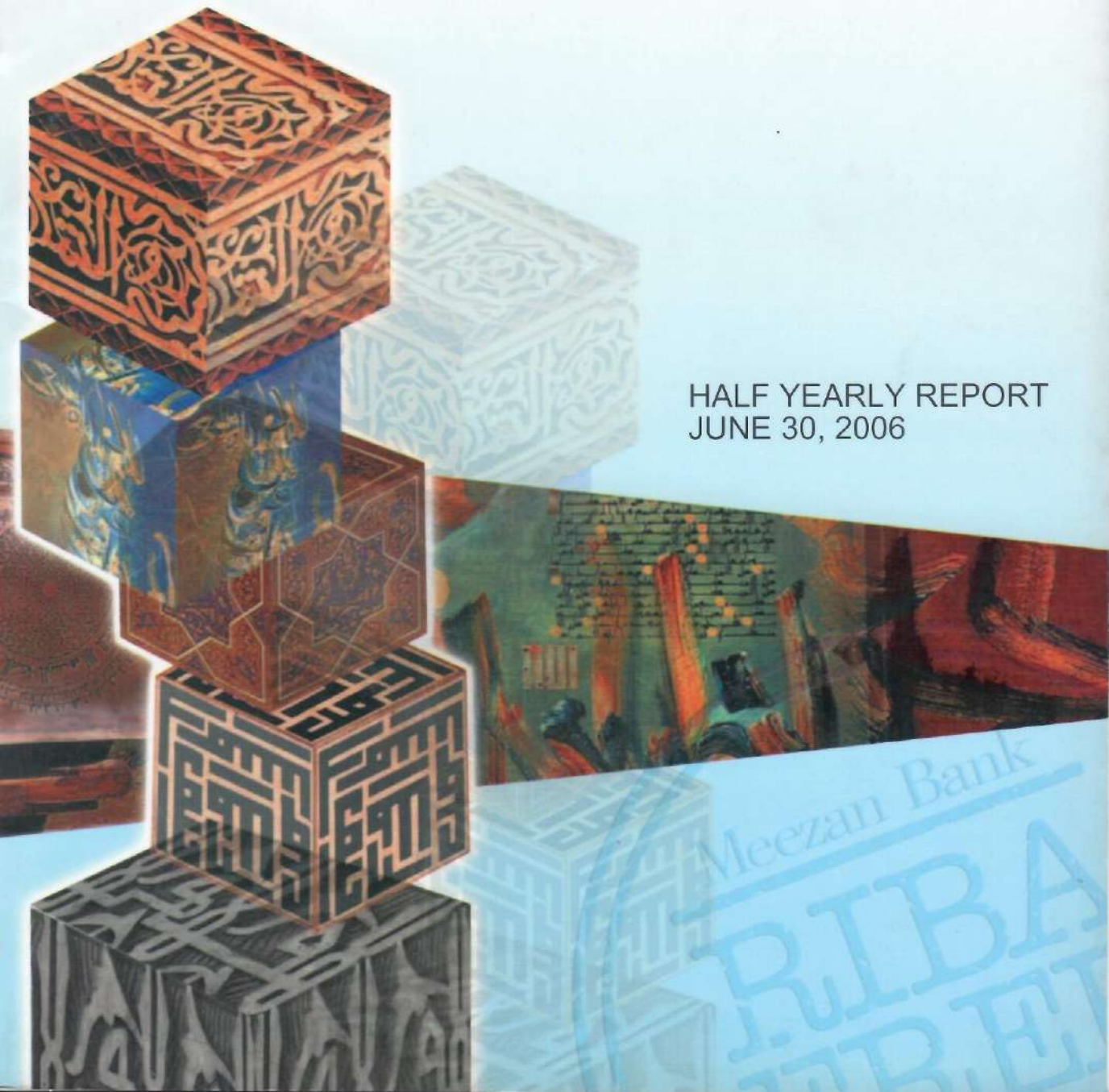




**Meezan Bank**  
The Premier Islamic Bank

HALF YEARLY REPORT  
JUNE 30, 2006



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the name of Allah The Beneficent The Merciful

## C O N T E N T S

<u>Corporate Information</u>	3
<u>Directors' Review</u>	4
<u>Auditors' Reiew Report the Members</u>	6
<u>Balance Sheet</u>	7
<u>Profit and Loss Account</u>	8
<u>Cash Flow Statement</u>	9
<u>Statement of Changes in Equity</u>	10
<u>Notes to and Forming Part of the Financial Statements</u>	11
<u>Consolidated Balance Sheet</u>	23
<u>Consolidated Profit and Loss Account</u>	24
<u>Consolidated Cash Flow Statement</u>	25
<u>Consolidated Statement of Changes in Equity</u>	26
<u>Notes to and Forming Part of the Consolidated Financial Statements</u>	27
<u>Branch Network</u>	29



## C O R P O R A T E I N F O R M A T I O N

<b>Board of Directors</b>	H.E. Sheikh Ebrahim Bin Khalifa Al-Khalifa Naser Abdul Mohsen Al-Marri Irfan Siddiqui Istaqbal Mehdi Mohamed Abdul-Rehman Hussain Ariful Islam Rana Ahmed Humayun Mohammed Abdul Rahman Mohammed Bucheerei Ahmad Mohammad Thane Mohammed Azzaroog Rajab	Chairman Vice Chairman President & CEO
<b>Shariah Board</b>	Justice (Retd.) Muhammad Taqi Usmani Dr. Abdul Sattar Abu Ghuddah Sheikh Essam M. Ishaq Dr. Muhammad Imran Usmani	Chairman
<b>Executive Committee</b>	Naser Abdul Mohsen Al-Marri Mohamed Abdul-Rehman Hussain Irfan Siddiqui	
<b>Audit Committee</b>	Istaqbal Mehdi Rana Ahmed Humayun Mohammed Abdul Rahman Mohammed Bucheerei	
<b>Risk Management Committee</b>	Istaqbal Mehdi Rana Ahmed Humayun Ariful Islam	
<b>Human Resources Committee</b>	Naser Abdul Mohsen Al-Marri Mohammed Abdul Rahman Mohammed Bucheerei Irfan Siddiqui	
<b>Company Secretary</b>	Shabbir Hamza Khandwala	
<b>Shariah Advisor</b>	Dr. Muhammad Imran Usmani	
<b>Legal Advisor</b>	Rizvi, Isa, Afridi & Angell	
<b>Auditors</b>	A.F. Ferguson & Co.	
<b>Registered Office and Head Office</b>	3rd Floor, PNSC Building, M.T. Khan Road, Karachi-74000, Pakistan. Ph : (92-21) 5610582, Fax : (92-21) 5610375, Call Centre : 111-331-331 Website : <a href="http://www.meezanbank.com">www.meezanbank.com</a> E-mail : <a href="mailto:info@meezanbank.com">info@meezanbank.com</a>	
<b>Shares Registrar</b>	THK Associates (Pvt.) Ltd. Ground Floor, State Life Building-3, Dr.Ziauddin Ahmed Road Karachi-75530, Pakistan. Ph : (92-21) 111-000-322, Fax : (92-21) 5655595	



## **DIRECTORS' REVIEW**

The Board of Directors is pleased to present the unaudited financial statements of Meezan Bank Ltd. alongwith Auditors' Review Report thereon and consolidated financial statements for the half year ended June 30, 2006. The financial highlights of Meezan Bank for the current period and corresponding period of the last year are given below:

### **Financial Highlights**

	Rs. in '000		
	June 2006	June 2005	Growth %
Deposits	26,220,074	16,998,280	54%
Financings	22,665,516	15,644,756	45%
Total Assets	34,928,004	23,845,875	46%
Share Capital	2,362,435	1,697,152	39%
Shareholders' Equity	3,288,338	2,361,809	39%
Net Spread Earned	640,057	269,348	138%
Fee, Commission & Forex Income	158,897	115,887	37%
Profit before Tax	406,069	211,300	92%
Profit after Tax	317,398	149,754	112%
Earnings per Share (half year) - Rupees	1.34	0.70	91%
Number of Branches	31	23	35%

Alhamdulillah, Meezan Bank has been able to grow in all areas of its business activities as reflected from above figures. The bank has earned post tax profit of Rs 317 million as compared to Rs 150 million in the corresponding period last year reflecting an increase of 112%. Income from core banking business has increased by 138% which reflect growth in our banking operations as result of our branch expansion policy. The balance sheet has also shown a growth of 46% over June 2005 from Rs 24 billion to Rs 35 billion with deposits increasing by 54% and financings by 45% over prior period.

The bank has recorded Earnings Per Share (EPS) of Rs 1.34 as compared to EPS of Re 0.70 recorded in the corresponding period of last year despite the increase in paid up capital from Rs 1.69 billion to Rs 2.362 billion due to issuance of 20% Right shares and 16% bonus shares. The bank is continuing with its branch expansion policy and opened three new branches, one each in DHA Lahore, Rahimyar Khan and Gulshan Chowrangi Karachi during the first half year of 2006. In addition, the bank is planning to open atleast 19 branches during the year to develop a more comprehensive network throughout Pakistan.

## **DIRECTORS' REVIEW**

In order to meet the requirements of the State Bank of Pakistan (SBP) to increase the paid up capital of the bank to Rs 3 billion, the Board has announced to issue of 50 % Right Shares at par subject to relaxation by the Securities and Exchange Commission of Pakistan (SECP) from the requirement of Rule 5(i) of the Companies (Issue of Capital) Rules, 1996. The bank has applied to SECP for such relaxation.

The Board has also declared interim 10% Stock Dividend (Bonus shares) to the shareholders for year 2006.

After issuance of Right Shares and Bonus Shares, the Paid -up- Capital of the bank will be Rs 3.8 billion.

JCR – VIS Credit Rating Co. Ltd. has reaffirmed on June 29, 2006 the entity rating of Meezan Bank at A+ for long-term rating and at A-1 for short term rating with stable outlook.

The Islamic Banking industry continues to grow in Pakistan and two full-fledged Islamic Banks have started operation during the year. We welcome the advent of new Islamic banks and pray for the success of all players in this field. We hope there will be good co-operation between these banks in the field of product development and treasury activities, which will no doubt benefit all participants.

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 for the staff for their continuous efforts to make Meezan Bank a success.

On behalf of the Board

**Sheikh Ebrahim Bin Khalifa Al-Khalifa**  
Chairman

**Irfan Siddiqui**  
President & CEO

Bahrain  
August 02, 2006

## **AUDITORS' REVIEW REPORT TO THE MEMBERS**

We have reviewed the annexed balance sheet of Meezan Bank Limited as at June 30, 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 half year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on those financial statements based on our review. The figures of the profit and loss account for the quarters ended June 30, 2006 and 2005 and the note forming part thereof have not been reviewed as we are required to review only the cumulative figures for the half year ended June 30, 2006.

We conducted our review in accordance with the International Standard on Review Engagements 2400 applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As stated in notes 5.1 and 5.2, the Bank has changed its accounting policies in respect of recording of murabaha transactions and recognition of dividend declared and transfers from profit available for appropriations to reserves.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

**A.F. Ferguson & Co.**  
Chartered Accountants

Karachi, August 08, 2006

**BALANCE****SHEET**

AS AT JUNE 30, 2006 (UNAUDITED-NOTE 3)

	Note	June 30, 2006	December 31, 2005 Restated
----- Rupees in '000 -----			
<b>ASSETS</b>			
Cash and balances with treasury banks		3,094,706	3,956,938
Balances with other banks		4,513,515	2,855,823
Due from financial institutions		-	-
Investments	6	2,691,973	1,606,490
Financings	7	22,665,516	19,740,886
Other assets		1,598,102	2,210,100
Operating fixed assets	8	364,192	305,585
		34,928,004	30,675,822
<b>LIABILITIES</b>			
Bills payable		436,457	260,732
Due to financial institutions		3,077,053	2,981,714
Deposits and other accounts		26,220,074	22,769,262
Sub-ordinated loans		-	-
Liabilities against assets subject to finance leases		-	-
Other liabilities		1,575,134	1,469,258
Deferred tax liabilities	9	308,038	170,274
		31,616,756	27,651,240
<b>NET ASSETS</b>		<u>3,311,248</u>	<u>3,024,582</u>
<b>REPRESENTED BY</b>			
Share capital	10	2,362,435	2,036,582
Capital reserves		403,949	340,469
Revenue reserves		521,954	593,889
		<u>3,288,338</u>	<u>2,970,940</u>
Surplus on revaluation of investments	6.1	22,910	53,642
		<u>3,311,248</u>	<u>3,024,582</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11		

The annexed notes 1 to 15 form an integral part of these financial statements.

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

Irfan Siddiqui  
President & Chief Executive

Ariful Islam  
Director

Rana Ahmed Humayun  
Director



# **PROFIT AND LOSS ACCOUNT**

**FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED-NOTE 3)**

	Quarter ended June 30, 2006	Half year ended June 30, 2006	Quarter ended June 30, 2005	Half year ended June 30, 2005
-----Rupees in '000-----				
Profit / return on financings and placements earned	639,409	1,216,358	301,768	541,546
Return on deposits and other dues expensed	294,037	576,301	158,737	272,198
Net spread earned	345,372	640,057	143,031	269,348
Provision against non-performing financings (net) - note 7.4	(48,920)	(59,942)	(7,216)	(43,021)
Provision for diminution in value of investments	-	-	-	-
Bad debts written off directly	(48,920)	(59,942)	(7,216)	(43,021)
Net spread after provisions	296,452	580,115	135,815	226,327
<b>Other income</b>				
Fee, commission and brokerage income	55,577	97,654	33,897	84,200
Capital gain on sale of investments	18,084	95,715	20,581	120,845
Unrealised deficit on revaluation of held-for-trading securities - note 6.1	(65,674)	(37,307)	(16,884)	(3,174)
Dividend income	16,565	29,348	14,388	34,841
Income from dealing in foreign currencies	35,335	61,243	17,194	31,687
Other income	8,880	14,254	2,186	3,132
Total other income	68,767	260,907	71,362	271,531
	365,219	841,022	207,177	497,858
<b>Other expenses</b>				
Administrative expenses	211,336	434,457	143,585	286,076
Other provisions/write offs	-	-	-	-
Other charges	496	496	408	482
Total other expenses	211,832	434,953	143,993	286,558
Extraordinary / unusual items	-	-	-	-
Profit before taxation	153,387	406,069	63,184	211,300
Taxation				
- current	(6,374)	1,479	(272)	1,753
- prior years'	(50,572)	(50,572)	-	-
- deferred	74,590	137,764	37,452	59,793
	17,644	88,671	37,180	61,546
Profit after taxation	135,743	317,398	26,004	149,754
Unappropriated profit brought forward - restated	346,594	527,123	290,559	191,559
Profit available for appropriation	482,337	844,521	316,563	341,313
Transfer for issue of bonus shares	-	(325,853)	-	-
Transfer to statutory reserve	(27,149)	(63,480)	(5,201)	(29,951)
Unappropriated profit	455,188	455,188	311,362	311,362
Basic earnings per share (rupees) - note 12	0.57	1.34	0.12	0.70

The annexed notes 1 to 15 form an integral part of these financial statements.

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

# CASH FLOW

## STATEMENT

FOR THE HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)

	June 30, 2006	June 30, 2005
	Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	406,069	211,300
Less: Dividend income	(29,348)	(34,841)
	376,721	176,459
Adjustments for non-cash charges		
Depreciation	31,921	23,880
Amortisation	2,115	655
Provision against non-performing financings (net)	59,942	43,021
Provision for diminution in the value of investments (net)	-	-
Unrealised deficit on revaluation of held-for-trading securities	37,307	3,174
(Gain) on sale of operating fixed assets	(1,785)	(225)
	129,500	70,505
	506,221	246,964
(Increase) / decrease in operating assets		
Due from financial institutions	-	-
Net investments in held-for-trading securities	(51,957)	(74,961)
Financings	(2,984,572)	(3,348,032)
Others assets	674,983	339,562
	(2,361,546)	(3,083,431)
Increase in operating liabilities		
Bills payable	175,725	188,294
Due to financial institutions	95,339	161,501
Deposits and other accounts	3,450,812	3,228,473
Other liabilities	105,876	215,062
	3,827,752	3,793,330
	1,972,427	956,863
Income tax paid	(4,778)	(2,961)
<b>Net cash flow from operating activities</b>	1,967,649	953,902
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments	(1,101,565)	(2,437)
Dividends received	20,234	35,482
Investments in operating fixed assets	(95,125)	(75,797)
Sale proceeds of property and equipment disposed-off	4,267	1,302
<b>Net cash flow from investing activities</b>	(1,172,189)	(41,450)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of share capital	-	158,823
Dividend paid	-	(6)
<b>Net cash flow from financing activities</b>	-	158,817
Increase in cash and cash equivalents	795,460	1,071,269
Cash and cash equivalents at the beginning of the period	6,812,761	4,374,671
Cash and cash equivalents at the end of the period	7,608,221	5,445,940

14

The annexed notes 1 to 15 form an integral part of these financial statements.

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

**STATEMENT OF  
CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED-NOTE 3)**

	Share capital	Share premium account	Capital reserves Statutory reserve	Reserve for issue of bonus shares	General reserve	Revenue reserves Unappropriated profit	Total
	-----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	351,135	-	-	-	-	-	351,135
Profit after taxation for the period January 1 to June 30, 2005	-	-	-	-	-	149,754	149,754
Transfer to statutory reserve	-	-	29,951	-	-	(29,951)	-
Balance as at June 30, 2005	1,697,152	-	286,529	-	66,766	311,362	2,361,809
Issue of right shares	339,430	-	-	-	-	-	339,430
Profit after taxation for the period July 1 to December 31, 2005	-	-	-	-	-	269,701	269,701
Transfer to statutory reserve	-	-	53,940	-	-	(53,940)	-
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)	-	-	-
Profit after taxation for the period January 1 to June 30, 2006	-	-	-	-	-	317,398	317,398
Transfer to statutory reserve	-	-	63,480	-	-	(63,480)	-
Balance as at June 30, 2006	<u>2,362,435</u>	<u>-</u>	<u>403,949</u>	<u>-</u>	<u>66,766</u>	<u>455,188</u>	<u>3,288,338</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director



**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

**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 and investment banking activities.

The Bank was operating through thirty one branches as at June 30, 2006 (June 30, 2005: twenty three). Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

**2 BASIS OF PRESENTATION**

The Bank provides financing mainly through murabaha, ijarah, musharakah and export refinance under Islamic export refinance scheme. Under murabaha the goods are purchased and are then sold to the customers on credit. The 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.

**3 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the requirements of the directives issued through SRO No. 764(I)/2001 dated November 5, 2001, the directives issued by the SBP, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and the requirements of SBP's BSD Circular Letter No. 02 dated May 12, 2004, and the International Accounting Standard 34 'Interim Financial Reporting' and Islamic Financial Accounting Standard 1 – Murabaha issued by the Institute of Chartered Accountants of Pakistan.

The financial statements comprise of the balance sheet as at June 30, 2006 and the profit and loss account, statement of changes in equity and the cash flow statement for the half year ended June 30, 2006 which have been subjected to a review but not audited. The financial statements also include the profit and loss account for the quarter ended June 30, 2006.



**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

The comparative balance sheet presented in these financial statements as at December 31, 2005 has been extracted from the audited financial statements of the Bank for the year ended December 31, 2005 whereas the comparative profit and loss account, statement of changes in equity and cash flow statement are for the half year ended June 30, 2005 and were subjected to a review but not audited. The comparative profit and loss account for the quarter ended June 30, 2005 is also included in the financial statements.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- 4.1** The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2005 except for changes stated in note 5.
- 4.2** Provision for taxation has been made in these financial statements on the basis of an estimated annual average rate of tax.

**5. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES**

- 5.1** Consequent to adoption of Islamic Financial Accounting Standards 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.
  - Consistent with prior years, profit on murabaha is recognised on accrual basis. However, profit 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.

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 considered to be material.

**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.

**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

5.2 Consequent to revision 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, except for transfer to statutory reserve, made subsequent to the balance sheet date as follows:

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

This change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in this accounting policy, the 'unappropriated profit' as at December 31, 2005 would have been lower by Rs 325.853 million and there would have been a 'reserve for issue of bonus shares' of Rs 325.853 million as at that date.

The effect of the aforementioned change in accounting policy has been reflected in the 'statement of changes in equity'. This change in accounting policy has had no effect on the profit for the period.

**6. INVESTMENTS**

	Held by Bank	Given as collateral	Total
	-----Rupees in '000-----		
Balance as at June 30, 2006	2,691,973	-	2,691,973
Balance as at December 31, 2005	1,606,490	-	1,606,490
Balance as at June 30, 2005	1,490,068	-	1,490,068

**6.1 Investments by types**

Held-for-trading securities	408,198	-	408,198
Available-for-sale securities	106,998	-	106,998
Held-to-maturity securities	1,324,624	-	1,324,624
Associates	810,953	-	810,953
Subsidiary	63,050	-	63,050
	2,713,823	-	2,713,823
Less: Provision for diminution in value of investments	7,453	-	7,453
Investments (net of provision)	2,706,370	-	2,706,370
Add: Surplus/(deficit) on revaluation of investments			
-Held-for-trading taken to profit and loss	(37,307)	-	(37,307)
-Available-for-sale	22,910	-	22,910
Balance as at June 30, 2006	2,691,973	-	2,691,973

**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS**

FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>7. FINANCINGS</b>		
In Pakistan		
- Murabaha financings – note 7.1	9,021,161	8,117,096
- Net investment in Ijarah	5,790,083	5,103,433
- Export refinance under Islamic scheme – note 7.2	3,085,480	2,923,000
- Diminishing musharakah financings – housing	2,085,563	1,900,763
- Diminishing musharakah financings – others	1,215,031	983,557
- Musharakah financings	113,500	104,500
- Financings against bills – salam	629,564	260,532
- Financings against bills – murabaha	745,841	353,433
- Loans, running finances, etc.	155,909	111,246
Total financings	<u>22,842,132</u>	<u>19,857,560</u>
Less: Provision against non-performing financings		
- notes 7.3 and 7.4	176,616	116,674
	<u>22,665,516</u>	<u>19,740,886</u>
<b>7.1 Murabaha receivable – gross – note 7.1.1</b>	9,359,640	8,117,096
Less: Deferred murabaha income	138,196	-
Profit receivable shown in other assets	200,283	-
Murabaha financings / receivables – note 7.1.2	<u>9,021,161</u>	<u>8,117,096</u>

7.1.1 This includes advance for murabaha aggregating Rs 1,496 million.

7.1.2 The comparative balance has not been restated as the change in accounting policy, as stated in note 5.1, has been applied prospectively.

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>7.2 Murabaha receivable under Islamic</b>		
Export refinance scheme – gross – note 7.2.1	3,236,723	2,923,000
Less: Deferred murabaha income	42,599	-
Profit receivable shown in other assets	108,644	-
Export refinance under Islamic scheme – note 7.2.2	<u>3,085,480</u>	<u>2,923,000</u>

7.2.1 This includes advance for murabaha under Islamic export refinance scheme aggregating Rs 243 million.

7.2.2 The comparative balance has not been restated as the change in accounting policy, as stated in note 5.1, has been applied prospectively.

7.3 Financings include Rs 259,220 million (2005: Rs 183,373 million), which have been placed under non-performing status as detailed below:



**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS**

FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)

Category of classification	Domestic	Overseas	Total	Provision required	Provision held
	----- Rupees in '000 -----				
Substandard	86,416	-	86,416	19,266	19,266
Doubtful	56,571	-	56,571	13,771	13,771
Loss	116,233	-	116,233	83,246	83,246
	<u>259,220</u>	<u>-</u>	<u>259,220</u>	<u>116,283</u>	<u>116,283</u>

**7.4** Particulars of provision against non-performing financings:

	-----June 30, 2006-----			-----December 31, 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' investments	-	-	-	(30,959)	-	(30,959)
Charge for the period/year	49,971	10,612	60,583	37,941	30,870	68,811
Reversals	(641)	-	(641)	-	-	-
	49,330	10,612	59,942	37,941	30,870	68,811
Amount written off	-	-	-	-	-	-
Closing balance	<u>116,283</u>	<u>60,333</u>	<u>176,616</u>	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>

**7.5** The Bank has maintained a general reserve (provision) in accordance with the applicable requirement of the Prudential Regulations for consumer financings issued by the State Bank of Pakistan.

	Half year ended June 30, 2006	Half year ended June 30, 2005
	-----Rupees in '000-----	
<b>8. OPERATING FIXED ASSETS</b>		
Additions - cost [including net additions to capital work in progress amounting to Rs 47.864 million (2005: Rs 29.494 million)]	95,125	75,797
Disposals - cost	7,769	2,770
- net book value	2,482	1,077

**8.1** As at June 30, 2006 the Bank has revised its estimate of useful lives of office equipment and accordingly the depreciation charge has been adjusted. The effect of revision of useful lives is not considered material on the net book value of operating fixed assets for the period ended June 30, 2006 and for future periods.



**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS**

**FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>9. DEFERRED TAXATION</b>		
(Debit) / credit balances arising on account of:		
Excess of tax written down values over accounting net book values of owned assets	4,007	2,919
Other staff benefits	(33,273)	(37,926)
Excess of ijarah financings over tax written down values of ijarah assets	373,634	253,400
Carried forward unassessed tax losses	(1,825)	(29,480)
Excess of tax written down values over accounting net book values of investments	(2,609)	(2,609)
Provision against non-performing financings	(31,336)	(14,070)
Others	(560)	(1,960)
	<u>308,038</u>	<u>170,274</u>

- 9.1 The Bank has an aggregate amount of Rs 5.214 million available as carried forward unassessed tax losses as at June 30, 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.

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>10. SHARE CAPITAL</b>		
<b>10.1</b> Authorised capital		
400,000,000 (December 31, 2005: 300,000,000)		
ordinary shares of Rs 10 each	<u>4,000,000</u>	<u>3,000,000</u>
<b>10.2</b> Issued, subscribed and paid up capital		
165,823,203 (December 31, 2005: 165,823,203)		
ordinary shares of Rs 10 each	1,658,232	1,658,232
70,420,351 (December 31, 2005: 37,835,034)		
ordinary shares of Rs 10 issued as bonus shares	<u>704,203</u>	<u>378,350</u>
	<u>2,362,435</u>	<u>2,036,582</u>
<b>10.3</b> In accordance with the directive of the State Bank of Pakistan all banks are required to increase their paid up capital to Rs 3 billion by December 31, 2006. The management is confident that it shall be able to increase the Bank's paid up capital to Rs 3 billion by December 31, 2006.		

**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

- 10.4** 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.
- 10.5** The Board of Directors has approved bonus issue of 23.624 million share at the rate of ten percent at the meeting held on August 2, 2006. These financial statements do not recognise the effect of issue of bonus shares on appropriation of reserves as it has been approved subsequent to the balance sheet date. The Board has also approved issue of right shares at the rate of fifty percent subject to relaxation by the Securities and Exchange Commission of Pakistan from the requirements of rule 5(i) of the Companies (Issue of Capital) Rules, 1996. The right shares will not be entitled to bonus shares.

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>11. CONTINGENCIES AND COMMITMENTS</b>		
<b>11.1 Direct credit substitutes</b>		
Government	83,441	82,298
<b>11.2 Transaction related contingent liabilities</b>		
Guarantees favoring		
- Government	1,616,721	1,851,267
- Banks	29,146	18,397
- Others	1,472,152	1,224,058
	<u>3,118,019</u>	<u>3,093,722</u>
<b>11.3 Trade related contingent liabilities</b>		
Import letters of credit	5,526,421	5,880,513
Acceptances	2,463,329	2,242,686
	<u>7,989,750</u>	<u>8,123,199</u>

- 11.4** The assessing officer has 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. For the assessment year 2001-2002 the Bank had filed appeal in Income Tax Appellate Tribunal (ITAT). The ITAT has remanded the matter to Commissioner of Income Tax (Appeals) for readjudication. For the tax year 2003, CIT (A) has maintained the assessing officer's assessment. The Bank also intends to file an appeal on the issue with the ITAT.

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 the ultimate outcome of the appeal would be in favour of the Bank especially for the reason that the State Bank of Pakistan through its letter No. 6226/Sec-296-2001 dated October 3, 2001 has confirmed that the assessee's deposits were covered under the Protection of Economic Reforms Act, 1992. Further, the matter is expected to be decided in favour of the Bank as in the case of another company, on an identical issue the matter has been decided in favour of the tax payer. Accordingly, no provision has been recognised in the financial statements in this regard.

**NOTES TO AND FORMING PART OF**  
**THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

- 11.5** While finalising the assessment of the Bank for the tax year 2003 the assessing officer has made certain disallowance of financial charges and administrative expenses aggregating Rs.106.635 million on account of apportionment of aforesaid expenses between taxable and exempt income as well as income assessed under separate block of income. The Bank had filed an appeal with CIT (A) on the subject matter. In the order received recently, the CIT (A) has confirmed the assessment in respect of allocation of expenses giving directions to the assessing officer to dispose of the rectification application of the Bank in respect of basis of allocation of expenses. The rectification application is pending. The Bank also intends to file 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 in line with the company's contentions. However, as the practical application of that order has not yet been made therefore, no change has been made in the position adopted by the Bank.

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, resulting in no further liability for the Bank in respect of the aforementioned assessment or other assessment years in which such add backs may be made.

	June 30, 2006	December 31, 2005
	-----Rupees in '000-----	
<b>11.6</b> Commitments in respect of		
Financings	16,415,524	13,417,146
<b>11.7</b> Commitments in respect of forward exchange contracts		
Purchases	4,245,532	1,908,163
Sales	9,008,937	4,641,603
<b>11.8</b> Commitments for the acquisition of operating fixed assets	-	-
<b>11.9</b> Other commitments		
Bills for collection (inland)	18,889	16,108
Bills for collection (foreign)	1,361,292	1,146,365
	1,380,181	1,162,473

**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

**12. BASIC EARNINGS PER SHARE**

	Half year ended June 30, 2006	Half year ended June 30, 2005
	-----Rupees in '000-----	
Profit after taxation	<u>317,398</u>	<u>149,754</u>
	Quarter ended June 30, 2006	Quarter ended June 30, 2005
	-----Rupees in '000-----	
Profit after taxation	<u>135,743</u>	<u>26,004</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares	<u>236,243,554</u>	<u>213,800,418</u>
	-----Rupees-----	
Earnings per share / restated earnings per share for the half year ended June 30, 2006/05	<u>1.34</u>	<u>0.70</u>
Earnings per share / restated earnings per share for the quarter ended June 30, 2006/05	<u>0.57</u>	<u>0.12</u>



**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

**13. RELATED PARTY TRANSACTIONS**

- 13.1** 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.
- 13.2** 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.
- 13.3** Subsidiary company:  
- Al Meezan Investment Management Limited
- 13.4** Key management personnel:  
- President and Chief Executive Officer  
- Chief Operating Officer
- 13.5** The volumes of related party transactions, outstanding balances at the half year/year end and transactions and expenses and income for the respective half years are as follows:

	June 30, 2006	December 31, 2005
	----- Rupees in '000 -----	
<b>Financings</b>		
At January 1	314,099	148,269
Disbursed during the period/year	239,317	697,089
Repaid during the period/year	(197,138)	(531,259)
As at June 30/December 31	<u>356,278</u>	<u>314,099</u>
<b>Deposits</b>		
At January 1	1,640,932	1,259,319
Deposited during the period/year	14,844,861	34,125,701
Repaid during the period/year	(15,572,517)	(33,744,088)
As at June 30/December 31	<u>913,276</u>	<u>1,640,932</u>
<b>Balances</b>		
Profit receivable on financings	3,519	1,640
Service charges payable by the Bank	360	7,380
Acceptances	10,035	22,112
Letters of credit (unfunded)	110,291	243,283

**NOTES TO AND FORMING PART OF  
THE FINANCIAL STATEMENTS**

**FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED - NOTE 3)**

	Half year ended June 30, 2006	Half year ended June 30, 2005
	----- Rupees in '000 -----	
<b>Transactions, income and expenses</b>		
Profit earned on financings	10,828	5,649
Return on deposits expensed	46,815	16,126
Dividend income earned	14,769	14,677
Commission earned on letters of credit and acceptances	273	978
Fees and commission earned	1,942	5,292
Service charges (net) [including reimbursement of the President and Chief Executive's remuneration amounting to Rs 6.946 million (2005: Rs 6.946 million)]	2,989	8,880
Remuneration to the directors and key management personnel	11,880	10,532

	June 30, 2006	June 30, 2005
	-----Rupees in '000-----	
<b>14. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks	3,094,706	2,755,303
Balances with other banks	4,513,515	2,690,637
	<u>7,608,221</u>	<u>5,445,940</u>

**15. DATE OF AUTHORISATION**

These financial statements were authorised for issue on August 02, 2006 by the Board of Directors of the Bank.

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

**MEEZAN BANK LTD**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE QUARTER AND HALF YEAR ENDED**  
**JUNE 30, 2006**

**CONSOLIDATED**  
**BALANCE SHEET**  
AS AT JUNE 30, 2006 (UNAUDITED)

	June 30, 2006	December 31, 2005 Restated
	----- Rupees in '000 -----	
<b>ASSETS</b>		
Cash and balances with treasury banks	3,094,726	3,952,993
Balances with other banks	4,508,921	2,855,823
Due from financial institutions	-	-
Investments	3,212,458	2,061,009
Financings	22,664,145	19,738,699
Other assets	1,689,427	2,297,713
Operating fixed assets	377,109	318,123
	<b>35,546,786</b>	<b>31,224,360</b>
<b>LIABILITIES</b>		
Bills payable	436,457	260,732
Due to financial institutions	3,077,053	2,981,714
Deposits and other accounts	26,200,692	22,761,286
Sub-ordinated loans	-	-
Liabilities against assets subject to finance leases	-	-
Other liabilities	1,630,684	1,529,951
Deferred tax liabilities	327,138	187,347
	<b>31,672,024</b>	<b>27,721,030</b>
<b>NET ASSETS</b>	<b>3,874,762</b>	<b>3,503,330</b>
<b>REPRESENTED BY</b>		
Share capital	2,362,435	2,036,582
Capital reserves	403,949	340,469
Revenue reserves	1,030,824	1,041,418
	<b>3,797,208</b>	<b>3,418,469</b>
Surplus on revaluation of investments	22,910	53,642
<b>MINORITY INTEREST</b>	54,644	31,219
	<b>3,874,762</b>	<b>3,503,330</b>

**CONTINGENCIES AND COMMITMENTS**

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

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

Irfan Siddiqui  
President & Chief Executive

Ariful Islam  
Director

Rana Ahmed Humayun  
Director



**CONSOLIDATED PROFIT  
AND LOSS ACCOUNT**  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED)

	Quarter ended June 30, 2006	Half year ended June 30, 2006	Quarter ended June 30, 2005	Half year ended June 30, 2005
	-----Rupees in '000-----			
Profit / return on financings and placements earned	639,290	1,216,301	303,090	542,914
Return on deposits and other dues expensed	293,847	575,864	158,635	271,990
Net spread earned	345,443	640,437	144,455	270,924
Provision against non-performing financings (net)	(48,920)	(59,942)	(7,216)	(43,021)
Provision for diminution in value of investments	-	-	-	-
Bad debts written off directly	(48,920)	(59,942)	(7,216)	(43,021)
Net spread after provisions	296,523	580,495	137,239	227,903
<b>Other income</b>				
Fee, commission and brokerage income	99,709	185,611	61,145	140,628
Capital gain on sale of investments	19,170	101,697	20,672	124,961
Dividend income	6,517	14,579	9,238	35,310
Unrealised deficit on revaluation of held-for-trading securities	(74,243)	(35,073)	(17,676)	(10,432)
Income from dealing in foreign currencies	35,335	61,243	17,194	31,687
Other income	12,169	21,147	5,449	8,479
Total other income	98,657	349,204	96,022	330,633
	<b>395,180</b>	<b>929,699</b>	<b>233,261</b>	<b>558,536</b>
<b>Other expenses</b>				
Administrative expenses	223,872	462,406	162,116	307,215
Other provisions/write offs	-	-	-	-
Other charges	542	593	382	471
Total other expenses	224,414	462,999	162,498	307,686
	170,766	466,700	70,763	250,850
Extraordinary/unusual items	-	-	-	-
Share of results of associates before taxation	(72,987)	45,513	53,374	137,517
Profit before taxation	<b>97,779</b>	<b>512,213</b>	<b>124,137</b>	<b>388,367</b>
Taxation - current	7,091	26,569	8,023	18,204
- prior years	(50,572)	(50,572)	-	-
- deferred	70,714	139,791	37,702	60,043
	27,233	115,788	45,725	78,247
Profit after taxation	70,546	396,425	78,412	310,120
Minority interest	(4,871)	(17,686)	(955)	(11,208)
Profit after taxation and minority interest	65,675	378,739	77,457	298,912
Unappropriated profit brought forward - restated	901,216	950,336	549,965	353,260
Profit available for appropriation	966,891	1,329,075	627,422	652,172
Transfer for issue of bonus shares	-	(325,853)	-	-
Transfer to statutory reserve	(27,149)	(63,480)	(5,201)	(29,951)
Unappropriated profit	<b>939,742</b>	<b>939,742</b>	<b>622,221</b>	<b>622,221</b>
Basic earnings per share (rupees)	0.28	1.60	0.36	1.40

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

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

**CONSOLIDATED CASH  
FLOW STATEMENT  
FOR THE HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED)**

	Half Year Ended June 30, 2006	Half Year Ended June 30, 2005
	-----Rupees in '000-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	512,213	388,367
Less: Dividend income	(14,579)	(35,310)
	497,634	353,057
Adjustments for non-cash charges		
Unrealised deficit on revaluation of held-for-trading securities	35,073	10,432
Provision against non-performing financings (net)	59,942	43,021
Amortisation of negative goodwill	-	(3,360)
Shares in results of associates	(45,513)	(137,517)
(Gain) on sale of operating fixed assets	(1,785)	(225)
Depreciation	34,090	27,934
Amortisation	2,276	655
	84,083	(59,060)
	581,717	293,997
(Increase)/decrease in operating assets		
Net investments in held-for-trading securities	(138,194)	(163,453)
Financings	(2,985,388)	(3,347,384)
Other assets	631,433	288,511
	(2,492,149)	(3,222,326)
Increase in operating liabilities		
Bills payable	175,725	188,294
Due to financial institutions	95,339	161,501
Deposits and other accounts	3,439,407	3,245,520
Minority interest	5,739	-
Other liabilities	100,732	224,893
	3,816,942	3,820,208
	1,906,510	891,879
Income tax paid	(4,799)	(2,620)
<b>Net cash flow from operating activities</b>	1,901,711	889,259
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments	(1,033,547)	72,216
Dividends received	20,234	35,951
Investments in operating fixed assets	(97,834)	(90,108)
Sale proceeds of property and equipment disposed-off	4,267	1,695
<b>Net cash flow from investing activities</b>	(1,106,880)	19,754
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of share capital	-	158,823
Dividend paid	-	(6)
<b>Net cash flow from financing activities</b>	-	158,817
Net increase in cash and cash equivalents	794,831	1,067,830
Cash and cash equivalents at the beginning of the period	6,808,816	4,373,129
Cash and cash equivalents at the end of the period	7,603,647	5,440,959

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

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

**CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED)**

	Share capital	Share premium account	Capital reserves Statutory reserve	Reserve for issue of bonus shares	General reserve	Revenue reserves Unappropriated profit	Total
	-----Rupees in '000-----						
Balance as at January 1, 2005	1,346,017	-	256,578	-	91,082	353,260	2,046,937
Issue of right shares	351,135	-	-	-	-	-	351,135
Profit after taxation and minority interest for the period January 01 to June 30, 2005	-	-	-	-	-	298,912	298,912
Transfer to statutory reserve	-	-	29,951	-	-	(29,951)	-
Balance as at June 30, 2005	1,697,152	-	286,529	-	91,082	622,221	2,696,984
Issue of right shares	339,430	-	-	-	-	-	339,430
Profit after taxation and minority interest for the period July 01 to December 31, 2005	-	-	-	-	-	382,055	382,055
Transfer to statutory reserve	-	-	53,940	-	-	(53,940)	-
Balance as at December 31, 2005 - restated	2,036,582	-	340,469	-	91,082	950,336	3,418,469
Transfer to reserve for issue of bonus shares	-	-	-	325,853	-	(325,853)	-
Profit after taxation and minority interest for the period January 01 to June 30, 2006	-	-	-	-	-	378,739	378,739
Issue of bonus shares	325,853	-	-	(325,853)	-	-	-
Transfer to statutory reserve	-	-	63,480	-	-	(63,480)	-
Balance as at June 30, 2006	2,362,435	-	403,949	-	91,082	939,742	3,797,208

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

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director



**NOTES TO AND FROMING PART OF  
THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30,2006 (UNAUDITED)**

**1. BASIS OF PRESENTATION**

1.1 The consolidated financial statements include the un-audited financial statements of Meezan Bank Limited (MBL) (the holding company), Al-Meezan Investment Management Limited (AMIML) (the subsidiary) collective referred as the 'Group' and associates namely, Plexus (Private) Ltd., Faysal Management Services (Private) Ltd., Fayzan Manufacturing Modaraba, Falcon Greenwood (Pvt.) Ltd., Blue Water (Pvt.) Ltd., Al-Meezan Mutual Fund Ltd., Meezan Islamic Fund and Meezan Balanced Fund.

1.2 The financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS) 34 'Interim Financial Reporting' and are being submitted to the shareholders as required by section 237 (7) of the Companies Ordinance, 1984.

The financial statements comprise of the balance sheet as at June 30, 2006 and the profit and loss account, the cash flow statement and the statement of changes in equity for the half year ended June 30, 2006.

The comparative balance sheet presented in these financial statements as at December 31, 2005 has been extracted from the audited consolidated financial statements for the year ended December 31, 2005 whereas the comparative profit and loss account, the cash flow statement and the of statement changes in equity are for the half year ended June 30, 2005.

1.3 The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Group for the year ended December 31,2005, except for the change in the accounting policy as explained in note 2.

**2. REASON AND EFFECT OF CHANGE IN ACCOUNTING POLICY**

2.1 Consequent to adoption of Islamic Financial Accounting Standards 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.
- Consistent with prior year, profit on murabaha is recognised on accrual basis. However, profit 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.

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 considered to be material.



**NOTES TO AND FORMING PART OF**  
**THE FINANCIAL STATEMENTS**  
**FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2006 (UNAUDITED)**

**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.

- 2.2 Consequent to revision 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 period 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 of reserves including bonus shares and any other appropriations 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 to reserves, except for transfer relating to statutory reserve, are recorded as changes in reserves in the period in which these are approved by the directors.

This change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had there been no change in this accounting policy, the 'unappropriated profit' as at December 31, 2005 would have been lower by Rs 325.853 million and there would have been a "reserve for issue of bonus shares" of Rs 325.853 million as at that date.

The effect of aforementioned change in accounting policy has been reflected in the statement of changes in equity. This change in accounting policy has no effect on the profit for the period.

**3. DATE OF AUTHORISATION**

These financial statements were authorised for issue on August 02, 2006 by the Board of Directors of MBL.

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

**Irfan Siddiqui**  
President & Chief Executive

**Ariful Islam**  
Director

**Rana Ahmed Humayun**  
Director

## BRANCH NETWORK

---

### KARACHI

PNSC Branch	3rd Floor PNSC Building, M.T. Khan Road, Karachi. Tel: (92-21) 5610582 Fax: (92-21) 5610375
FTC Branch	Ground Floor, Block B, FTC Building, Sharah-e-Faisal, Karachi Tel: (92-21) 5650771 Fax: (92-21) 5655964
Marriott Hotel Branch	Marriott Hotel, Abdullah Haroon Road, Karachi Tel: (92-21) 5683491 Fax: (92-21) 5683291
Gulshan-e-Iqbal Branch	B-41, Block 13-A, KDA Scheme 24, University Road, Gulshan-e-Iqbal, Karachi. Tel: (92-21) 4811901-6 Fax: (92-21) 4822066
Jodia Bazar Branch	H-91 A, Darya Lal Street, Jodia Bazar, Karachi Tel: (92-21) 2473326-9 Fax: (92-21) 2473277
Federal 'B' Area Branch	C-12, Block 10, Federal 'B' Area, Karachi Tel: (92-21) 6805370-5 Fax: (92-21) 6805384
Clifton Branch	Ground Floor, Al-Karam Centre, BC1, Block-7, Clifton, Main Clifton Road, Karachi Tel: (92-21) 5372060-4 Fax: (92-21) 5372065
Korangi Branch	Plot No. LS 3, ST-3/1, Sector No. 15, Korangi Industrial Area, Karachi Tel: (92-21) 5071044, 5077113 Fax: (92-21) 5071046
SITE Branch	Plot No.B/9-C, Estate Avenue, SITE Area, Karachi Tel: (92-21) 2586351-4 Fax: (92-21) 2586373
Cloth Market Branch	Shop No. 14, Atique Market, Cloth Market, Karachi Tel: (92-21) 2418137-9 Fax: (92-21) 2471223
Sharah-e-Faisal Branch	29-A, Ground Floor, Sabah Palace P.E.C.H.S. Block No. 6, Shahr-e-Faisal Karachi. Tel: (92-21) 4322186-9 Fax: (92-21) 4322193

## BRANCH NETWORK

	Gulshan Chowrangi Branch	Block-3, Scheme # 24, Gulshan-e-Iqbal Tel: (92-21) 4811849, 4811780 Fax: (92-21) 4810576
	Bahadurabad Branch	Adam Arcade, Plo No. 28, BMCH Society Tel: (92-21) 4145016-21 Fax: (92-21) 4145022
	Khayaban-e-Sehar Branch	Defence Housing Authority Tel: (92-21) 5349307-11 Fax: (92-21) 5349314
<b>QUETTA</b>	Quetta Branch	Mannan Chowk, Jinnah Road, Quetta. Tel: (92-81) 2829470-3 Fax: (92-81) 2829587
<b>LAHORE</b>	Gulberg Branch	60-Main Boulevard, Gulberg, Lahore Tel: (92-42) 5879870-2 Fax: (92-42) 5879873
	Circular Road Branch	Circular Road, Outside Shah Alam Gate, Lahore Tel: (92-42) 7642001-5 Fax: (92-42) 7642009-10
	Azam Cloth Market Branch	61 Chandni Chowk, Azam Cloth Market, Lahore Tel: (92-42) 7642011-2 Fax: (92-42) 7642014
	New Garden Town Branch	Ibrahim Centre, Garden Town, Lahore Tel: (92-42) 5941474-7 Fax: (92-42) 5941478
	DHA Branch	152-Y, Phase-III C, DHA, Lahore. Tel: (92-42) 8457955 Fax: (92-42) 5723546
	Akbar Chowk Branch	Akbar Chowk, Faisal Town, Lahore. Tel: (92-42) 5201425-6 Fax: (92-42) 5201423
<b>GUJRANWALA</b>	Kashmir Plaza Branch	Kashmir Plaza, Near Ghalla Mandi, GT Road, Gujranwala Tel: (92-553) 847205-8 Fax: (92-553) 847114
<b>KASUR</b>	Railway Road Branch	216-9R-IV, Railway Road, Kasur Tel: (92-492) 764499 & 722099 Fax: (92-492) 722988
<b>RAHIM YAR KHAN</b>	Rahim Yar Khan Branch	17-18 City Centre, Rahim Yar Khan. Tel: (92-68) 5887603-4 Fax: (92-68) 5887605
<b>FAISALABAD</b>	Serena Hotel Branch	Serena Hotel, Club Road, Faisalabad Tel: (92-41) 602595-7 Fax: (92-41) 602598
	Kotwali Road Branch	P-63, Kotwali Road, Faisalabad Tel: (92-41) 602587-8 Fax: (92-41) 602589
	People's Colony Branch	I/A-II, People's Colony No. 1, Faisalabad Tel: (92-41) 8555000-5 Fax: (92-41) 8555005

## BRANCH NETWORK

---

<b>MULTAN</b>	Abdali Road Branch	64-Abdali Road, Multan Tel: (92-61)588537-8 Fax: (92-61)588539
<b>SIALKOT</b>	Kashmir Road Branch	Kashmir Road, Sialkot Tel: (92-432) 295301-4 Fax: (92-432)295218
<b>ISLAMABAD</b>	Jinnah Avenue Branch	32 - Sohrab Plaza, Jinnah Avenue, Blue Area, Islamabad Tel: (92-51) 2276712-5 Fax: (92-51)2824127
	Markaz I-9 Branch	Industrial Area I-9, Islamabad Tel: (92-51) 4859644-7 Fax: (92-51) 4859648
<b>RAWALPINDI</b>	Bahria Town Branch	Bahria Height Bahria Town Phase I, Moza Kotha Kalon Road, Rawalpindi Tel: (92-51) 5730171-3 Fax: (92-51) 5730174
	Chandni Chowk Branch	Umer Farooq Plaza, No.51/C, & 51/C-0, Block-C, Satellite Town Chandni Chowk, Murree Road Rawalpindi. Tel: (92-51) 4851046-9 Fax: (92-51) 4851050
	Saddar Branch	47/62, Bank Road, Saddar Rawalpindi Cantt. Tel: (92-51) 9273404-6 Fax: (92-51) 5563856
<b>PESHAWAR</b>	Saddar Road Branch	6/H, 6/I, 6/J, Saddar Road, Peshawar Cantt. Tel: (92-91) 9213471-5 Fax: (92-91) 9213476
<b>DERA GHAZI KHAN</b>	Jampur Road Branch	Jampur Road, D.G. Khan Tel: (92-64) 2474225-7 Fax: (92-64) 2474250



[www.meezanbank.com](http://www.meezanbank.com)



**Meezan Bank**  
The Premier Islamic Bank

Head Office: 3rd Floor, P.N.S.C. Building,  
M.T. Khan Road, Karachi-74000.  
Tel: (92-21) 5610582 Fax: (92-21) 5610375  
Call Centre No. 111-331-331