	-
<b>Deposits</b>										
At January 1,	1,640,932	1,259,319	7,976	24,100	1,394,518	583,923	17,152	23,354	221,286	627,942
Deposited during the year	33,676,183	34,125,701	625,269	410,569	15,041,783	20,057,083	130,295	54,925	17,878,836	13,603,124
Repaid during the year	(33,872,599)	(33,744,088)	(607,740)	(426,693)	(15,294,132)	(19,246,488)	(139,631)	(61,127)	(17,831,096)	(14,009,780)
At December 31,	1,444,516	1,640,932	25,505	7,976	1,142,169	1,394,518	7,816	17,152	269,026	221,286
<b>Balances</b>										
Profit receivable on financings	10,881	1,640	267	622	10,614	1,018	-	-	-	-
Service charges payable by the Bank	120	7,380	120	7,380	-	-	-	-	-	-
Acceptances	62,176	22,112	-	-	62,176	22,112	-	-	-	-
Letters of credit (unfunded)	56,787	243,283	-	-	56,787	243,283	-	-	-	-
<b>Transactions, income and expenses</b>										
Profit earned on financings	23,656	13,934	355	709	23,301	13,225	-	-	-	-
Return on deposits expensed	99,399	54,667	1,064	536	86,672	43,226	2,772	926	8,891	9,979
Dividend income earned	118,827	46,956	-	-	118,827	46,956	-	-	-	-
Service charges incurred	12,022	23,460	(3,924)	9,568	-	-	-	-	15,946	13,892
Fees earned	8,317	9,603	7,996	9,603	-	-	-	-	321	-
Commission earned on letters of credit and acceptances	857	1,815	-	-	857	1,815	-	-	-	-

## 40. ASSOCIATES – KEY INFORMATION

Particulars	Mutual Funds	Others	Total
	Rupees in '000		
Assets	6,644,124	1,210,756	7,854,880
Liabilities	94,372	266,095	360,467
Operating revenue	456,101	81,015	537,116
Profit after tax	436,961	55,714	492,675

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 41. CAPITAL ADEQUACY

The risk weighted to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy was as follows:

	2006	2005
	Rupees in '000	
<b>Regulatory Capital Base</b>		
<b>Tier I Capital</b>		
Shareholders capital	3,779,897	2,036,582
Reserves	528,085	733,088
Unappropriated profit	448,427	201,270
	4,756,409	2,970,940
Less: Investment in equity of subsidiary company	(63,050)	(63,050)
<b>Total Tier I Capital</b>	4,693,359	2,907,890
<b>Tier II Capital</b>		
Subordinated debt (upto 50% of total Tier I Capital)	-	-
General provisions subject to 1.25% of total risk weighted assets	74,543	49,721
Revaluation reserve (upto 50%)	330	25,386
<b>Total Tier II Capital</b>	74,873	75,107
	4,768,232	2,982,997
<b>Eligible Tier III Capital</b>	-	-
<b>Total Regulatory Capital</b>	(a) 4,768,232	2,982,997

	2006		2005	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	Rupees in '000			
<b>Risk- Weighted Exposure</b>				
<b>Credit Risk</b>				
Balance sheet items				
Cash and other liquid assets	10,032,269	826,975	6,812,761	571,165
Due from financial institutions	3,700,000	2,500,000	-	-
Investments	2,481,504	1,156,030	1,250,249	1,150,208
Loans and financings – note 41.2	24,503,688	22,824,839	17,764,351	16,566,021
Operating fixed assets	531,262	531,262	305,585	305,585
Other assets	2,266,522	2,046,593	2,210,100	2,059,907
	43,515,245	29,885,699	28,343,046	20,652,886
Off balance sheet items				
Loan repayment guarantees	2,501,341	2,501,341	2,324,984	2,324,984
Purchase and resale agreements	-	-	-	-
Performance bonds etc. – note 41.3	3,692,252	1,665,491	2,907,817	1,162,329
Revolving underwriting commitments	-	-	-	-
Standby letters of credit – note 41.3	4,646,187	2,323,094	5,868,978	2,934,489
Outstanding foreign exchange contracts				
- Purchase	1,332,044	11,114	1,489,568	18,081
- Sale	4,913,416	33,106	3,564,363	21,753
	17,085,240	6,534,146	16,155,710	6,461,636
Credit risk-weighted exposures		36,419,845		27,114,522
<b>Market risk</b>				
General market risk		396,050		356,237
Specific market risk		396,050		356,238
Capital charge for foreign exchange risk		33,051		123,175
Market risk-weighted exposures		825,151		835,650
<b>Total Risk-Weighted Exposures</b>		(b) 37,244,996		27,950,172
Capital Adequacy Ratio [ (a) / (b) x 100]		12.80%		10.67%

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



- 41.1 Weightages as mentioned in BSD circular no. 12 dated August 25, 2004 have been applied to the respective 'book values' to arrive at 'risk adjusted values'.
- 41.2 The amount of cash margins and deposits held against loans and financings aggregates Rs 2,601.871 million (2005: Rs 2,026.256 million).
- 41.3 The amount of cash margins and deposits held against performance bonds and standby Letter of credit aggregates Rs 524.224 million (2005: Rs 197.440 million).

## 42. RISK MANAGEMENT

The wide variety of bank's business activities requires the Bank to identify, measure, aggregate and manage risks effectively which are constantly evolving as the business activities change in response to credit, market, product and other developments. The Bank manages the risk through a framework of risk management, policies and principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the business activities of the Bank.

### Risk management principles

- The board of directors (the Board) provides overall risk management supervision. The executive and risk management committees regularly monitor the Bank's risk profile.
- The Bank has set up objectives and policies to manage the risks that arise in connection with the Bank's activities. The risk management framework and policies of the Bank are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in the operations of the Bank.
- The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organisational structure of the Bank.
- The risk management function is independent of the Bank's operation.

### Risk management organisation

The risk management committee comprises of two non-executive directors and one executive director. One of the non-executive directors of the bank chairs the risk management committee, which is responsible for planning, management and control of the aforementioned risks of the Bank.

The risk management committee has delegated some of its tasks of risk management to sub-committees which are as follows:

Name of the committee	Chaired by
Credit committee	President & CEO
Asset and liability management committee (ALCO)	President & CEO
Audit committee	Non-executive director

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

The Board has constituted a full functional audit committee. The audit committee works to ensure that the best practices of the code of corporate governance are being complied by the Bank and that the policies and procedures are being complied with.

The Bank's risk management, compliance, internal audit and legal departments support the risk management function. The role of the risk management department is to quantify the risk and ensure the quality and integrity of bank's risk-related data. The compliance department ensures that all the directives and guidelines issued by the State Bank of Pakistan (SBP) are being complied with in order to mitigate the compliance and operational risks. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 42.1 Credit risk

Credit risk refers to the risk of financial loss arising from defaults by counter parties in meeting their obligations. Exposure to credit risks for the bank arises primarily from lending activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures spell out the relevant approval authorities, limits, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

The Bank has a well-defined credit structure duly approved by the Board under which delegated authorities at various levels are operating which critically scrutinize and sanction financings. The emphasis is to provide short to medium term trade related financings to reputable names, which are self-liquidating and Shariah compliant. The risk appraisal system of the bank has enabled it to build a sound portfolio. The accounting policies and methods used by the Bank are in accordance with the requirements of the prudential regulations of the State Bank of Pakistan and approved accounting standards as applicable in Pakistan.

Out of the total financial assets of Rs 44.851 billion (2005: Rs 30.017 billion), the financial assets which were subject to credit risk amounted to Rs 38.954 billion (2005: Rs 26.060 billion). The major credit risk in respect of advances is concentrated in sectors such as textile and individuals. To manage credit risk the Bank applies credit limits to its customers and obtains adequate collaterals. The bank also applies control limits to restrict its exposure and obtains collaterals from the counterparties such as cash deposit, guarantees, hypothecation and charges over fixed assets and stocks and mortgage of properties.

The bank has in-house assessment methodologies and procedures for evaluating the creditworthiness of counterparties. A reconciliation of provision against non performing advances has been disclosed in note 12.7 of these financial statements.

### 42.1.1 Segmental information

#### 42.1.1.1 Segment by class of business

	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees n '000	%
Agriculture, forestry, hunting and fishing	225,424	0.83	487,217	1.41	529,490	1.34
Textile	9,511,541	35.19	1,139,635	3.31	9,919,122	25.15
Automobiles and transportation	1,262,909	4.67	230,751	0.67	1,192,294	3.02
Financial institutions	50,000	0.19	3,496,199	10.15	8,014,974	20.32
Insurance	-	-	378,063	1.10	55,187	0.14
Electronics and electrical appliances	106,556	0.39	54,637	0.16	871,193	2.21
Construction	558,146	2.06	1,784,825	5.18	1,508,128	3.82
Power (electricity), gas and water	344,825	1.28	867,926	2.51	185,433	0.47
Exports / imports	406,460	1.50	256,992	0.75	58,380	0.15
Transport, storage and communication	309,550	1.15	-	-	21,515	0.06
Chemicals and pharmaceuticals	1,046,692	3.87	428,133	1.24	3,256,433	8.26
Sugar	827,528	3.06	56,129	0.16	645,678	1.63
Footwear and leather garments	1,488,401	5.51	329,698	0.96	1,237,975	3.14
Wholesale and retail trade	592,754	2.19	-	-	-	-
Cement	80,135	0.30	71,790	0.21	1,276,408	3.24
Services	51,440	0.19	1,321,255	3.84	110,951	0.28
Individuals	5,734,552	21.22	15,604,158	45.30	546,473	1.39
Others	4,434,103	16.40	7,942,033	23.05	10,011,674	25.38
	<u>27,031,016</u>	<u>100.00</u>	<u>34,449,441</u>	<u>100.00</u>	<u>39,441,308</u>	<u>100.00</u>

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



#### 42.1.1.2 Segment by sector

	2006					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public/ Government	-	-	119,846	0.35	135,000	0.34
Private	27,031,016	100.00	34,329,595	99.65	39,306,308	99.66
	<u>27,031,016</u>	<u>100.00</u>	<u>34,449,441</u>	<u>100.00</u>	<u>39,441,308</u>	<u>100.00</u>

#### 42.1.1.3 Details of non-performing financing and specific provisions by class of business segment

	2006		2005	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees in '000			
Agriculture, forestry, hunting and fishing	-	-	-	-
Textile	191,924	99,016	111,962	59,531
Chemical and pharmaceuticals	9,521	2,722	-	-
Cement	-	-	-	-
Sugar	-	-	-	-
Footwear and leather garments	-	-	-	-
Automobile and transportation equipment	59,474	17,252	-	-
Electronics and electrical appliances	5,250	1,313	-	-
Construction	-	-	-	-
Power (electricity), gas and water	-	-	-	-
Wholesale and retail trade	-	-	-	-
Exports / imports	-	-	-	-
Transport, storage and communication	-	-	-	-
Financial Institutions	-	-	-	-
Insurance	-	-	-	-
Services	-	-	-	-
Individuals	9,938	3,909	2,910	609
Others	132,335	39,500	68,501	6,813
	<u>408,442</u>	<u>163,712</u>	<u>183,373</u>	<u>66,953</u>
<b>42.1.1.4 Details of non-performing financings and specific provisions by sector</b>				
Public / Government	-	-	-	-
Private	408,442	163,712	183,373	66,953
	<u>408,442</u>	<u>163,712</u>	<u>183,373</u>	<u>66,953</u>



# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



42.1.1.5 Geographical segment analysis	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	780,023	46,438,623	4,763,359	39,441,308
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Africa	-	-	-	-
	780,023	46,438,623	4,763,359	39,441,308

## 42.2 Market risk

The Bank is exposed to market risk which is the risk that the value of on and off balance sheet exposures of the Bank will be adversely affected by movements in market rates or prices such as benchmark rates, profit rates, foreign exchange rates, equity prices and market conditions resulting in a loss to earnings and capital. The profit rates and equity price risk consists of two components each. The general risk describes value changes due to general market movements, while the specific risk has issuer related causes.

The Bank applies Stress Testing and Value at risk (VaR) techniques as risk management tool; Stress testing enables the Bank to estimate changes in the value of the portfolio, if exposed to various risk factors. VaR quantifies the maximum loss that might arise due to changes in risk factors, if exposure remains unchanged for a given period of time.

### 42.2.1 Foreign exchange risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to the 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 controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	40,390,188	38,908,342	3,488,713	4,970,559
United States dollars	4,240,081	904,352	(3,318,078)	17,651
Great Britain pounds	139,990	2,622	(136,830)	538
Japanese yen	6,131	-	(561)	5,570
Euro	70,966	32,189	(33,244)	5,533
Singapore dollars	702	-	-	702
Australian dollars	424	-	-	424
Canadian dollars	1,231	-	-	1,231
Swiss francs	1,402	-	-	1,402
	44,851,115	39,847,505	-	5,003,610

### 42.2.2 Equity position risk

Equity position risk is the risk arising from taking long positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities.

Counter parties limits, as also fixed by the State Bank of Pakistan, are considered to limit risk concentration. The bank invests in those equities which are Shariah compliant as advised by the Shariah adviser.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 42.2.3 Mismatch of yield rate sensitive assets and liabilities

Effective yield rate	Total	2006									Non-yield bearing financial instruments	
		Exposed to yield risk										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	-	5,897,394	-	-	-	-	-	-	-	-	-	5,897,394
Balances with other banks	4.81	4,134,875	-	3,640,015	-	-	-	-	-	-	-	494,860
Due from financial institutions	10.60	3,700,000	500,000	2,480,000	720,000	-	-	-	-	-	-	-
Investments	10.45	2,877,554	-	-	106,091	6,091	12,182	134,002	12,182	1,150,000	-	1,457,006
Financings	11.14	27,031,016	3,907,196	7,576,684	5,207,382	929,282	1,677,937	2,787,873	2,216,682	487,821	2,131,108	109,051
Other assets	-	1,210,276	-	-	-	-	-	-	-	-	-	1,210,276
		44,851,115	4,407,196	13,696,699	6,033,473	935,373	1,690,119	2,921,875	2,228,864	1,637,821	2,131,108	9,168,587
<b>Liabilities</b>												
Bills payable	-	563,228	-	-	-	-	-	-	-	-	-	563,228
Due to financial institutions	8.46	4,285,212	289,352	2,780,400	1,205,460	10,000	-	-	-	-	-	-
Deposits and other accounts	4.90	34,449,441	6,914,931	5,923,024	3,549,645	3,363,349	1,940,807	1,552,577	957,502	2,118,910	-	8,128,696
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	549,624	-	-	-	-	-	-	-	-	-	549,624
		39,847,505	7,204,283	8,703,424	4,755,105	3,373,349	1,940,807	1,552,577	957,502	2,118,910	-	9,241,548
<b>On-balance sheet gap</b>		5,003,610	(2,797,087)	4,993,275	1,278,368	(2,437,976)	(250,688)	1,369,298	1,271,362	(481,089)	2,131,108	(72,961)
<b>NON FINANCIAL ASSETS</b>												
- Operating fixed assets		531,262										
- Other assets		1,056,246										
		1,587,508										
<b>NON FINANCIAL LIABILITIES</b>												
- Deferred taxation		(398,304)										
- Other liabilities		(1,429,455)										
		(1,827,759)										
<b>TOTAL NET ASSETS</b>		4,763,359										
<b>Off-balance sheet financial instruments</b>												
Forward Lending	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total yield/profit risk sensitivity gap</b>	-	(2,797,087)	4,993,275	1,278,368	(2,437,976)	(250,688)	1,369,298	1,271,362	(481,089)	2,131,108	-	
<b>Cumulative yield/profit risk sensitivity gap</b>	-	(2,797,087)	2,196,188	3,374,556	1,036,580	785,892	2,155,190	3,426,552	2,945,463	5,076,571	-	

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 financial instruments will fluctuate due to changes in the market profit rate.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market profit rates on both its fair value and cash flow risks. Profit margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

## 42.3 Liquidity risk

Liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet its obligations and commitments as they fall due or can fulfill them only at excessive cost that may affect the bank's income and equity.

The Bank seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all class of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending and investment opportunities as they arise.

# Notes to and forming part of the Financial Statements

For the year ended December 31, 2006



## 42.3.1 Maturities of assets and liabilities

	2006									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in 000										
<b>Assets</b>										
Cash and balances with treasury banks	5,897,394	5,897,394	-	-	-	-	-	-	-	-
Balances with other banks	4,134,875	4,134,875	-	-	-	-	-	-	-	-
Due from financial institutions	3,700,000	500,000	2,480,000	720,000	-	-	-	-	-	-
Investments	2,877,554	-	396,050	220,502	6,091	12,182	159,002	12,182	2,007,598	63,947
Financings	27,031,016	3,907,196	7,576,684	5,207,382	929,313	1,678,392	2,830,326	2,230,353	465,884	2,205,486
Operating fixed assets	531,262	-	-	-	-	-	-	195,168	233,625	102,469
Other assets	2,266,522	2,142,824	20,545	30,818	61,634	-	-	-	10,701	-
	46,438,623	16,682,289	10,473,279	6,178,702	997,038	1,690,574	2,989,328	2,437,703	2,717,808	2,371,902
<b>Liabilities</b>										
Bills payable	563,228	563,228	-	-	-	-	-	-	-	-
Due to financial institutions	4,285,212	289,352	2,780,400	1,205,460	10,000	-	-	-	-	-
Deposits and other accounts	34,449,441	15,043,627	5,923,024	3,549,645	3,363,349	1,940,807	1,552,577	957,502	2,118,910	-
Deferred taxation	398,304	-	-	-	-	-	-	398,304	-	-
Other liabilities	1,979,079	462,728	-	-	254,787	1,132,481	22,285	19,395	87,403	-
	41,675,264	16,358,935	8,703,424	4,755,105	3,628,136	3,073,288	1,574,862	1,375,201	2,206,313	-
<b>Net assets</b>	4,763,359	223,354	1,769,855	1,423,597	(2,631,098)	(1,382,714)	1,414,466	1,062,502	511,495	2,371,902
Share capital	3,779,897									
Reserves	528,085									
Unappropriated profit	448,427									
Surplus on revaluation of investments	6,950									
	4,763,359									

## 42.4 Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of processes, systems, personnel and other risks having an operational impact such as unauthorised activities, fraud and business malpractice.

The Bank ensures that the key operational risks are managed in a timely and effective manner by raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Bank has developed policies, guidelines and manuals necessary for the mitigation of operational risk.

The Bank is also supervised by the Shariah Supervisory Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are shariah compliant. The internal audit function of the Bank performs regular audits on various operations of the Bank and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risks associated with operational activities.

A business continuity plan and a disaster recovery plan have also been formulated and approved by the Board of Directors to ensure uninterrupted flow of operations the Bank.

## 43. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 01, 2007 by the Board of Directors of the Bank.

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

**Consolidated  
Financial Statements**



# Auditors' Report to the Members

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We have audited the annexed consolidated financial statements comprising the consolidated balance sheet of Meezan Bank Limited (the holding company) and its subsidiary company, Al Meezan Investment Management Limited as at December 31, 2006 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 then ended. We have also expressed a separate opinion on the financial statements of the holding company which includes unaudited certified returns from the branches, except for seven branches which have been audited by us. The financial statements of the subsidiary company were reviewed in accordance with the review standard as applicable in Pakistan and our opinion in so far as it relates to amounts included for the subsidiary company, is based solely on our review report.

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

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

As stated in notes 6.3.1, 6.10 and 7 to the consolidated financial statements accounting policies with respect to 'recording of murabaha transactions' and 'recording of dividend declared and appropriations made subsequent to the year end' have been changed by the holding company.

In our opinion, the consolidated financial statements, based on our examination as explained above, present fairly the financial position of Meezan Bank Limited and its subsidiary company as at December 31, 2006 and the results of their operations, changes in equity and cash flows for the year then ended.

A.F. FERGUSON & Co.  
Chartered Accountants  
Karachi.  
March 05, 2007

\* In case of any discrepancy on the bank's website, the auditors shall only be responsible in respect of the information contained in the hard copies of the audited financial statements available at the bank's registered office

# Consolidated Balance Sheet

As at December 31, 2006



	Note	2006	2005 Restated
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	8	5,890,940	3,952,993
Balances with other banks	9	4,134,875	2,855,823
Due from financial institutions	10	3,700,000	-
Investments	11	3,394,435	2,061,009
Financings	12	27,029,578	19,738,699
Negative goodwill	13	-	-
Operating fixed assets	14	543,083	318,123
Other assets	15	2,316,135	2,297,713
		<u>47,009,046</u>	<u>31,224,360</u>
<b>LIABILITIES</b>			
Bills payable	16	563,228	260,732
Due to financial institutions	17	4,285,212	2,981,714
Deposits and other accounts	18	34,423,936	22,761,286
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred taxation	19	418,516	187,347
Other liabilities	20	2,007,886	1,529,951
		<u>41,698,778</u>	<u>27,721,030</u>
<b>NET ASSETS</b>		<u>5,310,268</u>	<u>3,503,330</u>
<b>REPRESENTED BY</b>			
Share capital	21	3,779,897	2,036,582
Reserves	22	552,401	431,551
Unappropriated profit	23	918,857	950,336
		5,251,155	3,418,469
<b>MINORITY INTEREST</b>	24	52,163	31,219
		<u>5,303,318</u>	<u>3,449,688</u>
Surplus on revaluation of investments	25	6,950	53,642
		<u>5,310,268</u>	<u>3,503,330</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	26		

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

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Consolidated Profit and Loss Account

## For the year ended December 31, 2006



	Note	2006	2005 Restated
Rupees in '000			
Profit / return earned on financing, investments and placements	27	2,704,047	1,458,637
Return on deposits and other dues expensed	28	1,463,109	689,882
Net spread income		1,240,938	768,755
Provision against non-performing financings (net)	12.7	121,581	68,811
Provision / (reversal) for diminution in the value of investments	11.3	1,297	(29,831)
Net spread after provisions		1,118,060	729,775
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		395,332	311,935
Dividend income		70,773	73,917
Income from dealing in foreign currencies		201,519	77,961
Capital gain on sale of securities	29	128,131	217,994
Unrealised (loss) / gain on revaluation of investments classified as 'held for trading'	11.5	(35,389)	57,780
Other income	30	34,299	20,999
Total other income		794,665	760,586
		1,912,725	1,490,361
<b>OTHER EXPENSES</b>			
Administrative expenses	31	1,088,883	773,173
Other charges	32	4,776	482
Total other expenses		1,093,659	773,655
Shares of results of associates before taxation		106,678	269,316
<b>PROFIT BEFORE TAXATION</b>		925,744	986,022
Taxation - current - for the year	33	54,135	40,803
- prior years		(62,653)	39,002
- deferred		231,169	187,147
<b>PROFIT AFTER TAXATION</b>		703,093	719,070
Share of profit attributable to minority interest	24	(51,625)	(38,103)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		651,468	680,967
Unappropriated profit brought forward		950,336	353,260
Profit before appropriations		1,601,804	1,034,227
<b>Basic earnings per share (Rupees)</b>	34	2.03	2.37

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

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Consolidated Cash Flow Statement

## For the year ended December 31, 2006



	Note	2006	2005
Rupees in '000			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		925,744	986,022
Less: Dividend income		(70,773)	(73,917)
		854,971	912,105
Adjustments for non-cash charges			
Depreciation		106,652	73,892
Amortisation		5,807	3,642
Provision against non-performing financings (net)		121,581	(68,811)
Provision for diminution in the value of investments		1,297	1,128
Gain on sale of fixed assets		(1,830)	(490)
Unrealised loss / (gain) on held for trading investments		35,389	(57,780)
Amortisation of negative goodwill		-	(3,920)
Shares in results of associates		(106,678)	(269,316)
		162,218	(321,655)
		1,017,189	590,450
(Increase) / decrease in operating assets			
Due from financial institutions		(3,700,000)	-
Held for trading securities		(125,986)	(91,652)
Financings		(7,412,460)	(7,330,228)
Others assets		59,553	(984,444)
		(11,178,893)	(8,406,324)
Increase / (decrease) in operating liabilities			
Bills payable		302,496	64,587
Due to financial institutions		1,303,498	119,575
Minority's share in the subsidiary's holding in its associates		(30,681)	(30,679)
Deposits and other accounts		11,662,650	9,015,579
Other liabilities		477,935	749,551
		13,715,898	9,918,613
		3,554,194	2,102,739
Income tax paid		(68,944)	(33,600)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>3,485,250</b>	<b>2,069,139</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in			
- held to maturity securities		(1,141,406)	(852)
- available for sale securities		(66,376)	54,262
- listed associated undertakings		315,186	69,762
- unlisted associated undertakings		(291,544)	(127,738)
- advance against issue of shares		-	(17,000)
Dividends received		70,260	76,868
Investments in operating fixed assets		(340,464)	(189,689)
Sale proceeds of property and equipment disposed-off		4,875	2,689
Net cash flow from investing activities		(1,449,469)	(131,698)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Amount received against issue of right shares		1,181,218	498,253
Dividend paid		-	(7)
Net cash flow from financing activities		1,181,218	498,246
Net increase in cash and cash equivalents		3,216,999	2,435,687
Cash and cash equivalents as at January 1	35	6,808,816	4,373,129
Cash and cash equivalents as at December 31	35	10,025,815	6,808,816

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

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director



# Consolidated Statement of Changes in Equity

For the year ended December 31, 2006



	Share capital	Capital reserves		Revenue reserves	Unappropriated profit	Sub total	Minority Interest	Total
		Statutory reserve	Reserve for issue of bonus shares	General reserve				
Rupees in '000								
Balance as at January 1, 2005	1,346,017	256,578	-	91,082	353,260	2,046,937	24,421	2,071,358
Issue of right shares - note 21.1	351,135	-	-	-	-	351,135	-	351,135
Issue of right shares - note 21.1	339,430	-	-	-	-	339,430	-	339,430
Profit after taxation for the year	-	-	-	-	719,070	719,070	-	719,070
Share of profit attributable to minority interest	-	-	-	-	(38,103)	(38,103)	38,103	-
Minority's share in the subsidiary's holding in its associates	-	-	-	-	-	-	(31,305)	(31,305)
Transfer to statutory reserve	-	83,891	-	-	(83,891)	-	-	-
Balance as at December 31, 2005 (restated)	2,036,582	340,469	-	91,082	950,336	3,418,469	31,219	3,449,688
Transfer to reserve for issue of bonus shares	-	-	325,853	-	(325,853)	-	-	-
Issue of bonus shares	325,853	-	(325,853)	-	-	-	-	-
Issue of right shares - note 21.1	1,181,218	-	-	-	-	1,181,218	-	1,181,218
Issue of bonus shares – interim	236,244	-	-	-	(236,244)	-	-	-
Profit after taxation for the year	-	-	-	-	703,093	703,093	-	703,093
Share of profit attributable to minority interest	-	-	-	-	(51,625)	(51,625)	51,625	-
Minority's share in the subsidiary's holding in its associates	-	-	-	-	-	-	(30,681)	(30,681)
Transfer to statutory reserve	-	120,850	-	-	(120,850)	-	-	-
Balance as at December 31, 2006	3,779,897	461,319	-	91,082	918,857	5,251,155	52,163	5,303,318

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

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 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' license 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, investment and retail banking activities.

MBL was operating through sixty two branches as at December 31, 2006 (2005: twenty eight). Its registered office is at 3rd Floor, P.N.S.C. Building, Moulvi Tamizuddin Khan Road, Karachi.

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

**The Group's associates are as follows:**

Entity / fund	Country of incorporation / domicile	Nature of business	Direct holding %	Indirect holding %	Total effective percentage holding %
Al Meezan Mutual Fund Limited (AMMFL)	Pakistan	Formed under the Investment Companies and Investment Advisor Rules, 1971. A closed end mutual fund.	3.48	10.75	14.23
Blue Water (Private) Limited (BWL)	Pakistan	Business of purchase and sale of land.	30	13	43
Falcon Greenwood (Private) Limited (FGL)	Pakistan	Business of purchase and sale of land.	25	-	25
Faysal Management Services (Private) Limited (FMSL)	Pakistan	Floatation and management of modarabas under Modarabas Companies and Modarabas (Floatation and Control) Ordinance, 1980.	30	-	30
Meezan Islamic Fund (MIF)	Pakistan	Open end scheme established under a trust deed executed between AMIML as the management company and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	N/A	N/A	N/A
Meezan Islamic Income Fund (MIIF)	Pakistan	Open end scheme established under a trust deed executed between AMIML as the management company and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	N/A	N/A	N/A
Meezan Balanced Fund (MBF)	Pakistan	Closed end scheme established under a trust deed executed between AMIML as the investment advisor and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	13.45	1.11	14.56
Plexus (Private) Limited	Pakistan	Business of development and export of IT enabled services and internet solutions.	50	-	50

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 2. BASIS OF PRESENTATION AND CONSOLIDATION

### 2.1 Basis of presentation

**2.1.1** These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding company for the year ended December 31, 2006 and the condensed interim financial statements of AMIML for the six months period ended December 31, 2006 which have only been subjected to a review by its statutory auditors but are not audited. AMIML prepares its financial statements upto June 30 each year. In preparing the consolidated profit and loss account for the year ended December 31, 2006 the results for the period January 1 to June 30, 2006 have been calculated from the audited financial statements of AMIML for the year ended June 30, 2006 after eliminating the results for the six months period ended December 31, 2005. Certain disclosures relating to AMIML as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2006. The accounting policies used by AMIML and associates in preparation of their respective financial statements are consistent with that of the holding company except for the accounting policy for investments.

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

<b>Entity</b>	<b>Source of information</b>
Al Meezan Mutual Fund Limited (AMMFL)	Financial statements for the half years ended December 31, 2006 and 2005, unaudited but subject to limited review by its statutory auditors, and audited financial statements for the year ended June 30, 2006.
Blue Water (Private) Limited (BWL)	Unaudited financial statements for the periods ended December 31, 2006 and 2005 and audited financial statements for the year ended June 30, 2006.
Falcon Greenwood (Private) Limited (FGL)	Unaudited financial statements for the periods ended December 31, 2006 and 2005 and audited financial statements for the year ended June 30, 2006.
Faysal Management Services (Private) Limited (FMFL)	Audited financial statements for the year ended December 31, 2006.
Fayzan Manufacturing Modaraba (FMM)	Audited financial statements for the period January 1 to September 27, 2006.
Meezan Islamic Fund (MIF)	Financial statements for the half years ended December 31, 2006 and 2005, unaudited but subject to limited review by its statutory auditors, and audited financial statements for the year ended June 30, 2006.
Meezan Balanced Fund (MBF)	Financial statements for the half years ended December 31, 2006 and 2005, unaudited but subject to limited review by its statutory auditors and audited financial statements for the year ended June 30, 2006.
Plexus (Private) Limited (Plexus)	Unaudited financial statements for the half years ended December 31, 2006 and 2005 and audited financial statements for the year ended June 30, 2006.

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



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

### **Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**

Following amendments to an existing standard and IFRS applicable to the Group have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2007 or later periods:

- |   |   |
|---|---|
| i. IAS 1 Presentation of Financial Statements – Capital Disclosures | effective from January 1, 2007                              |
| ii. IFRS 2 – Share based payments                                   | effective from period starting on or after December 6, 2006 |

Adoption of the above amendments in IAS (1) Presentation and Disclosure may only impact the extent of disclosures presented in the financial statements, while IFRS-2 shall be applicable when the stock option scheme of MBL is approved by the Securities and Exchange Commission of Pakistan (SECP).

### **Amendments to published standards and new interpretations effective in 2006:**

IAS 19 (Amendments) – Employees Benefits, is mandatory for the company's accounting period beginning on or after January 1, 2006. It introduces the options of an alternative recognition approach for actuarial gains and losses. MBL does not intend to adopt the alternative recognition approach for recognition of actuarial gains and losses. Adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

## **2.2 Basis of consolidation**

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

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

## **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Critical judgement in classification of investments in accordance with the Group's policy (notes 6.4.1 and 11).
- Provision for diminution in value of investments (note 11.3).
- Assumption and estimation in recognition of provision for current taxation (current and prior years) and deferred taxation (notes 6.7, 19, 26.5, 26.6 and 33).
- Staff retirement benefits (notes 6.8, 6.9 and 37).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 4. STATEMENT OF COMPLIANCE

- 4.1 The consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance) and the directives issued by the SECP and the State Bank of Pakistan (SBP) including BSD Circular No. 04 of 2006. The approved accounting standards comprise of such International Financial Reporting Standards and Islamic Financial Accounting Standard 1 (IFAS 1) – Murabaha as are notified under the provision of the Companies Ordinance, 1984, however, wherever the requirements of the Ordinance or directives issued by the SECP and the SBP differ with the requirements of the approved accounting standards, the requirements of the Ordinance or the directives of the SECP or SBP have been followed.
- 4.2 The SBP through its BSD Circular No. 10 dated August 26, 2002 has deferred the implementation of International Accounting Standard (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, 2006.

## 5. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention except that certain investments and commitments in respect of certain foreign exchange contracts are valued at market rates in accordance with the requirements of SBP. AMIML values its investments in accordance with the requirements of IAS 39. Certain staff retirement benefits are carried at present value.

## 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.

### 6.2 Revenue recognition

- (i) Consistent with prior years, profit on Murabaha is recognised by MBL on accrual basis. Effective January 1, 2006, profit on murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognised immediately upon the later date. Previously, profit on murabaha was recognised from the date of disbursement. The reason and effect of this change in accounting policy are stated in note 7.1.

Consistent with prior years, profit required to be suspended in compliance with the prudential regulations issued by the SBP is recorded on receipt basis.

- (ii) The Group 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 and documentation charges 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 are recognised as income on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iii) Profits on diminishing musharakah financings are recognised on accrual basis. Profit on musharakah financings is recognised on declaration of profit by musharakah partner.
- (iv) 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.
- (v) Dividend income is recognised when the Group's right to receive dividend is established.
- (vi) 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.
- (vii) 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.

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



### 6.3 Financings

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

#### **Murabaha:**

Effective January 1, 2006:

- Funds disbursed for purchase of goods are recorded as 'advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Previously, murabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously these were recorded as advance against future murabaha.

The reason and effect of this change in accounting policy are stated in note 7.1.

- 6.3.2** Provision against non-performing financings

MBL determines provisions against financings on a prudent basis in accordance with the prudential regulations issued by the SBP.

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

### 6.4 Investments

- 6.4.1 MBL 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.

- 6.4.2 AMIML classifies its investments as follows:**

AMIML classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale.

- Available for sale  
Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- Financial assets at fair value through profit or loss  
This category has two sub-categories: 'financial assets held for trading', and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the management.

As the financial assets classified by AMIML as 'investments at fair value through profit or loss' are of the same nature as that of financial assets classified as 'held for trading' by MBL, the two categories have been classified as 'held for trading' in these consolidated financial statements.

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



### 6.4.3 MBL values its investments as follows:

- Quoted securities, excluding investments categorised as 'held to maturity' securities and investments in associates, are stated at revalued amounts.
- Unquoted securities are stated at cost less provision for impairment, if any.
- Investments in securities categorised as 'held to maturity' are carried at amortised cost.

6.4.4 Any surplus / (deficit) arising as a result of revaluation of quoted securities categorised as 'available for sale' is presented below the shareholders' equity in the balance sheet. AMIML and associates 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 'available for sale' investments is recognised in equity. Any surplus / deficit arising as a result of revaluation of 'held for trading' securities is credited / charged to the profit and loss account.

6.4.5 Consistent with prior year all purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Group commits to purchase or sell the investment.

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

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

6.4.8 Derivatives are marked to market and the gains / (losses) arising on revaluation of those derivatives to their fair values are recognised as income.

## 6.5 Operating fixed assets

### 6.5.1 Tangible assets

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

Useful lives and residual values are reviewed at each balance sheet date, and adjusted if impact on depreciation is significant. During the year MBL has reassessed the useful lives of its assets and has revised the depreciation rates for office equipment from 33 % to 20%.

Had the useful lives of office equipment in MBL's financial statements not been revised for charging depreciation, profit after taxation for the year ended December 31, 2006 and the net book values of the fixed assets as at that date would have been lower by Rs 5.684 million and Rs 10.932 million respectively. The effect of this revision on profit after taxation for future periods would not be material.

Effective July 1, 2006 AMIML has changed its estimate in respect of useful lives of assets. AMIML now charges full months depreciation if the asset is acquired on or before the 15th day of the month and on deletions upto the month of deletion if the asset is disposed after the 15th day of the month. Previously, full year's depreciation was charged on all additions to fixed assets made during the year while no depreciation was charged in the year in which the assets were disposed off. The effect of this change in accounting estimate is not considered material.

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

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.

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

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006

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The Group assesses at each balance sheet date whether there is any indication that the operating fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment charge is recognised in income.

### 6.5.2 Intangible assets

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

Effective July 1, 2006 AMIML charges full months amortisation if the asset is acquired on or before the 15th day of the month. Previously, full year's amortisation was charged on all additions to intangible assets made during the year. The effect of this change in accounting estimate is not considered material.

### 6.5.3 Capital work-in-progress

Consistent with prior years capital work-in-progress is stated at cost.

## 6.6 Inventories

As stated in note 6.3.1, goods purchased but remaining unsold at the balance sheet date are recorded as inventories. MBL values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase made by the customer as an agent on behalf of MBL from the funds disbursed for the purposes of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

## 6.7 Taxation

### Current

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

### Deferred

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

## 6.8 Staff retirement benefits

### Defined benefit plan

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

In case of MBL the scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2006. The projected unit credit method was used for actuarial valuation.

Actuarial gains or losses are recognised over the expected average remaining working lives of employees.

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

### Defined contribution plan

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



# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



### 6.9 Compensated absences

MBL recognises liability in respect of employees compensated absences in the period in which these are earned upto the balance sheet date. The provision has been recognised on the basis of actuarial valuation conducted as at December 31, 2006. Previously provision was made on the basis of last draw down salary.

Had such an estimate not been changed accrued expenses would have increased by Rs 17.732 million and the profit after tax would have been lower by Rs 14.185 million.

### 6.10 Dividend and reserves

Dividend declared and appropriations, except for transfer to statutory reserve, made subsequent to the balance sheet date are recognised as liability and recorded as changes in reserves respectively in the period in which these are approved by the directors / shareholders as appropriate. Previously, dividend proposed and transfers from profit available for appropriation to reserves after balance sheet date but before the financial statements were authorised for issue by the board of directors were recorded as a liability and changes in reserves respectively. The reason and effect of this change in accounting policy is stated in note 7.2.

### 6.11 Foreign currency transactions

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

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

### 6.12 Provisions and contingent assets and liabilities

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

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

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

### 6.13 Offsetting

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

### 6.14 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.

### 6.15 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, 2006



## 7. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES

7.1 Consequent to adoption of Islamic Financial Accounting Standard 1 – Murabaha issued by the Institute of Chartered Accountants of Pakistan, MBL has changed its accounting policy in respect of recording of murabaha transactions. Effective January 1, 2006 MBL accounts for murabaha as follows:

- Funds disbursed for purchase of goods are recorded as 'Advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Previously, murabaha financings were recorded at the time of disbursement of funds.
- Goods purchased but remaining unsold at the balance sheet date are recorded as inventories. Previously, these were recorded as advance against future murabaha.
- Profit for the period from the date of disbursement to the date of culmination of murabaha is recognised from the date of disbursement.

Had there been no change in accounting policy the advance against future murabaha would have been Rs 579.897 million and there would have been no inventories.

This change in accounting policy is applied prospectively as the retrospective application was impracticable. The effect of this change in accounting policy on current period's profit is not expected to be material.

7.2 Consequent to change in the forms of the annual financial statements issued by the State Bank of Pakistan through its BSD circular No. 4 dated February 17, 2006, the Group has changed its policy in respect of recognition of dividend declared and appropriations made, except for transfer to statutory reserve, subsequent to the year end.

- Upto December 31, 2005 dividend proposed after balance sheet date but before the financial statements were authorised for issue by the board of directors was recorded as liability. Effective January 1, 2006 dividend is recognised as liability in the period in which it is approved by the shareholders.
- Upto December 31, 2005 appropriations from reserves made after balance sheet date but before the financial statements were authorised for issue by the board of directors was recorded as changes in reserves. Effective January 1, 2006 appropriations of reserves including transfer to reserves for issue of bonus shares and other appropriations except that relating to statutory reserves, are recorded as changes in reserves in the period in which they are made.

This change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in this accounting policy, the 'unappropriated profit' brought forward would have been lower by Rs 325.853 million and the reserve for issue of bonus shares brought forward would have been higher by Rs 325.853 million.

2006                      2005  
Rupees in '000

## 8 CASH AND BALANCES WITH TREASURY BANKS

In hand		
- local currency	404,239	711,359
- foreign currencies	176,276	117,213
With State Bank of Pakistan in		
- local currency current account - note 8.1	4,927,430	2,982,789
- foreign currency deposit account - note 8.1	256,140	136,043
With National Bank of Pakistan in		
- local currency current account	126,855	5,589
	<u>5,890,940</u>	<u>3,952,993</u>

8.1 These represent local and foreign currency accounts required to be maintained by MBL with the SBP as stipulated by the SBP.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>9. BALANCES WITH OTHER BANKS</b>		
In Pakistan		
- on current account	105,526	57,689
Outside Pakistan		
- on current account	389,334	856,399
- on deposit account – note 9.1	3,640,015	1,941,735
	<u>4,134,875</u>	<u>2,855,823</u>

9.1 The return on these balances ranges from 5.06 to 5.35 (2005: 3.50 to 4.53) percent per annum.

	2006	2005
	Rupees in '000	
<b>10. DUE FROM FINANCIAL INSTITUTIONS</b>		
Commodity Murabaha - note 10.1	3,700,000	-

10.1 The return on these commodity murabaha ranges from 9.60 to 12.75 (2005: nil) percent per annum.

	2006	2005
	Rupees in '000	
<b>10.2 Particulars of due from financial institutions</b>		
In local currency	3,700,000	-
In foreign currencies	-	-
	<u>3,700,000</u>	<u>-</u>

## 11. INVESTMENTS

	2006			2005		
	Held by the Group	Given as Collateral	Total	Held by the Group	Given as Collateral	Total
	Rupees in '000					
<b>11.1 Investments by types</b>						
Held for trading securities - note 11.4	530,698	-	530,698	346,932	-	346,932
Available for sale securities - note 11.7	233,358	-	233,358	166,982	-	166,982
Held to maturity securities - note 11.6	1,320,548	-	1,320,548	179,142	-	179,142
In related parties						
Associates (listed) - note 11.8	760,582	-	760,582	987,398	-	987,398
Associates (unlisted) - note 11.9	580,113	-	580,113	253,261	-	253,261
Advance against issue of shares of Pak-Kuwait Takaful Company Limited	-	-	-	17,000	-	17,000
Investment at cost / carrying value	3,425,299	-	3,425,299	1,950,715	-	1,950,715
Less: Provision for diminution in value of investments - note 11.3	2,425	-	2,425	1,128	-	1,128
Investments (net of provisions)	3,422,874	-	3,422,874	1,949,587	-	1,949,587
(Deficit) / surplus on revaluation of 'held for trading' securities	(35,389)	-	(35,389)	57,780	-	57,780
Surplus on revaluation of 'available for sale' securities	6,950	-	6,950	53,642	-	53,642
Total investments at market value	<u>3,394,435</u>	<u>-</u>	<u>3,394,435</u>	<u>2,061,009</u>	<u>-</u>	<u>2,061,009</u>

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>11.2 Investments by segments</b>		
Fully paid up ordinary shares		
- Listed companies	622,457	682,292
- Unlisted companies	139,208	111,481
Musharakah term finance certificates (MTFCs)	10,902	21,543
Term finance certificates (TFCs)	-	29,563
Preference shares	143,280	141,780
Sukuk Bonds	175,348	179,142
WAPDA First sukuk certificates	1,250,000	-
Units of open-ended funds	621,552	294,932
Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL)	897	-
Certificates of a closed-end fund	436,655	472,982
Advance against issue of ordinary shares	-	17,000
Advance against issue of units of United Composite Islamic Fund	25,000	-
<b>Total investment at cost / carrying value</b>	<b>3,425,299</b>	<b>1,950,715</b>
Less: Provision for diminution in value of investments - note 11.3	2,425	1,128
<b>Investments (net of provisions)</b>	<b>3,422,874</b>	<b>1,949,587</b>
(Deficit) / surplus on revaluation of held for trading securities - note 11.5	(35,389)	57,780
Surplus on revaluation of available for sale securities	6,950	53,642
<b>Total investments at market value</b>	<b>3,394,435</b>	<b>2,061,009</b>

## 11.3 Particulars of provision for diminution in value of investments

	2006			2005		
	Associates	Others	Total	Associates	Others	Total
	Rupees in '000					
Opening balance	1,128	-	1,128	-	-	-
Transferred from provision against non-performing financings	-	-	-	-	30,959	30,959
Charge for the year	1,297	-	1,297	1,128	-	1,128
Reversals	-	-	-	-	(30,959)	(30,959)
	1,297	-	1,297	1,128	(30,959)	(29,831)
Closing balance	2,425	-	2,425	1,128	-	1,128

	2006	2005
	Rupees in '000	
<b>11.3.1 Particulars of provision in respect of type and segment</b>		
<b>Associates - unlisted</b>		
Fully paid-up ordinary shares	2,425	1,128

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 11.4 Held for trading securities

The Group holds investments in ordinary shares of Rs 10 each and sukuk bonds of Rs. 5,000 each and musharaka term finance certificates (MTFCs), unless stated otherwise, in the following listed investee companies:

Name of the investee company	2006	2005	2006	2005
	Number of Shares		Cost / carrying amount Rupees in '000	
<b>Textile composite</b>				
Nishat Mills Limited	335,830	125,000	35,887	13,021
<b>Synthetic and rayon</b>				
Dewan Salman Fibre Limited	-	905,000	-	18,611
<b>Cement</b>				
D.G. Khan Cement Company Limited	113,850	133,000	7,972	13,992
Fauji Cement Company Limited	100,000	-	1,773	-
Maple Leaf Cement Factory Limited	-	153,000	-	5,797
<b>Refinery</b>				
National Refinery Limited	72,000	72,000	26,045	27,295
<b>Power generation and distribution</b>				
Kot Addu Power Company Limited	-	50,000	-	1,941
The Hub Power Company Limited	84,000	882,500	2,273	23,955
<b>Oil and gas marketing</b>				
Pakistan State Oil Company Limited	80,600	22,500	24,642	8,447
Shell Pakistan Limited	16,750	-	6,714	-
Sui Southern Gas Company Limited	-	309,712	-	8,412
<b>Oil and gas exploration</b>				
Oil and Gas Development Company Limited	325,100	155,000	38,541	16,574
Pakistan Oilfields Limited	104,550	169,500	36,070	50,692
Pakistan Petroleum Limited	592,500	267,000	141,625	55,971
<b>Automobile assembler</b>				
Dewan Farooque Motors Limited	-	85,000	-	2,606
Indus Motor Company Limited	50,000	50,000	9,667	6,291
<b>Automobile parts and accessories</b>				
Agriauto Industries Limited - note 11.4.1	180,000	180,000	11,881	9,792
<b>Technology and communication</b>				
Callmate Telips Telecom Limited	-	354,750	-	10,020
Pakistan Telecommunication Company Limited (A)	1,398,500	-	70,870	-
<b>Fertilizer</b>				
Engro Chemical Pakistan Limited	246,500	120,000	41,203	18,437
Fauji Fertilizer Bin Qasim Limited	470,500	35,000	17,985	1,340
Fauji Fertilizer Company Limited	223,375	269,775	27,990	24,256
<b>Chemicals</b>				
ICI Pakistan Limited	-	50,000	-	7,008
<b>Paper and board</b>				
Packages Limited	120,116	120,116	24,262	21,433
<b>MTFCs</b>				
Sitara Chemicals Industries Limited - note 11.7.1	257	257	498	1,041
<b>Sukuk Bonds</b>				
Sitara Chemicals Industries Limited - note 11.4.2	960	-	4,800	-
<b>Total</b>			<b>530,698</b>	<b>346,932</b>

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



11.4.1 The nominal value of these shares is Rs 5 each.

11.4.2 These bonds were not issued as at December 31, 2006.

### 11.5 Unrealised (loss) / gain on revaluation of investments classified as held for trading

	2006	2005
	Rupees in '000	
<b>Fully paid up ordinary shares</b>		
Listed shares	(32,389)	57,780

### 11.6 Held to maturity securities

Name of the investee entity	2006	2005	2006	2005
	Number of bonds / certificates		Cost Rupees in '000	
<b>Sukuk bonds / certificates</b>				
Qatar Global Sukuk Bonds (Sukuk - Qatar) - note 11.6.1	1,000,000	1,000,000	48,728	59,714
Dubai Sukuk Bonds (Sukuk - Dubai) - note 11.6.2	2,000,000	2,000,000	121,820	119,428
WAPDA First Sukuk Certificates (Sukuk - WAPDA) - notes 11.6.3 and 11.7.2	230,000	-	1,150,000	-
			<u>1,320,548</u>	<u>179,142</u>

11.6.1 The paid up value of Sukuk – Qatar is US \$ 0.8 (2005: US \$ 1) per bond. The return on Sukuk – Qatar is on the basis of London inter-bank offered rate plus a fixed credit spread of forty basis points. These bonds will mature between 2007 to 2010.

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

11.6.3 The paid up value of Sukuk - WAPDA is Rs 5,000 per certificate. The return on Sukuk – WAPDA is on six monthly Karachi inter-bank offered rate plus a fixed credit spread of thirty five basis points. These bonds will mature in 2012.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 11.7 Available for sale securities

The Group holds investments in ordinary shares, musharakah term finance certificates (MTFCs), Sukuk certificates and other securities of a nominal value of 10 each, unless stated otherwise, in the following investee companies / fund:

Name of the investee company / fund	2006		2005		2006		2005	
	Number of Shares/certificates		Cost Rupees in '000		Market value Rs '000	Rating entity long term/short term	Market value Rs '000	Rating entity long term/short term
<b>Ordinary shares</b>								
<b>Automobile assembler</b>								
Pak Suzuki Motor Company Limited	10,000	-	3,781	-	4,200	Unrated	-	-
<b>Power generation and distribution</b>								
The Hub Power Company Limited	1,225,000	1,500,000	40,016	49,000	33,075	Unrated	36,000	-
<b>Oil and gas marketing</b>								
Pakistan State Oil Company Limited	27,780	75,280	7,591	20,569	8,167	AAA / A1+	31,380	AAA / A1+
Shell Pakistan Limited	8,625	35,750	1,877	9,727	3,433	Unrated	28,314	Unrated
Sui Southern Gas Company Limited	-	600,000	-	16,422	-	Unrated	16,050	Unrated
<b>Automobile parts and accessories</b>								
Agriauto Industries Limited – note 11.4.1	120,000	120,000	8,762	5,929	9,120	Unrated	7,500	Unrated
<b>Fertilizer</b>								
Fauji Fertilizer Company Limited	288,586	288,586	31,297	11,537	30,461	Unrated	39,536	Unrated
<b>Paper and board</b>								
Packages Limited	44,100	44,100	3,733	3,733	9,261	AA / A1 +	8,908	AA / A1 +
<b>MTFCs</b>								
Sitara Chemical Industries Limited - note 11.7.1	6,120	6,120	10,404	20,502	11,861	AA -	23,373	AA -
<b>TFCs</b>								
Dewan Cement Limited	-	-	-	29,563	-	-	29,563	Unrated
<b>Sukuk certificates</b>								
Wapda First Sukuk Certificates – notes 11.6.3 and 11.7.2	20,000	-	100,000	-	104,833	Unrated	-	-
<b>Others</b>								
S.W.I.F.T. SCRL - note 11.7.3	5	-	897	-	897	Unrated	-	-
Advance against issue of units of United Composite Islamic Fund	-	-	25,000	-	25,000	Unrated	-	-
			<u>233,358</u>	<u>166,982</u>	<u>240,308</u>		<u>220,624</u>	

11.7.1 The paid up value of MTFCs is Rs 1,700 per certificate. The return on MTFCs is on Musharakah basis and will mature in 2007.

11.7.2 These sukuk certificates are backed by the Government of Pakistan's Sovereign guarantee.

11.7.3 The nominal value of these shares is € 125 each.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 11.8 Associates (listed)

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

Name of the investee entity	2006 Number of shares / certificates / units	2005 Number of shares / certificates / units	Percentage of direct equity holding %	2006 Rupees in '000	2005 Rupees in '000
<b>Ordinary shares</b>					
<b>Closed end mutual fund</b>					
Al Meezan Mutual Fund Limited - note 11.11	17,024,593	16,022,593	14.23	243,262	273,032
<b>Certificates of closed end fund</b>					
Meezan Balanced Fund - note 11.11	17,467,179	16,269,292	14.56	193,393	199,950
<b>Modaraba</b>					
Fayzan Manufacturing Modaraba - notes 11.8.1 and 11.11	-	21,457,500	-	-	219,484
<b>Units of an open end fund</b>					
<b>Meezan Islamic Fund -</b> notes 11.8.2 and 11.11	5,452,399	3,905,860	N/A	323,927	294,932
				<u>760,582</u>	<u>987,398</u>

**11.8.1** During the year Fayzan Manufacturing Modaraba was liquidated on completion of its term. The Group has received its share in investments and profits of the Modaraba.

**11.8.2** The nominal value of these units is Rs 50 each.

**11.8.3** Investments in listed associates have a market value of Rs 692.911 million (2005: Rs 921.150 million).



# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 11.9 Associates (unlisted)

The Group holds investments in ordinary shares of Rs 10 each, unless stated otherwise, and preference shares of Rs 100 each in the following unlisted investee companies / fund:

Particulars	2006	2005	2006	2005	Percentage of equity holding	Break up value per share / unit	Latest available financial statements	Name of the chief executive / asset management company
	Number of Shares/certificates/units		Rupees in '000		%	Rupees		
Plexus (Private) Limited-note 11.11	1,499,980	1,499,980	10,900	10,068	50	7.27	December 31, 2006*	Mr. Arif-ul-Islam
Faysal Management Services (Private) Limited - note 11.9.1 and 11.11	540,000	540,000	65,744	55,513	30	121.75	December 31, 2006*	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited- notes 11.9.2 and 11.11	129,000	129,000	12,610	12,900	43	102.59	December 31, 2006*	Mr. Shuja-ul-Mulk
Falcon Greenwood (Private) Limited -Ordinary shares - notes 11.9.2 and 11.11	250,000	250,000	24,954	25,000	25	100.00	December 31, 2006*	Mr. Abbas Khan
-Preference shares - note 11.9.3	1,432,800	1,417,800	143,280	141,780	N/A	N/A		
Pak Kuwait Takaful Company Limited	2,500,000	800,000	25,000	8,000	10	9.03	December 31, 2006*	Mr. Istaqbal Mehdi
Meezan Islamic Income Fund - notes 11.9.4 and 11.11	5,952,500	-	297,625	-	N/A	50.00	First financial statements not issued	Al Meezan Investment Management Limited
Total			<u>580,113</u>	<u>253,261</u>				

\*Unaudited

**11.9.1** The nominal value of these shares is Rs 100 each. These shares are in the custody of SECP and cannot be sold without the prior approval of SECP in accordance with circular No. 9 of 2006 dated June 15, 2006 in addition to mandatory holding period of 5 years from the last date of purchase of these shares.

**11.9.2** The nominal value of these shares is Rs 100 each.

**11.9.3** The nominal value of these preference shares is Rs 100 each. The preference shares have no voting rights. These preference shares are redeemable at the option of the investee company.

**11.9.4** These are unlisted units of an open end fund. Subsequent to December 31, 2006 the fund has applied for listing in Karachi Stock Exchange.

**11.10** Investments in associates except Meezan Islamic Income Fund form part of strategic investment of MBL and cannot be sold for a period of five (5) years from the last date of purchase of such securities.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



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

	Al Meezan Mutual Fund Limited	Blue Water (Private) Limited	Falcon Greenwood (Private) Limited	Faysal Management Services (Private) Limited	Fayzan Manufacturing Modaraba	Meezan Islamic Income Fund	Meezan Islamic Fund	Meezan Balanced Fund	Plexus (Private) Limited	Total
	Rupees in '000									
Carrying values of investments as at December 31, 2006 according to MBL's financial statements	38,723	9,000	25,000	54,000	-	270,000	125,000	161,345	8,675	691,743
Holding through AMIML	254,270	6,000	-	-	-	42,500	60,642	17,632	-	381,044
Minorities' shares in associates	(88,995)	(2,100)	-	-	-	(14,875)	(21,225)	(6,171)	-	(133,366)
Group's share in results of associates relating to periods upto December 31, 2005	134,417	-	-	1,513	4,888	-	163,961	37,864	(4,932)	337,711
Group's share in results of associates in current period's profits before taxation	2,615	(290)	(46)	17,737	62,918	-	6,998	15,839	907	106,678
Taxation	-	-	-	(1,242)	-	-	-	-	(75)	(1,317)
Dividend income	(51,074)	-	-	(6,264)	(67,806)	-	-	(34,934)	-	(160,078)
Reversal of surplus on revaluation of investments	(34,034)	-	-	-	-	-	16	1,932	-	(32,086)
Reversal of surplus on revaluation relating to 'held for trading' investments	(12,660)	-	-	-	-	-	(11,465)	(114)	-	(24,239)
Reversal of provision for diminution in the value of an investment upto December 31, 2006	-	-	-	-	-	-	-	-	6,325	6,325
	<u>243,262</u>	<u>12,610</u>	<u>24,954</u>	<u>65,744</u>	<u>-</u>	<u>297,625</u>	<u>323,927</u>	<u>193,393</u>	<u>10,900</u>	<u>1,172,415</u>
Note	<u>11.8</u>	<u>11.9</u>	<u>11.9</u>	<u>11.9</u>	<u>11.8</u>	<u>11.9</u>	<u>11.8</u>	<u>11.8</u>	<u>11.9</u>	

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
Rupees in '000

## 12. FINANCINGS

In Pakistan

- Murabaha financings – note 12.1	11,430,720	8,117,096
- Net investment in ijarah – note 12.2	6,378,320	5,101,246
- Export refinance under Islamic scheme – note 12.3	4,403,667	2,923,000
- Diminishing musharakah financings – housing	2,604,096	1,900,763
- Diminishing musharakah financings – others	1,209,466	983,557
- Musharakah financings	130,500	104,500
- Financings against bills – salam	364,755	260,532
- Financings against bills – murabaha	573,961	353,433
- Loans and running finances – notes 12.4	172,348	111,246
<b>Total financings - notes 12.6 and 12.8</b>	<b>27,267,833</b>	<b>19,855,373</b>
Less: Provision against non-performing financings – note 12.7	238,255	116,674
<b>Financings net of provision</b>	<b>27,029,578</b>	<b>19,738,699</b>

<b>12.1</b> Murabaha receivable - gross – note 12.1.1	11,871,350	8,117,096
Less: Deferred murabaha income	222,466	-
Profit receivable shown in other assets	218,164	-
<b>Murabaha financings / receivables</b>	<b>11,430,720</b>	<b>8,117,096</b>

**12.1.1** This includes advance for murabaha aggregating Rs 1,812 million. The comparative balances have not been stated as the change in accounting policy as stated in note 7.1 has been applied prospectively.

### 12.2 Net investment in Ijarah

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	2,389,229	3,956,492	35,736	6,381,457	1,747,593	2,917,322	677,989	5,342,904
Residual value	197,891	1,114,352	54,261	1,366,504	137,663	679,252	68,397	885,312
Minimum lease payments	2,587,120	5,070,844	89,997	7,747,961	1,885,256	3,596,574	746,386	6,228,216
Profit for future periods	558,291	804,752	6,598	1,369,641	466,770	572,276	87,924	1,126,970
Present value of minimum ijarah payments	2,028,829	4,266,092	83,399	6,378,320	1,418,486	3,024,298	658,462	5,101,246

**2006**                      **2005**  
Rupees in '000

<b>12.3</b> Murabaha receivable under Islamic		
export refinance scheme - gross – note 12.3.1	4,513,494	2,923,000
Less: Deferred murabaha income	50,257	-
Profit receivable shown in other assets	59,570	-
<b>Export refinance under Islamic scheme / receivables</b>	<b>4,403,667</b>	<b>2,923,000</b>

**12.3.1** This includes advance for murabaha under Islamic export refinance scheme aggregating Rs 846 million. The comparative balances have not been stated as the change in accounting policy as stated in note 7.1 has been applied prospectively.

**12.4** This includes Rs 109.051 million (2005: Rs 84.493 million) representing mark up free loans to staff advanced under Bank's human resource policies.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>12.5 Particulars of financings</b>		
<b>12.5.1 In</b>		
- local currency	25,771,263	18,891,926
- foreign currencies	1,258,315	846,773
	<u>27,029,578</u>	<u>19,738,699</u>
<b>12.5.2 Short-term (for upto one year)</b>	17,619,718	13,210,486
Long-term (for over one year)	9,409,860	6,528,213
	<u>27,029,578</u>	<u>19,738,699</u>

**12.6** Financings include Rs 408.442 million (2005: Rs 183.373 million) which have been placed under non-performing status detailed below:

Category of classification	Classified financings			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Substandard	148,774	-	148,774	35,557	-	35,557	35,557	-	35,557
Doubtful	92,948	-	92,948	25,921	-	25,921	25,921	-	25,921
Loss	166,720	-	166,720	102,234	-	102,234	102,234	-	102,234
	<u>408,442</u>	<u>-</u>	<u>408,442</u>	<u>163,712</u>	<u>-</u>	<u>163,712</u>	<u>163,712</u>	<u>-</u>	<u>163,712</u>

## 12.7 Particulars of provision against non-performing financings

	2006			2005		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	66,953	49,721	116,674	59,971	18,851	78,822
Transfer to available for sale securities	-	-	-	(30,959)	-	(30,959)
Charge for the year	98,296	24,822	123,118	37,941	30,870	68,811
Less: Reversals	1,537	-	1,537	-	-	-
Net charge	96,759	24,822	121,581	37,941	30,870	68,811
Closing balance	<u>163,712</u>	<u>74,543</u>	<u>238,255</u>	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>

**12.7.1** MBL has maintained a general reserve (provision) in accordance with the applicable requirements of the prudential regulations for consumer financing issued by the State Bank of Pakistan.

### 12.7.2 Particulars of provision against non-performing financings

	2006			2005		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	154,346	74,543	228,889	51,651	49,721	101,372
In foreign currencies	9,366	-	9,366	15,302	-	15,302
	<u>163,712</u>	<u>74,543</u>	<u>238,255</u>	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>12.8 Particulars of loans and financings to directors, associated companies etc.</b>		
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons		
Balance at the beginning of the year	121,902	56,691
Financings granted during the year	106,149	71,444
Repayments	(58,885)	(6,233)
Balance at the end of the year – note 12.8.1	169,166	121,902
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members		
Balance at the beginning of the year	311,912	146,917
Financings granted during the year	497,798	695,212
Repayments	(413,807)	(530,217)
Balance at the end of the year – note 12.8.2	395,903	311,912

**12.8.1** The maximum total amount of financings including temporary financings granted by MBL during the year were Rs 169.166 million (2005: Rs 121.902 million). The maximum amount has been calculated by reference to the month end balance.

**12.8.2** This represents a musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs 120.500 million (2005: Rs 94.500 million), murabaha and ijarah facilities outstanding from The General Tyre and Rubber Company of Pakistan Limited (an associated company) (GTR) amounting to Rs 182.089 million (2005:Rs 122.015 million) and Rs 89.239 million (2005: Rs 95.396 million) respectively and ijarah facility outstanding from Pak-Kuwait Takaful Company Limited (an associated company) amounting to Rs 4.075 million (2005:Rs Nil). The musharakah facility is secured against equitable mortgage over property, whereas murabaha and ijarah facilities are secured against hypothecation charge over present and future stocks, book debts and the rented assets of GTR and Pak-Kuwait Takaful Company Limited respectively. The maximum total amount of financings including temporary financings granted during the year were Rs 431.977 million (2005: Rs 311.912 million). The maximum amount has been calculated by reference to the month end balance.

**12.8.3 Loans and financings to executives and a director.**

	Executives		Director	
	2006	2005	2006	2005
	Rupees in '000			
Opening balance	54,318	36,475	827	960
Loans disbursed during the year	26,572	24,871	-	-
Loans repaid during the year	(55,907)	(7,028)	(133)	(133)
Closing	24,983	54,318	694	827





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# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 14.3 Property, equipment and others - movement of net book value

	Land and buildings	Leasehold improvements	Furniture and fixtures	Electrical, office and computer equipment	Vehicles	Total
	Rupees in '000					
<b>At January 1, 2005</b>						
Cost	55,329	61,021	12,510	78,311	60,137	267,308
Accumulated depreciation	2,766	9,400	2,419	41,311	24,421	80,317
Net book value	52,563	51,621	10,091	37,000	35,716	186,991
<b>Year ended December 31, 2005</b>						
Additions	-	57,071	23,037	55,801	31,607	167,516
Adjustment	-	-	1,241	16	-	1,257
Net book value of disposals	-	-	-	22	2,177	2,199
Depreciation charge	2,766	11,810	5,342	39,208	14,766	73,892
Net book value	49,797	96,882	26,545	53,555	50,380	277,159
<b>Year ended December 31, 2006</b>						
Additions	16,641	102,607	22,302	98,824	48,897	289,271
Net book value of disposals	-	-	-	32	3,013	3,045
Depreciation charge	3,599	22,070	6,578	50,503	23,902	106,652
Net book value as at December 31, 2006	62,839	177,419	42,269	101,844	72,362	456,733

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

**14.3.2** Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs 58.395 million (2005: Rs 17.326 million).

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



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

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of Purchasers
<b>Vehicles</b>						
Honda Civic	1,161	1,161	-	116	Bank Policy	Mr. Najam ul Hasan (Employee)
Honda Civic	1,003	451	552	1,003	Insurance claim	Adamjee Insurance Company Limited
Honda Civic	1,042	174	868	1,000	Insurance claim	Adamjee Insurance Company Limited
Suzuki Cultus	560	336	224	224	Bank policy	Mr. Nisar Ahmed (Employee)
Honda Citi	735	441	294	282	Bank policy	Mr. Faiz ur Rehman (Employee)
Honda Civic	1,154	923	231	288	Bank policy	Mr. Rizwan Atta (Employee)
BMW	1,330	1,330	-	650	Negotiation	International Motors
Honda Citi	785	471	314	314	Bank policy	Mr. Zafar A. Khan (Employee)
Suzuki Alto	469	375	94	133	Bank policy	Mr. Ismail Aswani (Employee)
Santro	499	299	200	200	Bank policy	Ms. Naheed Ashfaq (Employee)
Suzuki Cultus	591	355	236	236	Bank policy	Mr. Mashkoor A. G. Khan (Employee)
<b>Electrical, office and computer equipments</b>						
Miscellaneous office equipment	-	-	-	390	Negotiation	Various buyers
	<u>9,329</u>	<u>6,316</u>	<u>3,013</u>	<u>4,836</u>		

## 14.4 Intangible assets

	Additions		Amortisation		Closing balance as at December 31, 2006			
	Rupees in '000							
Computer software	19,697	11,293	30,990	5,628	5,807	11,435	19,555	20
2005	11,589	8,108	19,697	1,986	3,642	5,628	14,069	



# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 14.5 Intangible assets-movement of net book value

	Year ended December 31, 2005			Year ended December 31, 2006			
	Net book value as at January 1, 2005	Addition	Amortisation charge for the year	Net book value as at December 31, 2005	Addition	Amortisation charge for the year	Net book value as at December 31, 2006
Computer software	9,603	8,108	3,642	14,069	11,293	5,807	19,555

Rupees in '000

2006  
2005  
Rupees in '000

## 15. OTHER ASSETS

Profit / return accrued in local currency	450,123	307,660
Profit / return accrued in foreign currency	15,986	7,144
Advances, deposits, advance rent and other prepayments - note 15.1	260,970	204,192
Advance taxation (payments less provisions)	208,509	131,047
Receivables on account of sale of securities	12,209	812,858
Dividend receivable	1,278	765
Stamps	3,997	2,202
Receivables from associated undertakings / related parties of AMIML	56,282	54,809
Inventories – note 15.2	579,897	-
Advance against future murabaha	-	368,818
Advance against future ijarah	714,928	382,981
Security deposits	11,048	6,555
Unrealised gain on forward foreign exchange contracts	-	17,038
Prepaid exchange risk fee	121	47
Others - note 15.3	787	1,597
	<u>2,316,135</u>	<u>2,297,713</u>

15.1 This includes prepaid rent and prepaid insurance aggregating Rs 121.909 million (2005: 44.388 million) and Rs 78.187 million (2005: 70.678 million) respectively which are amortised over a period of one year.

15.2 These represent goods by MBL for murabaha but remaining unsold at the balance sheet date.

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

2006  
2005  
Rupees in '000

## 16. BILLS PAYABLE

In Pakistan	563,228	260,732
Outside Pakistan	-	-
	<u>563,228</u>	<u>260,732</u>

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>17. DUE TO FINANCIAL INSTITUTIONS</b>		
In Pakistan	4,264,642	2,981,714
Outside Pakistan	20,570	-
	4,285,212	2,981,714
<b>17.1 Particulars of due to financial institutions with respect to currencies</b>		
In local currency	4,252,460	2,922,000
In foreign currencies	32,752	59,714
	4,285,212	2,981,714
<b>17.2 Details of due to financial institutions secured / unsecured</b>		
<b>Secured</b>		
Borrowing from State Bank of Pakistan		
Under Islamic export refinance scheme – note 17.2.1	4,252,460	2,922,000
<b>Unsecured</b>		
Overdrawn nostro accounts	20,570	-
Others	12,182	59,714
	32,752	59,714
	4,285,212	2,981,714

**17.2.1** The borrowings are on a profit and loss sharing basis maturing between January 8, 2007 and June 27, 2007 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 5,000 million has been allocated to MBL by the SBP under Islamic Export Refinance Scheme for the financial year ending June 30, 2007.

	2006	2005
	Rupees in '000	
<b>17.3 Particulars of due to financial institutions</b>		
Short-term	4,285,212	2,981,714
Long-term	-	-
	4,285,212	2,981,714
<b>18. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	12,993,315	6,492,676
Savings deposits	9,812,311	7,492,041
Current Accounts - non-remunerative	7,779,810	5,028,807
Margin	342,301	207,290
	30,927,737	19,220,814
<b>Financial institutions</b>		
Remunerative deposits	3,489,614	3,534,865
Non-remunerative deposits	6,585	5,607
	3,496,199	3,540,472
	34,423,936	22,761,286

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



**2006**                      **2005**  
Rupees in '000

## 18.1 Particulars of deposits

- local currency	32,071,159	21,597,778
- foreign currencies	2,352,777	1,163,508
	34,423,936	22,761,286

## 19. DEFERRED TAXATION

Credit / (debit) balances arising on account of Excess of accounting net books values over tax written down values of owned assets	61,343	3,661
Other staff benefits	(40,702)	(37,926)
Excess of ijarah financings over tax written down values of ijarah assets	488,814	253,038
Carried forward assessed and unassessed tax losses – note 19.1	(60,122)	(29,480)
Excess of tax written down values over accounting net book values of investments	17,644	14,844
Provision against non-performing financings	(47,901)	(14,070)
Others	(560)	(2,720)
	418,516	187,347

**19.1** MBL has an aggregate amount of Rs 171.778 million (2005: 84.229 million) available as carried forward assessed and unassessed tax losses as at December 31, 2006. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

**19.2** A deferred tax asset on deficit on revaluation of listed equity shares amounting to approximately Rs 12.156 million has not been recognised by the Group in the financial statements as the management is confident that the existing exemption on capital gains arising on listed shares will be extended by the Government of Pakistan beyond the tax year 2007.

**2006**                      **2005**  
Rupees in '000

## 20. OTHER LIABILITIES

Return on deposits and other dues:		
- payable in local currency – note 20.1	305,264	171,182
- payable in foreign currency	6,429	1,436
Unearned commission	20,738	11,869
Accrued expenses	36,056	61,050
Advance payments	318	7,720
Unclaimed dividends	855	855
Unrealised loss on forward foreign exchange contracts	409	-
Unrealised loss on re-measurement of derivative	-	261
Payable to defined benefit plan – note 37.4	7,929	5,627
Provision against off-balance sheet obligations – note 20.2	1,600	1,600
Security deposits against Ijarah	1,399,646	885,281
Payable on account of purchase of securities	-	197,000
Other staff benefits	141,228	118,664
Charity payable – note 20.3	9,549	6,740
Others	77,865	60,666
	2,007,886	1,529,951

**20.1** It includes Rs 57.528 million (2005: Rs 49.006 million) in respect of return accrued on borrowings from SBP under Islamic export refinance scheme.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>20.2 Provision against off-balance sheet obligations</b>		
Opening balance – note 20.2.1	1,600	1,600
Charge for the year	-	-
Reversals	-	-
Amount Written off	-	-
Closing balance	1,600	1,600

**20.2.1** 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.

	2006	2005
	Rupees in '000	
<b>20.3 Reconciliation of charity payable by MBL</b>		
Balance as at January 1	6,740	2,890
Additions during the year – note 20.3.1	9,508	5,386
Payments made during the year – note 20.3.2	(6,699)	(1,536)
Balance as at December 31	9,549	6,740

**20.3.1** It includes charity payable on last year's income amounting to Rs 0.324 million.

**20.3.2** Charity amounting to Rs 6 million and Rs 0.200 million during the year ended December 31, 2006 was paid to The Citizen Foundation and Idara Al Khair respectively. None of the other individuals / organisation received charity in excess of Rs 100,000 each.

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

## 21. SHARE CAPITAL

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

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

	Ordinary shares	
	Number	Amount Rupees in '000
<b>Authorised capital</b>		
As at January 1, 2006	300,000,000	3,000,000
Increase during the year	500,000,000	5,000,000
As at December 31, 2006	800,000,000	8,000,000
<b>Issued, subscribed and paid-up capital</b>		
As at January 1, 2005	134,601,709	1,346,017
Right issue at Rs 10 each	69,056,528	690,565
As at December 31, 2005	203,658,237	2,036,582
Issue of bonus shares	56,209,672	562,097
Right issue at Rs 10 each	118,121,777	1,181,218
As at December 31, 2006	377,989,686	3,779,897

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

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005 Restated
<b>22. RESERVES</b>		
	Rupees in '000	
Statutory reserve – note 22.1	461,319	340,469
General reserve	91,082	91,082
	552,401	431,551
<b>22.1</b>	Under section 21 of the Banking Companies Ordinance, 1984 an amount not less than 20% of the profit to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of paid up capital.	
<b>23. UNAPPROPRIATED PROFIT</b>		
	Rupees in '000	
Unappropriated profit	918,857	950,336
<b>24. MINORITY INTEREST</b>		
Opening balance	31,219	24,421
Charge for the year	51,625	38,103
Minority's share in the subsidiaries holding in its associates	(30,681)	(31,305)
	52,163	31,219
<b>25. SURPLUS ON REVALUATION OF INVESTMENTS</b>		
Quoted shares	660	50,772
Other securities - quoted MTFCs	1,457	2,870
- certificates	4,833	-
	6,950	53,642
<b>26. CONTINGENCIES AND COMMITMENTS</b>		
<b>26.1 Direct credit substitutes</b>		
Government	201,279	82,298
<b>26.2 Transaction-related contingent liabilities</b>		
Guarantees favouring		
- Government	1,805,745	1,851,267
- Banks	29,273	18,397
- Others	2,224,786	1,224,058
	4,059,804	3,093,722
<b>26.3 Trade-related contingent liabilities</b>		
Import letter of credit	4,802,859	5,880,513
Acceptance	2,300,062	2,242,686
	7,102,921	8,123,199
<b>26.4 Commitments in respect of forward exchange contracts</b>		
Purchase	2,808,751	1,908,163
Sales	6,297,464	4,641,603

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



- 26.5** The assessing officer had subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income in respect of assessment year 2001-2002 and tax year 2003. During the year the ITAT has decided the matter in favour of MBL in respect of assessment year 2001-2002.

The amount of tax levied by the assessing officer on such gain aggregated Rs 151.798 million, whereas the net tax liability for the aforesaid assessment years and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs 41 million. The management is confident that even at the superior judicial forums MBL's position will be sustained.

- 26.6** The tax department has not accepted MBL's contention on the matter of allocation of expenses on exempt capital gains and dividend income subject to reduced rate of tax. Order to this effect has already been framed for the tax year 2003. For the following years this matter has not yet emerged as there have been deemed assessments which are expected to be amended on this issue.

While finalising the assessment of MBL for the tax year 2003 the assessing officer made certain disallowance of financial charges and administrative expenses on this account. After considering the effect of apparent rectifications the disallowances will aggregate to Rs 106.635 million. If the assessing officer's basis of allocation is applied for the following years, the expected disallowances may amount to Rs 647 million resulting in tax impact of Rs 257 million in respect of tax year 2003 and the following years. MBL had filed an appeal with CIT (A) on the subject matter. The CIT (A) in his order confirmed the assessment in respect of the principle of allocation of expenses however directions have been given for necessary rectification on certain facts and basis underlying that assessment.

MBL has challenged the matter in an appeal on the issue with the ITAT. In the case of another company, the issue of allocation of expenses has been set aside by the ITAT with certain positive assertions.

The management is confident that the ultimate outcome of the appeal would be in favour of MBL inter alia on facts of the case. In the management view this could result in the maximum liability aggregating to Rs 163 million in respect of tax year 2003 and following years which has been provided for.

	2006	2005
	Rupees in '000	
<b>26.7</b> Commitments in respect of financings	16,704,510	13,417,146
<b>26.8 Other commitments</b>		
Bills for collection (inland)	42,784	16,108
Bills for collection (foreign)	2,088,795	1,146,365
	<u>2,131,579</u>	<u>1,162,473</u>
<b>27. PROFIT / RETURN EARNED ON FINANCINGS, INVESTMENTS AND PLACEMENTS</b>		
On financings to		
- Customers	2,349,049	1,421,389
On investments in		
- Held for trading	181	139
- Available for sale securities	4,548	3,066
- Held to maturity securities	125,513	6,667
On deposits with financial institutions	224,756	27,376
	<u>2,704,047</u>	<u>1,458,637</u>

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>28. RETURN ON DEPOSITS AND OTHER DUES EXPENSED</b>		
Deposits and other accounts – note 28.1	1,226,075	520,410
On other short term borrowings	237,034	169,472
	<u>1,463,109</u>	<u>689,882</u>
<b>28.1</b> It includes Rs 229.491 million (2005: Rs 144.025 million) paid / payable to SBP by MBL under Islamic export refinance scheme.		
<b>29. CAPITAL GAIN ON SALE OF SECURITIES</b>		
Shares-listed	125,446	217,994
WAPDA first sukuk certificates	2,344	-
Term finance certificates	341	-
	<u>128,131</u>	<u>217,944</u>
<b>30. OTHER INCOME</b>		
Gain on sale of property, equipment and others	1,830	490
Advisory services	633	109
Amortisation of negative goodwill	-	3,920
Sales load	10,543	7,182
Gain on termination of ijarah financings	10,297	9,186
Gain on termination of diminishing musharakah financings	10,069	-
Unrealised (loss) on remeasurement of derivatives	-	(261)
Others	927	373
	<u>34,299</u>	<u>20,999</u>
<b>31. ADMINISTRATIVE EXPENSES</b>		
Salaries, allowances, etc. - note 39	445,189	327,025
Charge for defined benefit plan - note 37.4	11,286	5,756
Contribution to defined contribution plan	13,848	8,565
Non-executive directors' fees - note 39	5,373	7,020
Rent, electricity, taxes, insurance, etc.	140,894	83,591
Insurance on consumer car ijarah	101,040	58,862
Communication	39,834	33,495
Stationery and printing	28,578	22,335
Entertainment	10,166	6,763
Local transportation and car running	27,114	16,775
Fees, subscription and clearing charges	22,363	5,548
Security charges	12,332	7,439
Repairs and maintenance	12,284	6,919
Hardware and software maintenance	4,492	3,813
Advertisement and publicity	32,039	41,805
Depreciation - note 14.2	106,652	73,892
Amortisation - note 14.4	5,807	3,642
Travelling	12,366	7,769
Service charges - note 39.2	15,946	14,594
Brokerage and commission	14,848	9,812
Legal and professional charges - note 31.1	8,729	11,211
Auditors' remuneration - note 31.2	6,481	5,465
Donations	-	4,000
Transfer Agency fees	-	1,942
Others	11,222	5,135
	<u>1,088,883</u>	<u>773,173</u>

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



31.1 It includes remuneration to Shariah board of MBL amounting to Rs 2.100 million (2005: Rs 2.437 million).

	2006	2005
	Rupees in '000	
<b>31.2 Auditors' remuneration</b>		
Holding company		
Audit fee	1,100	950
Fee for audit of employees' funds	150	75
Special certifications and sundry advisory services	1,800	2,253
Tax services	2,750	1,892
Out of pocket expenses	503	190
	6,303	5,360
Subsidiary company		
Audit fee	150	105
Out of pocket expenses	28	-
	178	105
	6,481	5,465
<b>32. OTHER CHARGES</b>		
Penalties imposed by State Bank of Pakistan	4,776	482
	4,776	482
<b>33. TAXATION</b>		
Current - for the year		
- Group	52,818	39,868
- Associates	1,317	935
	54,135	40,803
Current - prior year		
- Group	(62,653)	39,002
Deferred		
- Group	231,169	187,147
	222,651	266,952

33.1 As the provision for current taxation for MBL for the year ended December 31, 2006 has been made on the basis of presumptive tax, therefore a relationship between the tax expense and the accounting profit has not been disclosed.



# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>34. BASIC EARNINGS PER SHARE</b>		
Profit for the year	651,468	680,967
Weighted average number of ordinary shares	321,685,172	287,888,288
Basic earnings per share	2.03	2.37
<b>34.1</b>	The number of ordinary shares as at December 31, 2005 have been adjusted for element of bonus in issue of right shares and bonus shares.	
<b>34.2</b>	There were no convertible dilutive potential ordinary shares outstanding on December 31, 2006 and 2005.	
	2006	2005
	Rupees in '000	
<b>35. CASH AND CASH EQUIVALENTS</b>		
Cash and balance with treasury banks	5,890,940	3,952,993
Balance with other banks	4,134,875	2,855,823
	10,025,815	6,808,816
	2006	2005
	Number of staff	
<b>36. STAFF STRENGTH</b>		
Permanent	809	464
Contractual basis	456	240
Group's own staff strength at the end of the year	1,265	704
Outsourced	170	105
Total staff strength	1,435	809
<b>37. DEFINED BENEFIT PLAN OF MBL</b>		
<b>37.1</b>	The projected unit credit method, as allowed under the International Accounting Standard 19 'Employee Benefits' (revised 2005), was used for actuarial valuation based on the following significant assumptions:	
	2006	2005
Discount rate	10% p.a	10% p.a
Expected rate of increase in salaries	10% p.a	10% p.a
Expected rate of return on investments	10% p.a	10% p.a
Normal retirement age	60 years	60 years
The disclosures made in notes 37.1 to 37.14 are based on the information included in the actuarial valuation as of December 31, 2006.		
	2006	2005
	Rupees in '000	
<b>37.2 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations – note 37.7	29,117	17,640
Fair value of plan assets – note 37.8	(11,531)	(6,841)
Net actuarial gains or losses not recognised	(9,657)	(5,172)
	7,929	5,627
<b>37.3 Movement in payable to defined benefit plan</b>		
Opening balance	5,627	6,530
Charge for the year – note 37.4	7,929	5,627
Contribution to fund made during the year	(5,627)	(6,530)
Closing balance	7,929	5,627

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>37.4 Charge for defined benefit plan</b>		
Current service cost	6,539	4,700
Interest cost	1,764	987
Expected return on plan assets	(684)	(176)
Actuarial gains and losses	310	116
	7,929	5,627
<b>37.5 Actual return / (loss) on plan assets</b>	659	(380)
<b>37.6</b> It includes a balance of Rs 1.086 million (2005: Rs 6.841 million) and Rs 10.445 million (2005: Rs Nil) kept in a saving account and Meezan Aamdhan Certificate with MBL respectively.		

	2006	2005
	Rupees in '000	
<b>37.7 Reconciliation of present value of obligation</b>		
Present value of obligation as at January 1	17,640	10,972
Current service cost	6,539	4,700
Interest cost	1,764	987
Benefits paid	(1,596)	(1,265)
Actuarial loss on obligation	4,770	2,246
Present value of obligation as at December 31	29,117	17,640
<b>37.8 Changes in the fair value of plan assets are as follows:</b>		
Opening fair value of plan assets	6,841	1,956
Expected return	684	176
Contributions by the Bank	5,627	6,530
Benefits paid	(1,596)	(1,265)
Actuarial loss	(25)	(556)
	11,531	6,841

	2006		2005	
	Rupees in '000	%	Rupees in '000	%
<b>37.9 The plan assets comprise as follows:</b>				
Meezan Aamdhan Certificates	10,445	90.58	-	-
Saving account with Meezan Bank	1,086	9.42	6,841	100.00
	11,531		6,841	

	2006	2005
	Rupees in '000	
<b>37.10 Actuarial loss to be recognised</b>		
Corridor Limit		
The limits of the corridor as at January 1		
10% of obligations	1,764	1,097
10% of plan assets	684	196
Which works out to	1,764	1,097
Unrecognised actuarial gain (losses) as at January 1	(5,172)	(2,486)
Excess	(3,408)	(1,389)
Average expected remaining working lives in years	11	12
Actuarial loss to be recognised	(310)	(116)

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



	2006	2005
	Rupees in '000	
<b>37.11 Unrecognised actuarial losses</b>		
Unrecognised actuarial losses at January 1	(5,172)	(2,486)
Actuarial loss on obligations – note 37.7	(4,770)	(2,246)
Actuarial loss on assets – note 37.8	(25)	(556)
Subtotal	(9,967)	(5,288)
Actuarial loss recognised – note 37.10	310	116
<b>Unrecognised actuarial losses as at December 31</b>	<b>(9,657)</b>	<b>(5,172)</b>

**37.12** Amount for the current year and previous four years of the present value of the defined benefit obligation, the fair value of plan assets, surplus / deficit and experience adjustments arising thereon are as follows:

	2006	2005	2004	2003	2002
	Rupees in '000				
Present value of defined benefit obligation	29,117	17,640	10,972	7,332	4,422
Fair value of plan assets	(11,531)	(6,841)	(1,956)	(1,931)	(785)
Deficit	17,586	10,799	9,016	5,401	3,637
Actuarial loss on obligation	(4,770)	(2,246)	(449)	(389)	(1,725)
Actuarial gain / (loss) on assets	(25)	(556)	338	252	(27)

### 37.13 Expected gratuity expense for the next year

The expected gratuity expense for the year ending December 31, 2007 works out to Rs.13.648 million.

**37.14** The above disclosure relates to MBL's benefit plan only as actuarial valuation of gratuity fund was not carried out by AMIML.

## 38. 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.

	2006	2005
	Rupees in '000	
Contribution from MBL	11,540	7,776
Contribution from the employee	11,540	7,776
	<b>23,080</b>	<b>15,552</b>

## 39. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President and Chief Executive		Director		Executives	
	2006	2005	2006	2005	2006	2005
	Rupees in '000					
Fees	285	923	5,691*	7,020	-	-
Managerial remuneration	16,086	16,086	20,230	18,764	106,510	59,291
Charge for defined benefit plan	-	-	731	617	4,203	1,790
Contribution to defined contribution plan	-	-	878	741	3,994	2,528
House rent	-	-	270	270	13,721	8,735
Utilities	-	-	878	741	4,975	2,957
Medical	162	176	937	846	4,814	2,619
Conveyance	639	537	230	145	572	-
Others	171	143	63	14	-	-
	<b>17,343</b>	<b>17,865</b>	<b>29,908</b>	<b>29,158</b>	<b>138,789</b>	<b>77,920</b>
Number of persons	1	1	10	10	46	31

\*This includes amounts charged in these financial statements as fees to nine (2005: nine) non-executive directors.

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



39.1 Certain executives are provided with free use of cars.

39.2 In addition to the above, service charges (note 31) include Rs 15.946 million (2005: Rs 13.892 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.

## 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

40.1 The fair value of investments in listed securities, except investments categorised as 'held to maturity' securities and investments in associates is based on quoted market prices. The value of unquoted equity investments is reduced, if required, on the basis of break-up value of those investments based on the latest available financial statements as disclosed in note 11.9. 'Held to maturity' securities are carried at amortised cost while investment in associates are valued under equity method of accounting.

The fair value of financings, other assets, other liabilities and deposits and other accounts cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of financings has been calculated in accordance with the Group's accounting policy as stated in note 6.3.2. 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 financings and deposits are frequently repriced.

## 41. SEGMENT ANALYSIS

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
	Rupees in '000								
<b>2006</b>									
Total income	1,925	846,198	252,634	2,265,765	36,123	8,317	194,427	-	-
Total expenses	(1,878)	(715,028)	(187,485)	(1,906,110)	(12,363)	(556)	(78,878)	-	-
Net income	47	131,170	65,149	359,655	23,760	7,761	115,549	-	-
Segment assets	386,800	19,979,468	2,636,029	24,006,749	-	-	-	-	-
Segment non performing loans	-	-	103,800	304,642	-	-	-	-	-
Segment provision required	-	-	20,416	217,839	-	-	-	-	-
Segment liabilities	-	32,752	34,423,936	7,242,089	-	-	-	-	-
Segment return on assets (ROA) (%)	0.01	0.66	2.47	1.50	-	-	-	-	-
Segment cost of funds (%)	4.93	4.93	4.93	4.93	-	-	-	-	-
<b>2005</b>									
Total income	-	734,753	63,934	1,490,244	41,644	3,547	154,417	-	-
Total expenses	-	(295,683)	(44,697)	(1,340,478)	(11,141)	(509)	(76,962)	-	-
Net income	-	439,070	19,237	149,766	30,503	3,038	77,455	-	-
Segment assets	-	8,969,974	863,857	21,390,529	-	-	-	-	-
Segment non performing loans	-	-	-	183,373	-	-	-	-	-
Segment provision required	-	-	-	116,674	-	-	-	-	-
Segment liabilities	-	136,597	22,761,286	4,823,147	-	-	-	-	-
Segment return on assets (ROA) (%)	-	4.89	2.23	0.70	-	-	-	-	-
Segment cost of funds (%)	-	3.91	3.91	3.91	-	-	-	-	-

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 42. RELATED PARTY TRANSACTIONS

- 42.1** 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 associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.
- 42.2** 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.
- 42.3** Key management personnel:
- President and Chief Executive Officer
  - Chief Operating Officer
- 42.4** The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	Total		Associates		Key Management Personnel		Other Related Parties	
	2006	2005	2006	2005	2006	2005	2006	2005
Rupees in '000								
<b>Financings</b>								
At January 1,	312,739	147,877	311,912	146,917	827	960	-	-
Disbursed during the year	497,798	695,212	497,798	695,212	-	-	-	-
Repaid during the year	(413,940)	(530,350)	(413,807)	(530,217)	(133)	(133)	-	-
At December 31,	396,597	312,739	395,903	311,912	694	827	-	-
<b>Deposits</b>								
At January 1,	1,632,956	1,235,219	1,394,518	583,923	17,152	23,354	221,286	627,942
Deposited during the year	33,050,914	33,715,132	15,041,783	20,057,083	130,295	54,925	17,878,836	13,603,124
Repaid during the year	(33,264,859)	(33,317,395)	(15,294,132)	(19,246,488)	(139,631)	(61,127)	(17,831,096)	(14,009,780)
At December 31,	1,419,011	1,632,956	1,142,169	1,394,518	7,816	17,152	269,026	221,286
<b>Balances</b>								
Profit receivable on financings	10,614	1,018	10,614	1,018	-	-	-	-
Acceptances	62,176	22,112	62,176	22,112	-	-	-	-
Letters of credit (unfunded)	56,787	243,283	56,787	243,283	-	-	-	-
Preliminary expenses received	1,944	1,944	1,944	1,944	-	-	-	-
Preliminary expenses incurred	1,191	13	1,191	13	-	-	-	-
<b>Transactions, income and expenses</b>								
Profit earned on financings	23,301	13,225	23,301	13,225	-	-	-	-
Return on deposits expensed	98,335	54,131	86,672	43,226	2,772	926	8,891	9,979
Dividend income earned	118,827	46,956	118,827	46,956	-	-	-	-
Service charges incurred	15,946	14,594	-	-	-	-	15,946	14,594
Fees and commission earned	321	141,974	-	141,974	-	-	321	-
Commission earned on letters of credit and acceptances	857	1,815	857	1,815	-	-	-	-
Placement fee paid	-	2,886	-	-	-	-	-	2,886

## 43. ASSOCIATES – KEY INFORMATION

Particulars	Mutual Funds	Others	Total
	Rupees in '000		
Assets	6,644,124	1,210,756	7,854,880
Liabilities	94,372	266,095	360,467
Operating revenue	456,101	81,015	537,116
Profit after tax	436,961	55,714	492,675

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 44. CAPITAL ADEQUACY

The risk weighted to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy was as follows:

	2006		2005	
	Rupees in '000			
<b>Regulatory Capital Base</b>				
<b>Tier I Capital</b>				
Shareholders capital		3,779,897		2,036,582
Reserves		552,401		757,404
Unappropriated profit		918,856		624,483
<b>Total Tier I Capital</b>		5,251,154		3,418,469
<b>Tier II Capital</b>				
Subordinated debt (upto 50% of total Tier I Capital)		-		-
General provisions subject to 1.25% of total risk weighted assets		74,543		49,721
Revaluation reserve (upto 50%)		330		25,386
<b>Total Tier II Capital</b>		74,873		75,107
<b>Eligible Tier III Capital</b>		5,326,027		3,493,576
<b>Total Regulatory Capital</b>	(a)	5,326,027		3,493,576
		Rupees in '000		
		2006	2005	
		Book Value	Risk Adjusted Value	Book Value
		Risk Adjusted Value	Risk Adjusted Value	
<b>Risk-weighted exposures</b>				
<b>Credit Risk</b>				
Balance sheet items-				
Cash and other liquid assets	10,025,815	826,975	6,808,816	571,165
Due from financial institutions	3,700,000	2,500,000	-	-
Investments	2,899,126	1,636,702	1,656,297	1,619,306
Loans and financings – note 44.2	24,502,665	22,823,766	17,762,164	16,563,834
Operating fixed assets	543,083	543,083	318,123	318,123
Other assets	2,316,135	2,107,626	2,297,713	2,166,666
	43,986,824	30,438,152	28,843,113	21,239,094
Off balance sheet items-				
Loan repayment guarantees	2,501,341	2,501,341	2,324,984	2,324,984
Purchase and resale agreements	-	-	-	-
Performance bonds etc. – note 44.3	3,692,252	1,665,491	2,907,817	1,162,329
Revolving underwriting commitments	-	-	-	-
Standby letters of credit – note 44.3	4,646,187	2,323,094	5,868,978	2,934,489
Outstanding foreign exchange contracts				
- Purchase	1,332,044	11,114	1,489,568	18,081
- Sale	4,913,416	33,106	3,564,363	21,753
	17,085,240	6,534,146	16,155,710	6,461,636
Credit risk-weighted exposures		36,972,298		27,700,730
<b>Market risk</b>				
General market risk		495,457		404,875
Specific market risk		500,610		405,750
Capital charge for foreign exchange risk		33,051		123,175
Market risk-weighted exposures		1,029,118		933,800
<b>Total Risk-Weighted Exposures</b>	(b)	38,001,416		28,634,530
Capital Adequacy Ratio [ (a) / (b) x 100]		14.02%		12.20%

# Notes to and forming part of the Consolidated Financial Statements

## For the year ended December 31, 2006



- 44.1 Weightages as mentioned in BSD circular no. 12 dated August 25, 2004 have been applied to the respective 'book values' to arrive at 'risk adjusted values'.
- 44.2 The amount of cash margins and deposits held against loans and financings aggregates Rs 2,601.456 million (2005: Rs 2,026.256 million).
- 44.3 The amount of cash margins and deposit held against performance bonds and standby letters of credit aggregates Rs 524.224 million (2005: Rs 197.440 million).

## 45. RISK MANAGEMENT

The wide variety of MBL's business activities requires it to identify, measure, aggregate and manage risks effectively which are constantly evolving as the business activities change in response to credit, market, product and other developments. MBL manages the risk through a framework of risk management, policies and principles, organisational structures and risk measurement and monitoring processes that are closely aligned with its business activities.

### Risk management principles

- The board of directors (the Board) provides overall risk management supervision. The executive and risk management committees regularly monitor MBL's risk profile.
- MBL has set up objectives and policies to manage the risks that arise in connection with its activities. The risk management framework and policies of MBL are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in its operations.
- The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organisational structure of MBL.
- The risk management function is independent of MBL's operation.

### Risk management organisation

The risk management committee of MBL comprises of two non-executive directors and one executive director. One of the non-executive directors of MBL chairs the risk management committee, which is responsible for planning, management and control of the aforementioned risks of MBL.

The risk management committee has delegated some of its tasks of risk management to sub-committees which are as follows:

#### Name of the committee

Credit committee  
Asset and liability management committee (ALCO)  
Audit committee

#### Chaired by

President & CEO  
President & CEO  
Non-executive director

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

The Board has constituted a full functional audit committee. The audit committee works to ensure that the best practices of the code of corporate governance are being complied by MBL and that the policies and procedures are being complied with.

MBL's risk management, compliance, internal audit and legal departments support the risk management function. The role of the risk management department is to quantify the risk and ensure the quality and integrity of MBL's risk-related data. The compliance department ensures that all the directives and guidelines issued by the State Bank of Pakistan (SBP) are being complied with in order to mitigate the compliance and operational risks. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

# Notes to and forming part of the Consolidated Financial Statements

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## 45.1 Credit risk

Credit risk refers to the risk of financial loss arising from defaults by counter parties in meeting their obligations. Exposure to credit risks for MBL arises primarily from lending activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures spell out the relevant approval authorities, limits, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

MBL has a well-defined credit structure duly approved by the Board 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 financings to reputable names, which are self-liquidating and Shariah compliant. The risk appraisal system of MBL has enabled it to build a sound portfolio. The accounting policies and methods used by MBL are in accordance with the requirements of the prudential regulations of the State Bank of Pakistan and approved accounting standards as applicable in Pakistan.

Out of the total financial assets of Rs 45.416 billion (2005: Rs 30.571 billion), the financial assets which were subject to credit risk amounted to Rs 39.525 billion (2005: Rs 26.618 billion). The major credit risk in respect of advances is concentrated in sectors such as textile and individuals. To manage credit risk MBL applies credit limits to its customers and obtains adequate collaterals. MBL also applies control limits to restrict its exposure and obtains collaterals from the counterparties such as cash deposit, guarantees, hypothecation and charges over fixed assets and stocks and mortgage of properties.

MBL has in-house assessment methodologies and procedures for evaluating the creditworthiness of counterparties. A reconciliation of provision against non performing advances has been disclosed in note 12.7 of these financial statements.

## 45.2 Segmental information

### 45.2.1 Segment by class of business

	Financings		Deposits		Contingencies and commitments	
	Rs. '000	%	Rs. '000	%	Rs. '000	%
Agriculture, forestry, hunting and fishing	225,424	0.83	487,217	1.41	529,490	1.34
Textile	9,511,541	35.19	1,139,635	3.31	9,919,122	25.14
Automobiles and transportation	1,262,909	4.67	230,751	0.67	1,192,294	3.02
Financial institutions	50,000	0.19	3,496,199	10.15	8,014,974	20.32
Insurance	-	-	378,063	1.10	55,187	0.14
Electronics and electrical appliances	106,556	0.39	54,637	0.16	871,193	2.21
Construction	558,146	2.06	1,784,825	5.18	1,508,128	3.82
Power (electricity), gas and water	344,825	1.28	867,926	2.51	185,433	0.47
Exports / imports	406,460	1.50	256,992	0.75	58,380	0.15
Transport, storage and communication	309,550	1.15	-	-	21,515	0.06
Chemicals and pharmaceuticals	1,046,692	3.87	428,133	1.24	3,256,433	8.26
Sugar	827,528	3.06	56,129	0.16	645,678	1.64
Footwear and leather garments	1,488,401	5.51	329,698	0.96	1,237,975	3.14
Wholesale and retail trade	592,754	2.19	-	-	-	-
Cement	80,135	0.30	71,790	0.21	1,276,408	3.24
Services	51,440	0.19	1,321,255	3.84	110,951	0.28
Individuals	5,734,552	21.22	15,604,158	45.35	546,473	1.39
Others	4,432,665	16.40	7,916,528	23.00	10,011,674	25.38
	<u>27,029,578</u>	<u>100.00</u>	<u>34,423,936</u>	<u>100.00</u>	<u>39,441,308</u>	<u>100.00</u>



# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 45.2.2 Segment by sector

	2006					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	-	-	119,846	0.35	135,000	0.34
Private	27,029,578	100.00	34,304,090	99.65	39,306,308	99.66
	27,029,578	100.00	34,423,936	100.00	39,441,308	100.00

## 45.2.3 Details of non-performing financing and specific provisions by class of business segment

	2006		2005	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees in '000			
Agriculture, forestry, hunting and fishing	-	-	-	-
Textile	191,924	99,016	111,962	59,531
Chemical and pharmaceuticals	9,521	2,722	-	-
Cement	-	-	-	-
Sugar	-	-	-	-
Footwear and leather garments	-	-	-	-
Automobile and transportation equipment	59,474	17,252	-	-
Electronics and electrical appliances	5,250	1,313	-	-
Construction	-	-	-	-
Power (electricity), gas and water	-	-	-	-
Wholesale and retail trade	-	-	-	-
Exports / imports	-	-	-	-
Transport, storage and communication	-	-	-	-
Financial Institutions	-	-	-	-
Insurance	-	-	-	-
Services	-	-	-	-
Individuals	9,938	3,909	2,910	609
Others	132,335	39,500	68,501	6,813
	408,442	163,712	183,373	66,953

## 45.2.4 Details of non-performing financings and specific provisions by sector

Public / Government	-	-	-	-
Private	408,442	163,712	183,373	66,953
	408,442	163,712	183,373	66,953

# Notes to and forming part of the Consolidated Financial Statements

For the year ended December 31, 2006



## 45.2.5 Geographical segment analysis

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	925,744	47,009,046	5,310,268	39,441,308
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Africa	-	-	-	-
	<u>925,744</u>	<u>47,009,046</u>	<u>5,310,268</u>	<u>39,441,308</u>

## 45.3 Market risk

MBL is exposed to market risk which is the risk that the value of on and off balance sheet exposures of MBL will be adversely affected by movements in market rates or prices such as bench mark rates, profit rates, foreign exchange rates, equity prices and market conditions resulting in a loss to earnings and capital. The profit rates and equity price risk consists of two components each. The general risk describes value changes due to general market movements, while the specific risk has issuer related causes.

MBL applies Stress Testing and Value at risk (VaR) techniques as risk management tool; Stress testing enables MBL to estimate changes in the value of the portfolio, if exposed to various risk factors. VaR quantifies the maximum loss that might arise due to changes in risk factors, if exposure remains unchanged for a given period of time.

### 45.3.1 Foreign exchange risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to the 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 controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistan rupees	40,955,565	38,911,644	3,488,713	5,532,634
United States dollars	4,240,081	904,352	(3,318,078)	17,651
Great Britain pounds	139,990	2,622	(136,830)	538
Japanese yen	6,131	-	(561)	5,570
Euro	70,966	32,189	(33,244)	5,533
Singapore dollars	702	-	-	702
Australian dollars	424	-	-	424
Canadian dollars	1,231	-	-	1,231
Swiss francs	1,402	-	-	1,402
	<u>45,416,492</u>	<u>39,850,807</u>	<u>-</u>	<u>5,565,685</u>

### 45.3.2 Equity position risk

Equity position risk is the risk arising from taking long positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities.

Counter parties limits, as also fixed by the State Bank of Pakistan, are considered to limit risk concentration. MBL invests in those equities which are Shariah compliant as advised by the Shariah advisor.

# Notes to and forming part of the Consolidated Financial Statements

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## 45.4 Mismatch of yield rate sensitive assets and liabilities

2006

Effective yield rate	Total	Exposed to yield risk									Non-yield bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000												
<b>On-balance sheet financial instruments</b>												
Cash and balances with treasury banks	-	5,890,940	-	-	-	-	-	-	-	-	-	5,890,940
Balances with other banks	4.81	4,134,875	-	3,640,015	-	-	-	-	-	-	-	494,860
Due from financial institutions	10.60	3,700,000	500,000	2,480,000	720,000	-	-	-	-	-	-	-
Investments	10.45	3,394,435	-	-	106,091	11,389	12,182	134,002	12,182	1,150,000	-	1,968,589
Financings	11.14	27,029,578	3,907,196	7,576,684	5,207,382	928,375	1,677,366	2,787,873	2,216,682	487,821	2,131,108	109,101
Other assets	-	1,266,664	-	-	-	-	-	-	-	-	-	1,266,664
		45,416,492	4,407,196	13,696,699	6,033,473	939,764	1,689,538	2,921,875	2,228,864	1,637,821	2,131,108	9,730,154
<b>Liabilities</b>												
Bills payable	-	563,228	-	-	-	-	-	-	-	-	-	563,228
Due to financial institutions	8.46	4,285,212	289,352	2,780,400	1,205,460	10,000	-	-	-	-	-	-
Deposits and other accounts	4.90	34,423,936	6,889,426	5,923,024	3,549,645	3,363,349	1,940,807	1,552,577	957,502	2,118,910	-	8,128,696
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	578,431	-	-	-	-	-	-	-	-	-	578,431
		39,850,807	7,178,778	8,703,424	4,755,105	3,373,349	1,940,807	1,552,577	957,502	2,118,910	-	9,270,355
<b>On-balance sheet gap</b>		5,565,685	(2,771,582)	4,993,275	1,278,368	(2,433,585)	(251,269)	1,369,298	1,271,362	(481,089)	2,131,108	459,779
<b>NON FINANCIAL ASSETS</b>												
- Operating fixed assets		543,083										
- Other assets		1,049,471										
		1,592,554										
<b>NON FINANCIAL LIABILITIES</b>												
- Deferred taxation		(418,516)										
- Other liabilities		(1,429,455)										
		(1,847,971)										
<b>TOTAL NET ASSETS</b>		5,310,268										
<b>Off-balance sheet financial instruments</b>												
Forward Lending	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-
<b>Total yield/profit risk sensitivity gap</b>		-	(2,771,582)	4,993,275	1,127,836	(2,433,585)	(251,269)	1,369,298	1,271,362	(481,089)	2,131,108	
<b>Cumulative yield/profit risk sensitivity gap</b>		-	(2,771,582)	2,221,693	3,500,061	1,066,476	815,207	2,184,505	3,455,867	2,974,778	5,105,886	

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 financial instruments will fluctuate due to changes in the market profit rate.

MBL takes on exposure to the effects of fluctuations in the prevailing levels of market profit rates on both its fair value and cash flow risks. Profit margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

## 45.5 Liquidity risk

Liquidity risk is the risk that MBL either does not have sufficient financial resources available to meet its obligations and commitments as they fall due or can fulfill them only excessive cost that may affect MBL's income and equity.

MBL seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all class of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending and investment opportunities as they arise.

# Notes to and forming part of the Consolidated Financial Statements

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## 45.5.1 Maturities of assets and liabilities

2006

	2006									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 year	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in 000										
<b>Assets</b>										
Cash and balances with treasury banks	5,890,940	5,890,940	-	-	-	-	-	-	-	-
Balances with other banks	4,134,875	4,134,875	-	-	-	-	-	-	-	-
Due from financial institutions	3,700,000	500,000	2,480,000	720,000	-	-	-	-	-	-
Investments	3,394,435	-	396,050	220,502	297,153	201,423	159,002	12,182	2,107,226	897
Financings	27,029,578	3,907,196	7,576,684	5,207,382	928,456	1,677,811	2,830,326	2,230,353	465,884	2,205,486
Operating fixed assets	543,083	-	-	35	752	7,366	3,089	195,767	233,625	102,469
Other assets	2,316,135	2,142,828	25,201	30,856	106,549	-	-	-	10,701	-
	47,009,046	16,575,839	10,477,935	6,178,775	1,332,910	1,886,600	2,992,397	2,438,302	2,817,436	2,308,852
<b>Liabilities</b>										
Bills payable	563,228	563,228	-	-	-	-	-	-	-	-
Due to financial institutions	4,285,212	289,352	2,780,400	1,205,460	10,000	-	-	-	-	-
Deposits and other accounts	34,423,936	15,018,122	5,923,024	3,549,645	3,363,349	1,940,807	1,552,577	957,502	2,118,910	-
Deferred taxation	418,516	-	-	-	-	-	-	418,516	-	-
Other liabilities	2,007,886	467,012	4,684	-	264,114	1,143,090	22,188	19,395	87,403	-
	41,698,778	16,337,714	8,708,108	4,755,105	3,637,463	3,083,897	1,574,765	1,385,413	2,206,313	-
<b>Net assets</b>	5,310,268	238,125	1,769,827	1,423,670	(2,304,553)	(1,197,297)	1,417,632	1,042,889	611,123	2,308,852
Share capital	3,779,897									
Reserves	552,401									
Unappropriated profit	918,857									
Minority interest	52,163									
Surplus on revaluation of investments	6,950									
	5,310,268									

## 45.6 Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of processes, systems, personnel and other risks having an operational impact such as unauthorised activities, fraud and business malpractice.

The Group ensures that the key operational risks are managed in a timely and effective manner through raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Group has developed effective policies, guidelines and manuals necessary for the mitigation of operational risk.

MBL is supervised by the Shariah Supervisory Board which sets out guidelines, policies and procedures for it to ensure that all its activities and products are shariah compliant. The internal audit function of MBL performs regular audits on various operations of MBL and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risks associated with operational activities.

A business continuity plan and a disaster recovery plan have also been formulated and approved by the Board of Directors to ensure uninterrupted flow of operations of MBL.

## 46. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 01, 2007 by the Board of Directors of MBL.

**H.E. Sheikh Ebrahim  
Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President and  
Chief Executive

**Istaqbal Mehdi**  
Director

**Ariful Islam**  
Director

# Pattern of Shareholding

## as at December 31, 2006



No. of Shareholders	Having Shares		Shares held	Percentage
	From	To		
189	1	100	9,950	0.00%
473	101	500	156,432	0.04%
483	501	1,000	407,003	0.11%
829	1,001	5,000	2,128,203	0.56%
264	5,001	10,000	2,072,448	0.55%
78	10,001	15,000	961,010	0.25%
60	15,001	20,000	1,061,055	0.28%
35	20,001	25,000	792,796	0.21%
32	25,001	30,000	893,195	0.24%
19	30,001	35,000	613,988	0.16%
21	35,001	40,000	781,343	0.21%
10	40,001	45,000	422,483	0.11%
6	45,001	50,000	289,006	0.08%
11	50,001	55,000	572,591	0.15%
6	55,001	60,000	346,118	0.09%
8	60,001	65,000	503,473	0.13%
5	65,001	70,000	337,212	0.09%
15	70,001	75,000	1,090,549	0.29%
2	75,001	80,000	155,528	0.04%
8	80,001	85,000	656,606	0.17%
3	85,001	90,000	261,968	0.07%
11	90,001	95,000	1,020,800	0.27%
1	95,001	100,000	99,806	0.03%
3	100,001	105,000	303,900	0.08%
2	105,001	110,000	211,734	0.06%
1	110,001	115,000	113,216	0.03%
3	115,001	120,000	349,755	0.09%
2	120,001	125,000	244,810	0.06%
3	130,001	135,000	393,114	0.10%
2	135,001	140,000	274,722	0.07%
2	145,001	150,000	294,159	0.08%
1	150,001	155,000	150,688	0.04%
2	155,001	160,000	320,000	0.08%
3	165,001	170,000	501,746	0.13%
2	170,001	175,000	345,697	0.09%
2	175,001	180,000	356,536	0.09%
1	180,001	185,000	180,480	0.05%
3	185,001	190,000	559,609	0.15%
2	190,001	195,000	385,728	0.10%
4	195,001	200,000	790,833	0.21%
2	205,001	210,000	418,113	0.11%
1	215,001	220,000	217,128	0.06%
1	220,001	225,000	222,720	0.06%
1	225,001	230,000	229,447	0.06%
1	230,001	235,000	233,640	0.06%
1	235,001	240,000	239,954	0.06%
1	240,001	245,000	240,982	0.06%
1	275,001	280,000	276,288	0.07%
1	285,001	290,000	286,679	0.08%
1	300,001	305,000	304,281	0.08%
1	315,001	320,000	317,006	0.08%
1	320,001	325,000	320,754	0.08%
1	330,001	335,000	334,892	0.09%
1	350,001	355,000	352,476	0.09%
1	355,001	360,000	357,604	0.09%
1	360,001	365,000	364,544	0.10%
2	370,001	375,000	744,000	0.20%
1	375,001	380,000	376,960	0.10%
1	380,001	385,000	381,696	0.10%
1	400,001	405,000	401,569	0.11%
1	405,001	410,000	408,359	0.11%
2	445,001	450,000	895,252	0.24%
1	465,001	470,000	469,994	0.12%
1	495,001	500,000	496,253	0.13%
1	505,001	510,000	505,476	0.13%
1	530,001	535,000	534,668	0.14%
2	600,001	605,000	1,201,176	0.32%
1	640,001	645,000	643,758	0.17%
2	740,001	745,000	1,485,720	0.39%
1	805,001	810,000	806,873	0.21%
1	820,001	825,000	825,000	0.22%
1	850,001	855,000	851,988	0.23%
1	1,220,001	1,225,000	1,220,124	0.32%
1	1,480,001	1,485,000	1,480,696	0.39%
1	2,150,001	2,155,000	2,152,960	0.57%
1	2,290,001	2,295,000	2,292,009	0.61%
1	2,400,001	2,405,000	2,400,535	0.64%
2	2,525,001	2,530,000	5,055,746	1.34%
1	3,235,001	3,240,000	3,238,160	0.86%
1	3,560,001	3,565,000	3,560,275	0.94%
1	5,005,001	5,010,000	5,008,000	1.32%
1	9,095,001	9,100,000	9,097,757	2.41%
1	35,240,001	35,245,000	35,243,526	9.32%
1	58,785,001	58,790,000	58,788,755	15.55%
1	97,895,001	97,900,000	97,898,697	25.90%
1	113,395,001	113,400,000	113,396,906	30.00%
<hr/>			<hr/>	<hr/>
2,659			377,989,686	100.00%



# Categories of Shareholders

## as at December 31, 2006

Particulars	Number of Shareholders	Shares held	Percentage
Directors, Chief Executive, their spouse and minor children	7	18,455,574	4.88%
Associated Companies, undertakings and related parties	6	305,507,121	80.82%
Banks, Development Financial Institutions and Non Banking Financial Companies	2	17,760	0.00%
Insurance Companies	8	2,359,334	0.62%
Modaraba and Mutual Funds	6	1,689,499	0.45%
General Public			
a. Local	2,490	32,817,785	8.69%
b. Foreign	41	2,484,127	0.66%
Others	99	14,658,486	3.88%
<b>Total</b>	<b>2,659</b>	<b>377,989,686</b>	<b>100.00%</b>

### Additional Information as at December 31, 2006

Particulars	Number of Shareholders	Shares held	Percentage
<b>Associated Companies &amp; Shareholders with more than 10% shareholding</b>			
Pakistan Kuwait Investment Co. (Pvt.) Ltd.	1	113,396,906	30.00%
Shamil Bank of Bahrain B.S.C.	1	97,898,697	25.90%
Noor Financial Investment Co, Kuwait	1	58,788,755	15.55%
Al-Meezan Mutual Fund Ltd.	1	73,200	0.02%
CDC Trustee Meezan Islamic Fund	1	106,037	0.03%
<b>NIT &amp; ICP</b>			
National Bank of Pakistan, Trustee Department	1	192	0.00%
<b>Directors, Chief Executive, their spouse and minor children</b>			
H.E. Sheikh Ebrahim Bin Khalifa Al-Khalifa	1	2,527,873	0.67%
Mr. Naser Abdul Mohsen Al-Marri	1	2,527,873	0.67%
Mr. Irfan Siddiqui	1	9,097,757	2.41%
Mr. Istaqbal Mehdi	1	194,560	0.05%
Mr. Mohamed Abdul Rehman Hussain	1	41,760	0.01%
Mr. Ariful Islam	1	3,560,275	0.94%
Mr. Rana Ahmed Humayun	1	505,476	0.13%
<b>Executives</b>	<b>30</b>	<b>4,081,737</b>	<b>1.08%</b>
<b>Public Sector Companies, Corporations, Banks, DFI's, NBFC's, Insurance Companies, Modaraba, Mutual Funds and other Organizations</b>	<b>115</b>	<b>53,968,413</b>	<b>14.28%</b>
<b>General Public</b>	<b>2,501</b>	<b>31,220,175</b>	<b>8.26%</b>
<b>Total</b>	<b>2,659</b>	<b>377,989,686</b>	<b>100.00%</b>



# Correspondent Banking Network

## Capital reserves

Argentina	American Express Bank Ltd Banca Nazionale del Lavoro SpA Bank of America, N.A. Santander Central Hispano		HSBC Bank KBC Bank NV Société Générale Standard Chartered Bank
Australia	ABN AMRO Bank N.V. Bank of Western Australia Commonwealth Bank of Australia HSBC Bank St Georges Bank Limited Bank of America, N.A.		Sumitomo Mitsui Banking Corporation, The Woori bank Yantai City Commercial Bank Bank of New York Citibank NA Commerz Bank
Austria	Bank Austria Creditanstalt AG Bank Austria AG San Paolo IMI SpA Société Générale	Columbia Croatia Czech Republic	Santander Central Hispano Bank Austria AG Bank Austria AG Commerz Bank
Bahamas	Bank of America, N.A. Fleet National Bank Santander Central Hispano	Denmark	Danske Bank A/S Nordea Bank Sweden AB (publ) Hellenic Bank Ltd
Bahrain	ABC Islamic Bank (E.C) Citibank NA Denizbank A S Shamil Bank of Bahrain United Bank Limited Gulf International Bank B.S.C. Türk Di_ Ticaret Bankasi A_ Woori bank	Egypt	American Express Bank Ltd Egyptian Saudi Finance Bank Mashreq Bank Limited Arab International Bank Nordea Bank Sweden AB (publ) Dashen Bank SC Commercial Bank of Ethiopia Nordea Bank Sweden AB (publ)
Bangladesh	American Express Bank Ltd Habib Bank Limited Standard Chartered Bank Woori bank	Estonia Ethiopia Finland France	Société Bordelaise de CIC SA BNP-Paribas SA Credit Industriel et Commercial Société Générale Lyonnais De Banque Banque Scalbert Dupont SA Banque Regionale de l'Ouest SA Bonnasse Lyonnais de Banque Société Nanceienne Varin-Bernier Credit Industriel de l'Ouest SA (Banque CIO) Banca Nazionale del Lavoro SpA Bank of America, N.A. Banque Transatlantique SA Commerz Bank Credit Fecampois KBC Bank NV National Bank of Pakistan Santander Central Hispano Sumitomo Mitsui Banking Corporation, The U.B.A.F. Credit Industriel de Normandie SA (Banque CIN) Credit Industriel d' Alsace et de Lorraine SA (Banque CIAL) Sumitomo Mitsui Banking Corporation, The American Express Bank Ltd Banca Monte Dei Paschi di Siena SpA Bank of America, N.A. Bank of New York KBC Bank NV National Bank of Pakistan Nordea Bank Sweden AB (publ) Santander Central Hispano Bayerische Hypo-und Vereinsbank AG Commerz Bank Deutsche Bank AG Dresdner Bank AG Fortis Bank SA/ NV San Paolo IMI SpA Vereins-und Westbank AG American Express Bank Ltd
Belgium	Bank of America, N.A. Commerz Bank Deutsche Bank AG ING Belgium NV/SA (Banque Bruxelles Lamber S.A.) KBC Bank NV Bank of New York Fortis Bank SA/ NV Habib Bank Limited Santander Central Hispano Sumitomo Mitsui Banking Corporation, The Santander Central Hispano		
Bolivia			
Bosnia and Herzegovina	Bank Austria AG		
Botswana	Firststrand Bank Ltd		
Brazil	BankBoston N.A. Santander Central Hispano Société Générale Bank of America, N.A. Bank Austria AG Bank of America, N.A. HSBC Bank Royal Bank of Canada Société Générale	Germany	
Bulgaria	Bank of America, N.A.		
Canada	Bank of America, N.A. HSBC Bank Royal Bank of Canada Société Générale		
Cayman Islands	Bank of America, N.A. Commerz Bank Gulf International Bank B.S.C. Nordea Bank Sweden AB (publ) Santander Central Hispano		
Chile	Santander Central Hispano Bank of America, N.A. BankBoston N.A.		
China	ABN AMRO Bank N.V. Agricultural Bank of China, The Bank of America, N.A. Bank of China Bank of Communications	Greece	



# Correspondent Banking Network

	Bank of America, N.A.		Banco Popolare di Verona E novara SCRL
	Probank SA		Credit Agricole Indosuez
	San Paolo IMI SpA	Japan	Standard Chartered Bank
	General Bank of Greece (SG)		Sumitomo Mitsui Banking Corporation, The
	Hellenic Bank Ltd		U.B.A.F.
Guernsey, C.I.	Fleet National Bank		ABN AMRO Bank N.V.
Hong Kong	American Express Bank Ltd		American Express Bank Ltd
	Banca Monte Dei Paschi di Siena SpA		Bank of America, N.A.
	Banca Nazionale del Lavoro SpA		Bank of New York
	Bank of America, N.A.		Citibank NA
	Bank of New York		Commerz Bank
	Citibank NA		Commonwealth Bank of Australia
	Commerz Bank		HSBC Bank
	Commonwealth Bank of Australia		National Bank of Pakistan
	DBS Bank Hong Kong Ltd		San Paolo IMI SpA
	Fleet National Bank		Société Générale
	HBZ Finance Limited		Wachovia Bank, NA
	HSBC Bank		Woori bank
	KBC Bank NV	Jersey, C.I.	Bank of America, N.A.
	Mashreq Bank Limited	Jordan	Housing Bank for Trade & Finance
	National Bank of Pakistan		Jordan Islamic Bank for Finance & Investment
	San Paolo IMI SpA	Kenya	Kenya Commercial Bank Limited
	Société Générale		Habib Bank AG Zurich
	Standard Chartered Bank	Korea	Bank of America, N.A.
	Sumitomo Mitsui Banking Corporation, The		Kookmin Bank
	U.B.A.F.		Pusan Bank
	Wachovia Bank, NA		Kyongnam Bank
	Woori bank		ABN AMRO Bank N.V.
Hungary	Commerz Bank		American Express Bank Ltd
India	American Express Bank Ltd		Bank of New York
	Bank of America, N.A.		Fleet National Bank
	Bank of Ceylon		Korea Exchange Bank
	Standard Chartered Bank		National Bank of Pakistan
	Mashreq Bank Limited		Société Générale
Indonesia	Sumitomo Mitsui Banking Corporation, The		Standard Chartered Bank
	HSBC Bank		Sumitomo Mitsui Banking Corporation, The
	Standard Chartered Bank		U.B.A.F.
	American Express Bank Ltd		Wachovia Bank, NA
	Bank Central Asia		Woori bank
	Bank of America, N.A.	Kuwait	Kuwait Finance House
	Bank Syariah Mandiri		National Bank of Kuwait
	Woori bank	Latvia	Nordea Bank Sweden AB (publ)
Iran	Bank Saderat Iran	Lithuania	Nordea Bank Sweden AB (publ)
	Bank Markazi Jomhourī Islami Iran	Luxembourg	American Express Bank Ltd
Ireland	AIB Bank		Banca Nazionale del Lavoro SpA
			Bank of New York
	Bank of Ireland International Banking		Banque de Commerce et de Placements
	San Paolo IMI SpA		Commerz Bank
	Bank of America, N.A.		Nordea Bank Sweden AB (publ)
	Commerz Bank		Société Générale
Italy	Banca Delle Marche Spa	Macau	HSBC
	Banca Monte Dei Paschi di Siena SpA	Malaysia	Ambank Berhad
	Banca Nazionale del Lavoro SpA		Bank of America, N.A.
	Banca Popolare di Vicenza SCPARL		HSBC Bank
	Commerz Bank		RHB Bank Berhad
	San Paolo IMI SpA		Standard Chartered Bank
	Société Générale		Commerz Bank
	American Express Bank Ltd		KBC Bank NV
	Banca Intesa Spa		Malayan Banking Berhad
	Hypovariens Bank	Malta	Türk Di_ Ticaret Bankasi A_
	Bank of America, N.A.	Mauritius	Mauritius Post and Cooperative Bank Ltd
	HSBC Bank	Mexico	Bank of America, N.A.
	Santander Central Hispano		Fleet National Bank
	Unicredito Italiono	Monaco	American Express Bank Ltd
	Banca di Credito Cooperativo di Fornacette	Morocco	Société Générale





# Correspondent Banking Network

Namibia	Firststrand Bank Ltd		
Nepal	Bank of Kathmandu Ltd		
	Himalayan Bank Limited		
	NABIL Nepal Arab Bank Ltd	Saudi Arabia	Commerz Bank
	Nepal Industrial and Commercial Bank Ltd		International Moscow Bank
	Standard Chartered Bank		Bank for Foreign Trade
Netherlands	ABN AMRO Bank N.V.		Islamic Development Bank
	Bank of America, N.A.		Gulf International Bank B.S.C.
	Commerz Bank		National Commercial Bank
	Deutsche Bank AG	Serbia and Montenegro	Saudi Hollandi Bank
	novara		
	Société Générale	Singapore	Bank Austria AG
	Lanschot Bankiers NV F. van		American Express Bank Ltd
	Habib Bank Limited		Banca Monte Dei Paschi di Siena SpA
	KBC Bank NV		Bank of America, N.A.
New Zealand	ASB bank Limited		Bank of New York
	Bank of New Zealand		Citibank NA
Norway	Nordea Bank Sweden AB (publ)		Commerz Bank
Oman	BankMucut SAOG		Commonwealth Bank of Australia
Pakistan	Arif Habib Rupali Bank		Fleet National Bank
	Mashreq Bank Limited		Habib Bank Limited
	PICIC Commercial Bank Limited		HSBC Bank
	Prime Bank Limited		HSBC Bank USA
	Standard Chartered Bank		KBC Bank NV
	Al Baraka Islamic Bank BSC		National Bank of Kuwait
	American Express Bank Ltd		Nordea Bank Sweden AB (publ)
	Askari Commercial Bank Ltd		Rabobank Asia Ltd
	Bank Al Habib Limited		San Paolo IMI SpA
	Bank AlFalah Limited		Société Générale
	Bolan Bank Limited		Standard Chartered Bank
	Crescent Commercial Bank		Sumitomo Mitsui Banking Corporation, The
	Habib Bank AG Zurich	Slovakia	U.B.A.F.
	Habib Bank Limited	Slovenia	Woori bank
	KASB Bank Limited		Bank Austria AG
	National Bank of Pakistan		Bank Austria AG
	NDLC-IFIC Bank	South Africa	SKB Bank D.D.
	Union Bank Limited		American Express Bank Ltd
	United Bank Limited		Citibank NA
Panama	Santander Central Hispano		Commerz Bank
Papua			Firststrand Bank Ltd
New Guinea	Bank of South Pacific Ltd	Spain	Habib Bank AG Zurich
Paraguay	Santander Central Hispano		ABSA Bank Limited
Peru	Santander Central Hispano		Bilbao Bizkaia Kutxa
Philippines	American Express Bank Ltd		Banca Monte Dei Paschi di Siena SpA
	Bank of America, N.A.		Banco Espanol de Credito
	Equitable PCI Bank, Inc.		Bank of America, N.A.
	KBC Bank NV		HSBC Bank
	Santander Central Hispano		KBC Bank NV
Poland	Nordea Bank Sweden AB (publ)		Santander Central Hispano
	Société Générale		Banco de Credito Balear
	Bank of America, N.A.		Banco de Vasconia SA
	Bank BPH SA		Banco de Castilla
Portugal	San Paolo IMI SpA		Banco De Andalucia
	Santander Central Hispano		Banca Nazionale del Lavoro SpA
	Banco Totta Acores		Banco Popular Espanol SA
	Caixa Geral De Depositos		Caja De Ahorros Del Mediterraneo
Puerto Rico	Fleet National Bank	Sri Lanka	Commerz Bank
	Santander Central Hispano		Banco de Galicia SA
Qatar	Mashreq Bank Limited		Habib Bank Limited
	United Bank Limited		HSBC Bank
Romania	Romanian Bank for Development Groupe		Standard Chartered Bank
	Societe Generale	Sudan	Bank of Ceylon
	Bank Austria AG	Swaziland	Farmers Commercial Bank
Russian Federation	Bank of America, N.A.	Sweden	Firststrand Bank Ltd
	Bank of Moscow		Nordea Bank Sweden AB (publ)
			Skandinaviska Enskilda Banken AB (Publ)
			Svenska Handelsbanken



# Correspondent Banking Network

Switzerland	American Express Bank Ltd Bank of America, N.A. Banque de Commerce et de Placements HSBC Bank Credit Agricole Indosuez Commerz Bank ING Bank N.V. Société Générale Clariden Bank AG Credit Suisse (First Boston) Habib Bank AG Zurich Nordea Bank Sweden AB (publ) United Bank Limited		KBC Bank NV Mashreq Bank Limited National Westminster Bank plc Nordea Bank Sweden AB (publ) San Paolo IMI SpA Santander Central Hispano Sumitomo Mitsui Banking Corporation, The United National Bank (UBL & NBP) Wachovia Bank, NA Woori bank American Express Bank Ltd ABN AMRO Bank N.V. Bank of America, N.A. Commerz Bank Habib Bank AG Zurich HSBC Bank Standard Chartered Bank Bank Austria AG Prominvestbank
Taiwan	American Express Bank Ltd Bank of America, N.A. Bank of New York Chinfon Commercial Bank International Bank of Taipei International Commercial Bank of China, The (Treasury Dept) KBC Bank NV Société Générale Standard Chartered Bank Sumitomo Mitsui Banking Corporation, The Tainan Business Bank Union Bank of Taiwan Wachovia Bank, NA Taiwan Cooperative Bank	Ukraine	American Express Bank Ltd Banca Nazionale del Lavoro SpA BankBoston N.A. Santander Central Hispano KeyBank National Association InterBusiness Bank, N.A. Union Planters AIB Bank Banca Monte Dei Paschi di Siena SpA Banca Nazionale del Lavoro SpA Bank of New York Commonwealth Bank of Australia Credit Lyonnais Deutsche Bank Trust Company Americas Doha Bank Gulf International Bank B.S.C. Habib Bank Limited HSBC Bank JPMorgan Chase Bank KBC Bank NV Mashreq Bank Limited National Bank of Pakistan Nordea Bank Sweden AB (publ) San Paolo IMI SpA Santander Central Hispano Sumitomo Mitsui Banking Corporation, The Branch Banking & trust Co ABN AMRO Bank N.V. American Express Bank Ltd Bank of America, N.A. Bank ONE, NA Citibank NA Commerz Bank Fleet National Bank Habib American Bank Malayan Banking Berhad Société Générale Standard Chartered Bank United Bank Limited Wachovia Bank, NA Woori bank
Thailand	American Express Bank Ltd Bangkok Bank Public Company Limited Bank of America, N.A. HSBC Bank Standard Chartered Bank Standard Chartered Nakornthon Bank Public Company Limited Sumitomo Mitsui Banking Corporation, The Al Baraka Turkish Finance House	Uruguay	USA
Turkey	Citibank NA Denizbank A S Habib Bank Limited HSBC Bank Société Générale Tekstilbank Türk Di_ Ticaret Bankasi A_ Türkiye Garanti Bankasi AS Türkiye Is Bankasi AS		
UAE	United Arab Bank Citibank NA Habib Bank AG Zurich Mashreq Bank Limited ABN AMRO Bank N.V. Abu Dhabi Commercial Bank Abu Dhabi Islamic Bank HSBC Bank Standard Chartered Bank United Bank Limited		
UK	AIB Bank Banca Monte Dei Paschi di Siena SpA Banca Nazionale del Lavoro SpA Bank of New York Commonwealth Bank of Australia Fleet National Bank Gulf International Bank B.S.C. Habib Bank Limited JPMorgan Chase Bank	Venezuela Vietnam Yemen	Santander Central Hispano Vietnam Bank for Agriculture Woori bank Shamil Bank of Yemen and Bahrain



# Branch Network

## KARACHI

Al-Azam Plaza Superhighway Branch  
Ground Floor Sector 1-A,  
Gulzar-e-Hijri, Superhighway,  
Tel: 6365780

Allama Iqbal Road Branch  
Mono Tower, Allama Iqbal Road,  
PECHS Block 2,  
Tel: 4300996-7

Bahadurabad Branch  
Adam Arcade, Plot No. 28,  
BMCH Society,  
Tel: 4145016-21

Barkat-e-Hyderi Branch  
D10, Block H, North Nazimabad,  
Tel: 8351731-2

Bilawal Chowk Branch  
Green Belt Residency, Shop  
No. 4 & 5, Block 2, Scheme 5,  
Clifton,  
Tel: 5830628

Clifton Branch  
Ground Floor, Al-Karam Centre,  
BC1, Block-7 Clifton,  
Main Clifton Road,  
Tel: 5372060-4

Cloth Market Branch  
Atique Market, Bunder Quarters,  
Tel: 2418137-9

DHA Phase II Ext. Branch  
Garibsons Building,  
12th Commercial Street,  
DHA Phase II Extension,  
Tel: 5311953-8

Dhoraji Branch  
35/182, C.P. & Bearar Housing Society,  
Tel: 4860861-4

F.B Area Branch  
C-12, Block 10, F.B Area,  
Tel: 6805370-6

FTC Branch  
Ground Floor, Block B, FTC Building,  
Shahrah-e-Faisal,  
Tel: 5650771

Gulistan-e-Jauher Branch  
Block 15, Scheme 36, Gulistan-e-Jauher,  
Tel: 4030251-5

Gulshan Chowranghi Branch  
Gulistan-e-Erum, Block-3,  
Gulshan-e-Iqbal,  
Tel: 4811849

Gulshan-e-Iqbal Branch  
B-41, Block No. 13-A, KDA Scheme 24,  
University Road, Gulshan-e-Iqbal,  
Tel: 4811901-6

Jodia Bazaar Branch  
H-91 A, Darya Lal Street, Jodia Bazaar,  
Tel: 2473326-9

Khayaban-e-Sehar Branch  
9-C, Shahbaz Commercial Lane 1,  
Khayaban-e-Sehar, Phase VI, DHA,  
Tel: 5349307-18

Korangi Branch  
Plot No. LS 3, ST-3/1,  
Sector No. 15, Korangi Industrial Area,  
Tel: 5077101-6

Marriott Hotel Branch  
Marriott Hotel, Abdullah Haroon Road,  
Tel: 5683491

North Karachi Branch  
Plot # SA-6 (ST-8), 11-C-1, North Karachi,  
Tel: 6965051-5

PNSC Branch  
3rd Floor PNSC Building,  
MT Khan Road,  
Tel: 5610582

Shahrah-e-Faisal Branch  
29-A, Ground Floor, Sabah Palace,  
P.E.C.H.S. Block 6,  
Shahrah-e-Faisal,  
Tel: 4322184-91

S.I.T.E Branch  
Plot No. B/9-C, Estate Avenue,  
SITE Area,  
Tel: 2550328-31

## SUKKUR

Sukkur Branch, 3-45, Ward-C,  
Station Road,  
Tel: 5617192-7

## HYDERABAD

Hyderabad Branch  
Saddar Bazar, Cantonment,  
Tel: 787992-3

## ISLAMABAD

F-7 Jinnah Super Branch  
Unit No. 14, Plot No. 12-B,  
F-7 Markaz, Jinnah Super,  
Tel: 2655001-4

F-10 Markaz Branch  
Plot No. 2-F, F-10 Markaz,  
Tel: 2112762-3

I-9 Branch  
Plot No. 2/A, Industrial Area, I-9,  
Tel: 4859644-7

Jinnah Avenue Branch  
32, Sohrab Plaza, Jinnah Avenue,  
Blue Area,  
Tel: 2276712-5

## RAWALPINDI

Bahria Town Branch  
Bahria Heights, Bahria Town,  
Phase-1  
Tel: 5730171-3

Chandni Chowk Branch  
Umer Farooq Plaza, Block C,  
Satellite Town, Chandni Chowk,  
Tel: 4851046-9

Saddar Branch  
47/62, Bank Road Saddar,  
Tel: 9273404-6

## SIALKOT

Kashmir Road Branch  
Kashmir Road,  
Tel: 4295301-3

## GUJRANWALA

Kashmir Plaza Branch  
Kashmir Plaza, Near Ghalla Mandi  
G.T Road,  
Tel: 3847205-8



# Branch Network

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## **FAISALABAD**

Clock Tower Branch  
P-175 Clock Tower, Karkhana Bazar  
Tel: 2606085-7

Kotwali Road Branch  
P-63 Kotwali Road,  
Tel: 2602587

People's Colony Branch  
1/A-II, Peoples Colony-1  
Tel: 8555002-4

Serena Hotel Branch  
Serena hotel, Club Road  
Tel: 2602595-7

## **KASUR**

Kasur Branch  
216-9R-IV, Railway Road  
Tel: 2764999

## **MULTAN**

Abdali Road Branch  
64 Abdali Road  
Tel: 4785604-7

Vehari Road Branch  
Rehman Commercial Centre,  
Near Grain Market, Vehari Road  
Tel: 6244153-5

## **LAHORE**

Akber Chowk Branch  
885-D, Akbar Chowk,  
Faisal Town  
Tel: 5201425-6

Azam Cloth Market Branch  
61 Chandni Chowk,  
Azam Cloth Market  
Tel: 7642011-2

Brandrath Road Branch  
46 Brandrath Road  
Tel: 7676388-92

Circular Road Branch  
Outside Shah Alam Gate  
Tel: 7642001-5

DHA Phase III Branch  
152-Y, Phase IIIC, DHA  
Tel: 5742582-3

DHA Phase IV Branch  
Plot # 85-CCA, Phase IV Comm.,  
DHA, Tel: 5747761-2

New Garden Town Branch  
Ground Floor, Ibrahim Centre,  
1-Aibak Block, New Garden Town,  
Tel: 5941474-7

Gulberg Branch  
60 - Main Boulevard Gulberg  
Tel: 5879870-2

Urdu Bazar Branch  
4-Kabeer Street, Urdu Bazar  
Tel: 7116684-7

Shadman Colony Branch  
91 Shadman Colony - 1  
Tel: 7522976-9

Shalimar Garden Branch  
Shalimar Garden, Baghban Pura  
Tel: 6848564-8

## **DERA GHAZI KHAN**

Dera Ghazi Khan Branch  
Jam Pur Road Block 17,  
Tel: 2474255-7

## **RAHIM YAR KHAN**

Rahim Yar Khan Branch  
17, 18 City Centre  
Tel: 5887603-4

## **SARGODHA**

Sargodha Branch  
Civil Lines, University Road,  
Tel: 3741609-10

## **SADIQABAD**

Sadiqabad Branch  
13-D Main Bazar  
Tel: 5701207-8

## **SAHIWAL**

Sahiwal Branch  
276-B-I, Alpha Tower,  
High Street  
Tel: 4465009

## **QUETTA**

Quetta Branch  
Manan Chowk, Jinnah Road,  
Tel: 2829470-3

## **ABBOTTABAD**

Abbottabad Branch  
Abbottabad Branch, Plot No. 843-846,  
Manshera Road  
Tel: 344701-3

## **PESHAWAR**

Chowk Yadgar Branch,  
Mohmand Plaza, Naz Cinema  
Road, Peshawar City  
Tel: 9213950-2

Saddar Road Branch  
Saddar Road, Peshawar Cantt,  
Tel: 9213471-15

## **SWAT**

Mingora Branch, Makanbagh Chowk,  
Mingora,  
Tel: 714316-8

## **GUJAR KHAN**

Gujar Khan Branch  
B-III, 215-E, G.T. Road  
Tel: 3515679-83





# Proxy Form

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

I/We \_\_\_\_\_ of \_\_\_\_\_ being a member(s) of **Meezan Bank Limited** and holder of \_\_\_\_\_ ordinary shares as per Share Register Folio No. \_\_\_\_\_ and/or CDC Participant I.D No. \_\_\_\_\_ and Sub Account No. \_\_\_\_\_ do hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him/her \_\_\_\_\_ of \_\_\_\_\_ as my/our proxy to vote and act for me/us on my/ our behalf at the 11th Annual General Meeting of Meezan Bank Ltd. to be held on Thursday, March 29, 2007 at Beach Luxury Hotel, M.T.Khan Road, Karachi, and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2007.

Witness:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

CNIC or Passport No. \_\_\_\_\_

Please affix  
Rupees five  
revenue  
stamp

Signature of Member(s)

## NOTES:

1. Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting.
2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the company.

Please affix  
correct  
postage

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