

Meezan Bank

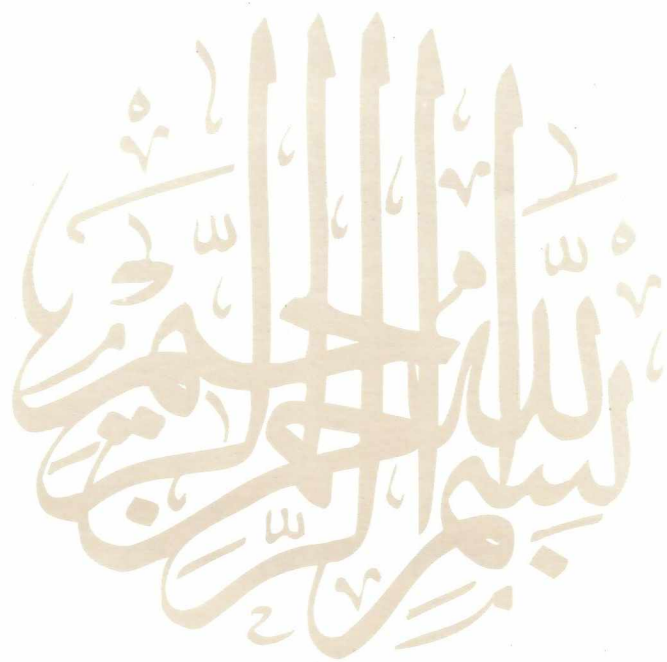
RIBA  
FREE

The Premier Islamic Bank



ANNUAL REPORT 2002

The cover page is representative of our ideology : Islam, A whisper of peace and purity - denoted by the white background. These permeate our lives, relationships and dealings. MBL is an innovative, contemporary bank, a premier conglomeration of the past, present and future - going forward, successfully revamping established systems, routing out alien elements, and proudly stamping our services "Riba-Free".



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

## **Our Vision**

*"Establish Islamic banking as banking of first choice....."*

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

## **Our Mission**

*"To be a premier Islamic bank....."*

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

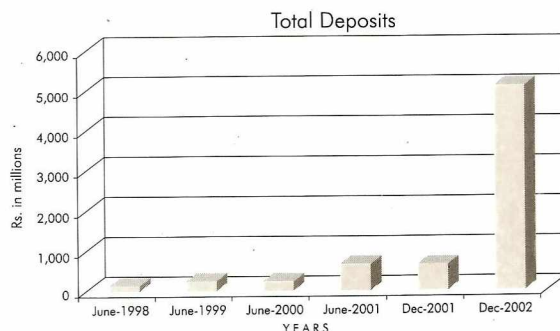
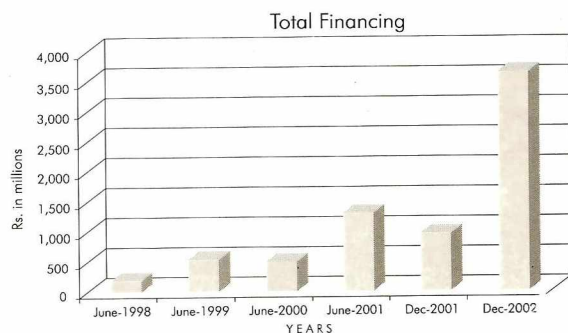
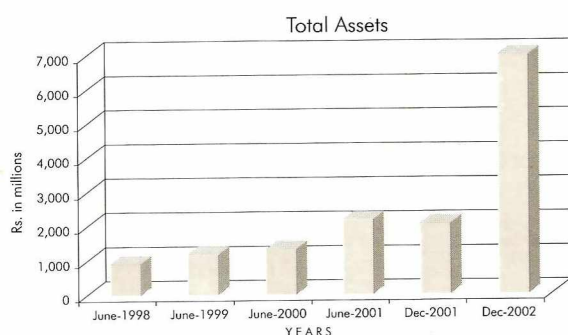




## Key Figures at a Glance

		Rupees in millions				
	Dec. 2002	Dec. * 2001	June 2001	June 2000	June 1999	June 1998
Paid-up Capital	1,001	901	901	721	721	721
Shareholders' Equity	1,586	1,203	1,257	878	850	760
Total Assets	6,971	2,053	2,179	1,314	1,180	921
Financing	3,532	865	1,242	482	525	171
Deposits	5,079	637	644	214	231	120
Total Income	660	30	554	288	192	87
Operating Expenses	195	36	101	64	13	18
Profit/(Loss) Before Taxation	270	(35)	397	170	141	57
Profit/(Loss) After Taxation	223	(54)	366	126	91	39
Earnings per share - pre tax (Rs.)	2.81	(0.38)	4.44	2.36	1.96	0.79
Earnings per share - after tax (Rs.)	2.32	(0.58)	4.09	1.75	1.26	0.54
Break-up Value (Rs.)	15.84	13.35	13.95	12.17	11.80	10.53
Cash Dividend (%)	5.00	—	17.50	15.00	—	—
Stock Dividend (%)	10.00	—	—	—	—	—

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



## Contents

History	4
Inauguration Ceremony	6
Corporate Information	8
Shareholders' Profile	11
Shariah Board's Profile	12
Notice of Annual General Meeting	13
Chairman's Review	14
Directors' Report	16
Shariah Board's Report	21
Statement of Compliance	22
Review Report to the Members	24
Auditors' Report	25
Balance Sheet	26
Profit and Loss Account	27
Cash Flow Statement	29
Statement of Changes in Equity	31
Notes to and Forming Part of the Accounts	32
Pattern of Shareholding	66
Proxy Form	67

## History

Meezan Bank began operations as an Investment Bank in 1997 with a mandate to establish and promote Islamic banking in Pakistan. In implementing the vision and mission of the Bank the first step was to establish a profitable track record and to put in place a professional management team. By the Grace of Allah both these objectives have been met. During the first four years of the Bank's operating history, a strong balance sheet with excellent operating profitability has been established. A strong management team, bringing together expertise of commercial banking, investment banking and general management is in place which has instilled a culture of professionalism, hard-work and meritocracy at the Bank.

Having set a strong foundation, the strategy of the Bank is to build on the key element of the Bank's vision statement, i.e. to "establish Islamic banking as banking of first choice". Given the limitations of investment banking, a natural progression was to



convert the operations of the Bank into that of a full-fledged commercial bank. This decision was taken after carefully considering the various advantages and disadvantages of investment banking versus commercial banking. It was with this perspective that in the last quarter of 2001 an application was moved to the State Bank of Pakistan for a commercial banking license. Concurrently, the management identified an opportunity to

### Press Release



STATE BANK  
OF  
PAKISTAN

31st January 2002

#### STATE BANK ISSUES LICENSE FOR THE SETTING UP OF FIRST ISLAMIC COMMERCIAL BANK IN THE COUNTRY

State Bank of Pakistan today issued a license for the setting up of the first Scheduled Islamic Commercial Bank in the country.

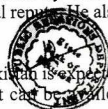
The Governor, State Bank of Pakistan, Dr. Ishrat Husain handed over the license to the Chief Executive of Meezan Bank Limited, Mr. Irfan Siddiqui at a simple ceremony held at SBP, Karachi this afternoon.

It may be pointed out that the Government of Pakistan and SBP are firmly committed to introduce banking based entirely on Islamic principles and the granting of this license is a major step in this direction. SBP had earlier released detailed guidelines for setting up of Islamic Commercial Bank in the country. Consequently, upon completion of all requisite formalities SBP approved the application of Meezan Bank.

The sponsors of the Bank are leading financial institutions which include Pakistan Kuwait Investment Company (Pvt.) Limited, a "AAA" rated financial institution in Pakistan; Shamil Bank E.C., one of the leading banks based in Bahrain; Islamic Development Bank, Jeddah; Kuwait Awqaf Public Foundation; and Saudi Pak. The Chairman of the Board of Directors of Meezan Bank is H.E. Shaikh Ebrahim bin Khalifa Al-Khalifa, who is the Deputy Finance Minister of Bahrain. Meezan Bank's shareholders also include Societe Generale, Paris, who would have 10% stake in the Bank.

The management of the Bank comprises highly professional and experienced bankers committed to Islamic Finance. The Bank's Shariah Advisor, Dr. Imran Usmani, a Phd in Islamic Finance will monitor the activities of the Bank on a day-to-day basis. In addition the Bank has a high-powered Shariah Supervisory Board chaired by Justice Muhammad Taqi Usmani who is an eminent Islamic scholar of international repute. He also supervises the activities of other leading Islamic banks internationally.

Meezan Bank Limited the first Islamic Commercial Bank in Pakistan is expected to set up a network of branches throughout the country so that benefit can be realized everywhere.



amalgamate with the banking operations of Societe Generale ("SG") in Pakistan. This strategic acquisition would give the Bank much needed infrastructure, including systems and procedures, which would allow it to gain access to the market more rapidly than would have been otherwise possible.

The first ever license to operate as a Scheduled Islamic Commercial Bank was granted to the Bank on January 31, 2002. Negotiations with the management of SG were also concluded shortly thereafter in a deal which would effectively allow Meezan Bank to step into the shoes of SG in Pakistan. For this purpose approval for a Scheme of Merger and Amalgamation was granted both by the shareholders of the Bank and State Bank of Pakistan pursuant to which the business of SG Pakistan amalgamated into Meezan Bank Limited on May 1, 2002.

The Bank was formally inaugurated by the President of Pakistan, H.E. General Pervez Musharraf on September 17,





2002 at a historic ceremony at Meezan Bank's premises in Karachi. The ceremony was attended by Mr. Shaukat Aziz, Minister of Finance, Mr. A. Razzak Dawood, Minister of Commerce, Mr. Mohammedmian Soomro, Governor Sindh and several local ministers.

The new Meezan Bank commenced business with five branches. Three in Karachi and one each in

Islamabad and Lahore. Shortly thereafter, in October 2002, the Bank's sixth branch was opened in Faisalabad. During the year 2003, the bank has shifted its existing branch in Lahore to new premises and has opened two new branches: one in Gulshan-e-Iqbal, Karachi and the other on Kotawali Road, Faisalabad. In addition, plans are underway to evaluate the feasibility of opening a branch in Multan.

*"State Bank of Pakistan is committed to provide an enabling environment for Islamic banks in Pakistan.*

*A separate unit for Islamic Banking has been established in State Bank, and I am pleased to announce that the first Islamic Export Refinance Scheme has been launched for Islamic Banks. Ijarah Sukuk for liquidity management in Islamic banks is in its final stages. I hope the experience of Meezan Bank will further help in evolving a fully functional Islamic Financial System and promoting an infrastructure that is required to successfully implement Islamic Banking in the country."*

*Dr. Ishrat Husain  
Governor, State Bank of Pakistan*

# Inauguration Ceremony - September 17, 2002



"Meezan Bank is the first step towards introducing Islamic Banking in the country."  
General Pervez Musharraf  
President of Pakistan

"Meezan Bank may play a lead role in demonstrating that Islamic Banking can cater to modern day business needs."  
Shaukat Aziz  
Minister of Finance

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

Irfan Siddiqui  
President & CEO - Meezan Bank



It is a pleasure to be here at the opening ceremony for the inauguration of this bank. May Allah bless it and let those who work here be successful for the benefit of the Islamic world.  
A. Razzak Dawood  
17/9/02

A. Razzak Dawood  
Minister of Commerce



I wish Meezan Bank success in initiating the cause of Riba free banking.

*Pervez Musharraf*

General Pervez Musharraf  
President of Pakistan



"Meezan Bank has been incorporated to establish Islamic Banking and to play an important role in the macroeconomic development of Pakistan."

Sheikh Ebrahim Bin Khalifa Al-Khalifa  
Chairman - Meezan Bank &  
Deputy Finance Minister, State of Bahrain

It is a real pleasure to be present at the opening of a landmark institution which would be a catalyst for Islamic Banking in Pakistan.

*Shaukat Aziz*

Shaukat Aziz  
Minister of Finance

Delighted and honoured to be amongst friends, colleagues and patrons again. Best Wishes to Al-Meezan. May Allah bless you all always. 17/9/2002

Mohammedmian Soomro  
Governor, Sindh





## Corporate Information

### Board of Directors

H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa  
Abdulazim M.A. Al-Shamali  
Irfan Siddiqui  
Ziad H. Rawashdeh  
Zaigham Mahmood Rizvi  
Tarik Kivanc  
Mohamed Abdul-Rehman Hussain  
Mazen Khalid Al-Braikan  
Mohammad Ali Qureshi  
Ariful Islam

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

### Executive Committee

Zaigham Mahmood Rizvi  
Tarik Kivanc  
Mohamed Abdul-Rehman Hussain  
Irfan Siddiqui

### Shariah Board

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

*Chairman*

### Audit Committee

Zaigham Mahmood Rizvi  
Mohamed Abdul-Rehman Hussain  
Irfan Siddiqui

### Company Secretary

Gohar Iqbal Shaikh

### Advisory

Dr. Muhammad Imran Usmani  
Zafar Aziz Osmani

*Shariah Advisor*  
*Human Resources Advisor*



## Management

Irfan Siddiqui	President & CEO
Ariful Islam	Chief Operating Officer
Najmul Hassan	Corporate & Business Development
Gohar Iqbal Shaikh	Finance & Human Resources
Ayaz Wasay	Treasury & Financial Institutions
Aqeel Siddiqui	Retail Banking
Arshad Majeed	Operations
Mohammad Haris	Corporate Finance
Sohail Khan	SME & Consumer Finance
Emad ul Hasan	Internal Audit
Mehnaz Ikram	Legal Advisory
Faiz Siddiqui	Information Technology
Munawar Rizvi	General Services & Administration

## Legal Advisor

Rizvi Isa & Hosain

## Auditors

A.F. Ferguson & Co.

## Registered Office

3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi-74000, Pakistan.

Ph: 9221-5610582 Fax: 9221-5610375

Website: [www.meezanbank.com](http://www.meezanbank.com) Email: [info@meezanbank.com](mailto:info@meezanbank.com)

## Registrar & Share Transfer Office

THK Associates (Pvt.) Limited

Ground Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530, Pakistan

Ph: 9221-5689021 Fax: 9221-5655595





Finance & Trade Centre Branch, Karachi



## Shareholder's Profile

Rupees in millions



### Pak-Kuwait

Pakistan Kuwait Investment Company (Private) Limited (PKIC), is a 50:50 joint venture between the Governments of Pakistan and Kuwait. With shareholders' equity of Rs. 7.6 billion and an asset base of approximately Rs. 14 billion (December 2002), PKIC is one of the most profitable and respected financial institutions in Pakistan. It is commonly referred to as the epitome of a successful sovereign joint venture. PKIC is the first financial institution in Pakistan, which has been rated AAA (Triple A) for medium to long term by JCR-VIS Credit Rating Company Limited, an affiliate of Japan Credit Rating Company.



### Shamil Bank

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



### Islamic Development Bank

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



### Kuwait Awqaf

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

### Shareholding Structure

Pakistan Kuwait Investment Company (Pvt.) Limited	345
Shamil Bank of Bahrain E.C	259
Islamic Development Bank, Jeddah	93
Kuwait Awqaf Public Foundation	83
Societe Generale, Paris	67
Saudi Pak Ind. & Agricultural Investment Company	52
General Public	102
Paid up Capital	1,001



### Societe Generale

Societe Generale Group is one of the largest full services financial groups in the world, with over 12 million customers, 2600 branches in France and 500 offices in 75 countries. The Group's areas of business include retail banking, corporate/investment banking, asset management and private banking.



### Saudi Pak

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

## Shariah Board's Profile

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

The members of the Shariah Board are:

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

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

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

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

Dr. Abdul Sattar teaches Fiqh, Islamic studies and Arabic in Riyadh and has done a valuable task of

researching and compiling information for the Fiqh Encyclopedia in the Ministry of Awqaf and Islamic Affairs in Kuwait. He was a member of the Fatwa Board in the Ministry from 1982 to 1990.

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

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



## Notice of Annual General Meeting

Notice is hereby given that the 7th Annual General Meeting of the members of Meezan Bank Limited (formerly Al-Meezan Investment Bank Limited) will be held Inshallah on Monday the 31st March 2003 at 10:00 a.m. at 3rd Floor, Pakistan National Shipping Corporation Building, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

### Ordinary Business

1. To confirm the minutes of the 6th Annual General Meeting held on April 22, 2002.
2. To receive and adopt the Directors' and Auditors' Reports and Audited Accounts for the year ended December 31, 2002.
3. To consider and approve cash dividend @ 5% as recommended by the Directors.
4. To appoint the auditors for the year ending December 31, 2002 and fix their remuneration. The present auditors M/s A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

### Special Business

Statement under section 160(1) of the Companies Ordinance, 1984.

The statement sets out the material facts pertaining to the special business to be transacted at the 7th Annual General Meeting of the Bank.

### Bonus Issue

5. Based on the financial position of the Bank and legal requirements as laid down by the State Bank of Pakistan for the minimum paid up capital for commercial banks, the Board of Directors had proposed and issued an interim bonus issue of 3.75% by transferring a sum of Rs 33,787,500 from the free reserves of the Bank. The Board of Directors has now proposed an additional bonus issue of 6.25% by transferring a sum of Rs 62,590,890 from the free reserves of the Bank. The Directors of the Bank are interested in the business to the extent of their shareholding in the Bank. If considered and deemed appropriate, pass the following resolution as an ordinary resolution:

*"Resolved that the capitalisation of a sum of Rs 33,787,500 out of the free reserves of the Bank for the purposes of issuance of 3,378,750 ordinary shares of Rs 10/- each as fully paid interim bonus shares be and is hereby approved.*

*Further resolved that an additional sum of Rs. 62,590,890 be transferred out of free reserves of the Bank and applied towards the issue of 6,259,089 ordinary shares of Rs 10/- each as fully paid bonus shares at the rate of 6.25% on ordinary shares held by the members whose name appear on the Members Register on March 24, 2003. These bonus shares shall rank parri passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended December 31, 2002. Further resolved that the Company Secretary be and is hereby authorized to complete all the necessary legal formalities in this respect."*

### General Business

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

By Order of the Board

  
**Gohar Iqbal Shaikh**  
 Company Secretary

Karachi

Date : March 8, 2003

### Notes:

- i) The Members' register will remain closed from March 24, 2003 to March 31, 2003 (both days inclusive). Transfer received in order at the office of the share registrar of the bank by the close of business hours on March 22, 2003 will be treated in time for the entitlement of dividend payment.
- ii) A member eligible to attend and vote at this meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received at the registered office not less than 48 hours before the holding of the meeting.
- iii) An individual beneficial owner of the Central Depository Company, entitled to vote at this meeting must bring his/her National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.

## Chairman's Review



It gives me great pleasure to present before you Meezan Bank's annual report for the year 2002. During the year under review, the Bank has made some landmark achievements; mainly the conversion from an Investment Bank to a full-fledged Islamic Commercial Bank and the amalgamation with Societe Generale's (SG) Pakistan operations. The medium term strategy of the Bank is to consolidate its position as the leading Islamic commercial bank in the country with a planned network of approximately 20 branches, Inshallah. We consider this to be an achievable goal by building on the branch network and systems inherited from SG. The Bank has a strong IT focus and will use state-of-the-art technology to build on the existing systems to create alternative delivery channels. Our goal is to provide the highest quality customer service using innovative Shariah compatible products, which will cater to all modern day customer needs.

We believe that Meezan Bank is now well positioned to take the lead in Islamic banking in Pakistan. This is because of the following:

- It has a team of experienced banking professionals who are committed to Islamic banking.
- The Bank has a very pro-active Shariah Supervisory Board comprising of leading internationally renowned scholars.
- A Shariah scholar of sound standing and repute supervises the day-to-day activities of the Bank.
- The Bank has been provided, by SG, the full range of internal control systems and procedures, which ensures best management practices.
- The main shareholders of the Bank are leading financial institutions that add

significant value to the Bank either directly through its Board representation, or indirectly by way of synergies through regional cooperation and syndications.

We are indebted to the Government of Pakistan and the State Bank of Pakistan (SBP) for the commitment they have shown towards the implementation of Islamic banking in Pakistan. Most noteworthy is the speed with which the SBP processed the issuance of the country's first Islamic banking license to Meezan Bank and also in putting into place a regulatory framework within which such banks would operate. We are very grateful to the President of Pakistan, General Pervez Musharraf, for inaugurating the new Bank on September 17, 2002, to the Finance Minister, Mr. Shaukat Aziz and Governor SBP, Dr. Ishrat Husain, for the encouragement and great personal interest taken by them in promoting the cause of Islamic banking in Pakistan.

During the past year or so, the banking industry in Pakistan has gone through a paradigm shift. As the economy of the country has bounced back with great resilience, excellent fiscal management has resulted in an unprecedented increase in foreign exchange reserves. There has been a decline in both interest rates and inflation. This has however resulted in the narrowing of lending spreads, which means that the profitability of commercial banks from traditional spread business is coming under increasing pressure.

Banks are therefore facing much greater competition than has been experienced in the past and as a result a number of foreign banks have either already exited the country or are in the process of doing so. The large public sector banks are beginning to flex their muscles and improve customer service and all round efficiency, which poses a challenge for the private sector banks. In this environment of increased competition we are focused on maintaining a lean and fit organization by keeping cost and NPLs down to a minimum and building our niche market. The Government also needs to re-evaluate the very high rates of tax paid by banks in Pakistan so as to ensure that foreign sponsors are able to earn an equitable return on their investment.

We congratulate the Musharraf Government for fulfilling its promise of holding general elections in





October 2002, which brought a democratically elected government into power. We feel that this is a positive step for the country and hope that the new government is able to carry on the good work, which has been done over the past two years.

I also thank our shareholders, fellow Board members, members of the Shariah Supervisory Board and employees for their unstinted commitment towards making Meezan Bank a success story.

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







## Directors' Report to the Shareholders

The Directors of Meezan Bank Limited are pleased to present the sixth annual report for the year ended December 31, 2002. The historic milestone during the year was the conversion of the bank from an investment bank to a full-fledged scheduled commercial bank and its amalgamation with the Pakistan operations of Societe Generale ("SG"). As a result the bank was required to change its accounting year-end from June to December in order to bring it in line with the other commercial banks.

### Financial Results

**Amount**  
(Rs. in millions)

Authorised share capital	1,500
Paid up capital	1,001
Capital reserve	265
Revenue reserve	210
Total Shareholders funds	1,586
Profit before taxation	270
Less: Taxation	(47)
Net Profit for the year	223

### Dividend

The Board is pleased to declare a cash dividend of 5% and a bonus issue of 6.25%, making the total dividend for the year 15% (cash dividend of 5% and bonus of 10%).

### Economic Review

The year 2002 witnessed a stable economic performance with significant improvement in fundamentals. GDP growth rate was recorded at 3.6%, which was at the higher end of the range predicted by the State Bank of Pakistan. The period saw decreasing inflation and lending rates. The Discount Rate of the State Bank of Pakistan fell from 10% at the start of the year to 7.5% resulting in a drop in lending rates almost across the board with a corresponding squeeze in spreads for the banking sector.

The stock market reacted very positively to the improved economic fundamentals of the country. The benchmark KSE-100 index closed at a level of 2701 on December 31, 2002 surpassing the all time high of 2661 points achieved in March 1994. The index was up 52.6% from its June 30, 2002 level of 1770 points. De-dollarisation of the

economy, reverse capital flight, continuing decline in interest rates for National Saving Schemes and T-bills, and attractive yields on leading listed companies were the main factors that channeled the funds from other asset classes into equities.

Strong workers' remittances have resulted in a sustained growth in foreign exchange reserves, which grew by 86% during the year to cross US\$ 9 billion. There has also been an improvement in collection of revenues and an improvement in the balance of payments. The rupee continues to strengthen against the US dollar and appreciated by over 3% during the year under review. All of these factors have contributed towards the stabilization of the macro-economic condition of the country.

In recognition to the country's improving fundamentals, Standard & Poor's upgraded Pakistan's long-term foreign currency credit rating from B- to B while long-term local currency rating has been upgraded from B+ to BB-. Moody's has also upgraded Pakistan from B3 stable to positive in terms of its capability to discharge its foreign debt obligation. It is expected that, with the continuation of reforms and consistency in government policy, Pakistan's credit rating should improve even further.

### Operating Results of the Bank

During the year under review the bank converted itself from an Investment bank to a full-fledged Scheduled Islamic Commercial Bank. The State Bank of Pakistan granted the first Islamic Commercial Banking license on January 31, 2002 and declared Meezan Bank Limited as a Scheduled bank on March 20, 2002.

The bank has earned profit before tax of Rs. 270 million for the year ended December 31, 2002. This reflects a strong recovery and restores the excellent track record of the bank that has been demonstrated in the past. Although the recovery is principally attributable to significant income from capital market operations, the bank is focusing on building its core business which has shown strong growth especially on account of the expanded commercial banking platform from which it now operates. Total balance sheet footing of the bank grew from Rs. 2.05 billion as of December 31, 2001 to Rs. 6.97 billion as of December 31, 2002.

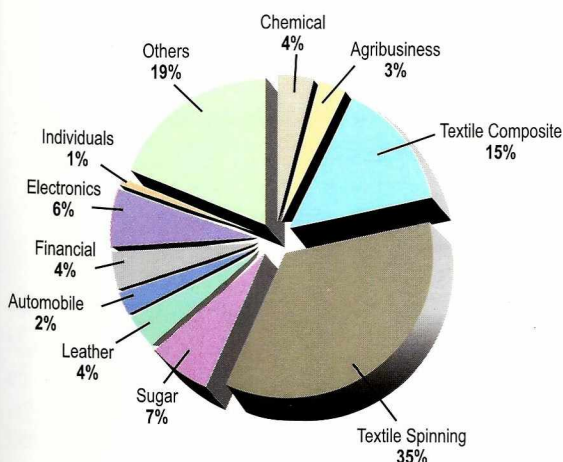
## Corporate & Investment Banking Activities

The Corporate & Investment Banking Unit is geared towards providing comprehensive and innovative financial solutions to the banks' client base through a diverse product offering. The focus is on nurturing and developing a long-term relationship with clients by understanding their unique financing requirements and providing Shariah compliant financing solutions.

Islamic banking predicated the need to tailor solutions for customer financing needs which includes short & long term financing and other trade related requirements. Murabaha is the most actively used financing contract which enables an Islamic bank to finance acquisition of assets and meet the working capital needs of its customers. Other financing modes include Ijarah, a leasing contract to finance purchase of plant and machinery and Istisna, which is used to finance the manufacturing of products. The Bank also undertakes dollar financing (as allowed by the State Bank of Pakistan against FE25 deposits) and also offers a full range of trade related products covering both imports and exports. Our current corporate portfolio includes both large multinationals and prime local corporates/groups like ICI Pakistan, Novartis, Dewan, Sitara, Crescent, Engro, Gul Ahmed, Nishat, Rafhan, General Tyre, etc.

The total financing portfolio of the bank as on December 31, 2002 amounted to Rs. 3.53 billion as compared to Rs. 865 million as on December 31, 2001, representing an increase of 308%. The portfolio is well diversified with major concentration in the textile sector since that is the backbone of the Pakistan economy. Sector distribution of the financing portfolio is shown below:

### Sectoral Breakup of Financing Portfolio



As in the past the bank has maintained a cautious approach in its financing policy and as of the balance sheet date the bank does not have any overdue or defaulting accounts. As part of the SG amalgamation Meezan Bank acquired fully provided loans of Rs. 257 million, out of which an amount of Rs. 67 million has been recovered to date.

One major recent breakthrough for Meezan Bank was the introduction of an Islamic Export Refinance Scheme which was developed in close coordination with the SBP. This has for the first time in Pakistan enabled exporters to avail financing at concessional rates under a Shariah compliant scheme. Meezan Bank has already disbursed funds to a few customers under this scheme.

The Corporate & Investment Banking Unit also provides a range of advisory services integrating industry, product and regional specialization to help businesses' address their strategic issues and formulate and execute dynamic business strategies. In a short span of time, the unit has been able to develop core specialization in privatisation mandates, mergers and acquisitions, buy-side/sell-side advisory, financial restructuring and related fields.

### Car Ijarah Scheme

Meezan Bank's Car Ijarah (leasing) scheme was launched in July 2002. The product has received a very positive response, and the portfolio has grown consistently, touching Rs. 73 million as at December 31, 2002, comprising a total of 117 cars. In the year 2002, our Car Ijarah scheme was offered only in Karachi, and in 2003, the product will be offered in Lahore and Islamabad as well.

The Car Ijarah scheme is targeted to cater to businessmen, salaried individuals and self-employed professionals. It is offered through selected dealers and also through our branch network. In future the bank intends to form alliances with manufacturers of vehicles to make the product more competitive in the market.

### Small and Medium Enterprise (SME) Business

Meezan Bank started its SME operations as an independent business unit from October 2002. The total portfolio size as on December 31, 2002 was Rs. 111 million spread over 20 clients. Frequently quoted as the "back bone" of an economy, SMEs contribute towards employment generation,





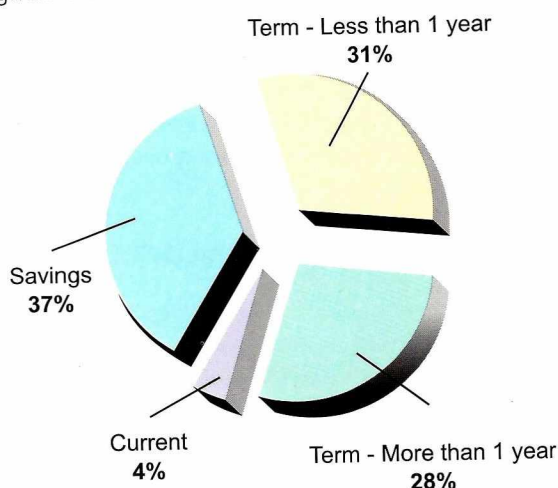
promotion of craftsmanship, equitable wealth distribution, resource mobilization and development of an entrepreneurial culture. The Government of Pakistan is now making serious efforts towards supporting and developing the SME sector of the economy. This sector is also getting immense recognition globally due to its important role in economic development. The Government's role will ensure research and development within this sector, which will help the banking sector to evaluate the overall strengths and weaknesses of the industry, its key players and changing trends and the risks involved.

### Investments

Meezan Bank during the year has been actively involved in the capital markets, and an amount of Rs. 856 million was invested as on December 31, 2002 as compared to Rs. 588 million as on December 31, 2001. The income from capital market operations amounted to Rs. 164 million resulting in an average return of 23%.

### Deposits

We are pleased to report that, Alhamdulillah, the customers of Meezan Bank have continued to show their trust and the deposit base of the bank has grown from Rs. 637 million as on December 31, 2001 to Rs. 5.08 billion as on December 31, 2002 representing a growth of 697%. The above figure also includes an amount of only Rs. 1.9 billion inherited from the SG amalgamation and it is therefore encouraging to note that Rs. 2.5 billion has been generated by the bank under the Meezan Bank label. A breakdown of deposits by type is given below:



### Future Outlook

Increased competition and surplus liquidity in the banking sector will put pressure on the profitability of banks in the coming years. In the face of this competition Meezan Bank is focused on developing its niche market and expanding its branch network.

Extensive research and development is underway to produce new Shariah compliant products, which will meet customer-financing needs. The bank intends to launch a home financing product shortly and also a product for the financing of consumer durables.

The bank is also hopeful that the SBP will expedite the finalization of Ijarah Bond which has been designed by Meezan Bank. This bond will be the first step in developing an Islamic money market instrument, which is absolutely imperative for Islamic banks for short-term liquidity management.

During the year 2003, the bank has shifted its existing branch in Lahore to a new premises and has opened two new branches: one in Gulshan-e-Iqbal, Karachi, and the other on Kotawali Road, Faisalabad. In addition, plans are underway to evaluate the feasibility of opening a branch in Multan.

### Corporate Governance Practices

Corporate governance strengthens investors' trust and ensures a long term partnership. This helps in achieving our mission of offering a one-stop shop for innovative value-added products and services to our customers within the bounds of Shariah, while optimizing the stakeholders' value through an organizational culture based on learning, fairness, respect for individual enterprise and performance. Meezan Bank continues to enhance its practices in corporate governance and believes that good corporate governance is essential for creating value for all stakeholders.

### Corporate and Financial Reporting Framework

1. The financial statements prepared by the management of Meezan Bank Limited present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of Meezan Bank Limited

- have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements, except for the changes disclosed.
  4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
  5. The system of internal control is sound in design and has been effectively implemented and monitored.
  6. There are no doubts upon the Bank's ability to continue as a going concern.
  7. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
  8. Key operating and financial data for the last six years in summarized form is annexed to the report.
  9. The value of investments of the Bank's recognized Provident Fund based on audited accounts as at June 30, 2001 amounted to Rs. 2.2 million & based on un-audited accounts as at June 30, 2002 amounted to Rs. 4.6 million. The value of investment of Gratuity Fund amounted to Rs. 0.79 million as on December 31, 2002 based on un-audited accounts.
  10. The purchase and sale of shares by the Directors, Chief Executive, CFO and Company Secretary during the year is given below:

Purchase of Shares Directors	No. of Shares
Irfan Siddiqui	121,407
Ariful Islam	80,936
CFO & Company Secretary	15,233
<b>Sale of Shares</b>	
CFO & Company Secretary	17,000

### Board of Directors Meetings

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

Name of Director	Meetings Attended
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	3
Mr. Abdulazim M. A. Al-Shamali	4
Mr. Ziad Rawashdeh	-
Mr. Zaigham M Rizvi	4
Mr. Tarik Kivanc	5

Mr. Mohamed Abdul-Rehman Hussain	1
Mr. Jamil Jaroudi	1
Mr. Mazen Khalid Al-Braikan	4
Mr. Mohammed Ali Qureshi	4
Mr. Ariful Islam	5
Mr. Irfan Siddiqui	5

During the year Mr. Jamil Jaroudi nominee of Shamil Bank of Bahrain and Mr. Waleed Abdullah Al-Muraikhi, nominee of Kuwait Awqaf Public Foundation were replaced by Mr. Mohamed Abdul-Rehman Hussain and Mr. Mazen Khalid Al-Braikan respectively.

### Statement of Ethics and Business Practices

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

### Pattern of Shareholding

The pattern of shareholding is annexed to the report. The pattern of shareholding as required under Code of Corporate Governance is as follows:

	No. of shares
<b>Associated Companies &amp; Shareholders with more than 10% shareholding</b>	
Pakistan Kuwait Investment Co. (Pvt.) Ltd.	34,524,276
Shamil Bank of Bahrain	25,937,500
	<b>60,461,776</b>
<b>National Investment Trust</b>	
<b>Directors, CEO &amp; their spouses</b>	<b>518,231</b>
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	1
Mr. Abdulazim M. A. Al-Shamali	67,438
Mr. Zaigham M Rizvi	519
Mrs. Talat Rizvi w/o Mr. Zaigham M Rizvi	518
Mr. Irfan Siddiqui	194,315
Mr. Ariful Islam	136,803
	<b>399,594</b>
<b>Other Executives</b>	<b>22,238</b>
<b>Public Sector Companies &amp; Corporations</b>	<b>3,406,033</b>
<b>Financial Institutions, Modarabas &amp; Insurance Companies</b>	<b>34,342,665</b>

### Credit Rating

The JCR-VIS Credit Rating Company Limited (JCR), an affiliate of Japan Credit Rating Agency, Japan





has graded the Bank's long-term entity rating at A+ with stable outlook, while the short-term rating has been graded at A1+, which is the highest possible in this category.

#### **Auditors**

The present auditors M/s A.F. Ferguson & Co.,

**Irfan Siddiqui**  
President & CEO

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



FTC Branch, Karachi

## Shariah Board's Report

بسم الله الرحمن الرحيم

الحمد لله رب العالمين ، والصلاة والسلام على رسوله الكريم ، وعلى آله وصحبه اجمعين، وعلى كل من تبعهم باحسان الى يوم الدين

Shariah Supervisory Board (SSB) of Meezan Bank and its Executive Committee (EC) held five meetings during the year 2002 and did the following:

1. Reviewed and approved the model agreements to be used by Meezan Bank for different modes of financing.
2. Laid down guidelines for the Bank's day-to-day operations.
3. Reviewed and suggested amendments in the strategy of converting the Bank into a full-fledged commercial bank and the amalgamation with Societe Generale's Pakistan operations.
4. Resolved the practical issues brought forth by the management with regard to the day-to-day operations.
5. Carried out through its EC, Shariah Audit of the transactions effected during the current year.

During the year, the Bank has gone through the process of converting into a full-fledged commercial bank and the amalgamation with Societe Generale's Pakistan operations which was a formidable task carried out by the management with ability and courage. Specially, the conversion of the transactions undertaken by Societe Generale, a conventional bank, into Islamically acceptable modes was carried out with care and precaution under the guidelines approved by the SSB.

According to the report of the EC, the arrangements of Rupee and Dollar deposits and the way of calculation and distribution of profit were found in compliance with the directions of the SSB. Similarly, the arrangements of interbank financing were found in accordance with the directions of the SSB.

On the assets side, the major transactions under Musharikhah, Import Murabaha and Leasing portfolio of Car Ijarah were found in order. However, some irregularities (from Shariah point of view) were found in a number of Lease and Murabaha transactions. Some of these irregularities were of a nature that the validity of the transactions and the income derived therefrom was not affected. Such irregularities

were pointed out to the management, and the management undertook to:

- (a) cure the curable irregularities
- (b) not to repeat them in future

On the other hand, some irregularities were of a nature that rendered the income derived through the relevant transactions invalid in Shariah or at least dubious. The income derived from such transactions noticed by the EC was directed by the EC to be set aside and given to charity.

The irregularities referred to above were unintentional and the management took them as a source of improvement in future.

During our interaction with the management of the Bank, we have always found the management receptive to the advices of the SSB and eager to improve its performance in accordance with Shariah.

May Allah give them strength to make the Bank an ideal Islamic financial institution.



**Justice (Retd.) Muhammad Taqi Usmani**  
Chairman





## Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance framed by the Securities and Exchange Commission of Pakistan for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Bank encourages representation of independent non-executive directors. At present the Board has eight independent 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 tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs. None of them is a member of a stock exchange.
4. No casual vacancy occurred during the year ended December 31, 2002.
5. Statement of Ethics and Business Practices has been approved and signed by the directors and shall be communicated to the employees of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy. The Bank after amalgamation with Societe Generale has adopted its policies and procedures, wherever these are not contradictory to the Shariah Principles. Moreover the management issued various memos for different products and procedures. The Board has adopted three significant policies of the Bank. Complete record of these 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 director, have been taken by the Board.
8. There was no new appointment of CFO, Company Secretary or Head of Internal Audit during the year ended December 31, 2002.
9. The meetings of the Board were mostly 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 ended December 31, 2002. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The management of the Bank has circulated a summary of provisions of various laws i.e. the Companies Ordinance, the Code of Corporate Governance, the Banking Companies Ordinance, the Prudential Regulations, the Listing Regulations of the Karachi Stock Exchange as required under clause (xiv) of the Code i.e. with respect to the 'Orientation Course' of directors to acquaint them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of shareholders.
11. The directors' report for this period 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 three members, two of whom are

non-executive directors. The CEO is also the member of the committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank. The terms of reference of the committee have been framed, approved by the Board and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
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 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.

A handwritten signature in black ink, appearing to read 'Irfan Siddiqui'.

**Irfan Siddiqui**  
President & CEO



## **Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance**

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

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit

approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2002.

A handwritten signature in black ink, appearing to read "A. F. Ferguson &amp; Co.", with a long horizontal line extending to the right.

**A. F. Ferguson & Co.**  
*Chartered Accountants*  
March 8, 2003





## Auditors' Report to the Members

We have audited the annexed balance sheet of Meezan Bank Limited [formerly Al-Meezan Investment Bank Limited] as at December 31, 2002 and the related profit and loss account, cash flow statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for three branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - (i) the balance sheet and profit and loss

account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.6 of these financial statements with which we concur;

- (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

- c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2002 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

*A. F. Ferguson & Co.*

**A. F. Ferguson & Co.**  
Chartered Accountants  
March 8, 2003







## Balance Sheet

As at December 31, 2002

	Note	2002 (Rupees in '000)	2001 (Rupees in '000)
<b>ASSETS</b>			
Cash and balances with treasury banks	7	659,349	7,998
Balances with other banks	8	1,058,074	172,664
Due from financial institutions		-	-
Investments	9	855,766	587,720
Financings	10	3,532,188	864,783
Other assets	11	818,081	412,539
Operating fixed assets	12	35,942	7,484
Deferred taxation	13	12,048	-
		6,971,448	2,053,188
<b>LIABILITIES</b>			
Bills payable	14	46,842	-
Due to financial institutions	15	11,831	-
Deposits and other accounts	16	5,079,478	637,444
Sub-ordinated loan		-	-
Liabilities against assets subject to finance leases		-	-
Other liabilities	17	247,389	212,869
Deferred taxation		-	-
		5,385,540	850,313
		1,585,908	1,202,875
<b>NET ASSETS</b>			
<b>REPRESENTED BY</b>			
Share capital	18	1,001,454	901,000
Capital reserves	19	264,867	151,313
Revenue reserves	20	209,630	150,562
		1,475,951	1,202,875
Surplus on revaluation of investments	21	109,957	-
		1,585,908	1,202,875
<b>CONTINGENCIES AND COMMITMENTS</b>			
	22		

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

  
Chairman

  
President & CEO

  
Director

  
Director



## Profit and Loss Account

For the year ended December 31, 2002

	Note	Year ended December 31, 2002 (Rupees in '000)	Six month period ended December 31, 2001
Profit/return on financings and placements earned	23	311,183	81,292
Return on deposits and other dues expensed	24	191,673	29,094
Net spread earned		119,510	52,198
Reversal of provision against non-performing financings (net)	10.4	67,184	-
(Provision) / reversal of provision for diminution in value of investments	9.2	(2,320)	1,160
Bad debts written off directly	10.5.1	(4,187)	-
		60,677	1,160
Net spread after provisions		180,187	53,358
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		71,968	41,484
Capital gain on sale of investments		52,809	8,581
Dividend income		111,302	29,011
Income from dealing in foreign currencies		5,799	-
Other income	25	46,129	(132,017)
Total other income		288,007	(52,941)
		468,194	417
<b>OTHER EXPENSES</b>			
Administrative expenses	26	195,045	35,560
Other provisions/write offs		-	-
Other charges	27	2,619	-
Total other expenses		197,664	35,560
		270,530	(35,143)
Extraordinary / unusual items		-	-
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		270,530	(35,143)
Taxation - current for the year / period	28	59,429	18,722
- prior years		-	-
- deferred	28	(12,048)	-
		47,381	18,722
<b>PROFIT/(LOSS) AFTER TAXATION - CARRIED FORWARD</b>		223,149	(53,865)



## Profit and Loss Account

For the year ended December 31, 2002

	Note	Year ended December 31, 2002	Six month period ended December 31, 2001
		(Rupees in '000)	
<b>PROFIT / (LOSS) AFTER TAXATION-BROUGHT FORWARD</b>		223,149	(53,865)
Loss brought forward		(53,865)	-
		<u>169,284</u>	<u>(53,865)</u>
<b>APPROPRIATIONS AND TRANSFERS</b>			
Transferred to:			
Statutory reserve		(44,630)	-
Reserve for issue of bonus shares		(62,591)	-
Proposed final dividend at Rs 0.50 (December 31, 2001: Rs nil) per share on 100,145,425 ordinary shares		(50,073)	-
Revenue reserve		(11,360)	-
		<u>(168,654)</u>	<u>-</u>
Unappropriated profit / (loss) carried forward		<u>630</u>	<u>(53,865)</u>
Basic and diluted earnings / adjusted (loss) per share	29	<u>2.32</u>	<u>(0.58)</u>

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

  
Chairman

  
President & CEO

  
Director

  
Director



# Cash Flow Statement

For the year ended December 31, 2002

	Year ended December 31, 2002	Six month period ended December 31, 2001
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit / (loss) before taxation	270,530	(35,143)
Dividend income	(111,302)	(29,011)
Net (gain) / loss on foreign currency deposits under arrangements with the SBP	(21,509)	133,196
	137,719	69,042
<b>Adjustments for non-cash charges</b>		
Provision against non-performing financings	386	-
Depreciation	8,564	1,723
Amortisation	162	-
Provision / (reversal of provision) for diminution in value of investments (net)	2,320	(1,160)
(Gain) / loss on sale of property, equipment and others	(6,740)	12
Finance charges on leased assets	287	-
	4,979	575
	142,698	69,617
<b>(Increase) / decrease in operating assets</b>		
Financings	(733,961)	377,310
Net investments in held for trading securities	5,605	(260,119)
Due from financial institutions	1,200,000	-
Other assets	(149,094)	33,269
	322,550	150,460
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	34,405	-
Due to financial institutions	(2,631,469)	-
Deposits and other accounts	2,499,329	(6,750)
Other liabilities	(196,944)	6,495
	(294,679)	(255)
	170,569	219,822
Income tax paid	(156,815)	(14,877)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>CARRIED FORWARD</b>	13,754	204,945





## Cash Flow Statement

For the year ended December 31, 2002

	Note	Year ended December 31, 2002	Six month period ended December 31, 2001
		(Rupees in '000)	
<b>NET CASH FLOW FROM OPERATING ACTIVITIES BROUGHT FORWARD</b>		13,754	204,945
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available for sale securities		(130,570)	-
Net investments in held to maturity securities		(35,020)	-
Net investments in quoted associated undertakings		(424)	-
Net investments in unquoted associated undertakings		-	-
Increase in cash and bank balances on amalgamation		1,587,786	-
Dividends received		102,164	11,656
Investments in operating fixed assets		(37,557)	(1,253)
Sale proceeds on disposal of property, equipment and others		7,113	603
Amount (paid) / received on foreign currency deposits under arrangements with the SBP		(60,211)	70,265
Net cash flow from investing activities		1,433,281	81,271
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payments of lease obligations		(9,449)	-
Amount received against issue of shares		100,000	-
Dividend paid		(825)	(156,838)
Net cash flow from financing activities		89,726	(156,838)
Net increase in cash and cash equivalents		1,536,761	129,378
Cash and cash equivalents as at January 1, 2002 / July 1, 2001	30	180,662	51,284
Cash and cash equivalents as at December 31	30	1,717,423	180,662

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

  
Chairman

  
President & CEO

  
Director

  
Director



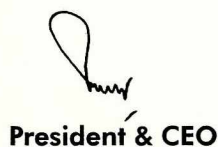
## Statement of Changes in Equity

For the year ended December 31, 2002

	Share capital	Capital reserves			Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit/(loss)	
				Rupees '000			
Balance as at July 1, 2001	901,000	27,000	124,313	—	204,427	—	1,256,740
Loss for the six months period ended December 31, 2001	—	—	—	—	—	(53,865)	(53,865)
Balance as at December 31, 2001	901,000	27,000	124,313	—	204,427	(53,865)	1,202,875
Transfer to reserve for issue of bonus shares	—	(27,000)	—	33,787	(6,787)	—	—
Issue of bonus shares	33,787	—	—	(33,787)	—	—	—
Issue of share capital	66,667	33,333	—	—	—	—	100,000
Profit for the year	—	—	—	—	—	223,149	223,149
Transfer to statutory reserve	—	—	44,630	—	—	(44,630)	—
Transfer to reserve for issue of bonus share	—	—	—	62,591	—	(62,591)	—
Proposed dividend @ 5%	—	—	—	—	—	(50,073)	(50,073)
Transfer to general reserve	—	—	—	—	11,360	(11,360)	—
Balance as at December 31, 2002	<u>1,001,454</u>	<u>33,333</u>	<u>168,943</u>	<u>62,591</u>	<u>209,000</u>	<u>630</u>	<u>1,475,951</u>

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

  
Chairman

  
President & CEO

  
Director

  
Director



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

During the year the Bank and Societe Generale, the French and International Bank (SG) – Pakistan branches amalgamated their operations under a sanction order of the SBP in accordance with section 48 of the Banking Companies Ordinance, 1962 with effect from April 1, 2002. Under the sanction order all the assets and liabilities of SG as at that date have been amalgamated with the Bank at their respective fair values (note 41) under the purchase method of accounting.

The Bank was operating through six branches as at December 31, 2002. Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

### 2. BASIS OF PRESENTATION

- 2.1 The Bank provides financing mainly through murabaha and ijarah. Under murabaha the goods are purchased and are then sold to the customers on credit. The purchase and sale arising under these arrangements are not reflected in these accounts as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon.
- 2.2 The Bank had changed its accounting year end from June 30 to December 31 with effect from December 31, 2001. Therefore, the comparative information presented in these accounts has been extracted from the audited accounts of the Bank for the six months period ended December 31, 2001.

### 3. STATEMENT OF COMPLIANCE

- 3.1 The accounts have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance), the directives issued by the State Bank of Pakistan (SBP) including format for accounts of Bank issued by the SBP through BSD circular No. 36 dated October 10, 2001, and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretation Committee of IASC (the interpretations), as adopted in Pakistan. However, the requirements of these Ordinances and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.
- 3.2 The State Bank of Pakistan through its BSD circular letter No. 10 dated August 26, 2002 has deferred the implementation of IAS 39, Financial Instruments: Recognition and Measurement and IAS 40, Investment Property for banks in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of these accounts for the year ended December 31, 2002.



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 4. BASIS OF MEASUREMENT

These accounts have been prepared under the historical cost convention.

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 5.1 Cash and cash equivalents

Consistent with prior years cash and cash equivalents comprise of cash and balances with treasury bank and balances with other banks in current and deposit accounts and Islamic interbank placements having maturities of three (3) months or less.

#### 5.2 Revenue recognition

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

#### 5.3 Financings

Consistent with prior years financings are stated net of specific provisions against non performing financings, if any, which are charged to the profit and loss account.

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

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





## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 5.4 Investments

5.4.1 The Bank states its marketable investments (including investments in associates) at market value. The resulting surplus on revaluation is being routed through the profit and loss account to the extent of provision available against investments as at June 30, 2000 and exceeding that shall be shown under equity. The deficit shall also be shown under equity. Cost is determined on a moving average basis.

5.4.2 Unquoted securities (including investments in associates) are valued at cost less provision for impairments, if any.

5.4.3 In accordance with the requirements of BSD circular No. 36 dated October 10, 2001 the Bank classifies its investments as follows.

- **Held for trading**

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

- **Available for sale**

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

- **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.

### 5.5 Operating fixed assets

#### 5.5.1 Tangible fixed assets

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

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

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

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

#### 5.5.2 Intangible

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

## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 5.6 Taxation

#### Current

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

#### Deferred

The company accounts for deferred taxation using the balance sheet liability method. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

With effect from January 1, 2002 the Bank also recognises the net deferred tax debit balance arising on temporary differences by using the liability method. Previously the Bank accounted for deferred tax arising on temporary differences, if any, by using the liability method, but did not recognise net deferred tax asset. The reason and effect of this change in accounting policy are stated in note 6 below.

### 5.7 Staff retirement benefits

#### Defined benefit plan

The company operates a funded gratuity scheme for all its permanent employees who have completed the minimum qualifying eligible service of one year. The scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at January 31, 2002. The projected unit credit method, as allowed under International Accounting Standard No.19 'Employee Benefits' (revised 1998), was used for actuarial valuation.

Actuarial gains and losses are recognised over the average expected future working life of the members.

#### Defined contribution plan

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





## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 5.8 Foreign currencies

Consistent with prior years foreign currency transactions are recorded in rupees at exchange rates prevailing on the date of transaction. Assets, liabilities, contingencies and commitments in foreign currencies at the year end are reported in rupees at exchange rates prevalent on the balance sheet date.

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

### 5.9 Provisions and contingent assets and liabilities

Consistent with prior years 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.

Consistent with prior years contingent assets are not recognised, and are also not disclosed unless the realisation of the asset is virtually certain and contingent liabilities are not recognised, and are disclosed unless the probability of outflow of resources embodying economic benefits is remote.

## 6. REASON AND EFFECT OF CHANGE IN AN ACCOUNTING POLICY

- 6.1 The Institute of Chartered Accountants of Pakistan through its circular no. 01/2002 dated February 12, 2002 has made IAS 12 (revised 1996) 'income taxes' applicable for accounting periods beginning on or after January 1, 2002.

Consequently the Bank has changed its accounting policy for accounting for deferred taxation and now also recognises net deferred tax asset arising on temporary differences.

Had the company continued to use its previous accounting policy the profit after taxation would have been lower by Rs 12.048 million and there would have been no deferred tax asset.

- 6.2 Had such a change been made retrospectively the opening balance of revenue reserves would have been higher by Rs 1.850 million and there would have been a deferred tax asset as at December 31, 2001.



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>7. CASH AND BALANCES WITH TREASURY BANKS</b>		
In hand - local currency	70,861	12
- foreign currency	35,502	-
With State Bank of Pakistan in		
- local currency current account – note 7.1	460,404	7,241
- foreign currency deposit account – note 7.1	92,197	-
With National Bank of Pakistan in		
- local currency current account	385	745
	<u>659,349</u>	<u>7,998</u>
7.1 This represents local and foreign currency amounts required to be maintained by the Bank with the SBP as stipulated by it (the SBP).		
	2002	2001
	Rupees in '000	
<b>8. BALANCES WITH OTHER BANKS</b>		
In Pakistan		
- on current accounts	7,120	18,646
- on deposit account – note 8.1	553,563	154,018
Outside Pakistan		
- on current accounts	29,234	-
- on deposit accounts – note 8.2	468,157	-
	<u>1,058,074</u>	<u>172,664</u>
8.1 The balances held in deposit account have been placed with an associated undertaking. The depositor has undertaken to utilise such funds in accordance with the principles of Islamic Shariah.		
8.2 This represents placement of funds with an Islamic financial institution in Bahrain which have been generated through the foreign currency deposit scheme (FE-25). These placements have been made on profit and loss sharing basis and have maturities upto a week.		





## Notes to and forming part of the accounts

For the year ended December 31, 2002

9. INVESTMENTS	2002			2001		
	Held by the bank	Given as collateral	Total	Held by the bank	Given as collateral	Total
	Rupees in '000					
<b>Investments by types</b>						
Held for trading securities - note 9.3	275,898	-	275,898	281,503	-	281,503
Available for sale securities - note 9.4	130,570	-	130,570	-	-	-
Held to maturity securities - note 9.5	37,134	-	37,134	2,114	-	2,114
Associates (quoted) - note 9.6	222,887	-	222,887	222,463	-	222,463
Associates (unquoted) - note 9.7	81,900	-	81,900	81,900	-	81,900
	<u>748,389</u>	<u>-</u>	<u>748,389</u>	<u>587,980</u>	<u>-</u>	<u>587,980</u>
Add: Surplus on revaluation of investments	109,957	-	109,957	-	-	-
	<u>858,346</u>	<u>-</u>	<u>858,346</u>	<u>587,980</u>	<u>-</u>	<u>587,980</u>
Less: Provision for diminution in value of investments - note 9.2	(2,580)	-	(2,580)	(260)	-	(260)
	<u>855,766</u>	<u>-</u>	<u>855,766</u>	<u>587,720</u>	<u>-</u>	<u>587,720</u>

	2002	2001
	Rupees in '000	
<b>9.1 Investments by segments</b>		
Fully paid up ordinary shares		
- Listed companies	629,355	503,966
- Unlisted companies	81,900	81,900
Musharika term finance certificates	36,365	-
Other investments		
- Certificate of investment	769	2,114
	<u>748,389</u>	<u>587,980</u>
Add: Surplus on revaluation of investments	109,957	-
Less: Provision for diminution in value of investments – note 9.2	2,580	260
	<u>855,766</u>	<u>587,720</u>
<b>9.2 Particulars of provision</b>		
Opening balance	260	1,420
Charge for the year	2,580	-
Reversals	(260)	(1,160)
	<u>2,320</u>	<u>(1,160)</u>
Closing balance	<u>2,580</u>	<u>260</u>

# Notes to and forming part of the accounts

For the year ended December 31, 2002

## 9.3 Held for trading securities

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

Name of the investee company	2002		2001	
	Number of shares		Cost Rupees in '000	
<b>Mutual fund</b>				
Investment Corporation of Pakistan S.E.M.F.	—	68,500	—	1,026
<b>Modaraba</b>				
First Grindlays Modaraba	—	182,000	—	3,005
<b>Textile composite</b>				
Nishat (Chunian) Limited	100,000	40,000	3,514	787
Nishat Mills Limited	29,500	437,000	508	6,848
Sapphire Textile Mills Limited	—	5,500	—	228
Suraj Cotton Mills Limited	—	7,500	—	145
<b>Synthetic and rayon</b>				
Dewan Salman Fibres Limited	100,240	280,241	1,578	3,988
Ibrahim Fibres Limited	83,000	112,500	1,388	1,626
<b>Cement</b>				
Cherat Cement Limited	500,000	—	15,058	—
Maple Leaf Cement Limited	32,500	—	277	—
<b>Fuel and energy</b>				
Hub Power Company Limited	1,298,000	2,790,500	40,720	55,012
Kohinoor Energy Limited	25,000	—	383	—
National Refinery Limited	30,000	14,000	2,087	538
Pakistan Oil Fields Limited	57,000	—	8,560	—
Pakistan State Oil Company Limited	—	478,300	—	50,508
Sui Northern Gas Pipelines Limited	194,512	525,012	3,930	5,576
Shell Pakistan Limited	20,600	59,800	6,336	12,749
Sui Southern Gas Company Limited	122,202	266,212	1,659	3,484
<b>Auto and allied engineering</b>				
Al-Ghazi Tractors Limited – note 9.3.1	—	3,000	—	194
Dewan Farooque Motors Limited	151,500	1,250,000	1,514	8,195
Honda Atlas Limited	35,000	—	1,517	—
Indus Motors Company Limited	74,500	100,000	3,197	1,589
The General Tyre and Rubber Company of Pakistan Limited	—	20,000	—	936
<b>Transport and communication</b>				
Pakistan Telecommunication Company Limited (A)	2,945,000	2,772,000	69,285	45,083
World Call Payphone Limited	129,300	50,000	1,791	762
<b>Chemical and pharmaceuticals</b>				
Engro Chemical Pakistan Limited	240,401	312,601	17,833	17,377
FFC Jordan Fertilizer Company Limited	25,000	—	190	—
Fauji Fertilizer Company Limited	995,000	371,000	65,758	14,348
Glaxo Smithkline Pakistan Limited	16,000	35,900	1,347	3,023
ICI Pakistan Limited	29,830	170,300	1,325	7,840
Knoll Pharmaceuticals Limited	—	59,900	—	3,944
Pakistan PTA Limited	—	150,900	—	2,697
<b>Paper and board</b>				
Packages Limited	69,212	184,712	4,221	9,578
<b>Food and allied</b>				
Unilever Pakistan Limited - note 9.3.2	18,000	22,720	16,062	16,283
Nestle Milkpak Limited	25,150	1,650	4,799	275
<b>Miscellaneous</b>				
Tri-Pack Films Limited	25,000	123,500	1,061	3,859
			<u>275,898</u>	<u>281,503</u>





## Notes to and forming part of the accounts

For the year ended December 31, 2002

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

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

### 9.4 Available for sale 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	2002 Number of shares	2001	2002	2001
			Cost Rupees in '000	Cost Rupees in '000
<b>Fuel and energy</b>				
Hub Power Company Limited	1,500,000	—	42,101	—
Pakistan State Oil Company Limited	48,280	—	5,756	—
Sui Northern Gas Pipelines Limited	250,000	—	3,813	—
Shell Pakistan Limited	30,000	—	7,863	—
Sui Southern Gas Company Limited	200,000	—	2,717	—
<b>Transport and communication</b>				
Pakistan Telecommunication Company Limited (A)	1,500,000	—	29,710	—
<b>Chemical and pharmaceuticals</b>				
Fauji Fertilizer Company Limited	250,000	—	13,663	—
<b>Paper and board</b>				
Packages Limited	50,000	—	3,049	—
<b>Food and allied</b>				
Unilever Pakistan Limited - note 9.4.1	24,540	—	21,898	—
			<u>130,570</u>	<u>—</u>

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

### 9.5 Held to maturities securities

Name of the investee company	2002 Number of certificates	2001	2002	2001
			Cost Rupees in '000	Cost Rupees in '000
Certificate of investment - note 9.5.1 First Leasing Corporation Limited (FLCL)	1	1	769	2,114
Listed musharika term finance certificates (MTFCs) Sitara Chemicals Limited – notes 9.5.2 and 9.5.3	7,273	—	36,365	—
			<u>37,134</u>	<u>2,114</u>

9.5.1 This COI is under lien against the facility provided by FLCL to a third party.

9.5.2 This balance includes Rs 5.765 million representing 1,153 MTFCs held by Sitara Chemical Industries Limited.

9.5.3 The paid up value of the MTFC is Rs 5,000 per certificate. The return on MTFCs is on musharika basis and have maturities upto 5 years.



# Notes to and forming part of the accounts

For the year ended December 31, 2002

## 9.6 Associates (quoted)

	2002	2001	Percentage of direct equity holding %	2002	2001
Name of the investee company	Number of shares			Rupees '000	
<b>Mutual fund</b>					
Al-Meezan Mutual Fund Limited	1,250,000	1,250,000	5.00	8,291	8,291
<b>Modaraba</b>					
Fayzan Manufacturing Modaraba	21,457,500	21,417,250	23.84	214,596	214,172
				<u>222,887</u>	<u>222,463</u>

## 9.7 Associates (unquoted)

	2002	2001	2002	2001	Percentage of equity holding	Break up value per share	Latest available accounts	Name of the chief executive
Particulars	Number of shares/certificates		Rupees in ' 000		%	Rupees		
Al-Meezan Education and Development (Private) Limited	1,499,980	1,499,980	15,000	15,000	50	8.28	June 30, 2002	Mr. Ariful Islam
Al-Meezan Investment Management Limited	150,000	150,000	12,900	12,900	30	137.50	June 30, 2002	Mr. Muhammad Shoaib
Faysal Management Services (Private) Limited	540,000	540,000	54,000	54,000	30	196.42	December 31, 2002	Mr. Khalid S. Tirmizey
Total			<u>81,900</u>	<u>81,900</u>				





## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>10. FINANCINGS</b>		
Murabaha financings – in Pakistan	2,850,720	663,136
Net investment in ijarah – in Pakistan	643,656	197,183
Financings against bills – in Pakistan	1,425	–
Export refinance under Islamic scheme – in Pakistan (Istisna)	16,000	–
Loans, cash credits, running finances, etc. – in Pakistan	195,644	4,464
	<u>3,707,445</u>	<u>864,783</u>
Less: Provision against non-performing financings – notes 10.3 and 10.4	175,257	–
	<u>3,532,188</u>	<u>864,783</u>
<b>10.1 Particulars of financing</b>		
10.1.1 In local currency	3,109,867	864,783
In foreign currencies	422,321	–
	<u>3,532,188</u>	<u>864,783</u>
10.1.2 Short term (for upto one year)	3,011,092	864,163
Long term (for over one year)	521,096	620
	<u>3,532,188</u>	<u>864,783</u>

## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 10.2 Net investment in ijarah

	2002				2001			
	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	248,950	532,353	—	781,303	61,253	198,879	—	260,132
Residual value	—	41,233	—	41,233	—	9,088	—	9,088
Minimum ijarah payments	248,950	573,586	—	822,536	61,253	207,967	—	269,220
Profits for future periods	76,517	102,363	—	178,880	24,721	47,316	—	72,037
Present value of minimum ijarah payments	172,433	471,223	—	643,656	36,532	160,651	—	197,183

10.3 Financings include Rs 175.257 million which have been placed under non-performing status as detailed below:

Category of classification	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
Other assets especially mentioned	—	—	—	—	—
Substandard	—	—	—	—	—
Doubtful	—	—	—	—	—
Loss	175,257	—	175,257	175,257	175,257
	175,257	—	175,257	175,257	175,257





## Notes to and forming part of the accounts

For the year ended December 31, 2002

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

	2002			2001		
	Specific	General	Total Rupees in '000	Specific	General	Total
Opening balance	—	—	—	—	—	—
On amalgamation	257,754	—	257,754	—	—	—
Charge for the year	386	—	386	—	—	—
Reversals	(67,570)	—	(67,570)	—	—	—
	(67,184)	—	(67,184)	—	—	—
Amounts written off — note 10.5.1	(15,313)	—	(15,313)	—	—	—
Closing balance	175,257	—	175,257	—	—	—

### 10.5 Particulars of write offs

	2002 Rupees in '000	2001 Rupees in '000
10.5.1 Against provision - note 10.4	15,313	—
Directly charged to profit and loss account	4,187	—
	19,500	—
10.5.2 Write offs of Rs 500,000 and above	19,500	—
Write offs of below Rs 500,000	—	—
	19,500	—

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

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees or above allowed to any person during the year ended December 31, 2002 is as follows:



## Notes to and forming part of the accounts

For the year ended December 31, 2002

Name and address of the borrower	Name of directors (with NIC number)	Father's name	Outstanding liabilities at the date of write off				Principal written off	Mark-up waived	Others financial relief provided	Total
			Principal	Mark-up	Other	Total				
			----- Rupees '000 -----							
1. Ghandhara Nissan Limited, 109/2 Ghandhara House, Clifton, Karachi	Mr. Raza Kuli Khan Khattak (136-39-033187) Lt. Gen. (R) Ali Kuli Khan Khattak (136-43-072730) Mr. Ahmed Kuli Khan Khattak (517-91-446535) Mr. K. U. Rehman (502-33-180413) Mr. Mushtaq Ahmed Khan (272-37-162735) Mr. Jamil A. Shah (517-43-078306) Ch. Sher Muhammad, Esq. (514-37-185045) Mr. Tasnimul Haq Farooqui * Mr. Anis Wahab Zuberi * (517-90-453812) Mr. Muhammad Zia Brig. (Retd.) Tariq Khalil (210-42-104444)	Lt. Gen. (R) M. Habib Ullah Khan Khattak ---do---  ---do---  Haji Nawabuddin, Esq. Mr. Mohammad Ramzan Khan  Mr. S. A. Shah  Ch. Kakoo Khan, Esq.  Mr. S. M. H. Farooqui Mr. Abdul Rahim Zuberi  Mian Abdul Hameed Mr. Khalil-ur-Rehman	29,923	17,391	—	47,314	19,500	17,391	—	36,891

\* Nominee directors.



## Notes to and forming part of the accounts

For the year ended December 31, 2002

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

	Balance as at December 31, 2002	Maximum total amount of financings including temporary financings granted during the year*
Rupees in '000		
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons	20,386	20,386
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	25,000	25,000
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
	<u>45,386</u>	<u>45,386</u>

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



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>11. OTHER ASSETS</b>		
Profit/return accrued in local currency	40,378	12,176
Profit/return accrued in foreign currency	1,822	-
Advances, deposits, advance rent and other prepayments	14,950	2,146
Advance taxation (payments less provisions)	85,072	-
Unrealised gain (net) on forward foreign exchange contracts	786	-
Receivable on account of sale of securities	530,462	378,519
Dividends receivable	27,874	18,736
Security deposits	2,463	962
Stamps	471	-
Advance against future murabaha	61,516	-
Advance against future ijarah	51,748	-
Prepaid exchange risk fee	415	-
Other – note 11.1	124	-
	<u>818,081</u>	<u>412,539</u>

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

	2002	2001
	Rupees in '000	
<b>12. OPERATING FIXED ASSETS</b>		
Tangible assets		
- Capital work-in-progress – note 12.1	8,072	-
- Property, equipment and others – note 12.2	26,411	7,484
	<u>34,483</u>	<u>7,484</u>
Intangible assets – note 12.3	1,459	-
	<u>35,942</u>	<u>7,484</u>

### 12.1 Capital work-in-progress

Advances to suppliers and contractors	<u>8,072</u>	<u>-</u>
---------------------------------------	--------------	----------



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 12.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2002	Rate of depreciation %
	As at January 1, 2002	Additions/ (deletions)	As at December 31, 2002	As at January 1, 2002	Charge	As at December 31, 2002		
	Rupees in '000							
Leasehold improvements	—	6,445	6,445	—	645	645	5,800	10%
Furniture and fixtures	997	930	1,927	312	193	505	1,422	10%
Electrical, office and computer equipments	5,879	6,530	12,409	4,172	3,254	7,426	4,983	33%
Vehicles	10,106	13,959	22,362	5,014	4,472	8,156	14,206	20%
		(1,703)			(1,330)			
2002	16,982	27,864	43,143	9,498	8,564	16,732	26,411	
		(1,703)			(1,330)			
2001	16,498	1,253	16,982	7,929	1,723	9,498	7,484	
		(769)			(154)			

12.2.1 Included in cost of property and equipment are fully depreciated items still in use aggregating Rs 3.327 million.

12.2.2 The fair values of property and equipment according to management's estimate are not materially different from their carrying amounts.

12.2.3 Details of disposal of fixed assets to executives, and other persons having a cost of more than Rs 1 million or net book value Rs 250,000 or above are as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser	Addresses
	Rs in '000						
Toyota Corolla	689	620	69	69	Company policy	Gohar Iqbal Shaikh Employee	146/II 11th Street Phase VI, DHA Karachi
Honda Civic	1,014	710	304	304	do	Mohammad Waseem Ex. Employee	3-B, Khayaban-e-Hilal, Phase VI, DHA Karachi
	1,703	1,330	373	373			

## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 12.3 Intangible assets

Intangible assets	COST		AMORTISATION		Net book value as at December 31, 2002	Rate of amortisation %
	Additions	As at December 31, 2002	Charge	As at December 31, 2002		
	Rupees in '000					
Computer software	1,621	1,621	162	162	1,459	10%

2002      2001  
Rupees in '000

### 13. DEFERRED TAXATION

Debit / (credit) balances arising on account of:  
Excess of tax written down values over accounting  
net book values of owned assets  
Other staff benefits  
Excess of ijarah financings over tax written down  
values of ijarah assets

2,245	-
24,235	-
(14,432)	-
<u>12,048</u>	<u>-</u>

### 14. BILLS PAYABLE

In Pakistan  
Outside Pakistan

46,842	-
-	-
<u>46,842</u>	<u>-</u>

### 15. DUE TO FINANCIAL INSTITUTIONS

In Pakistan  
Outside Pakistan

10,000	-
1,831	-
<u>11,831</u>	<u>-</u>

#### 15.1 Particulars of due to financial institutions

In local currency  
In foreign currencies

10,000	-
1,831	-
<u>11,831</u>	<u>-</u>





## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>15.2 Details of due to financial institutions</b>		
Secured		
Under Islamic export refinance scheme – note 15.2.1	10,000	–
Unsecured		
Overdrawn nostro accounts	1,831	–
	<u>11,831</u>	<u>–</u>
15.2.1 This borrowing is on a profit and loss sharing basis maturing on June 28, 2003 and is secured against demand promissory note executed in favour of the SBP. A limit of Rs 500 million has been allocated to the Bank by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2003.		

	2002	2001
	Rupees in '000	
<b>16. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits schemes	2,806,612	587,444
Savings deposits	1,871,950	–
Current accounts - remunerative	–	–
Current accounts – non-remunerative	193,109	–
Margin	4,384	–
	<u>4,876,055</u>	<u>587,444</u>
<b>Financial institutions</b>		
Remunerative deposits	201,526	50,000
Non-remunerative deposits	1,897	–
	<u>203,423</u>	<u>50,000</u>
	<u>5,079,478</u>	<u>637,444</u>

<b>16.1 Particulars of deposits</b>		
In local currency	4,203,756	637,444
In foreign currencies	875,722	–
	<u>5,079,478</u>	<u>637,444</u>

## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>17. OTHER LIABILITIES</b>		
Return on deposits and other dues		
- payable in local currency	36,009	13,344
- payable in foreign currency	513	-
Unearned commission	4,193	-
Accrued expenses	11,818	23,976
Advance payments	1,983	-
Current taxation (provisions less payments)	-	12,314
Unclaimed dividends	21	846
Payable to defined benefit plan – note 32.3	1,113	119
Provision against off-balance sheet obligations – note 17.1	1,600	-
Security deposits against ijarah	53,199	9,088
Payable on account of purchase of securities	-	10,951
Unearned arrangement fee	-	43,357
Loss payable on foreign currency deposits under arrangements with the SBP	-	81,720
Other staff benefits	55,079	16,041
Proposed dividend	50,073	-
Others – note 17.2	31,788	1,113
	<u>247,389</u>	<u>212,869</u>

### 17.1 Provision against off-balance sheet obligations

Opening balance	-	-
On amalgamation – note 17.1.1	1,600	-
Charge for the year	-	-
Reversals	-	-
Amount written off	-	-
Closing balance	<u>1,600</u>	<u>-</u>

17.1.1 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.

17.2 Includes charity payable aggregating Rs 2.935 million (2001: Rs Nil).



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>18. SHARE CAPITAL</b>		
<b>18.1 Authorised capital</b>		
150,000,000 (December 31, 2001: 100,000,000) ordinary shares of Rs 10 each	<u>1,500,000</u>	<u>1,000,000</u>
<b>18.2 Issued, subscribed and paid up</b>		
96,766,675 (December 31, 2001: 90,100,008) ordinary shares of Rs 10 each	967,667	901,000
3,378,750 (December 31, 2001: Nil) ordinary shares of Rs 10 each issued as bonus shares	<u>33,787</u>	<u>-</u>
	<u>1,001,454</u>	<u>901,000</u>
18.3 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.		
	2002	2001
	Rupees in '000	
<b>19. CAPITAL RESERVES</b>		
Share premium account	33,333	27,000
Statutory reserve	168,943	124,313
Reserve for issue of bonus shares	<u>62,591</u>	<u>-</u>
	<u>264,867</u>	<u>151,313</u>
19.1.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital.		



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>20. REVENUE RESERVES</b>		
General reserve	209,000	204,427
Unappropriated profit/(loss)	630	(53,865)
	<u>209,630</u>	<u>150,562</u>
<b>21. SURPLUS ON REVALUATION OF INVESTMENTS</b>		
- Quoted shares	108,830	-
- Other securities (Quoted MTFCs)	1,127	-
	<u>109,957</u>	<u>-</u>
<b>22. CONTINGENCIES AND COMMITMENTS</b>		
<b>22.1 Direct credit substitutes</b>		
Government	<u>62,587</u>	<u>-</u>
<b>22.2 Transaction related contingent liabilities</b>		
Guarantees favouring		
- Government	1,484,781	-
- Banks	3,902	-
- Others	378,568	2,714
	<u>1,867,251</u>	<u>2,714</u>
<b>22.3 Trade related contingent liabilities</b>		
Import letters of credit	605,208	-
Acceptances	390,012	-
	<u>995,220</u>	<u>-</u>
<b>22.4 Commitments in respect of</b>		
Financings	<u>1,602,531</u>	<u>82,500</u>



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	2002	2001
	Rupees in '000	
<b>22.5 Commitments in respect of forward exchange contracts</b>		
Purchases	250,831	-
Sales	399,547	-
<b>22.6 Other commitments</b>		
Bills for collection (inland)	7,550	-
Bills for collection (foreign)	168,367	-
	175,917	-
<b>23. PROFIT / RETURN ON FINANCINGS AND PLACEMENTS EARNED</b>		
	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
On financings to:		
- Customers	282,187	72,861
- Financial institutions	2,888	-
On deposits with financial institutions	25,994	8,431
On securities purchased under resale agreements	114	-
	311,183	81,292
<b>24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED</b>		
Deposits	157,680	29,094
Other short term borrowings	33,335	-
Borrowings from banks abroad	658	-
	191,673	29,094



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
<b>25. OTHER INCOME</b>		
Gain / (loss) on sale of property, equipment and others	6,740	(12)
Gain on realisation of other assets	17,488	-
Net gain / (loss) on foreign currency deposits under arrangements with the SBP	21,509	(133,196)
Others	392	1,191
	<u>46,129</u>	<u>(132,017)</u>
<b>26. ADMINISTRATIVE EXPENSES</b>		
Salaries, allowances, etc.	94,948	10,907
Charge for defined benefit plan – note 32.3	994	349
Contribution to defined contribution plan	2,160	481
Directors' fees, allowances and other expenses	9,445	3,000
Rent, taxes, insurance, electricity, etc.	19,188	525
Legal and professional charges	9,656	1,528
Communication	6,913	792
Repairs and maintenance	1,802	874
Finance charges on leased assets	287	-
Stationery and printing	5,382	196
Advertisement and publicity	6,980	3,160
Donations	-	1,290
Auditors' remuneration – note 26.1	3,024	902
Depreciation – note 12.2	8,564	1,723
Amortisation – note 12.3	162	-
Travelling	3,535	1,829
Entertainment	1,119	-
Local transportation and car running	2,849	-
Security charges	1,093	-
Office supplies	690	-
Service charges – note 33.2	11,302	5,000
Brokerage and commission	1,623	-
Hardware and software maintenance	1,520	-
Others	1,809	3,004
	<u>195,045</u>	<u>35,560</u>





## Notes to and forming part of the accounts

For the year ended December 31, 2002

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
<b>26.1 Auditors' remuneration</b>		
Audit fee	600	300
Fee for audit of provident fund	50	—
Special certifications and sundry advisory services	1,755	250
Tax services	460	300
Out of pocket expenses	159	52
	<u>3,024</u>	<u>902</u>
<b>27. OTHER CHARGES</b>		
Penalties imposed by the SBP	30	—
Lease termination charges	1,968	—
Others	621	—
	<u>2,619</u>	<u>—</u>
<b>28. TAXATION</b>		
For the year		
- Current	59,429	18,722
- Deferred	(12,048)	—
	<u>47,381</u>	<u>18,722</u>

## Notes to and forming part of the accounts

For the year ended December 31, 2002

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
<b>28.1 Relationship between tax expense and accounting profit</b>		
Profit /(loss) before taxation	270,530	(35,143)
Tax at the applicable rate of 47% (December 31, 2001: 35%)	127,149	(12,300)
Tax effect of expenses that are not allowable in determining taxable income	(30,350)	40,042
Tax effect of dividend income taxed at a different rate	(46,747)	(8,703)
Effect of deferred taxation as of December 31, 2001 now recognised / not recognised	(1,850)	2,659
Effect of difference in tax rates considered for deferred and current taxation purposes	(821)	(317)
	<u>47,381</u>	<u>21,381</u>
Tax charge for the year / period		
- Current	59,429	18,722
- Deferred taxation recognised/ not recognised in prior period	(12,048)	2,659
Total tax charge / tax charge if deferred tax had been recognised	<u>47,381</u>	<u>21,381</u>
<b>29. BASIC AND DILUTED EARNINGS/ADJUSTED (LOSS) PER SHARE</b>		
Profit / (loss) for the year / period (Rupees in '000)	223,149	(53,865)
Weighted average number of ordinary shares (Number)	96,291,544	93,478,758
Basic and diluted / adjusted earnings per share (Rupees)	<u>2.32</u>	<u>(0.58)</u>
<b>30. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks	659,349	7,998
Balances with other banks	1,058,074	172,664
	<u>1,717,423</u>	<u>180,662</u>
<b>31. STAFF STRENGTH</b>		
Total number of employees at the end of the year/period	<u>159</u>	<u>30</u>



## Notes to and forming part of the accounts

For the year ended December 31, 2002

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
<b>32. DEFINED BENEFIT PLAN</b>		
<b>32.1 Principal actuarial assumptions</b>		
- discount rate	8% p.a.	10% p.a.
- expected rate of increase in salaries	8% p.a.	10% p.a.
- expected rate of return on investments	8% p.a.	10% p.a.
Normal retirement age	60 years	60 years
	<b>2002</b>	<b>2001</b>
	Rupees in '000	
<b>32.2 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations	4,422	1,672
Fair value of plan assets	(785)	(738)
Net actuarial losses not recognised	(2,524)	(815)
	<u>1,113</u>	<u>119</u>
<b>32.3 Movement in payable to defined benefit plan</b>		
Opening balance	119	(230)
Charge for the year	994	349
Closing balance	<u>1,113</u>	<u>119</u>



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 32.4 Charge for defined benefit plan

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
Current service cost	858	323
Interest cost	167	44
Expected return on plan assets	(74)	(35)
Transitional asset recognised	—	17
Actuarial losses	43	—
	<u>994</u>	<u>349</u>
32.5 Actual return on plan assets	<u>61</u>	<u>44</u>

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

The amounts charged in these accounts are as follows:

	President and Chief Executive		Directors		Executives	
	For the year ended December 31, 2002	Six months period ended December 31, 2001	For the year ended December 31, 2002	Six months period ended December 31, 2001	For the year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000					
Fees *	899	300	8,546*	2,700*	—	—
Managerial remuneration	10,492	—	9,779	2,489	15,131	1,218
Charge for defined benefit plan	—	—	355	96	865	45
Contribution to defined contribution plan	—	—	425	174	891	82
House rent	—	—	149	149	766	88
Utilities	—	—	426	174	1,094	82
Medical	126	—	38	10	281	23
Others	109	—	377	204	1,068	76
	<u>11,626</u>	<u>300</u>	<u>20,095</u>	<u>5,996</u>	<u>20,096</u>	<u>1,614</u>
Number of persons	<u>1</u>	<u>1</u>	<u>12</u>	<u>10</u>	<u>14</u>	<u>1</u>

\* This represents amounts charged in these accounts as fees to eleven (six months period ended December 31, 2001: eight) non-executive directors.

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



## Notes to and forming part of the accounts

For the year ended December 31, 2002

- 33.2 In addition to the above service charges (note 26) include Rs 6.915 million in respect of reimbursement, to an associated company, of salary and other benefits paid by that associated company to the chief executive as he is on secondment from that associated company.

### 34. MATURITIES OF ASSETS AND LIABILITIES

	2002				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	Rupees in '000				
<b>Assets</b>					
Cash and balances with treasury banks	659,349	659,349	—	—	—
Balances with other banks	1,058,074	1,058,074	—	—	—
Investments	855,766	498,818	769	316,796	39,383
Financings	3,532,188	1,812,277	1,198,815	509,172	11,924
Other assets	818,081	726,066	3,970	88,045	—
Operating fixed assets	35,942	—	—	—	35,942
Deferred taxation	12,048	—	—	12,048	—
	<u>6,971,448</u>	<u>4,754,584</u>	<u>1,203,554</u>	<u>926,061</u>	<u>87,249</u>
<b>Liabilities</b>					
Bills payable	46,842	46,842	—	—	—
Due to financial institutions	11,831	1,831	10,000	—	—
Deposits and other accounts - note 34.1	5,079,478	2,914,163	733,242	1,432,073	—
Other liabilities	247,389	100,992	57,821	85,449	3,127
	<u>5,385,540</u>	<u>3,063,828</u>	<u>801,063</u>	<u>1,517,522</u>	<u>3,127</u>
<b>Net assets</b>	<u>1,585,908</u>	<u>1,690,756</u>	<u>402,491</u>	<u>(591,461)</u>	<u>84,122</u>
Share capital	1,001,454				
Capital reserves	264,867				
Revenue reserves	209,630				
Surplus on revaluation of investments	109,957				
	<u>1,585,908</u>				

- 34.1 Current and saving deposits have been classified as maturity upto three (3) months as these do not have any contracted maturity. Further, the Bank estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 35. YIELD / PROFIT RATE RISK

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

2002						
Effective yield/ profit rate	Total	Upto three months	Exposed to yield/ profit risk Over three months to one year	Over one year to five years	Over five years	Not exposed to yield/ profit risk
Rupees in '000						
<b>On-balance sheet financial instruments</b>						
<b>Assets</b>						
Cash and balances with treasury banks	— 659,349	—	—	—	—	659,349
Balances with other banks	2.90 1,058,074	1,021,720	—	—	—	36,354
Investments	12.00 855,766	—	—	37,492	—	818,274
Financings	10.16 3,532,188	1,811,774	1,197,305	502,723	—	20,386
Other assets	— 716,387	—	—	—	—	716,387
	6,821,764	2,833,494	1,197,305	540,215	—	2,250,750
<b>Liabilities</b>						
Bills payable	— 46,842	—	—	—	—	46,842
Due to financial institutions	5.50 11,831	—	10,000	—	—	1,831
Deposits and other accounts	5.03 5,079,478	2,714,773	733,242	1,432,073	—	199,390
Other liabilities	— 238,500	—	—	—	—	238,500
	5,376,651	2,714,773	743,242	1,432,073	—	486,563
<b>On-balance sheet gap</b>	1,445,113	118,721	454,063	(891,858)	—	1,764,187
Non-financial assets	149,684					
Non-financial liability	(8,889)					
Total net assets	1,585,908					
<b>Off-balance sheet financial instruments</b>						
Forward lendings	—	—	—	—	—	—
Forward borrowings	—	—	—	—	—	—
<b>Off-balance sheet gap</b>	—	—	—	—	—	—
<b>Total yield/ profit risk sensitivity gap</b>		118,721	454,063	(891,858)	—	
<b>Cummulative yield/profit risk sensitivity gap</b>		118,721	572,784	(319,074)	(319,074)	

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

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





## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 36. CURRENCY RISK

	2002			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupees	5,788,665	4,498,586	148,716	1,438,795
United States dollars	1,024,737	870,286	(152,544)	1,907
Great Britain pounds	3,616	5,624	3,828	1,820
Japanese yen	2,174	—	—	2,174
Euro	2,209	2,155	—	54
Swiss francs	363	—	—	363
	<u>6,821,764</u>	<u>5,376,651</u>	<u>—</u>	<u>1,445,113</u>

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

### 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities is based on quoted market prices. Fair value of unquoted equity investments is determined on the basis of break-up value of those investments based on the latest available audited accounts as disclosed in note 9.7.

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

### 38. CONCENTRATION OF CREDIT AND DEPOSITS

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

## Notes to and forming part of the accounts

For the year ended December 31, 2002

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

### 38.1 Segment by class of business

	2002					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	150,504	4.27%	55,593	1.09%	354,471	6.62%
Agribusiness	100,000	2.83%	—	—	—	—
Textile	1,749,382	49.53%	46,383	0.92%	1,390,455	25.97%
Cement	—	—	209	0.00%	62,587	1.17%
Sugar	236,776	6.70%	167	0.00%	79,143	1.48%
Shoes and leather garments	141,348	4.00%	394	0.01%	62,911	1.18%
Automobile and transportation equipment	87,038	2.46%	300,432	5.92%	292,092	5.46%
Financial	145,000	4.11%	203,423	4.00%	1,167,894	21.81%
Insurance	—	—	801	0.02%	—	—
Electronics and electrical appliances	225,000	6.37%	180,453	3.55%	280,546	5.24%
Production and transmission of energy	—	—	6,488	0.13%	277,450	5.18%
Individuals	27,317	0.77%	2,947,114	58.02%	—	—
Others	669,823	18.96%	1,338,021	26.34%	1,386,335	25.89%
	<u>3,532,188</u>	<u>100.00%</u>	<u>5,079,478</u>	<u>100.00%</u>	<u>5,353,884</u>	<u>100.00%</u>

### 38.2 Segment by sector

	2002					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	—	—	—	—	—	—
Private	3,532,188	100%	5,079,478	100%	5,353,884	100%
	<u>3,532,188</u>	<u>100%</u>	<u>5,079,478</u>	<u>100%</u>	<u>5,353,884</u>	<u>100%</u>



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 39. GEOGRAPHICAL SEGMENT ANALYSIS

	2002			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	270,530	6,971,448	1,585,908	5,353,884
Asia Pacific (including South Asia)	—	—	—	—
Europe	—	—	—	—
United States of America and Canada	—	—	—	—
Middle East	—	—	—	—
Others	—	—	—	—
	<u>270,530</u>	<u>6,971,448</u>	<u>1,585,908</u>	<u>5,353,884</u>

### 40. RELATED PARTY TRANSACTIONS

	Year ended December 31, 2002	Six months period ended December 31, 2001
	Rupees in '000	
Deposits accepted from related parties outstanding as at the year end	157,662	8,000
Murabaha financing to a related party	25,000	—
Balances with a related party outstanding as at the year end	553,563	128,917
Dividend income	9,534	—
Service charges charged by a related party	10,990	5,000
Profit on a bank account	20,664	8,431
Profit returned on deposit	1,409	3,083
Service charges payable to a related party	5,380	5,000



## Notes to and forming part of the accounts

For the year ended December 31, 2002

### 41. AMALGAMATION WITH SG - PAKISTAN BRANCHES

The fair value of assets and liabilities of SG-Pakistan branches at the date of amalgamation of the Bank and SG-Pakistan branches were as follows:

**April 1, 2002**  
**Rupees '000**

#### Assets

Cash and balances with treasury banks - note 41.1	863,000
Balances with other banks	724,786
Due from financial institutions	1,200,000
Advances	1,933,830
Other assets	162,238
Operating fixed assets (net book value Rs 36.214 million)	-
	<u>4,883,854</u>

#### Liabilities

Bills payable	12,437
Borrowings from financial institutions	2,643,300
Deposits and other accounts	1,942,705
Liabilities against assets subject to finance leases	9,162
Other liabilities	276,250
	<u>4,883,854</u>

41.1 This represents the net balance after settlement of capital account of SG-Pakistan branches held with the State Bank of Pakistan.

### 42. CORRESPONDING FIGURES

Due to presentation of the accounts on the basis of BSD Circular No. 36 dated October 10, 2001 prior period's figures have been reclassified, wherever necessary, for the purposes of comparison.

### 43. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 6, 2003 by the Board of Directors of the Bank.

  
Chairman

  
President & CEO

  
Director

  
Director



## Pattern of Shareholding

As at December 31, 2002

No. of Shareholders	Having Shares		Shares Held	Percentage
	from	to		
27	1	100	616	.0006
15	101	500	5422	.0054
114	501	1000	65586	.0654
75	1001	5000	182153	.1818
22	5001	10000	134037	.1338
16	10001	15000	176710	.1764
2	15001	20000	36701	.0366
4	20001	25000	92131	.0919
1	30001	35000	31228	.0311
1	35001	40000	40000	.0399
2	40001	45000	83000	.0828
1	45001	50000	46612	.0465
1	50001	55000	51875	.0517
1	60001	65000	64987	.0648
1	65001	70000	67437	.0673
1	90001	95000	91675	.0915
1	135001	140000	136803	.1366
1	150001	155000	152814	.1525
1	310001	315000	311250	.3107
3	425001	430000	1286892	1.2850
1	465001	470000	469000	.4683
1	515001	520000	518231	.5174
1	790001	795000	791898	.7907
2	855001	860000	1715858	1.7133
1	1050001	1055000	1055000	1.0534
1	1115001	1120000	1115302	1.1136
1	1465001	1470000	1468912	1.4667
1	5185001	5190000	5187500	5.1799
1	6665001	6670000	6666667	6.6569
1	8295001	8300000	8300000	8.2879
1	8585001	8590000	8586628	8.5741
1	9335001	9340000	9337500	9.3239
2	25935001	25940000	51875000	51.7996
<u>305</u>			<u>100145425</u>	<u>100.0000</u>

### Categories of Shareholders as of 31 December 2002

Particulars	Shareholders	Shareholding	Percentage
Individual	254	1358596	1.3566
Insurance Companies	2	439339	.4387
Joint Stock Companies	21	3406033	3.4010
Financial Institutions	8	42829273	42.7670
Modarabas	3	525500	.5247
Foreign Companies	4	50241667	50.1687
Leasing Companies	2	1286893	1.2850
Others	1	3112	.0031
Non-Resident (US \$)	5	55007	.0549
Non-Resident (Pak Rs.)	5	5	
Total	<u>305</u>	<u>100145425</u>	<u>100.0000</u>



## **PROXY FORM**

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

I/We \_\_\_\_\_

of \_\_\_\_\_ a member(s) of Meezan Bank Limited (formerly Al-Meezan

Investment Bank Limited) and holder of \_\_\_\_\_ shares as per Registered

Folio No. \_\_\_\_\_ do hereby

appoint \_\_\_\_\_

of \_\_\_\_\_ or failing him / her \_\_\_\_\_

of \_\_\_\_\_ who is/are also a member(s) of the Company vide

us and on my/our behalf at the 7th Annual General Meeting of Meezan Bank Limited to be held on Monday, March

31, 2003 at 3rd Floor, P.N.S.C Building, M.T. Khan Road, Karachi, and at any adjournment thereof.

As witness my/our hand/seal this \_\_\_\_\_ day of \_\_\_\_\_ 2003

**AFFIX  
CORRECT  
POSTAGE**

Signed by Said member

**Note :** The Proxy Form should be deposited at the Registered Office of the company not later than 48 hours before the time for holding the meeting



Fold Here

Fold Here

AFFIX  
CORRECT  
POSTAGE

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

Fold Here

# **BRANCH NETWORK**

## **KARACHI**

### **PNSC BRANCH**

Mr. Saleem Lalani  
Branch Manager  
3rd Floor, PNSC Building  
M. T. Khan Road, Karachi  
Tel: (9221) 5610582 Fax: (9221) 5610375

### **FTC BRANCH**

Mr. Amin Tejani  
Branch Manager  
Ground Floor, Tower B,  
FTC Building, Shahrah-e-Faisal, Karachi  
Tel: (9221) 5650771-6 Fax: (9221) 5655964

### **MARRIOTT BRANCH**

Mr. Mohsin Abbas  
Branch Manager  
Marriott Hotel  
Abdullah Haroon Road, Karachi  
Tel: (9221) 5683491 Fax: (9221) 5683291

### **GULSHAN BRANCH**

Mr. Mohammad Raza  
Branch Manager  
B-41, Block 13-A,  
Gulshan-e-Iqbal, Karachi.  
Tel: (9221) 4811901-5 Fax: (9221) 4822066

## **LAHORE**

Chaudhry Naeem Yasin  
Branch Manager  
60-B, Main Boulevard,  
Gulberg, Lahore  
Tel: (9242) 111-331-331 Fax: (9242) 5879873

## **ISLAMABAD**

Mr. Saleem Khan  
Branch Manager  
1st Floor, 40, Jang Plaza  
West Fazl-e-Haq Road  
F-6/ G-6, Blue Area, Islamabad  
Tel: (9251) 111-331-331 Fax: 9251-2824127

## **FAISALABAD**

Mr. Rizwan Atta  
Branch Manager  
Ground Floor, Faisalabad Serena Hotel  
Club Road, Faisalabad  
Tel: (9241) 602595-7 Fax: (9241) 60259