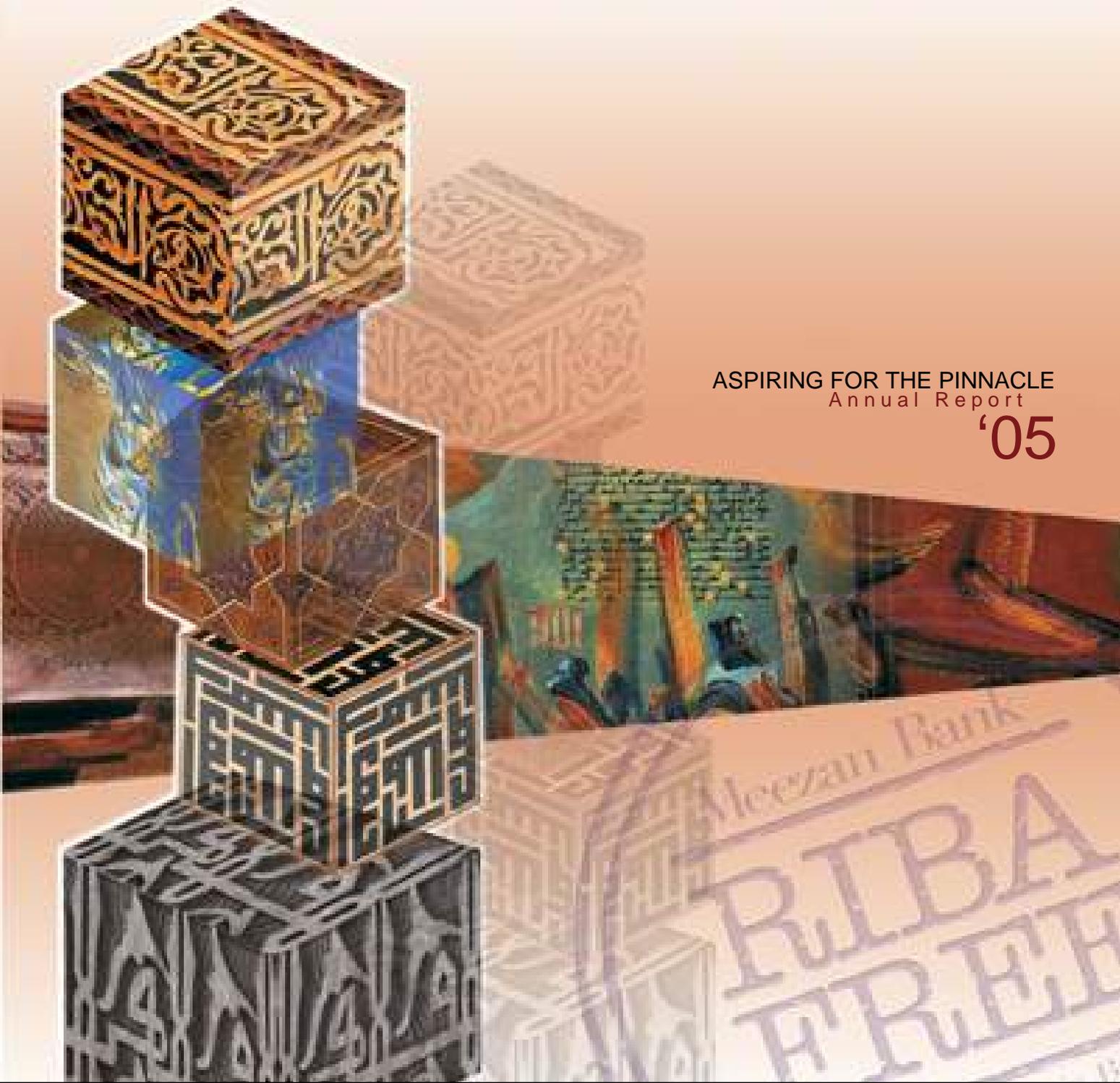




Meezan Bank
The Premier Islamic Bank

ASPIRING FOR THE PINNACLE
Annual Report

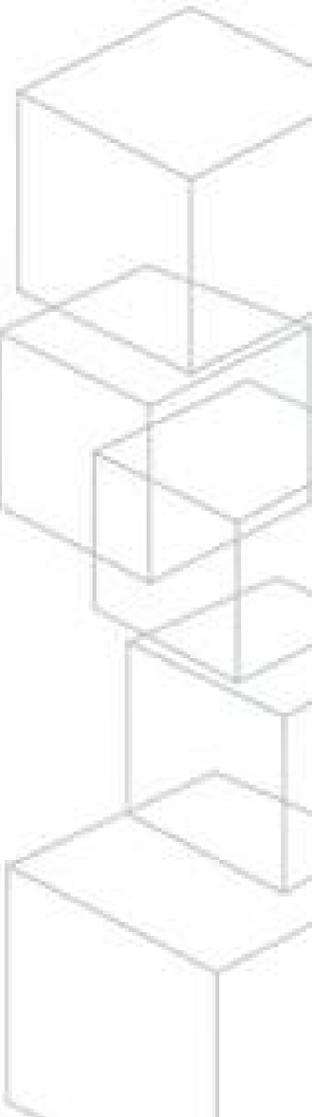
'05



Aspiring for the Pinnacle

By the grace of Allah Almighty, the foundations for veritable Islamic Banking have been laid. Through a pioneering vision, came an unflinching dedication and resolve to bring the benefits of Riba-free banking to all. Meezan Bank continues to redefine the frontiers of Islamic Finance with revolutionary and defining new products and services, advanced technology, enhanced distribution, extensive human resources training and development, and absolute service excellence.

As the torchbearer of this great responsibility, Meezan Bank is unequivocally recognized as the dedicated Islamic Bank of Pakistan. A dedication based on faith, value, and support for all is what enables us to aspire for the pinnacle.





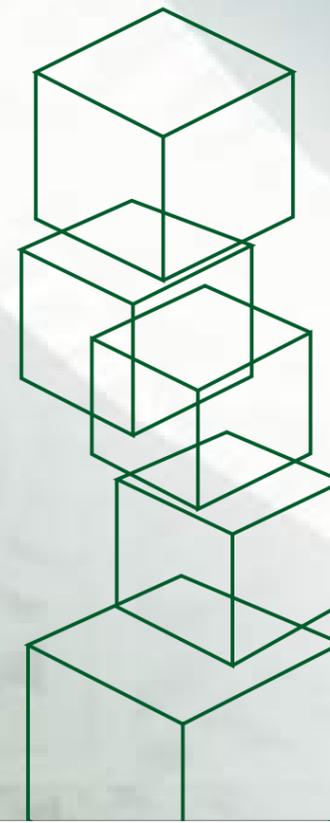
QUAID'S CONCEPT OF ISLAMIC BANKING

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

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

[On the occasion of the Opening Ceremony
of The State Bank of Pakistan on July 1, 1948.]

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





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.

Service Quality

The need for effective differentiation in the financial services arena is becoming more critical day by day. With many of the same products and services, similar distribution channel outlets, limited pricing margins, all amongst a plethora of choices, the consumer can now easily locate the provider of choice for his or her needs. For the providers themselves, the challenge remains paramount, and in the above scenario it is often service excellence that is the prime differentiating factor. Furthermore, global research has also revealed that in financial services in particular, it is often service that determines whether a customer maintains the relationship or goes looking elsewhere.

For Islamic Finance, this is just as critical if not more so, than the conventional system. As the growth of the Islamic industry currently leads all other sectors, the influx of new players is steadily increasing the choice for the consumer. This beneficial movement while not only growing the Islamic Finance market, will bring the benefits of free competition, and also ensure the transparency of the still fledgling Islamic value propositions. Within this crucible, Islamic institutions will also face the challenge of effective differentiation.

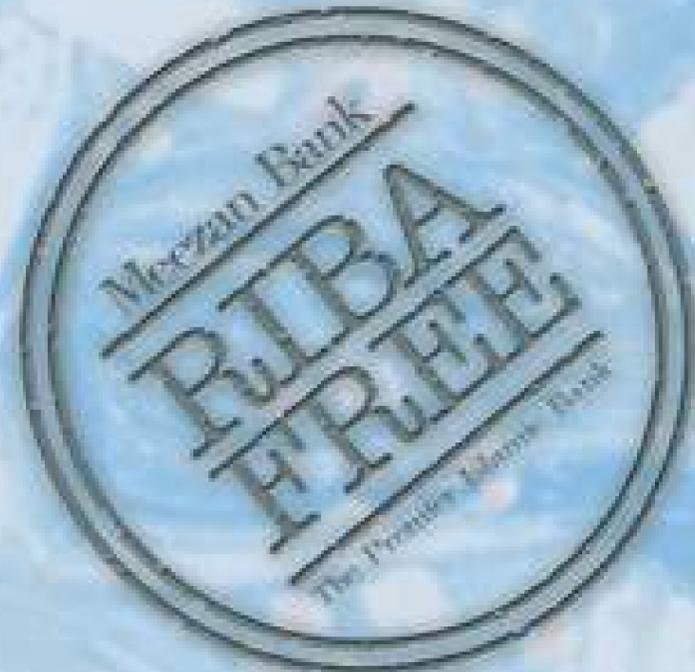
Furthermore, the defining values that Islam itself inculcates are in essence the source of what service quality itself means. Adherence to honesty, complete transparency, effective delivery, fair pricing, respect and recognition for the consumer are all clear aspects of our faith and its exhortation.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

Our aim is to be recognized for consistently providing superior service quality to our customers. **Our service mission** itself clearly defines the parameters of our goal:

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

Service excellence requires a special way of thinking, feeling and behaving towards our customers. It is a state of mind, an attitude and a way of seeing the world that motivates our team members to give their best. It is in essence a service mindset. Our service plan aims at creating a committed service culture through this service mindset, exemplified in every member of the Meezan Bank family. This, we realize, can only be achieved through active monitoring and a proactive process change. We are committed to taking our service quality initiatives to the highest level.

To achieve and maintain this mindset, we have a dedicated Service Quality Unit that is responsible to promote and implement our service mission at all levels. Our unit provides service training to all employees, reinforces the importance of customer service, and sets standards that are regularly reinforced and monitored. Special focus on training is given to front-line employees because it is they who deliver the service that satisfies the customers who buy Meezan Bank's products and services.



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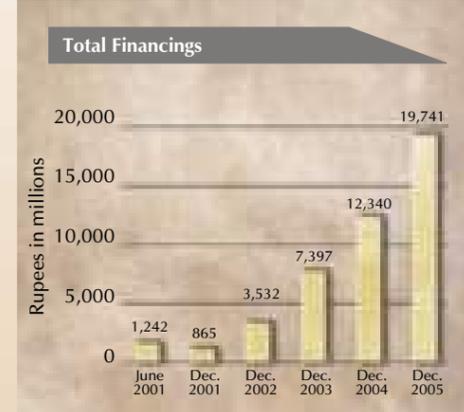
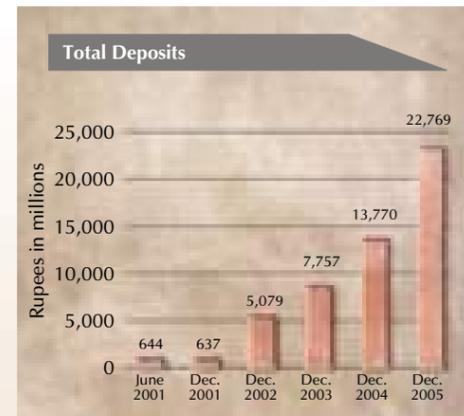
KEY FIGURES AT A GLANCE



	Dec. 2005	Dec. 2004	Dec. 2003	Rupees in millions					
				Dec. 2002	Dec.* 2001**	Dec.* 2001**	Dec.* 2001**	June 2001**	June 2001**
Paid-up capital	2,037	1,346	1,064	1,001	1,001	901	901	901	901
Shareholders' equity	3,025	2,098	1,748	1,586	1,586	1,203	1,203	1,257	1,257
Deposits	22,769	13,770	7,757	5,079	5,079	637	637	644	644
Financings	19,741	12,340	7,397	3,532	3,532	865	865	1,242	1,242
Total Assets	30,676	19,697	11,102	6,971	6,971	2,053	2,053	2,179	2,179
Total Income	2,042	880	679	660	660	30	30	544	544
Return on deposits and other dues	691	250	183	192	192	29	29	42	42
Operating expenses	718	409	255	198	198	36	36	105	105
Profit/(Loss) before taxation	633	221	241	270	270	(35)	(35)	397	397
Profit/(Loss) after taxation	419	224	214	223	223	(54)	(54)	366	366
Earnings per share (Rs)	2.28	1.37	1.59	2.10	2.10	(0.58)	(0.58)	4.09	4.09
Break up value (Rs)	14.85	15.59	12.99	15.84	15.84	13.35	13.35	13.95	13.95
Cash dividend (%)	-	-	5.00	5.00	5.00	-	-	17.50	17.50
Stock dividend (%)	16.00	15.00	10.00	10.00	10.00	-	-	-	-
Right shares (%)	20.00	30.00	-	-	-	-	-	-	-
Number of branches	28	16	10	6	6	1	1	1	1
Number of employees	786	511	238	159	159	30	30	21	21

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

** The Bank operated as an Investment Bank during these periods.





Board of Directors

H.E Sheikh Ebrahim bin Khalifa Al-Khalifa	<i>Chairman</i>
Naser Abdul Mohsen Al-Marri	<i>Vice Chairman</i>
Irfan Siddiqui	<i>President & CEO</i>
Istaqbal Mehdi	
Mohamed Abdul-Rehman Hussain	
Ariful Islam	
Rana Ahmed Humayun	
Mohammed Abdul Rahman Mohammed Bucheerei	
Ahmad Mohammad Thane	
Mohammed Azzarog Rajab	

Shariah Board

Justice (Retd.) Muhammad Taqi Usmani	<i>Chairman</i>
Dr.Abdul Sattar Abu Ghuddah	
Sheikh Essam M. Ishaq	
Dr. Muhammad Imran Usmani	

Executive Committee

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

Audit Committee

Istaqbal Mehdi
 Mohamed Abdul-Rehman Hussain
 Rana Ahmed Humayun

Company Secretary

Shabbir Hamza Khandwala

Management

Irfan Siddiqui
 Ariful Islam
 Najmul Hassan
 Mohammad Shoaib Qureshi
 Shabbir Hamza Khandwala
 Abdul Ghaffar Memon
 Rizwan Ata
 Saleem Khan
 Arshad Majeed
 Muhammad Haris
 Sohail Khan
 Mehnaz Ikram
 Faiz-ur-Rehman
 Munawar Rizvi
 Zafar Ali Khan
 Muhammad Abdullah Ahmed
 Saleem Wafai
 Zia-ul-Hasan
 Mohammad Raza
 Ahmed Ali Siddiqui
 Azeem Pirani
 Imran Iqbal Panjwani

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

Shariah Advisor

Dr. Muhammad Imran Usmani

Legal Advisor

Rizvi, Isa, Afridi & Angell

Auditors

A.F. Ferguson & Co.

Registered Office

3rd Floor, PNSC Building, M.T.Khan Road,
 Karachi-74000, Pakistan.
 Ph : (92-21) 5610582, Fax: (92-21) 5610375
 Call Centre 111-331-331
 E-mail: info@meezanbank.com
 Website:www.meezanbank.com

Shares Registrar

THK Associates (Pvt.) Ltd.
 Modern Motors House, Beaumont Road,
 Karachi-75530, Pakistan. Ph: (92-21) 5689021



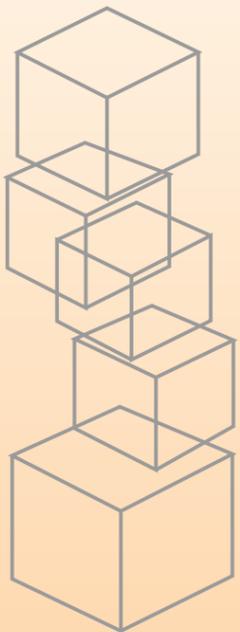
Corporate

HISTORY OF RIBA-FREE BANKING IN PAKISTAN



1947

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

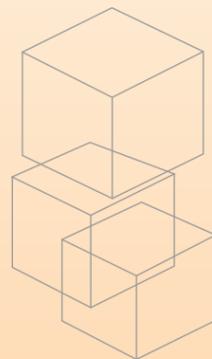


1949

The Objectives Resolution was adopted by the first Constituent Assembly based on the ideology of a sovereign Islamic state. This was the first step in the conception towards Pakistan's Constitution.

1956

The first Constitution defined Islam as State Religion and all laws to be according to the injunction of the Quran and Sunnah.



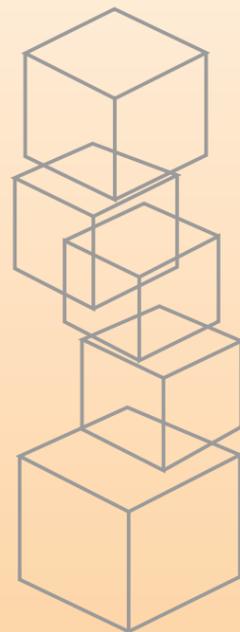
1962

The establishment of Council of Islamic Ideology (CII) was followed by the conception of the second constitution of Pakistan.



1973

The third constitution of Pakistan was passed allowing comprehensive legislation on Islamic principles and establishment of Federal Shariat Court.



1980

CII presents report on the elimination of Interest genuinely considered to be the first major comprehensive work in the world undertaken on Islamic banking and finance.



1985

Commercial banks transformed their nomenclature stating all Rupee saving accounts as interest-free. However, foreign currency deposits in Pakistan and on lending of foreign loans continued as before.



1991

Procedure adopted by banks in 1985 was declared unIslamic by the Federal Shariat Court (FSC). The Government and some banks/DFIs made appeals to the Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan.

1997

Al-Meezan Investment Bank is established as the first Islamic bank of Pakistan. Mr. Irfan Siddiqui appointed as first and founding Chief Executive Officer.



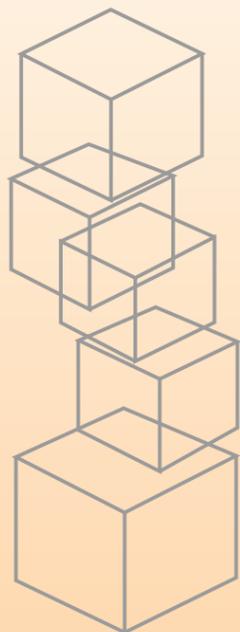
1999

The Shariat Appellate Bench of the Supreme Court of Pakistan rejects the appeals and directs all laws on interest banking to cease. The government sets of a high level commission, task forces and committees to institute and promote Islamic banking on parallel basis with conventional system.



2001

The Shariah Supervisory Board is established at Al-Meezan Investment Bank led by Justice (Retd.) Muhammad Taqi Usmani as chairman. State Bank sets criteria for establishment of Islamic commercial banks in private sector and subsidiaries and stand-alone branches by existing commercial banks to conduct Islamic banking in the country.



2002

The first Islamic banking license is issued to Meezan Bank by the State bank of Pakistan. Societe Generale, a French commercial bank's operations in Pakistan were amalgamated with Meezan Bank. President General Pervez Musharraf inaugurates the first commercial banking branch of MBL at the FTC Building, Karachi.



2003

A Musharaka-based Export Refinance Scheme has been designed by the State Bank in coordination with Meezan Bank Limited, in order to provide export finance to eligible exporters on the basis of Islamic modes of financing. Efforts are underway to develop Islamic money market instruments like Ijarah Sukuk to facilitate the banks in respect of liquidity and SLR management.

Pakistan's first Shariah compliant Mortgage facility is launched by Meezan Bank. Approved by the Shariah Supervisory Board, the product enables home purchase, home construction, renovation, as well as replacement of any existing mortgage.

Al Meezan Investment Management Limited (AMIM), a group company of Meezan Bank, introduces Meezan Islamic Fund (MIF). MIF is an open-end mutual fund that is Shariah compliant.



2004

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

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

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

2005

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

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



Meezan Bank now brings dedicated Islamic banking to various cities of Pakistan



Meezan Bank
The Premier Islamic Bank



I am delighted to present Meezan Bank's Annual Report for a very successful year ended 31st December, 2005. The Bank has, Alhamdulillah, once again progressed to a new level of performance and return to its stakeholders. In its third full year of operation as a commercial bank, it continues to be duly recognized as the premier and largest dedicated Islamic financial institution in the country, providing Shariah-compliant financial services to all segments of society. Our contributions have enabled us to win the "Best Provider of Islamic Financial Services" award for Pakistan in 2005 by Islamic Finance News.

The Bank remains relentless in carrying forward its mission. As an institution dedicated from the outset to solely offering Shariah-compliant banking, it continues to lead the market with innovative and technologically advanced financial solutions supported by

continuous research and development. In this effort we are indebted to our Shariah Board who have provided invaluable guidance to the Bank.

The Bank now has twenty eight online branches across the country providing real-time online banking transaction facilities to customers in eleven major cities of the country. Aggressive plans are in place to increase this to more than fifty branches by the end of this year, Insha'Allah. The Bank now offers comprehensive financing solutions spanning Corporate and Structured Finance, Trade Finance, Commercial and SME, as well as Consumer Finance. It also has an Alternative Distribution strategy in place, which includes ATM/Debit cards, a 24/7 Call Centre and Internet Banking.

With the regular entrance of new Islamic Banks, the market stands to benefit and grow; the injection of new ideas, the investment in training and infrastructure, and the healthy results that free competition engenders, all coming together within a properly regulated and risk managed environment. Though the Pakistani market presents its own unique set of challenges amidst a dynamic and competitive arena, it truly presents the fitting crucible for the evolution of Islamic Banking in its most cogent form.

Alhamdulillah, Meezan Bank will continue to lead the way. I am confident that the professional and dedicated management team will continue to spearhead this progress. The team is committed to ensuring the highest standards of internal controls, quality systems and procedures that ensures best management practices. At the same time the Bank has the advantage of having very strong financial institutions as sponsors that add value either directly through their Board representation, or indirectly by way of initiatives through regional cooperation and syndications.

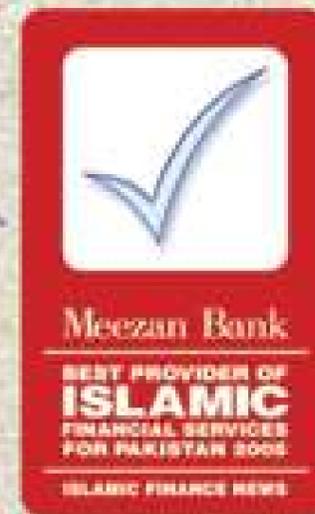
As always we would like to express our gratitude to the Ministry of Finance, State Bank of Pakistan (SBP) and the Government of Pakistan for their continuous commitment to establish a viable Islamic financial system in the country. I also thank our shareholders, fellow Board Members, Members of the Shariah Supervisory Board and Employees for their common unrelenting mission in making Meezan Bank the premier and dedicated Islamic Bank of Pakistan. We would also like to acknowledge the pioneering role of Dr. Ishrat Hussain, former Governor SBP, for laying the framework of Islamic Banking in Pakistan and for giving Meezan Bank the opportunity to prove that Islamic Banking is indeed a viable proposition. We look forward to working closely with the new Governor, Dr. Shamshad Akhtar in building on this foundation.

May Allah grant us success in our endeavors.

Ebrahim bin Khalifa Al-Khalifa
Chairman

Best Islamic Bank-2005

Dedicated to establishing Riba-free banking as the banking of first choice.



Meezan Bank
The Premier Islamic Bank



Core Values

Shariah Compliance

Integrity

Professionalism

Service Excellence

Social Responsibility

Riba-free Banking Objectives

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

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

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

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

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

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

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

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

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

2005 HIGHLIGHTS

Meezan Bank continued its dedicated focus on making Islamic Banking the banking of first choice in Pakistan, Below are some of the highlights of the year.

JANUARY '05

- TCF – Meezan Bank successfully host their first annual Golf Tournament to help provide education to under privileged children in Pakistan.
- Deputy Governor SBP: keynote speaker at Meezan Bank – ICAP Islamic Banking Seminar.



FEBRUARY '05

- Islamic Export Refinance promotion launched nationwide, in collaboration with Export Promotion Bureau (EPB), Government of Pakistan.



MARCH '05

- PARCO Spring Fair at Multan
- Sales promotion Stall for five days was setup at the PIA.



APRIL '05

- First Islamic Banking Branch in Gujranwala opened
- First Islamic Banking Branch in Kasur opened



MAY '05

- Banner Campaign launched in Central Region cities of Pakistan
- Promotional Campaign launched for our branches in Cloth Market Traders in Karachi, Lahore and Faisalabad.



JUNE '05

- Meezan Bank announces an updated Branch Network of 25 online branches.



JULY '05

- Meezan Bank awarded "Best Bank Stall" at the International Housing Industry Exhibition



AUGUST '05

- Shahrah-e-Faisal Branch inaugurated at Karachi.



SEPTEMBER '05

- Meezan Bank acquires a High-Tech Treasury Management System
- Meezan Bank launches Meezan Islamic Institution Deposit Account (MIIDA)
- Junaid Jamshed to launch new Islamic Album "Jalwa-e-Janani" in collaboration with Meezan Bank
- Meezan Bank Limited comes to Peshawar and holds Islamic Banking Seminar.



OCTOBER '05

- Meezan Bank makes immediate contribution to President's Earthquake Relief Fund and initiates Village reconstruction program with TCF.



NOVEMBER '05

- Meezan Bank organizes seminar on Islamic Banking in SITE



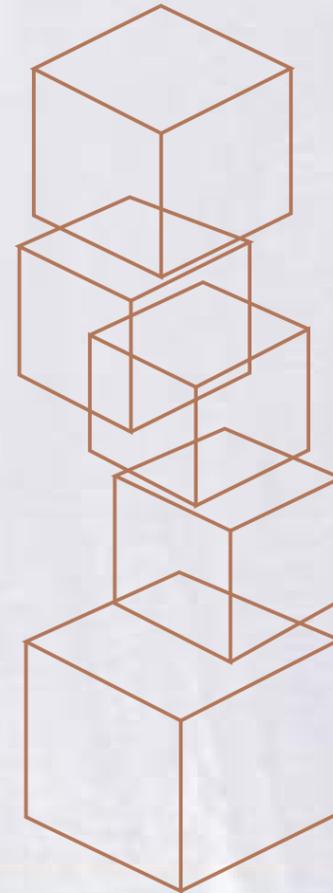
DECEMBER '05

- Meezan Bank introduces Dollar Mudarabah Certificates (DMC) the first Islamic Dollar Term Certificate in Pakistan
- Islamic Banking seminar organized in Association with Korangi Association of Trade and Industry.



OUR FOUNDATIONS

- Shariah Strength
- Financial Backing
- Comprehensive Business Solutions
- Information Technology
- Human Resources



Meezan Bank
The Premier Islamic Bank

SHARIAH STRENGTH

Stable & Dynamic Islamic Banking System

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

The members of the Shariah Board are:

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

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

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

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

Dr. Abdul Sattar teaches Fiqh, Islamic Studies and Arabic in Riyadh and has done a valuable task of researching and compiling information for the Fiqh Encyclopedia in the Ministry of Awqaf and Islamic Affairs in Kuwait. He was a member of the Fatwa Board in the Ministry from 1982 to 1990.

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

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



Meezan Bank
The Premier Islamic Bank



The letter and spirit of Islamic Banking rest upon absolute adherence to the Shariah. The foundations of a strong Shariah underpinning at Meezan Bank were laid from the beginning. A world renowned Shariah Supervisory Board and a highly qualified and experienced in house Shariah Advisor are fundamental aspects of the Bank's core USP. To further strengthen this commitment and to ensure strict Shariah compliance in all the Bank's operations a dedicated and full fledged Product Development & Shariah Compliance (PDSC) department was formally setup in March 2005 for the centralization of Product development activities, new product research, Islamic banking training and Shariah Compliance audit functions. The department works under the guidance & supervision of the Bank's Shariah Advisor – Dr. Muhammad Imran Usmani and the Shariah Supervisory Board of the Bank.

PDSC now plays a very critical and vital role at the Bank by actively supporting new product development activities, refining the existing product menu, preparing product policies & standardized agreement, imparting Islamic banking knowledge at various levels to new & existing staff members, corporate customers and the general public, coordinating with the Bank's Shariah Board, and conducting regular Shariah audits & reviews.

In the areas of Product Development the role of PDSC includes the modification & refinement of existing products, research & development of new Shariah compliant products for different areas including corporate finance, consumer finance, trade & treasury, all in line with the business, market and Shariah requirements. Along with this comes the preparation of comprehensive policy guidelines, process flows, manuals & standardized legal documents.

Product Development efforts however cannot be fruitful unless they are implemented properly and thus comes another critical role of PDSC i.e. Islamic banking training. Islamic banking being a relatively new field, the training of the Bank's employees about the basic concepts of Islamic banking, the prohibitions on Riba and the specific products and their parameters is very important for any Islamic bank. Realizing the significance of this area, PDSC has taken this key role of conducting regular training sessions for the Bank's existing & new staff members as well as corporate customers on core Islamic Banking concepts, Islamic modes of financing, deposit generation modes and financing product features and modalities.

A strong Shariah Supervisory Board (SSB) comprising of world-renowned Shariah scholars is a unique strength of Meezan Bank. The board is a continuous source of guidance to the Bank and oversees the Shariah compliance activities of the Bank. PDSC also coordinates with the SSB members for arranging regular meetings, follow-ups and implementation of their directives. This brings in another vital role of PDSC, Shariah Audit & Compliance. This area includes ensuring adherence to Shariah Advisor & SSB guidelines & directives, development of proper monitoring systems & controls, regular Shariah audit of branches and departments, checking agreements & documentations, reviewing of all Commercial/Corporate credit approvals.

At Meezan Bank, we believe in the sharing of Islamic banking knowledge and success stories. The Bank was the first to introduce many Islamic banking products in the country including Islamic Export Refinance, Islamic Car financing, Islamic Housing Finance, and various other corporate, consumer and trade based Islamic banking solutions. Under its Islamic Banking Advisory role, Meezan Bank offers different level of Islamic banking services at local, government and international levels for Islamic banking products & training.

PDSC comprises of a dedicated & committed team that comes from a diversified background and skill sets. The Bank aims to develop this unit into a Center of Excellence for Islamic banking research, training and advisory – Insha Allah.



2005 in focus

2005 was a challenging year for the Bank and PDSC as well. The newly established department was given many crucial & diverse responsibilities and by the grace of Allah the unit was able to deliver successfully.

Following is a quick glance of the key tasks performed during the year in coordination with other functional areas:

Product Development

- Formulation of core policy guidelines related to different banking areas like corporate, commercial, consumer finance, treasury, trade finance and equity markets.
- Shifting of the deposit product structure from Musharakah to Mudarabah and the launch of new deposit products including Dollar Mudarabah Certificates and Meezan Islamic Institutional Deposit Account, Special Musharakah Certificates for liquidity management and the inter-bank market.
- Development of important process flows for various Murabaha transactions and implementation of Murabaha Monitoring Mechanism.
- Formulation of guidelines & product structure based on Diminishing Musharakah for the financing of land, commercial premises, plants and machineries.
- Standardization & versioning of legal agreements for Murabaha, Bai Salam, Car Ijarah & Corporate Ijarah transactions
- Development of product guideline for import financing & foreign trade operations.
- Preparation of guidelines & product structure for foreign currency transactions based on Shariah compliant currency trading rules.

Islamic Banking Training

- During the year more than 25 training sessions, workshops, & certificate courses were successfully conducted pertaining to different areas of Islamic banking in which 550 employees participated throughout the country. A concept of a self-training module was also introduced.
- 66 employees were sent to the Center of Islamic Economics (CIE) for a certificate course in Islamic Banking.
- Several Islamic banking seminars & courses were conducted in collaboration with EPB, KATI, SITE & NIBAF.
- A series of corporate customer training workshops were held to enhance understanding of Islamic banking products for the end users. These series are to continue in 2006.

Shariah Compliance

- Development & implementation of overall Shariah Compliance guidelines for the Bank and formulation of specific mode/areas based Shariah audit checklists & controls.
- Shariah compliance review of several branches & departments of the Bank were conducted.

Islamic Banking Advisory Services

- Advisory services provided to Al Meezan Investment Management (AMIM) for Islamic Mutual Funds and to other local & international institutes.

Future Outlook

Being the pioneer in Islamic banking, Meezan Bank looks forward to developing & offering new & innovative Islamic products and services in the areas of consumer and corporate financing. The Bank also plans to gear up its training activities by setting up an international caliber Islamic banking training institute and introducing of Islamic Banker Certification Program. With all these initiatives Meezan bank strives to make Islamic banking a banking of first choice. May Allah grant us the ability to accomplish our goals and help us to truly contribute to the cause of Islamic Banking.

FINANCIAL BACKING

Value to Customers' Lives

Pakistan Kuwait Investment Company (Private) Limited

Pakistan Kuwait Investment Company (Private) Limited (PKIC), a joint venture between the Governments of Pakistan and Kuwait, is one of the most profitable and respected financial institutions in Pakistan. It is commonly referred to as a leading example of sovereign joint ventures. PKIC has nurtured a diversified experience in foreign currency transactions, project finance and syndications in its 20 years of operations in Pakistan. It 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 of Bahrain E.C.

Shamil Bank is incorporated in the kingdom of Bahrain and has grown steadily since 1982 to become a leading Islamic Institution with a paid-up capital of US\$ 230 million. The Bank is a subsidiary of the Dar Al-Maal Al-Islami Trust, a leading Islamic financial organization based in Geneva. The Bank operates a network of branches in Bahrain and its shares are listed on the Bahrain stock exchange.

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.

Noor Financial Investment Co.

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

Noor provides a broad range of financial services, which include advisory services, underwriting, guarantee or counter guarantee services, term financing, and syndications. The company actively invests in local capital markets and also diversifies its investments through international capital markets, which include GCC countries, emerging markets such as, China, India and Pakistan, and also limited exposure in Western markets of the US and Europe.

Shareholding Structure

Rs. in millions

Pakistan Kuwait Investment Company (Pvt.) Limited	790
Shamil Bank of Bahrain E.C	527
Islamic Development Bank, Jeddah	190
Noor Financial Investment Co.	134
Others	396
Paid up Capital	2,037



Meezan Bank
The Premier Islamic Bank



COMPREHENSIVE BUSINESS SOLUTIONS

Cutting -Edge Products & Services

- Corporate Banking & Structured Finance
- Commercial Banking & SME
- Consumer Finance
- Deposit Products
- Treasury & Financial Institutions
- Alternate Distribution
- Operations
- Regional Business Divisions
- Asset Management



Meezan Bank
The Premier Islamic Bank

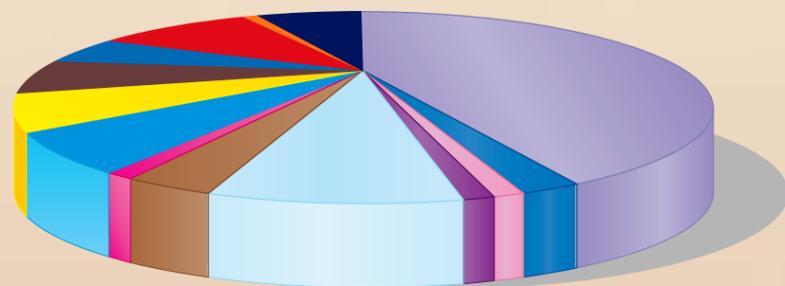
The business needs of our customers are constantly changing. To keep up with the pace of change, the Corporate & Investment Banking Unit strives to provide a one-stop solution for our clients, within the bounds of Shariah. We are responsible for serving the needs of large corporate clients in the public and private sector. Our strategic framework generates sustainable returns based on a strong Shariah focus, a significant market presence and comprehensive financial solutions. We endeavor to further our relationship with our customers by offering them a varied product portfolio. Constant innovation and the search for new products suited to the business needs of our clients has played a vital role in making the Bank a vital partner to our valued customers.

By the grace of Allah, Meezan Bank has been successful in designing Shariah compliant alternatives for most of the conventional banking products. We provide solutions for both long-term and short-term requirements, in addition to servicing trade related needs. Murabaha and Salam meet working capital needs whereas Ijarah and Diminishing Musharakah fulfill long term financing requirements for plant and machinery. Furthermore, the Bank has structured a number of transactions using the Musharakah concept.

MBL had undertaken two real estate Musharakah transactions in Lahore, which are proceeding reasonably well and are expected to show good progress in the current year. Further, a Musharakah transaction undertaken with a developer on the DHA Creek City Project is also progressing smoothly and approximately 39% of the contract has been completed to date. MBL expects to generate a good return on these innovative Musharakah transactions and to replicate the models for similar transactions in the future.

Meezan Bank's continuously expanding product portfolio enables the Bank to expand its existing relationships and add new names to the client base. Our customers comprise of both local and multinational blue chip companies operating in all major sectors of the economy, including, but not limited to, Chemicals, Energy, Fertilizers, Oil Marketing, Pharmaceuticals, and Textiles. This year the Bank plans to offer to its valued corporate customers, IERS financing based on the Istisna mode of finance. The Bank also plans to actively market and book Diminishing Musharakah for financing of plant & machinery, thereby giving our customers an option for project financing in addition to the Ijarah product.

Sectoral Exposure - December 31, 2005



■ Textile (43%) ■ Glass (2%) ■ Energy (1%) ■ Electrical (1%) ■ Construction (8%) ■ Chem & Pharma (3%) ■ Cement (1%)
 ■ Auto & Trans (6%) ■ Agribusiness (6%) ■ Sugar (6%) ■ Shoe & Leather (5%) ■ Shipping (10%) ■ Poly & Fibre (1%) ■ Ohters (7%)

The total financing portfolio of the Bank as on December 31, 2005 amounted to Rs. 15.76 billion compared to Rs. 10.42 billion as on December 31, 2004 - representing an increase of over 43%. The portfolio is prudently distributed over all major sectors of the economy. Sectoral distribution of the financing portfolio is shown below:

The Corporate & Investment Banking Unit also provides a wide range of advisory services integrating industry, product and regional specialization to help businesses' address their strategic needs and to formulate and execute dynamic business strategies. During the course of the year, MBL participated in a number of financing syndications and underwritings of public offers.

The Bank is currently advising local and foreign investors on certain acquisition transactions. The Bank's focus during the next year would be on playing lead advisory roles in structuring and arranging financing syndicates as well as undertaking financial advisories for investment banking transactions using our unmatched Shariah structuring capabilities and expertise.

As part of Meezan Bank's continuous efforts to bring Islamic financial services to all businesses, the Commercial Banking unit was accordingly established in the last quarter of 2005 to serve this purpose. This unit is responsible for business generation that mainly has a focus on middle market customers, comprised of medium scale industries, importers, exporters, distributors, etc. Apart from the Corporate sector, the Commercial sector is also a significantly large segment spread all over the country across a diverse group of industries.

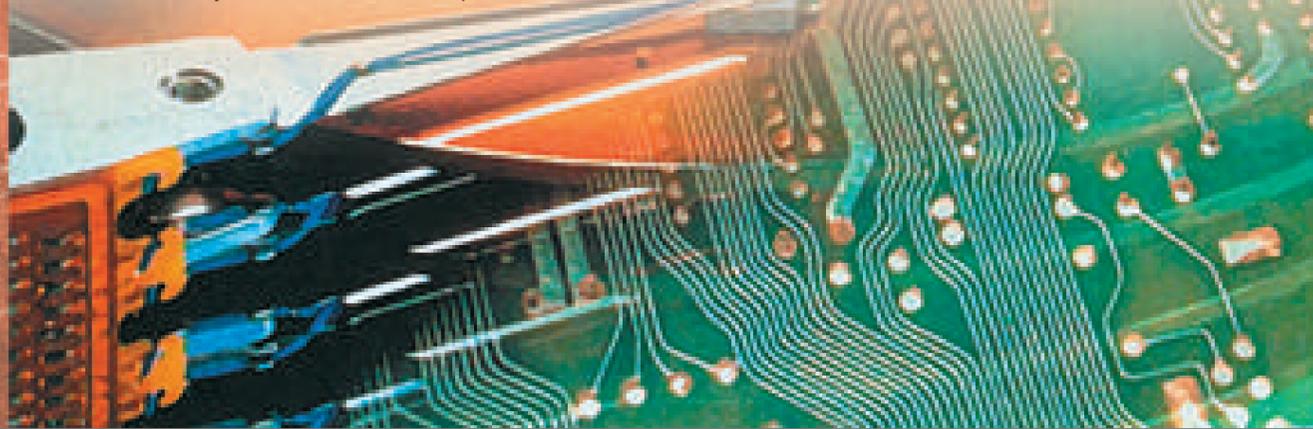
A substantial number of entrepreneurs and sponsors are desirous of Shariah based financial solutions and accordingly avoid availing conventional solutions as much as possible. They often maintain current account only, as a necessity. By targeting this segment Meezan Bank brings immediate relief and support to once again promote Riba-free Banking as banking of first choice. As a key incentive for providing convenience to the Commercial Banking segment, Meezan Bank has promptly increased its Branch Network in 2005. In addition, the bank will very soon open its doors in D.G. Khan, Sargodha, Rahim Yar Khan and Hyderabad.

Small & Medium Enterprises (SME's) are officially classed in Pakistan as units employing between 10 and 100 staff. Under this definition, there are about 80,000 SME's in the country, most concentrating on trade and services. However the true significance of SME's is much greater taking into account the entities operating in the informal sector, each employing between 5 and 10 staff. According to the Asian Development Bank Report, SME's account for about 80% of urban jobs and 30% of Pakistan's gross domestic product. SME's are considered the engine of economic growth in both developed and developing countries as they provide low-cost employment as the unit cost of persons employed is lower than large-size units.

SME needs are being highly diversified, including practical and strategic business advice, financing, marketing, and technology upgrading. Today, the SME sector is the lifeline of big industrial establishments due to its direct contribution and support towards value addition and exports. For the past three decades, the fastest growing export industries have been dominated by SME's. Of all, cotton weaving and textile, rank among the top two exporting sectors. Others include sports goods, surgical instruments, carpets and footwear etc. SME exports dominate low value added sectors and rely on traditional technologies.

As part of Meezan Bank's continuous efforts to bring Islamic Financial services to all businesses, the SME sector has also been the Bank's prime focus. With the enormous business opportunities available, many entrepreneurs in this sector also have a strong Shariah mindset. The potential of this sector to grow has enabled Meezan Bank to aggressively increase its SME portfolio.

As of December 31, 2005 the SME business initiatives generated a funded exposure of more than Rs. 1.2 billion. Meezan Bank remains committed in actively contributing to the SME sector to ensure the resilience of SMEs to withstand economic instability and maintain a reasonable growth. This will also allow Meezan Bank to build its portfolio through providing yet another Shariah compliant financial solution to the masses.



CAR IJARAH

The auto financing industry in the country has witnessed a phenomenal growth over the last few years. A recent industry study showed that the total number of vehicles sold in the country from July 1, 2004 to June 30, 2005 was almost 170,000 units. (Source: PAMA & Customs). Out of these approximately 140,000 units were financed through Banks, Leasing companies and Mudarabas, an eye-opening 82%, up from 40% just two years ago. This represents a huge market of high yield assets, which is the reason most of the commercial banks in operation have now turned towards this market. With this focus and competition now in this industry, more cost-competitive and lucrative financing packages are being made available to consumers.



Meezan Bank's Car Ijarah (Auto Lease) facility has gained overall market recognition over the past three and a half years and has developed into an important part of Meezan Bank's overall product offering. The product has grown all over the country with the total number of cars leased out exceeding four thousand. The product is offered in all major cities where Meezan Bank has a presence.

The year 2005 saw annual business execution in this product line exceeding Rs1.6 billion with non-performing assets being only 0.14% of the total portfolio, which is a remarkably low; figure in the consumer finance industry. Total number of cars leased out during the year was 2,253. Business execution is divided almost equally between Karachi and upcountry, indicating that the business potential of major upcountry cities offers ample opportunities for growth.

A first in 2005 was the introduction of Meezan Bank's Motorcycle Ijarah product. With the increasing fuel prices, consumers are now beginning to focus on motorcycles as an alternate mode of transportation much more aggressively than ever before. Growing consumer demand is evident by the heavy influx of numerous new makes of motorcycles. The credit and business dynamics of this product line are similar to those of automobiles, with significantly higher returns. Meezan Bank has now gained significant experience in the Auto Finance business and we therefore felt that exploring this segment would be a natural extension of this successful and growing business line of the Bank. The product was soft launched in the last quarter of 2005 and our market presence in this sector is expected to grow significantly over the next year.



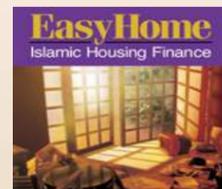
The year 2006 represents a changing playing field in terms of both competition and opportunities. With the advent of a growing number of dedicated Islamic banks the competitive scenario will get tougher over the next year. The growing number of players in the Islamic Banking industry is making Islamic Auto finance commonly available, giving a boost to consumer confidence in this proposition and at the same time eroding the uniqueness of this offering being available from only a single platform.

Opportunities are galore in the Auto Finance market in 2006. The industry dynamics changed in 2005 when the government decided to reduce duties on imported cars. This caused a heavy inflow of imported cars, reducing premium on high-value local vehicles. Consumers now have a large variety of options available to them with focus now shifting away from local cars to imported ones. The growing market for imported vehicles has caused an increase in supply, dragging prices down; in some cases by over 30% in less than a year. The momentum that this business line gained in 2005 is expected to grow even stronger in the coming year since consumers who previously had to either pay a high premium or wait extensive periods for delivery of their vehicles, now suddenly have affordably-priced imported vehicles available at ready delivery. This one factor alone will give an unprecedented boost to this sector of the economy.

In order to successfully meet the growing competition and capture the opportunities offered by the changing market over the next year, Car Ijarah has evolved a strategy of strengthening its human resource infrastructure, coupled with improved systems and controls and a stronger I.T. backbone. Introduction of innovative features tailored to offer a more flexible product to consumers would also add strength to our offering. The business will, over the next year, work on strengthening relationships with auto dealers and forming alliances with auto manufacturers. These elements combined with an aggressive marketing initiative will provide the initiative and thrust that will carry this business to the levels we have targeted for the upcoming year.

Housing Finance

The continuing relevance of housing finance cannot be understated, for it has significant micro and macro economic implications. Apart from representing the single largest investment most individuals will ever make, housing equity on average represents up to 40% of consumer equity in developed markets around the globe.



On a larger scale, the housing finance market is among the most important in any economy. A well-functioning housing finance system offers incentives for households to save, provides investors with opportunities to gain stable, long term returns, creates large numbers of jobs for skilled and unskilled workers in construction and ancillary industries, enables home owners to leverage their physical assets into financial assets for investment, and contributes greatly to the deepening and broadening of the financial sector.

As the nation's first Islamic Housing Finance product, Meezan Bank's EasyHome completed its 2nd year of business in December 2005. As with any successful credit program, it's growth and longevity depend on strong policy, risk management, system, process, and market penetration capabilities. The portfolio grew by 180% over the previous year, with the Bank's objective to cross the disbursement threshold of Rs. 2 billion being successfully achieved with over 850 customers, and in the process has acquired 6 % market share from amongst all mortgage providers, both Islamic & conventional.

Excellent portfolio quality was maintained along with the significant volume growth, with absolute zero delinquency and zero non performing financings, at the YE 2005. Healthy portfolio measures in terms of customer repayment capacity, as well as Bank exposure levels also provide significant comfort in terms of risk management. This is all powered by strong internal & external infrastructure controls; product & policy parameters, stringent credit eligibility criteria, country wide system based credit initiation & case analysis, close monitoring of the external infrastructure (legal, property appraisal, property search, verifications), and up to the mark portfolio MIS.

Comprehensive audits from the Bank's Shariah function as well as the State Bank of Pakistan also revealed an excellent condition of the portfolio, with useful feedback on further strengthening our controls.

A satisfaction survey was also conducted during the year in order to gauge services levels, from a random sampling of customers across segments giving their feedback. More than 95% expressed their satisfaction with the services delivered during the extensive mortgage process. Noticeably, a strong word of mouth for our product also came into view as a leading factor behind its demand.

Being the pioneer of Islamic Housing Finance in the country, continuous research work is carried out towards making our product line as comprehensive as possible. In addition to the existing Buyer, Builder, Renovate, and Replace products, we are addressing variations to enable lower income segments of society to more easily access housing finance. In addition, we are catering to the demand for Meezan Bank Islamic mortgages from Non-resident Pakistanis as well. Meezan Bank took a largely pioneering step in this sphere, offering local property facilities to this important segment.

EasyHome has introduced the value and benefits of Islamic Housing Finance to an expectant market. Currently, it is being offered through four dedicated Sales & Service centers and Bank branches in Karachi, Lahore, Faisalabad, Multan, and Islamabad. The dreams of owning a home in a halal, easy, and quick way are coming true for more and more people.



As an Islamic financial intermediary, Meezan Bank provides a complete range of deposit products and services across the spectrum of needs. Deposits are the life blood of a Bank, and for an Islamic bank, this is no different. Mobilizing deposits through various well structured and profitable products, offering a return (where applicable) that is competitive with the market, coupled with effective penetration of the market are the hallmarks of our liabilities side.

Apart from a growing and well placed branch network, our value propositions are such that they cater to the range of transactional and term deposit needs. From short to long term, with regular transactions or intermittent exchange, with personalized or automated accessibility, in a range of currencies, Meezan Bank product menu is at once robust and dynamic.

Transaction Accounts

On the transaction side there are the:



- Rupee Saving Account, which is an easy to open checking account having special features of no restriction of withdrawals or number of transactions, and free online banking with a distribution of profits every month.



- Current Account, a complete business account which provides instant access to funds at all online branches without any restriction on withdrawals or number of transactions.



- Dollar Saving Account, a US Dollar based foreign currency checking account with free online banking, no restriction on withdrawals and at the same time the option of availing a monthly profit return.



- Karo Bari Munafa Account (KMA), a high profile checking account for business corporations, individual businessmen and high net worth individuals. KMA has no preset transaction limit with free online banking services and allows the account holder to earn higher returns on surplus cash balances.



- Meezan Islamic Institution Deposit Account (MIIDA), a unique product tailored exclusively for Islamic Financial Institutions (IFIs). The facility is the first of its kind in Pakistan, whereby Islamic Banks (including dedicated, as well as conventional Islamic windows) now have the opportunity to manage excess liquidity by maintaining a checking account with Meezan Bank specifically designed for this purpose. This provides an immediate and profitable solution to a common present limitation where any excess funds with an IFI essentially remain unutilized.

Term Certificate

The range of term deposit products include:



- Certificate of Islamic Investment (COII), a 3 month to 5 year fixed deposit certificate with a high and very competitive return. COII is available to individuals, business corporations and other entities including trusts and benevolent/charitable organizations. It offers varieties of profit payment options such as monthly, quarterly or at maturity.



- Meezan Mudaraba Certificate (MMC), is an investment certificate which provides an investment opportunity to individuals, corporates and other entities for a period of one month. It offers competitive returns and premature encashment facilities.



- Dollar Mudaraba Certificate (DMC) is a US Dollar based certificate exclusively designed for individuals and corporates who prefer to invest their savings in this currency. The product caters to Non Resident Pakistanis as well as two tiers of local residents. No other Islamic bank in Pakistan is currently offering such a product.



- Meezan Providence Certificate (MPC), is a long term fixed deposit product for registered or unregistered Employee Provident / Gratuity / Pension Funds of business corporations having operations based in Pakistan. The MPC is available in 2, 3, 5 and 7 years tenures and offers very competitive profit rates.

Along with all come a variety of added benefits, including supporting, personalized banking services, 24 hour / 7 day Call Centre access, and the 24 / 7 ATM-Debit card.

Treasury & Financial Institutions (FI) consists of dedicated professionals providing information and solutions to customers, branches, and correspondents with respect to products and services offered by the Bank. This unit has evolved as a profit centre contributing significantly to the Bank's income in the year 2005.



Treasury:

Besides its prime responsibility of foreign exchange (FX) and liquidity management, this department performs functions in the following three areas:

- Treasury Marketing
- Interbank Foreign Exchange
- Interbank Money Markets & Securities

In 2005, the Treasury Marketing Unit (Corporate Treasury) was set up within Treasury to market both FX and money market (MM) products to corporate customers both in coordination with branches and directly. Another function of this unit is to interact continuously with the Product Development & Shariah Compliance and Liability Product departments, on the product development side so that more innovative treasury products could be offered to our clientele.

Achievements in the year 2005 were the development of Meezan Islamic Institution Deposit Account (MIIDA), a product tailor-made for Islamic financial institutions for managing their liquidity, and the Dollar Mudarabah Certificate (DMC).



On the FX/MM/Securities side, the bank enhanced its presence in the interbank market due to increased trade volumes. During the year, significant Shariah refinements were brought about in the fields of FX and liquidity management, and by the grace of Allah, the unit successfully implemented these transactions with its interbank counterparts.

An important challenge for the group was the procuring of a good treasury system for not only maintaining a complete MIS of all the spot FX, forwards, money market rates etc., but to also ensure complete front office-middle office-back office integration for the purposes of overall treasury management. The bank has acquired the state-of-the art Globus Temenos System for this purpose, and expects to use it online in the first quarter of 2006.

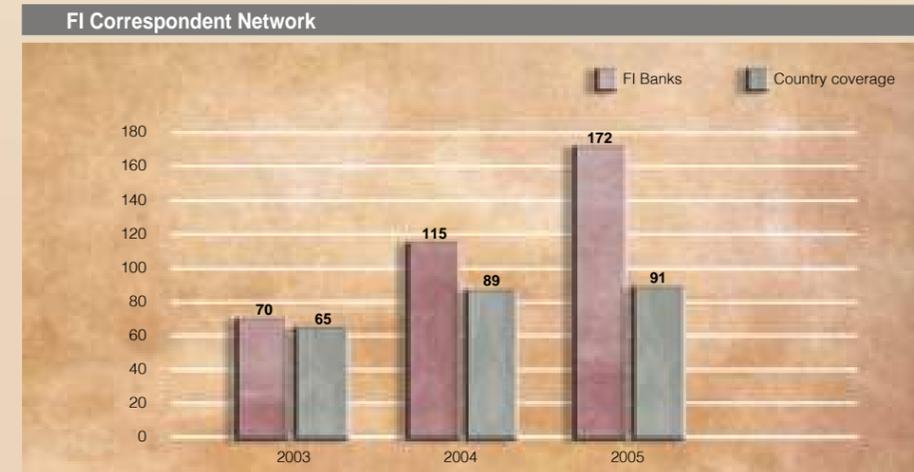
Looking forward to 2006, treasury intends to be a leading player in the Islamic money market. The Bank is contemplating developing strategic alliances with International Islamic Financial Market (IIFM) a non-profit organisation based in Bahrain, committed to developing Islamic financial markets. Further, the bank has already committed to invest in the WAPDA Sukook certificates issued by the First WAPDA Sukook Company. The Bank is participating in meetings with the Government of Pakistan on the modalities of the first local Govt. Ijarah Sukook issue, to be launched hopefully in the first half of 2006. Meezan Bank hopes to become one of the primary dealers of the Islamic bond market.

Financial Institutions (FI) & Correspondent Banking:

FI's prime responsibility is to assess the credit worthiness of its institutional counterparts on a regular basis, and regularly advise its branches on the extent of Bank risk. During the year 2005, FI focused on the development of more correspondent relationships for LC advising, confirmation, and reimbursement. The unit also contributed substantially to the enhancement of FX and MM lines by local counterparts. In addition, the number of correspondent banks increased by 50% and the number of confirming banks increased by a similar percentage.

Another role that FI plays is the advisory service that they provide to branches for the routing of LCs/ cash letter services to international counterparts etc. In order to beef up these services, an FI handbook has been prepared to help branches effectively in handling of such services.

Moving on to 2006, the unit expects to conduct workshops in the regional hubs to improve the awareness of branches regarding new developments in the field of correspondent banking. FI will also market to international institutions the opening of PKR nostro accounts with the Bank and is working on the establishment of a cash management unit for its established clients.





Banking "when you want - where you want". That is the essence of Alternate Distribution. Customers do not want to be tied down and told that they need to bank from 9 to 5 in select locations. Rather, they want to bank on their schedule at their preferred locations; whether that is at the grocery store, the petrol pump, or within the comfort of their own home.

Meezan Bank is continuously striving to not only increase but also improve and refine these channels. Alhamdulillah, as of the end of 2005 we are well entrenched in terms of our Call Center, website, ATM's, and debit card network. We have also successfully carried out the soft launch of our Internet Banking system and are planning a formal launch in early 2006.

The strategy for 2006 is to improve the functionality of alternate channels so as to increase their usage. We intend to add more ATMs and provide more effective support to our branch network. With these channels in place our goal is to enable customers to be able to carry out the bulk of their banking needs without ever having to visit any branch.

This combined with the debit card means carrying large amounts of cash becomes a thing of the past. Using the Internet Banking system and our new website, banking transactions and product information will all just be a click away from anywhere around the world. In addition, new and improved systems at the Call Center, will mean a much enhanced and customer focused experience for anyone trying to reach us 24 hours a day / 7 days a week over the phone.

Insha'Allah, 2006 will see Meezan Bank's 'footprint' increasing not just by more branches, but also by utilizing more cost effective and service centric alternate distribution channels for all customers across Pakistan.



The Operations department is responsible for all operational as well as credit and risk management activities of the Bank. This includes the development and implementation of operational policies and procedures as well as regulatory reporting and compliance management.

The department consists of the following units:

General Banking

General Banking Operations is mainly responsible for ensuring smooth and effective systems and operations. Its focus is on disseminating and facilitating the implementation of management policies for various operational activities at the branch level. The Branch Manual has been prepared and introduced for ready reference in accordance with Prudential Regulations, State Bank of Pakistan (SBP) guidelines and best banking practices. A communications unit has also been set up at the Head Office and consists of three major centralized functions: SWIFT Operations, Signature Capturing and verification of CNIC through the NADRA database.

Treasury Back Office

Treasury Back Office plays a vital role in supporting the Treasury front office business. The objective of this department is the timely settlement of deals and the provision of various reports and information to the Treasury office as well as Senior Management. Expansion in our banking business also impacts the back office, where the number of deals was raised by 41% as compared to the year 2004. This unit also plays an instrumental role in the implementation of the new Temenos T24 system, a state of the art technology for a powerful front, middle & back-office Treasury Operation.

Credit Administration Department (Corporate, Consumer and SME)

The Credit Administration Department (CAD) is another important part of Operations, which is involved in security documentation monitoring and accounting for all banking products and services. Furthermore, CAD monitors the documentary compliance of Shariah related requirements on an ongoing basis. CAD also ensures that SBP regulations and/or legal requirements of the transaction are adhered to at all times. CAD also handles a large volume of back end operations for Corporate, Consumer and SME related businesses.

This department is also responsible for the issuance / cancellation of guarantees and centralized SBP reporting for various activities. As per our Shariah requirements, the complete preparation and maintenance of pools for the liabilities products and the Islamic Export Refinance are also part of this department.

Capital Markets

Since MBL is an active player in the capital market arena, all settlements, payments and receipts are finalized in this department, both local as well as foreign. Portfolio maintenance with regular reporting requirements of Senior Management and the SBP are also managed. Last year alone, this function of the Bank handled 3 IPO's.

Trade Finance

Trade Finance transactions under the Bank's approved Islamic Mode of Financing is a major activity. Below are year wise performance figures of the Trade Finance Business handled by the Bank:

- YEAR 2003	Rs. 8.66 Billion
- YEAR 2004	Rs. 22.50 Billion
- YEAR 2005	Rs. 43.73 Billion



Beside the above, the department also handles the pioneering Islamic Export Refinance scheme (IERF), in which a Musharakah (Pool) arrangement exists with the SBP. Funds are disbursed to the Bank's clients under the Murabaha mode of financing.

Year wise utilization of IERF:

Year 2004: Rs. 2.6 Billion
Year 2005: Rs. 2.9 Billion

Mutual Fund

Operations is also handling the complete back office functions as Transfer Agent and Distribution Company for the largest Shariah compliant open end mutual fund in Pakistan. At year-end 2005, the fund size was Rs. 2.9 billion with the issuance of 39.9 millions units for 2,362 unit holders. This unit is generating fee based income for the Bank.

ATM / Debit card

Last year the Bank recorded 150,000 card transactions, with the quantum of issued cards reaching 12, 700.

In September 2004, the SBP issued guidelines to all banks/financial institutions to develop their Business Continuity Plans (BCP). This critical Operations project was initiated in January 2005 and approximately 2,000 man hours have been spent during the development process covering all issues based on standards set by the SBP and international best practices including Business Impact Analysis (BIA), Threat Analysis, Identification of Disaster Recovery Site(s), Policies and Procedures dealing with safety and protection of the Banks critical assets, Emergency Response Plan and Document Imaging. By the grace of Almighty Allah the plan was successfully completed and submitted to SBP.

Southern Region

This region currently operates with twelve branches, which includes 11 in Karachi and one in Quetta. During 2005, the region opened three new branches, namely Shahrah-e-Faisal and Cloth Market branches in Karachi, and Quetta Branch. Karachi being the largest city of Pakistan and the national hub of business, has the highest branch presence to cater to market demand and potential. The region's ability to successfully enhance its customer base in a short span of time is a remarkable contribution to overall business growth.

In 2006, the region's operations are targeted for further expansion with new branches to help boost deposits, advances and foreign trade growth.

	Rs. in million		
	2005	2004	GROWTH
Deposits	12,961	8,255	57%
Financing	10,379	5,900	76%
Foreign Trade	19,209	12,369	55%

Central Region

The Central region covers eleven branches spread across Lahore, Faisalabad, Sialkot, Multan, Kasur, and Gujranwala. During the year 2005 five branches were added to this region, which includes two branches in Lahore, one each in Kasur, Gujranwala and Faisalabad. The region continues to consolidate existing relationships and target new customers to increase market share.

In 2006, more branches are planned for opening to maintain sustainable growth in all areas of business in this region.

	Rs. in million		
	2005	2004	GROWTH
Deposits	7,332	3,296	122%
Financing	8,847	6,197	43%
Foreign Trade	22,229	10,113	120%

Northern Region

Our Northern region operates with five branches – one in Islamabad, three in Rawalpindi and one in Peshawar. During the year this region has been able to substantially increase its asset base and foreign trade business. With the concentrated efforts of the team, the region enjoyed good growth in all areas of business activity, including a significant boost in Foreign Trade.

The region will be further expanded in 2006 with new branches to maintain healthy growth and boost overall profits.

	Rs. in million		
	2005	2004	GROWTH
Deposits	2,476	2,219	12%
Financing	515	243	112%
Foreign Trade	2,173	113	1823%



ASSET MANAGEMENT

Al Meezan Investment Management Limited (AMIM), the asset management and investment advisory arm of Meezan Bank Limited, specializes exclusively in the development and management of Shariah compliant products related to investments in the stock exchange. AMIM has a successful proven track record of ten years in managing mutual funds, which is one of the longest in the private sector.

AMIM is presently managing three funds, Al Meezan Mutual Fund (AMMF), a closed-end equity fund; Meezan Islamic Fund (MIF), an open-end equity fund; and Meezan Balanced Fund, a closed end balanced fund. The total size of the three funds under management as at December 31, 2005 was Rs. 6.5 billion as compared to Rs. 4.2 billion in the corresponding period last year. The increasing size of assets under management provides the ability to consistently out-perform our peers and consequently build investor confidence. AMIM is ranked amongst the best performing asset management companies in the country. The fund wise break up of net assets as at December 31, 2005 and in the corresponding period last year is as under:

Fund	Net Assets		Increase in Net Assets
	31-Dec-04 Rs. Million	31-Dec-05 Rs. Million	
	2005	2004	GROWTH
Al Meezan Mutual Fund	1,317	2,038	54.75%
Meezan Islamic Fund	1,671	2,940	75.94%
Meezan Balanced Fund	1,222	1,476	20.79%

JCR-VIS Credit Rating Company Limited has assigned a management quality rating of AM2 to Al Meezan Investment Management Limited. The rating denotes a 'high quality of management' and is the highest rating assigned to any asset management company in Pakistan.

In addition to quality service, Shariah compliance and impressive performance in terms of returns to investors, AMIM also complies with global best practices in asset management and has voluntarily adopted "Asset Management Code of Professional Conduct" of the CFA Institute. Hence it has the distinction of being the first and the only asset management company in Pakistan to comply with the global best practices in asset management.

The operations of AMIM are conducted under the supervision of Meezan Bank Limited, which is the Shariah advisor of AMIM. AMIM is also proceeding to expand its product base and launch other Shariah compliant investment products in the very near future.



INFORMATION TECHNOLOGY

State-of-the-Art Technologies & Systems

Meezan Bank has always recognised the need for state-of-the-art technology and systems so as to ensure the highest levels of customer service and MIS. 2005 was a challenging year, due to significant increase in the number of users and their needs, growing MIS requirements and of course a highly competitive environment. Alhamdulillah, the Bank was able to meet these challenges and achieve the following milestones:

- The addition of a number of new modules to our core banking application, Islamic Banker, including Islamic Advances, Housing Finance and COII.
- Soft launch of Internet Banking, which will allow customers to manage their accounts and undertake banking transactions online.
- To safeguard Meezan Bank's information resource against external infiltration, Sidewinder G2 Firewall from Secure Computing, has been deployed. Sidewinder is not only equipped with deep packet inspection but also features SOPHOS anti-virus engine, spam guard, URL filtering engine, Intrusion Detection Server/Intrusion Prevention Server, content filtering engine, cache engine, AES encryption, Alarms n Alerts, and VPN capability.
- Network security on the Meezan Intranet has been deployed with the use of managed CISCO layer 2 and layer 3 switches and an intranet modular router. Strong Access Control List on routers, gigabit inter-switch trunks and VLAN on the switch network provide the ability to keep the LAN traffic controlled, congestion free & highly available.

The Way Ahead

- Our plans for 2006 are to acquire and implement data warehousing, which will enable us to consolidate the data from all our branches into a single repository for a completely integrated, 360-degree view of Meezan Bank's businesses. Information from every level and facet of our organization – Customer services, Corporate, SME, Consumer, Retail, Operations, Trade Finance, Credits, and Finance - will be easily mined, shared and most importantly used throughout the Bank.
- We also plan to develop a comprehensive Corporate Banking Suite enabling our corporate customers to use a fully functionality and convenient banking solution at their own doorsteps.
- SMS Banking is another value added service that will provide real comfort for mobile customers to do banking the way they want to. They will be offered the same services as other channels so that our customers would enjoy banking with Meezan wherever they are, whenever they want.
- Utility Bills Payment would provide customers the convenience to pay their utility bills any time based on their choice, such as through automatic payment, by 24/7 call center, via ATM, or using Internet Banking.
- The Smart Branch, though not a new concept, is still in its infancy in this country. Meezan Bank is envisaging the concept of a "Self-Service Branch" using state-of-the-art technologies. The branch will be equipped with a system through which the customer will immediately be able to deposit and withdraw cash or make electronic bank transfers. These systems would be capable of distinguishing, checking, counting, sorting and booking multiple notes in a single transaction. This system also offers standard cash withdrawal functionality and can be upgraded to a true cash recycling system.
- Information System Audit - In order to ensure that our Information Systems are in accordance with Prudential Regulations and in compliance with the guidelines set by our Shariah Board, we have earmarked the budget to carry out a comprehensive audit of our Information Systems. We hope that this exercise will help us in achieving the highest levels of reliability and confidence for our systems.
- Information Security Audit - To ensure and compliment the implementation of Information resource security, a security manual has been formulated. The policy manual follows the ISO 27001 / ISO 17799 (ISMS) Information security standard. Meezan Bank is moving towards attaining international standards and keeping abreast with technological advancements by getting the manual certified through an IS consultant.



Meezan Bank
The Premier Islamic Bank

HUMAN RESOURCES

Experienced & Dedicated Professionals

Human Resource Management (HRM) broadly refers to a positive approach to the management of an organization's people who individually and collectively contribute to the achievement of sustainable competitive advantage. It basically refers to the management and development of the employees, to match with the business strategy of the organization.

The HRM philosophy is based on positive commitment towards the development of employees for ensuring their growth, development and performance to enhance human capital in the bank. The HRM model is composed of policies that promote mutual growth for achieving mutual goals coupled with mutual responsibilities and rewards, which in turn will yield both better economic performance and greater human development. At Meezan Bank, Human Resources plays one of the most vital roles. Our human capital is perhaps our most valuable equity, and it is the people of Meezan Bank who carry the mission and vision forward. As dedicated Islamic Bankers it takes a special breed of person with a belief and commitment in Islamic Shariah and an unwavering professionalism that can carry the responsibility of making Islamic Banking the banking of first choice.

We strive to ensure this by developing our employees, recognizing their contributions, and rewarding their success.

To ensure the proper development of employees and to cope with the current market trends and business needs, we have a comprehensive & meticulous training structure in place, which is not only a blend of sharing ideas, solutions and a comprehensive understanding of Islamic banking, but also a motivating and nurturing blend of education and exposure that ensures a holistic and comprehensive development.

Meezan Bank provides the tools needed for our people to develop world-class analytical, leadership, management and relationship-building skills. Because they deal with a broad range of issues in Islamic banking, they learn what it takes to lead in financial services. The bank ensures its commitment to the individual competence of all employees with the primary focus on personal skills and the immediate demands of the job.

We also realize the importance of a recognition & reward policy. Achievement is a milestone in the individual's career as well as in the Bank's growth, and thus needs to be recognized in the most effective manner. We are continuously striving to make our policies more customized & competitive to improve the working environment, to foster teamwork, to encourage innovation, and to ensure career progression.

Human Resources is committed to providing an ideal professional environment that enables our employees to pursue the highest possible level of professionalism as well as supporting their personal fulfillment. We believe that our strategic mix reinforces in our employees the ability to think 'out of the box' and discover new ideas, concepts, while challenging the status quo. This will further ensure a competitive advantage to MBL through enhanced loyalty, commitment and motivation.



Meezan Bank
The Premier Islamic Bank



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 10th Annual General Meeting of the Members of Meezan Bank Limited will be held Insha-Allah on Monday, April 10, 2006 at 9:30 a.m. at Beach Luxury Hotel, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the Extra Ordinary General Meeting held on August 30, 2005.
2. To receive, consider and adopt the Audited Accounts (separate and consolidated) for the year ended December 31, 2005 together with the Auditors' and Directors' Reports thereon.
3. To appoint auditors of the Bank for the year ending December 31, 2006 and to fix their remuneration. The present auditors M/s A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

SPECIAL BUSINESS

4. To consider and approve the issuance of Bonus Shares as recommended by the Board of Directors and to pass the following resolution as an Ordinary Resolution:

“Resolved that:

- a) A sum of Rs 325,853,170 out of reserves of the Bank for the issue of bonus shares be capitalised and applied for the issue of 32,585,317 ordinary shares of Rs 10/- each and allotted as fully paid bonus shares to those members of the Bank whose names appear in the Register of Members of the Bank on April 10, 2006 in the ratio of 16 shares for every 100 shares held and that such new shares shall rank pari passu in all respects with the existing ordinary shares.
 - b) Members entitled to fraction of shares as a result of their holding shall be given the sale proceeds of their fractional entitlements for which purpose the fractions shall be consolidated into whole shares and sold on the Karachi Stock Exchange.
 - c) For the purpose of giving effect to the foregoing, the President/Chief Executive or the Company Secretary be and are hereby authorised to issue directions and take such actions as they deem fit to settle any question or any difficulties that may arise in the distribution of the said bonus shares or in the payment of the sale proceeds of the fractions.”
5. To consider and, if thought fit, to increase the authorised capital of the Bank to Rs 4,000,000,000 by creation of 100,000,000 new ordinary shares of Rs 10/- each and in that connection to pass the following resolution as a special resolution:

“Resolved that the authorised share capital of the Bank be and is hereby increased to Rs 4,000,000,000 by creation of 100,000,000 ordinary shares of Rs 10/- each, such new shares to rank pari passu in all respects with the existing ordinary shares in the capital of the Bank, and that accordingly Clause V of the Memorandum of Association of the Bank be and is hereby substituted by the following new clause V:

“ The share capital of the Company is Rs 4,000,000,000 (Rupees four billion only) divided into 400,000,000 (four hundred million) ordinary shares of Rs 10/- each (Rupees ten only) each with power to increase or reduce the capital and to divide the shares in the capital for the time being into several classes.”

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

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

By Order of the Board

Shabbir Hamza Khandwala
Company Secretary

Karachi
March 09, 2006

Notes:

- i) The Members' Register will remain closed from April 03, 2006 to April 10, 2006 (both days inclusive) to determine the names of members entitled to receive bonus shares.
- 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 Computerized National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her Computerized National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.
- iv) Members are requested to promptly notify Share Registrar, THK Associates (Pvt.) Ltd., Karachi, of any change in their addresses.

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

This statement sets out the material facts concerning the resolutions contained in item (4) and (5) of the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on April 10, 2006.

Issue of Bonus Shares

The Board of Directors are of the view that Bank's financial position and its reserves justify the capitalisation of free reserves amounting to Rs 325,853,170 (Rupees three hundred twenty five million eight hundred fifty three thousand one hundred and seventy only) for the issue of bonus shares in the ratio of 16 bonus shares for every 100 ordinary shares held.

Increase in Authorised Capital of the Bank

In order to meet the requirements of the State Bank of Pakistan to increase the paid up capital of the commercial banks to Rs 4 billion by December 31, 2007, the conditions of the Memorandum of Association of the Bank are required to be altered so as to increase the authorised capital of the Bank from Rs 3 billion divided into 300 million ordinary shares of Rs 10 each to Rs 4 billion divided into 400 million ordinary shares of Rs 10 each. Under section 92(1) of the Companies Ordinance, 1984, the Bank may alter the conditions of the memorandum so as to inter alia increase its share capital by such amount as it thinks expedient. Under section 92(3) of the Companies Ordinance, 1984, the powers conferred by sub-section (1) are exercisable by the Bank in a general meeting.

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



DIRECTORS' REPORT

The Directors of Meezan Bank Limited are pleased to present the ninth Annual Report and the audited financial statements, setting out detailed financial results of the Bank together with the consolidated financial statements of the Group, including Al-Meezan Investment Management Limited, for the financial year ended December 31, 2005.

Meezan Bank continued to consolidate its lead position in the Islamic Banking industry during the year. The Bank has the privilege of being the first bank in Pakistan that was granted a full fledged Scheduled Islamic commercial banking license in 2002 and was thrust with the responsibility of successfully establishing Islamic Banking as a viable alternative to the conventional banking system. We are proud to report that in the short span of three years the Bank has exonerated that responsibility admirably and has now established a strong brand identity which is synonymous to a pure, credible, vibrant and successful Islamic Banking model. We believe it is largely due to this success, Alhamdulillah, that we now see a proliferation of new entrants into this market.

The Bank has achieved very strong growth in all business segments during the year under review. During the year we maintained our three-pronged strategy of building Corporate Banking, Consumer Banking and Asset Management – the latter through our subsidiary Al Meezan Investment Management Limited (Al Meezan).

Our Corporate Banking business recorded a growth of 46% during the year through a well-diversified portfolio that includes notable blue-chip multinational and local companies while maintaining a very low level of non-performing financings of less than 0.5% of the total financing portfolio.

Consumer banking also achieved impressive results. On the liabilities side, deposits recorded a growth of 65%, which is one of the highest in the banking sector. The Bank now has a comprehensive liability product offering starting with current and saving accounts and moving to a wide range of longer-term deposit products. On the assets side, the two main products of the Bank, Car Ijarah (Auto Leasing) and Easy Home (Mortgages) grew by more than 165% through an aggressive front-end and low cost back-end infrastructure, which is now in place in almost all the major cities of the country. Our comprehensive risk management process coupled with better than industry average turn around time means that our product offering is one of the best in both the conventional as well as Islamic banking markets.

The Asset Management business also performed exceptionally well with total funds under management increasing from Rs 4.5 billion as on December 31, 2004 to Rs 6.5 billion as on December 31, 2005, recording a growth of 43.3%. The professional management team has consistently out-performed its peers and is ranked among the best performing asset management companies in the country. JCR-VIS Credit Rating Company Limited has assigned a management quality rating of AM2 to Al Meezan. The rating denotes a 'high quality of management' and is the highest rating assigned to any asset management company in Pakistan.

Al Meezan also complies with the global best practices in asset management and has voluntarily adopted the "Asset Management Code of Professional Conduct" of the CFA Institute. Hence it has the distinction of being the first and the only asset management company in Pakistan to comply with the global best practices in asset management.

Recognizing the need to increase market reach and customer access, the Bank is now present in all the major cities of Pakistan with a total of 28 branches. 12 new branches were added to the network, which is more than double the number added last year. This required

substantial investment in infrastructure as well as systems and manpower, as a result of which overhead expenses have increased substantially. Despite this increase in expenditure, which is indeed an investment for the future, the Bank was able to record remarkable growth in profitability, which increased by 87% from Rs 224 million to Rs 419 million. Highlights of our financial performance are given below:

Financial Highlights

	Amount Rs. in millions
Deposits	
Financings	
Total Assets	
Shareholders' Equity	
Profit before Taxation	
Earning per share (Rs.)	
Number of Branches	

Economic Overview

Pakistan's economy continued to build on the successes of 2004 and recorded an impressive GDP growth rate of 8.4% for the fiscal year ended 30th June 2005, up from 6.4% in the previous year. This was led by high growth in the large scale-manufacturing sector, which grew by 24.9% during this period. Agriculture also continues to perform well and has contributed strongly to the growth in demand for consumer durables. While this performance is impressive and one of the best during the last twenty years the persistent high price of crude oil remains a worry and is putting pressure on the trade imbalance. The trade deficit increased to US\$ 4.5 billion during the fiscal year compared to a deficit of US\$ 1.3 billion in the preceding year. However, the strong growth in remittances from Pakistani expatriates and gains from lower cost of funds in external foreign currency debt has offset the impact of this large trade gap and as a result the current account deficit was curtailed to only US\$ 1.6 billion. Accordingly, foreign exchange reserves are still at a healthy level and have fallen only marginally to just below US\$ 10 billion.

Persistently high domestic inflation, driven mainly by demand pressures, is troubling. The CPI has risen from 4.6% last year to above 9% this year. The State Bank of Pakistan maintained a tight monetary policy and the benchmark 6 month Treasury Bill yield had been increased by more than 4% during the year. As a result inflation has been curtailed at between 8% and 9% and it is expected that interest rates will be held stable at the current levels. However, strong demand coupled with rising international prices continue to pose a threat to price stability.

The devastating earthquake in the Northern Regions has been a traumatic experience for the country. It has killed as many as 80,000 people and in some areas entire villages have disappeared. Millions of survivors are in need of shelter, food, water, medical supplies, and basic sanitation. This cataclysmic event could also have an impact on the economy since substantial investment will be required to rebuild infrastructure in the region over the next few years. Meezan Bank is also contributing in this enormous task and has joined hands with The Citizens Foundation to help with the relief efforts. The focus is on addressing the long-term reconstruction and rehabilitation of communities. We plan to completely construct 30 houses in a village close to Balakot, at a cost of Rs. 12 million by May 2006. The Bank is contributing Rs. 10 million and the employees Rs. 2 million for this undertaking. In addition, the employees of the Bank have already contributed two days salary to the President's Relief Fund, which has been set-up to help earthquake victims.



Capital Markets

The capital markets of the country had a record year of growth. The KSE 100 index scaled uncharted peaks and closed the year at 9,556 against the previous year's closure of 6,218, a rise of over 35%. The rally witnessed is attributable to positive sentiment stemming from a stable political environment, strong economic performance, higher corporate earnings and portfolio investment by foreign funds. Overall there is a tangible feel-good factor for the country and the economy, which bodes well for the coming years.

Operating Results of the Bank

With the completion of its third year as a fully scheduled and dedicated Islamic commercial bank, the operating results are clearly indicative of an excellent growth trend. The balance sheet grew from Rs. 19.7 billion to Rs. 30.6 billion, reflecting an increase of 56%. The highlights of the Bank's performance during the year include the tremendous growth in the financing and investment portfolio that recorded an increase of 55% with deposits growing by 65%. The Bank earned a profit after tax of Rs. 419 million during the year, 87% higher than the corresponding figure reported in the previous year. An analysis of the results shows that the income from the core banking business has increased by 149%, which reflects the growth in our financing book. The trade business has also shown impressive growth during the year as compared to the last year and consequently fee-based income earned by the Bank has increased from Rs. 101 million to Rs. 175 million, an increase of 73%.

Operating expenses increased by 76%, from Rs. 409 million to Rs. 719 million, which is mainly due to the addition of new branches as well as required investment in our information technology backbone.

Future Outlook

2005 has been an extremely good year for the banking sector in general with strong earnings growth. As far as Islamic Banking is concerned we await the arrival of the new dedicated Islamic Banks that are expected to commence operations during 2006. We welcome the entry of all credible new players into the Islamic Banking space and are confident that this industry will pose significant growth numbers. It is only through this process that the consumer will have access to competitive products in terms of product quality and delivery. This will undoubtedly help us to achieve our prime goal of making Islamic Banking 'banking of first choice'.

Our strategy is to continue to build market share through an aggressive branch expansion plan supported by state-of-art technology in all areas. We plan to add 22 new branches to our network so as to bring the total to 50 by the end of 2006. Indeed Meezan Bank has a technology focus and realizes that service delivery is not possible without a strong technology backbone. We will continue to improve service quality through a quality initiative which has been implemented throughout the Bank and the guiding principle leading this endeavor is our new Service Mission Statement. Towards this end we are concentrating on improved service through training of staff, continuous monitoring and on-going process reengineering.

As highlighted in our Annual Report last year we are committed to build our Consumer Asset business through quality products offerings so as to address our core vision of bringing Islamic Banking to the forefront of society. We believe that Islamic Banking products are now a veritable reality on the basis of the strong growth and significant new investment that is being made in this sector. Accordingly, we expect Islamic Banking to remain one of the fastest growing sectors of the financial industry and Meezan to continue to play a lead role building on its strong brand image and excellent business fundamentals.

Dividend and Right Issue

The Directors have recommended 16% Stock Dividend (Bonus shares) to the shareholders. During 2005 the Bank issued 20% Right shares at par to the shareholders.

Corporate and Financial Reporting Framework

The Board of Directors is fully cognizant of its responsibility under the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the State Bank of Pakistan. The following statements are a manifestation of its commitment towards high standards of Corporate Governance and continuous organizational improvement.

1. The financial statements prepared by the Management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards as applicable in Pakistan have been followed in the 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, 2003 amounted to Rs. 12.7 million and based on un-audited accounts as at December 31, 2005 amounted to Rs. 36.467 million. The value of investments of Gratuity Fund amounted to Rs. 6.5 million based on un-audited accounts.
10. The purchase and sale of shares by the Directors, Chief Executive, Chief Financial Officer and Company Secretary, the pattern of shareholding and record of Board meetings during the year is given in the enclosed annexure.

Compliance with Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulation relevant for the year ended December 31, 2005 have been adopted by the bank and have been duly complied with. A statement to this effect is annexed with the report.

Risk Management framework

Risk management is an integral part of the Bank's strategic decision-making process. It ensures that a framework exists in which prudent financing decisions are taken and return is commensurate with the risk undertaken. The management of the Bank is acutely aware of various risks involved and ensures accurate and comprehensive monitoring. Accordingly, the Bank has recently established an independent Risk Management Department headed by a Chartered Accountant experienced in the area of risk management.

The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. These committees comprise of senior management staff of the Bank who meet regularly to deliberate on matters relating to the various risk exposures under their respective supervision. Such committees include:



- Credit Committee
- Asset Liability Management Committee (ALCO)
- Audit Committee

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

ALCO formulates short and long-term strategies to manage liquidity risk and rate risk in the light of market conditions, as well as the business objectives of the Bank. The Audit Committee has worked diligently in ensuring that the Code of Corporate Governance has been complied with by the Bank.

The Bank has an internal audit department and it performs audit reviews of different functions on a regular basis to examine and evaluate the adequacy and effectiveness of internal systems and controls. It reports directly to the Audit Committee. The Bank has also established an independent compliance function to monitor compliance risk.

The Board of Directors are taking measures to fully implement the SBP guidelines on risk management by December 31, 2006.

Credit Rating

The JCR-VIS Credit Rating Company Limited, an affiliate of Japan Credit Rating Agency, Japan has graded the Bank's long-term entity rating at A+ with stable outlook, while the short-term rating has been graded at A-1.

Pattern of Shareholding

The pattern of Shareholding as at December 31, 2005 is annexed with the report.

Auditors

The present auditors A.F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of A.F. Ferguson & Co., as auditors for the year ending December 31, 2006.

Acknowledgement

Islamic Development Bank has now nominated Mr. Mohammed Azzaroog Rajab as the Director representing their investment in place of Mr. Tarik Kivanc.

The Board wishes to place on record its appreciation of the services rendered by Mr. Tarik Kivanc during the tenure of his office and we wish him well in his future endeavours. We welcome Mr. Rajab to the Board and look forward to his valuable contribution and guidance.

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

On behalf of the Board

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

Irfan Siddiqui
President and Chief Executive

March 09, 2006

ANNEXURE TO THE DIRECTORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005



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

DIRECTORS AND THEIR SPOUSES:

NAME	Number of shares as at Jan. 01, 2005	Number of shares purchased during the year	Right shares allotted / subscribed during the year	Number of shares sold during the year	Number of shares as at Dec. 31, 2005
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	1	-	1,362,000	-	1,362,001
Mr. Naser Abdul Mohsen Al-Marri	1	-	1,362,000	-	1,362,001
Mr. Mohammad Abdul-Rehman Hussain	-	-	360,000	(300,000)	60,000
Mr. Istaqbal Mehdi	-	-	360,000	-	360,000
Mr. Irfan Siddiqui	3,239,704	-	1,662,106	-	4,901,810
Mr. Ariful Islam	1,449,992	-	743,907	(50,000)	2,143,899
Mr. Rana Ahmed Humayun	253,000	-	129,800	-	382,800

CFO & COMPANY SECRETARY

NAME	Number of shares as at Jan. 01, 2005	Number of shares purchased during the year	Right shares allotted / subscribed during the year	Number of shares sold during the year	Number of shares as at Dec. 31, 2005
Mr. Shabbir Hamza Khandwala	96,875	-	68,000	-	164,875

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

NAME OF DIRECTOR	Meetings attended
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa - Chairman	4
Mr. Naser Abdul Mohsen Al-Marri - Vice Chairman	2
Mr. Irfan Siddiqui- President & CEO	4
Mr. Mohamed Abdul-Rehman Hussain	3
Mr. Istaqbal Mehdi	4
Mr. Tarik Kivanc	3
Mr. Mohammad Abdul Rahman Mohammad Bucheerei	1
Mr. Ariful Islam	4
Mr. Rana Ahmad Humayun	4
Mr. Abdul Wahab Al-Houti	-
Mr. Ahmad Mohammad Thane	1

Kuwait Awqaf Public Foundation nominated Mr. Ahmad Mohammad Thane in place of Mr. Abdul Wahab Al- Houti.

Subsequent to the year end, Islamic Development Bank nominated Mr. Mohammed Azzarog Rajab in place of Mr. Tarik Kivanc.



STATEMENT OF VALUE ADDED AND DISTRIBUTED

Value Added:	2005 Rupees in '000	Percent	2004 Rupees in '000	Percent
Profit/return on financing, investments and placements earned - net of provision	1,420,249	83	515,659	75
Fee, commission and brokerage income	174,750	10	100,739	15
Dividend income	92,569	6	108,592	16
Income from dealing in foreign currencies	77,961	5	26,830	4
Gain or sale of investments etc.	276,871	16	128,932	19
	2,042,400		880,752	
Administrative expenses	340,545	(20)	196,096	(29)
	<u>1,701,855</u>	<u>100</u>	<u>684,656</u>	<u>100</u>
Value allocated as follows:				
<i>to employees</i>				
Salaries, allowances & other benefits	307,580	18	168,585	25
<i>to depositors/financial institutions</i>				
Return on deposits and other dues expensed	690,418	41	250,393	37
<i>to providers of capital</i>				
Bonus shares	325,853	19	-	-
<i>to Government</i>				
Income tax	213,661	12	(3,480)	(1)
<i>to expansion and growth</i>				
Depreciation	70,741	4	44,800	6
Retained in business	93,602	6	224,358	33
	164,343	10	269,158	39
	<u>1,701,855</u>	<u>100</u>	<u>684,656</u>	<u>100</u>



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

Masha'Allah, the year under review was the third full year of Islamic commercial banking for Meezan Bank Limited. During this year the Bank developed and executed a variety of new as well as established Islamic banking products and transactions after due approval from the Shariah Supervisory Board and/or Shariah Advisor. During the year the Shariah Supervisory Board (SSB) of Meezan Bank Limited and its Executive Committee (EC) held 6 (six) meetings to review various transactions and processes and their Shariah compliance.

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

- 1. Deposit Products:** During the year the structure of the deposit products has been revised from a Musharakah basis to a Mudarabah one and the profit distribution basis was also shifted to a gross profit level from a net profit one. With the above change, Meezan Bank now acts as a Mudarib or Manager for our depositor's funds and will also bear all the indirect expense and administrative costs related to the business. The conversion of this structure took place after due Shariah approval, in order to overcome the administrative difficulties in deposit pool management and to streamline the deposit pool working while ensuring a fair distribution of returns among the deposit holders. Specific guidelines for the management of different deposit pools were also developed.
- 2. Day Trading of Shares:** The SSB has reviewed the previous approval given for same day trading of shares carried out at the stock markets of the country. Based on the detailed research carried out on the issue by Shariah scholars and information presented, the Board ruled that these transactions are not in line with the Shariah rules of sale and accordingly instructed the Bank not to conduct such transactions in the future.
- 3. Capital Market Investment:** The Bank has developed a Shariah compliant product as an alternate for conventional Ready Futures transactions being carried out at the local stock exchange under the guidelines of the SSB.
- 4. Murabaha Monitoring Mechanism:** During the year a comprehensive self-monitoring Murabaha Monitoring Mechanism has been implemented at the Bank to ensure proper utilization of funds under agency and the timing of declaration of all Murabaha transactions. This monitoring mechanism ensures the execution of real Murabaha transactions.
- 5. Standardization of Legal Agreements:** The process for standardization and versioning of legal agreements is being carried out to ensure the proper execution of these agreements and their synchronization with the approved processes and guidelines of the Shariah Advisor and SSB. During the year the legal documents for Bai Murabaha, Bai Salam, Car Ijarah, and Corporate Ijarah have been standardized.
- 6. Takaful:** During 2005 another important and long awaited milestone was achieved in Islamic Banking. Takaful, or the Islamic alternative to conventional insurance, was introduced in Pakistan. Currently takaful is being offered for automobiles in Karachi and Meezan Bank is the first bank to use takaful for its Car Ijarah portfolio. Subsequently takaful will be introduced for all Car Ijarah and other banking transactions upon its availability. Furthermore, the Bank is in the process of shifting its existing Car Ijarah insurance business from conventional to Islamic insurance.
- 7. Schedule of Charges:** During the year the mechanism for charging the fee for bank services mainly related to LCs and guarantees has been amended. These amendments have taken place after due Shariah approval from the Shariah Advisor.
- 8. Policies & Procedures:** During 2005 various policies and process guidelines related to different Islamic banking products offered by the Bank have been issued in order to streamline the procedures for the execution of all the products.



9. Training & Development: During the year more than twenty training courses and workshops related to general Islamic banking concepts and specific products were conducted for the employees and customers of the Bank. These training sessions were aimed at improving the product understanding of the Bank's staff and to create awareness among the clients.

Review of Assets

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

Murabaha transactions (including Islamic Export Refinance Scheme) now constitute 58% of the total financing portfolio compared to 62% in the previous year while the percentage of Diminishing Musharakah and Ijarah have increased to around 15% and 26% respectively. The Bank's total financing portfolio reached Rs 19.741 billion as of December 31, 2005. During the review it was observed that the Bank has used standard agreements as approved by the Shariah Advisor which are in accordance with the principles of Islamic Shariah.

Based on the review of financing transactions it is recommended that the corporate & commercial banking departments of the bank should establish a system of physical checking and verification of the goods in Murabaha & Ijarah transactions, and increase the share of direct payment to suppliers in overall Murabaha financing.

Review of Liabilities

On the liability side, the Bank offered different Shariah-compliant deposit products based on the mode of Musharakah and the product structure as mentioned earlier was subsequently changed to Mudarabah from July 1, 2005. The total deposits of the Bank reached Rs 22.8 billion as at December 31, 2005. During the year, the Bank accepted deposits on the mode of Musharakah for short-term liquidity management from the inter-bank market and corporates.

Shariah Advisory

The Bank also provided Shariah Advisory services to its subsidiary Al Meezan Investment Management Limited (AMIM), regarding Shariah compliant investments and portfolio management. During the year the Shariah compliance of the AMIM managed funds was checked in light of the stock screening criteria as approved by the SSB of the Bank.

Shariah Audit

During the year 2005, Shariah Audit was carried out on a random basis to check the overall Shariah compliance of the Bank's operations and their alignment with the guidelines given by the Shariah Advisor and SSB. In the audit process the following areas have been checked:

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

Based on the Shariah review the Shariah Advisor has directed the Bank's management not to recognize income amounting to Rs 3.7 million earned on certain Murabaha and Bai Salam transactions, as the existence of assets underlying those Murabaha at the respective date of declaration has not been conclusively established as yet, while in a few transactions the document dates were different than the actual dates. In a few transactions of Bai Salam the standard agreement has not been used. The EC shall conduct a detailed review of the subject Murabaha and Bai Salam transactions in due course and accordingly determine whether or not this amount can be recognized as income.

During the course of review, a few Shariah compliance delays were observed in the Car Ijarah function of the Bank, however subsequently compliance was observed.

Charity

During the year an amount of Rs 5.70 million was transferred to the Charity Account and an amount of Rs 1.53 million was disbursed after the approval of the Shariah Advisor.

Conclusion

It is the responsibility of the Bank's management and employees to ensure application of Shariah principles and guidelines issued by the Shariah Supervisory Board and Shariah Advisor, and to ensure Shariah-compliance in all activities of the Bank. Keeping in view the growth of the Islamic banking activities of the Bank and in order to further strengthen Shariah-compliance in all activities, the scope of the audit and compliance needs to be enhanced to cover the directives of the Shariah Advisor and SSB.

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

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

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

A blue ink signature in Urdu script, written in a cursive style.

Dr. Muhammad Imran Usmani

Member Shariah Supervisory Board & Shariah Advisor

Dated: February 14th, 2006



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This Statement is being presented to comply with the Code of Corporate Governance contained in Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present the Board has eight non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurred in the Board during the year was duly filled on the same day.
5. Statement of Ethics and Business Practices has been approved and signed by the directors and employees of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of the significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The management of the Bank has circulated a summary of provisions of various laws i.e. the Companies Ordinance, 1984, the Code of Corporate Governance, the Banking Companies Ordinance, 1962, the Prudential Regulations of the State Bank of Pakistan and the Listing Regulations of the Karachi Stock Exchange as required under clause (xiv) of the Code i.e. with respect to the 'Orientation Course' of directors to acquaint them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of shareholders.
10. The Board approved appointments of CFO and Company Secretary and Head of Internal Audit during the year, including their remuneration and terms and conditions of employment, as determined by CEO.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank, other than that disclosed in the pattern of shareholdings.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed, approved by the Board and advised to the Committee for compliance.
17. The Board has set-up an internal audit function, the members of which are considered suitably qualified and experienced for the purpose and are conversent with the policies and procedures of the Bank.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

A blue ink handwritten signature of Irfan Siddiqui.

IRFAN SIDDIQUI
President and Chief Executive

March 9, 2006



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Meezan Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan and the Listing Regulation No. 37 of the Karachi Stock Exchange where the Bank is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2005.

A handwritten signature in blue ink, reading 'A. F. Ferguson & Co.'.

A. F. FERGUSON & Co.
Chartered Accountants
Karachi
March 13, 2006

STATEMENT OF INTERNAL CONTROLS



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

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

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

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

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

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

A blue ink signature of Irfan Siddiqui.

Irfan Siddiqui
President and Chief Executive

A blue ink signature of Ariful Islam.

Ariful Islam
Chief Operating Officer



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Meezan Bank Limited as at December 31, 2005 and the related profit and loss account, cash flow statement and 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 five branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2005 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 handwritten signature in blue ink, appearing to read 'A. F. Ferguson & Co.'.

A. F. FERGUSON & Co.
Chartered Accountants
Karachi
March 13, 2006



BALANCE SHEET

AS AT DECEMBER 31, 2005

	Note	2005	2004
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	7	3,956,938	2,623,588
Balances with other banks	8	2,855,823	1,751,083
Due from financial institutions		-	-
Investments	9	1,606,490	1,429,053
Financings	10	19,740,886	12,339,745
Other assets	11	2,210,100	1,349,184
Operating fixed assets	12	305,585	204,737
		30,675,822	19,697,390
LIABILITIES			
Bills payable	13	260,732	196,145
Due to financial institutions	14	2,981,714	2,862,139
Deposits and other accounts	15	22,769,262	13,769,807
Sub-ordinated loan		-	-
Liabilities against assets subject to finance leases		-	-
Other liabilities	16	1,469,258	770,631
Deferred taxation	17	170,274	286
		27,651,240	17,599,008
NET ASSETS		3,024,582	2,098,382
REPRESENTED BY			
Share capital	18	2,036,582	1,346,017
Capital reserves	19	666,322	256,578
Revenue reserves	20	268,036	258,325
		2,970,940	1,860,920
Advances against issue of right shares		-	192,312
Surplus on revaluation of investments	21	53,642	45,150
		3,024,582	2,098,382
CONTINGENCIES AND COMMITMENTS	22		

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2005



	Note	2005	2004
		Rupees in '000	
Profit / return on financings, investments and placements earned	23	1,459,229	534,400
Return on deposits and other dues expensed	24	690,418	250,393
Net spread earned		768,811	284,007
Provision against non-performing financings (net)	10.7	68,811	16,991
Provision / (reversal) for diminution in value of investments	9.2	(29,831)	1,750
Bad debts written off directly	10.8	-	-
		38,980	18,741
Net spread after provisions		729,831	265,266
OTHER INCOME			
Fee, commission and brokerage income		174,750	100,739
Capital gain on sale of investments		209,402	81,223
Dividend income		92,569	108,592
Unrealised gain on held for trading investments	9.1	57,792	42,081
Income from dealing in foreign currencies		77,961	26,830
Other income	25	9,677	5,628
Total other income		622,151	365,093
		1,351,982	630,359
OTHER EXPENSES			
Administrative expenses	26	718,384	409,296
Other provisions / write offs		-	-
Other charges	27	482	185
Total other expenses		718,866	409,481
		633,116	220,878
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION			
Taxation - current - for the year		4,671	5,470
- prior years		39,002	-
- deferred		169,988	(8,950)
	28	213,661	(3,480)
PROFIT AFTER TAXATION			
		419,455	224,358
Unappropriated profit brought forward		191,559	12,073
		611,014	236,431
APPROPRIATIONS AND TRANSFERS			
Transferred to			
Statutory reserve		(83,891)	(44,872)
Reserve for issue of bonus shares		(325,853)	-
		(409,744)	(44,872)
Unappropriated profit carried forward		201,270	191,559
Basic earnings per share - (Rupees)	29	2.28	1.37

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director



CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

Note	2005	2004
	Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	633,116	220,878
Dividend income	(92,569)	(108,592)
	<u>540,547</u>	<u>112,286</u>
Adjustments for non-cash charges		
Provision against non-performing financings (net)	68,811	16,991
Provision / (reversal) for diminution in value of investments	(29,831)	1,750
Unrealised gain on held for trading investments	(57,792)	(42,081)
Gain on sale of shares in a subsidiary company	-	(450)
Gain on sale of property, equipment and others	(163)	(704)
Depreciation	67,410	43,707
Amortisation	3,331	1,093
	<u>51,766</u>	<u>20,306</u>
	592,313	132,592
(Increase) / decrease in operating assets		
Net investments in held for trading securities	(77,551)	244,474
Financings	(7,438,993)	(4,959,658)
Other assets	(901,393)	(656,842)
	<u>(8,417,937)</u>	<u>(5,372,026)</u>
Increase in operating liabilities		
Bills payable	64,587	27,083
Due to financial institutions	119,575	1,873,175
Deposits and other accounts	8,999,455	6,012,945
Other liabilities	698,634	393,288
	<u>9,882,251</u>	<u>8,306,491</u>
	2,056,627	3,067,057
Income tax paid	(6,147)	(7,112)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>2,050,480</u>	<u>3,059,945</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in		
- held to maturity securities	(852)	(120,893)
- available for sale securities	54,262	(90,329)
- quoted associated undertakings	6,640	4,080
- unquoted associated undertakings	(94,780)	(286,000)
Sale proceeds on disposal of shares in an unquoted subsidiary company	-	5,300
Dividends received	95,520	107,118
Investments in operating fixed assets	(173,395)	(172,613)
Sale proceeds on disposal of property, equipment and others	1,969	2,317
Net cash outflow from investing activities	<u>(110,636)</u>	<u>(551,020)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Amount received against issue of right shares	498,253	192,312
Dividend paid	(7)	(52,447)
Net cash flow from financing activities	<u>498,246</u>	<u>139,865</u>
Net increase in cash and cash equivalents	2,438,090	2,648,790
Cash and cash equivalents as at January 1	4,374,671	1,725,881
Cash and cash equivalents as at December 31	<u>30 6,812,761</u>	<u>30 4,374,671</u>

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005



	Share capital	Capital reserves			Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares	General reserve	Unappropriated profit	
..... Rupees in '000							
Balance as at January 1, 2004	1,064,045	33,333	211,706	106,405	209,000	12,073	1,636,562
Issue of bonus shares	281,972	(33,333)	-	(106,405)	(142,234)	-	-
Profit after taxation for the year	-	-	-	-	-	224,358	224,358
Transfer to statutory reserve	-	-	44,872	-	-	(44,872)	-
Balance as at December 31, 2004	1,346,017	-	256,578	-	66,766	191,559	1,860,920
Issue of right shares	351,135	-	-	-	-	-	351,135
Issue of right shares	339,430	-	-	-	-	-	339,430
Profit after taxation for the year	-	-	-	-	-	419,455	419,455
Transfer to statutory reserve	-	-	83,891	-	-	(83,891)	-
Transfer to reserve for issue of bonus shares	-	-	-	325,853	-	(325,853)	-
Balance as at December 31, 2005	2,036,582	-	340,469	325,853	66,766	201,270	2,970,940

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

The Bank was operating through twenty eight branches as at December 31, 2005 (2004: sixteen). Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

2. BASIS OF PRESENTATION

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

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

Following amendments to existing standards applicable to the Bank have been published that are mandatory for the Bank's accounting periods beginning on or after January 1, 2006 or later periods:

- | | | |
|-----|--|--------------------------------|
| i. | IAS 19 (Amendments) – Employee Benefits | effective from January 1, 2006 |
| ii. | IAS 1 Presentation of Financial Statements – Capital Disclosures | effective from January 1, 2007 |

Adoption of the above amendments in standards may only impact the extent of disclosures presented in the financial statements.

Islamic Financial Accounting Standards 1 – Murabaha issued by the Institute of Chartered Accountants of Pakistan becomes effective from period beginning on or after January 1, 2006.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- Critical judgement in classification of investments in accordance with the Bank's policy (notes 6.4.1 and 9).
- Assumption and estimation in recognition of provision for current taxation (current and prior years) and deferred taxation (notes 17, 22.4 and 28).

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

4. STATEMENT OF COMPLIANCE

4.1 The financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), the Banking Companies Ordinance, 1962 (the Ordinance), the directives issued by the SBP including format for financial statements of Bank issued by SBP through BSD Circular No. 36 dated October 10, 2001, and the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretation Committee of IASC (the interpretations), as adopted in Pakistan. However, the requirements of these Ordinances and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IASs and the interpretations.



- 4.2 The SBP through its BSD Circular letter No. 10 dated August 26, 2002 has deferred the implementation of IAS 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for banks in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of these financial statements.

5. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain investments are valued at market rates in accordance with the requirements of SBP's BSD Circular No. 10 dated July 13, 2004 as amended through BSD Circular No. 11 dated August 4, 2004 and BSD Circular No. 14 dated September 24, 2004.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

6.2 Revenue recognition

- (i) 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. Profit on murabaha is recognised on delivery of goods to the customer.
- (ii) The Bank follows the finance method in recognising income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset and documentation charges under ijarah facility is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in the ijarah. Gains / losses on termination of ijarah contracts are recognised as income on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iii) Consistent with prior years, profit on diminishing musharakah financings are recognised on accrual basis. Profit on musharakah financings is recognised on declaration of profit by musharakah partner.
- (iv) Commission on letters of credit, acceptances and guarantees is recognised on receipt basis, except for commission on guarantees in excess of Rs 50,000 which is recognised over the period of the guarantee.
- (v) Dividend income is recognised when the Bank's right to receive payment is established.
- (vi) Purchase and sale of investments are recorded on the dates of contract. Gains and losses on sale of investments are also recorded on those dates.

6.3 Financings

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

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

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

6.4 Investments

6.4.1 The Bank classifies its investments as follows:

- **Held for trading**
These are investments acquired principally for the purpose of generating profit from short-term fluctuations in price.
- **Held to maturity**
These are investments with fixed or determinable payments and fixed maturity and the Bank has positive intent and ability to hold to maturity.
- **Available for sale**
These are investments which do not fall under the 'held for trading' or 'held to maturity' categories.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

6.4.2 The Bank values its investments as follows:

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

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

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

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

6.5 Operating fixed assets

6.5.1 Tangible assets

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

Useful lives and residual values are reviewed at each balance sheet date, and adjusted if impact on depreciation is significant.

As of December 31, 2005, the Bank has estimated the residual values of its vehicles and accordingly the depreciable cost has been adjusted. Had the residual values of vehicles not been considered for charging depreciation the profit after taxation for the year ended December 31, 2005 and net book values of the fixed assets as at that date would have been lower by Rs 1.446 million and Rs 2.751 million respectively. The effect on profit after taxation for the future periods as a result of the subject residual values is not considered material.

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

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

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

6.5.2 Intangible assets

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

As at December 31, 2005 the Bank has revised its estimate of useful lives of computer software and accordingly the amortisation charge has been adjusted. Had the useful lives of computer software not been revised, the profit after taxation for the year ended December 31, 2005 and net book values of intangible assets would have been higher by Rs 0.781 million and Rs 1.487 million respectively. The effect on profit after taxation for the future periods as a result of revision of useful lives is not considered material.



6.6 Taxation

Current

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

Deferred

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

6.7 Staff retirement benefits

Defined benefit plan

The Bank operates a funded gratuity scheme for all its permanent employees who have completed the minimum qualifying eligible service of one year. The scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2005. The projected unit credit method was used for actuarial valuation.

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

Defined contribution plan

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

6.8 Foreign currencies

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

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

6.9 Provisions and contingent assets and liabilities

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

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

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

6.10 Offsetting

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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

6.11 Compensated absences

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

2005 2004
Rupees in '000

7. CASH AND BALANCES WITH TREASURY BANKS

In hand		
- local currency	715,331	266,600
- foreign currencies	117,213	59,858
With the SBP in		
- local currency current accounts - note 7.1	2,982,789	2,199,745
- foreign currency current accounts - note 7.1	136,043	97,000
With National Bank of Pakistan in		
- local currency current accounts	5,562	385
	<u>3,956,938</u>	<u>2,623,588</u>

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

8. BALANCES WITH OTHER BANKS

In Pakistan		
- on current accounts	57,689	21,818
- on deposit accounts	-	164,716
Outside Pakistan		
- on current accounts	856,399	817,793
- on deposit accounts	1,941,735	746,756
	<u>2,855,823</u>	<u>1,751,083</u>

9. INVESTMENTS

	2005			2004		
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total
Rupees in '000						
Investments by types						
Held for trading securities -note 9.3	298,449	-	298,449	178,817	-	178,817
Held to maturity securities -note 9.4	179,142	-	179,142	178,290	-	178,290
Available for sale securities -note 9.5	166,982	-	166,982	221,244	-	221,244
In related parties						
Subsidiary (unquoted) -note 9.6	63,050	-	63,050	63,050	-	63,050
Associates (quoted) -note 9.7	525,106	-	525,106	351,746	-	351,746
Associates (unquoted) -note 9.8	252,780	-	252,780	103,000	-	103,000
Advance against issue of shares of Pak-Kuwait Takaful Company Limited	17,000	-	17,000	-	-	-
Advance against issue of preference shares of Falcon Greenwood (Private) Limited (an associate)	-	-	-	72,000	-	72,000
Advance against issue of certificates by an associate	-	-	-	180,000	-	180,000
	<u>1,502,509</u>	-	<u>1,502,509</u>	<u>1,348,147</u>	-	<u>1,348,147</u>
Add: Surplus on revaluation of investments						
- 'Held for trading'	57,792	-	57,792	42,081	-	42,081
- 'Available for sale'	53,642	-	53,642	45,150	-	45,150
	<u>1,613,943</u>	-	<u>1,613,943</u>	<u>1,435,378</u>	-	<u>1,435,378</u>
Less: Provision for diminution in value of investments - note 9.2	7,453	-	7,453	6,325	-	6,325
	<u>1,606,490</u>	-	<u>1,606,490</u>	<u>1,429,053</u>	-	<u>1,429,053</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
9.1 Investments by segments		
Fully paid up ordinary shares		
- Listed companies	654,127	596,207
- Unlisted companies	174,050	166,050
Musharakah term finance certificates	20,502	30,600
Term finance certificates	29,563	-
Preference shares	141,780	-
Sukuk bonds - note 9.4	179,142	178,290
Units of an open end fund	125,000	125,000
Certificates of a closed end fund	161,345	-
Advance against issue of ordinary shares	17,000	-
Advance against issue of preference shares	-	72,000
Advance against issue of certificates	-	180,000
	1,502,509	1,348,147
Add: Surplus on revaluation of investments		
- 'Held for trading'	57,792	42,081
- 'Available for sale'	53,642	45,150
	1,613,943	1,435,378
Less: Provision for diminution in value of investments - note 9.2	7,453	6,325
	1,606,490	1,429,053

	2005			2004		
	Associates	Others	Total	Associate	Others	Total
	Rupees in '000					
Opening balance	6,325	-	6,325	4,575	-	4,575
Transferred from provision against non-performing financings	-	30,959	30,959	-	-	-
Charge for the year	1,128	-	1,128	1,750	-	1,750
Reversal	-	(30,959)	(30,959)	-	-	-
	1,128	(30,959)	(29,831)	1,750	-	1,750
Closing balance	7,453	-	7,453	6,325	-	6,325



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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	2005	2004	2005	2004
	Number of shares		Cost / carrying value Rupees in '000	
Textile composite				
Nishat (Chunian) Limited	-	50,000	-	3,910
Nishat Mills Limited	125,000	-	13,021	-
Synthetic and rayon				
Dewan Salman Fibres Limited	905,000	-	18,611	-
Cement				
DG Khan Cement Company Limited	133,000	60,000	13,992	2,870
Maple Leaf Cement Factory Limited	153,000	-	5,797	-
Refinery				
National Refinery Limited	72,000	26,000	27,295	4,160
Power generation and distribution				
Hub Power Company Limited	882,500	94,500	23,955	3,357
Kot Addu Power Company Limited	50,000	-	1,941	-
Oil and gas marketing				
Pakistan State Oil Company Limited	22,500	129,500	8,447	35,018
Shell Pakistan Limited	-	8,000	-	3,354
Sui Southern Gas Company Limited	309,712	39,712	8,412	1,168
Oil and gas exploration				
Pakistan Oilfields Limited	153,000	55,000	43,656	11,818
Oil and Gas Development Company Limited	155,000	-	16,574	-
Pakistan Petroleum Limited	75,000	-	15,565	-
Automobile assembler				
Agriauto Industries Limited - note 9.3.1	180,000	180,000	9,792	8,865
Dewan Farooque Motors Limited	85,000	-	2,606	-
Indus Motor Company Limited	50,000	-	6,291	-
Technology and communication				
Pakistan Telecommunication Company Limited (A)	-	953,500	-	38,466
Callmate Telips Telecom Limited	354,750	-	10,020	-
Fertilizer				
Engro Chemical Pakistan Limited	120,000	-	18,437	-
Fauji Fertilizer Bin Qasim Company Limited	35,000	-	1,340	-
Fauji Fertilizer Company Limited	269,775	546,365	24,256	53,854
Chemical				
ICI Pakistan Limited	50,000	-	7,008	-
Paper and board				
Packages Limited	120,116	81,712	21,433	11,026
Food and personal care products				
Unilever Pakistan Limited - note 9.3.2	-	980	-	874
Miscellaneous				
Tri-Pack Films Limited	-	900	-	77
			<u>298,449</u>	<u>178,817</u>



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 Held to maturity securities

Name of the investee entity	2005		2004	
	Number of bonds		Cost Rupees in '000	
Sukuk bonds				
Qatar Global Sukuk Bonds (Sukuk - Qatar) - note 9.4.1	1,000,000	1,000,000	59,714	59,430
Dubai Sukuk Bonds (Sukuk - Dubai) - note 9.4.2	2,000,000	2,000,000	119,428	118,860
			<u>179,142</u>	<u>178,290</u>

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

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

9.5 Available for sale securities

The Bank holds investments in ordinary shares, musharakah term finance certificates (MTFCs) and term finance certificates (TFCs) of a nominal value of Rs 10 each, unless stated otherwise, in the following listed investee companies:

Name of the investee company	2005		2004	
	Number of shares / certificates		Cost Rupees in '000	
Ordinary shares				
Auto assembler				
Agriaautos Industries Limited - note 9.3.1	120,000	120,000	5,929	5,929
Power generation and distribution				
Hub Power Company Limited	1,500,000	1,500,000	49,000	49,000
Oil and gas marketing				
Pakistan State Oil Company Limited	75,280	100,280	20,569	27,401
Shell Pakistan Limited	35,750	45,000	9,727	15,305
Sui Southern Gas Company Limited	600,000	1,100,000	16,422	30,107
Oil and gas exploration				
Pakistan Oilfields Limited	-	100,000	-	21,488
Technology and communication				
Pakistan Telecommunication Company Limited (A)	-	476,500	-	15,555
Fertilizer				
Fauji Fertilizer Company Limited	288,586	172,500	11,537	11,537
Paper and board				
Packages Limited	44,100	30,000	3,733	1,829
Food and personal care products				
Unilever Pakistan Limited - note 9.3.2	-	14,000	-	12,493
MTFCs				
Sitara Chemicals Limited - note 9.5.1	6,120	6,120	20,502	30,600
TFCs				
Dewan Cement Limited (formerly Pakland Cement Limited) - note 9.5.2	-	-	29,563	-
			<u>166,982</u>	<u>221,244</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

9.5.1 The paid up value of MTFs is Rs 3,350 (2004: Rs 5,000) per certificate. The return on MTFs is on Musharakah basis and will mature in 2006 and 2007.

9.5.2 During the year ended December 31, 2005, the Bank has reclassified the loan amounting to Rs 30.959 million receivable from Dewan Cement Limited (formerly Pakland Cement Limited) as part of its investments in TFCs as 'available for sale' securities in accordance with the SBP's Circular No. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005. The provision against these investment has been reversed as repayments from these TFCs are being received in accordance with the repayment schedule. The Bank holds following TFCs in the company:

- Series 'A' TFCs having face value of Rs 31.300 million; and
- Series 'B' TFCs having face value of Rs 5.600 million.

Series 'A' TFCs represents principal amount and carries a yield of 6 months ask KIBOR + 2.5 percent whereas Series 'B' has been issued for accrued markup and carries no yield. The TFCs will be redeemed between the periods January 15, 2006 to July 15, 2013. Subsequent to year end the Bank has disposed off its investment in Series 'A' TFCs subject to certain conditions. The income relating to mark-up on TFCs have not been taken to profit and loss account pending its review in accordance with the Shariah requirements.

9.6 Subsidiary (unquoted)

Particulars	2005	2004	2005	2004	Percentage of equity holding %	Break up value per share Rupees	Latest available financial statements	Name of the chief executive
	Number of shares		Rupees in '000					
Al Meezan Investment Management Limited (ordinary shares) – note 9.6.1	650,000	650,000	63,050	63,050	65	396.37	December 31, 2005*	Mr. Mohammad Shoaib
Total			63,050	63,050				

*Half yearly unaudited financial statements.

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

9.7 Associates (quoted)

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

Name of the investee entity	2005	2004	Percentage of direct equity holding %	2005	2004
	Number of shares / certificates / units			Rupees in '000	
Ordinary shares					
Closed end mutual fund					
Al Meezan Mutual Fund Limited	3,160,680	1,784,800	2.64	24,165	12,150
Certificates of closed end fund					
Meezan Balanced Fund	16,134,468	-	N/A	161,345	-
Modaraba					
Fayzan Manufacturing Modaraba	21,457,500	21,457,500	23.84	214,596	214,596
Units of an open end fund					
Meezan Islamic Fund - note 9.7.1	3,687,954	2,841,095	N/A	125,000	125,000
				525,106	351,746

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005



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

9.7.2 The above associates are incorporated in Pakistan.

9.7.3 Investments in quoted associates have a market value of Rs 726.009 million (2004: Rs 480.230 million).

9.8 Associates (unquoted)

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

Particular	2005	2004	2005	2004	Percentage of equity holding %	Break up value per share Rupees	Latest available financial statements	Name of the chief executive
	Number of shares / certificates		Rupees in '000					
Plexus (Private) Limited	1,499,980	1,499,980	15,000	15,000	50	6.71	December 31, 2005*	Mr. Ariful Islam
Faysal Management Services (Private) Limited - note 9.8.1	540,000	540,000	54,000	54,000	30	117.80	December 31, 2005	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited - note 9.8.1	90,000	90,000	9,000	9,000	30	100	December 31, 2005*	Mr. Shuja-ul-Mulk
Falcon Greenwood (Private) Limited - Ordinary shares - note 9.8.1	250,000	250,000	25,000	25,000	25	100	December 31, 2005*	Mr. Abbas Khan
- Preference shares - note 9.8.2	1,417,800	-	141,780	-	N/A	N/A		
Pak-Kuwait Takaful Company Limited	800,000	-	8,000	-	10	8.59	December 31, 2005*	Mr. Istaqbal Mehdi
Total			<u>252,780</u>	<u>103,000</u>				

* Unaudited

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

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

9.8.3 The above associates are incorporated in Pakistan.

10. FINANCINGS

	2005	2004
	Rupees in '000	
In Pakistan		
- Murabaha financings	8,117,096	4,856,083
- Net investment in ijarah - note 10.2	5,103,433	3,221,480
- Export refinance under Islamic scheme	2,923,000	2,705,274
- Diminishing musharakah financings - housing	1,900,763	677,349
- Diminishing musharakah financings - others	983,557	467,269
- Musharakah financings	104,500	104,500
- Financings against bills - salam	260,532	183,166
- Financings against bills - murabaha	353,433	87,779
- Loans, running finances, etc.- note 10.3	111,246	115,667
Total financings - notes 10.4, 10.5 and 10.6	<u>19,857,560</u>	<u>12,418,567</u>
Less: Provision against non-performing financings - note 10.7	<u>116,674</u>	<u>78,822</u>
	<u>19,740,886</u>	<u>12,339,745</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

		2005	2004
		Rupees in '000	
10.1	Particulars of financings		
10.1.1	In		
	- local currency	18,894,113	12,132,123
	- foreign currencies	846,773	207,622
		<u>19,740,886</u>	<u>12,339,745</u>
10.1.2	Short-term (for upto one year)	13,211,186	8,583,182
	Long-term (for over one year)	6,529,700	3,756,563
		<u>19,740,886</u>	<u>12,339,745</u>

10.2 Net investment in ijarah

	2005				2004			
	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	1,748,678	2,918,730	677,989	5,345,397	950,976	2,332,991	9,697	3,293,664
Residual value	137,663	679,568	68,397	885,628	14,650	452,418	395	467,463
Minimum ijarah payments	1,886,341	3,598,298	746,386	6,231,025	965,626	2,785,409	10,092	3,761,127
Profits for future periods	467,125	572,543	87,924	1,127,592	223,969	313,486	2,192	539,647
Present value of minimum ijarah payments	1,419,216	3,025,755	658,462	5,103,433	741,657	2,471,923	7,900	3,221,480

10.3 This includes Rs 84.493 million (2004: Rs 56.691 million) representing mark-up free loans to staff advanced under the Bank's human resource policies.

10.4 Loans and financings to executives and a director

	Executives		Director	
	2005	2004	2005	2004
	Rupees in '000			
Opening balance	36,087	23,329	960	1,093
Loans disbursed during the year	24,871	16,519	-	-
Loans repaid during the year	(6,640)	(3,761)	(133)	(133)
Closing balance	<u>54,318</u>	<u>36,087</u>	<u>827</u>	<u>960</u>

10.5 Particulars of loans and financings to executives, director, associated companies etc.

	Balance as at December 31, 2005	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	121,902	121,902
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 - note 10.5.1	311,912	311,912
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties - note 10.5.2	2,187	2,541
	<u>436,001</u>	<u>436,355</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005



10.5.1 This represents a musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs 94.500 million (2004: Rs 94.500 million) and murabaha, financings against bills and ijarah facilities outstanding from The General Tyre and Rubber Company of Pakistan Limited (an associated company) amounting to Rs 50 million, Rs 72.015 million and Rs 95.396 million (2004: Rs 52.417 million) respectively. The musharakah facility is secured against equitable mortgage over property, whereas murabaha and financings against bills and ijarah facilities are secured against hypothecation charge over present and future stocks, book debts and the rented assets respectively.

10.5.2 This represents an ijarah facility outstanding from Al Meezan Investment Management Limited (a subsidiary company). The ijarah facility is secured against the respective assets.

10.6 Financings include Rs 183.373 million (2004: Rs 59.971 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				
Substandard	89,771	-	89,771	20,788	20,788
Doubtful	47,557	-	47,557	120	120
Loss	46,045	-	46,045	46,045	46,045
	<u>183,373</u>	<u>-</u>	<u>183,373</u>	<u>66,953</u>	<u>66,953</u>

10.7 Particulars of provision against non-performing financings:

	2005			2004		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	59,971	18,851	78,822	62,192	-	62,192
Transfer to 'available for sale' investments	(30,959)	-	(30,959)	-	-	-
Charge for the year	37,941	30,870	68,811	2,620	18,851	21,471
Reversals	-	-	-	(4,480)	-	(4,480)
	37,941	30,870	68,811	(1,860)	18,851	16,991
Amounts written off – note 10.8	-	-	-	(361)	-	(361)
Closing balance	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>	<u>59,971</u>	<u>18,851</u>	<u>78,822</u>

10.7.1 During the year, the State Bank of Pakistan has directed banks to classify their non-performing financings and determine provision for doubtful financings in accordance with BSD Circular No. 7 dated November 01, 2005. Accordingly, the Bank has classified its non-performing financings and determined provision for doubtful financings in accordance with aforementioned circular. The effect of this change in determination of provision is not considered to be material.

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

	2005	2004
	Rupees in '000	
10.8 Particulars of write offs		
10.8.1 Against provision – note 10.7	-	361
Directly charged to profit and loss account	-	-
	<u>-</u>	<u>361</u>
10.8.2 Write offs of Rs 500,000 and above	-	-
Write offs below Rs 500,000	-	361
	<u>-</u>	<u>361</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005 2004
Rupees in '000

11. OTHER ASSETS

Profit / return accrued in local currency	308,282	106,650
Profit / return accrued in foreign currencies	7,144	1,945
Advances, deposits, advance rent and other prepayments	203,208	150,044
Advance taxation (payments less provisions)	150,193	187,719
Receivables on account of sale of securities	761,543	318,524
Dividends receivable	765	3,716
Stamps	2,202	1,494
Advance against future murabaha	368,818	325,046
Advances against future ijarah	382,981	247,632
Security deposits	6,208	5,928
Unrealised gain (net) on forward foreign exchange contracts	17,038	-
Prepaid exchange risk fee	47	42
Other – note 11.1	1,671	444
	<u>2,210,100</u>	<u>1,349,184</u>

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

12. OPERATING FIXED ASSETS

Tangible assets		
- Capital work-in-progress – note 12.1	26,895	12,830
- Property, equipment and others – note 12.2	265,367	182,767
	<u>292,262</u>	<u>195,597</u>
Intangible assets – note 12.4	13,323	9,140
	<u>305,585</u>	<u>204,737</u>

12.1 Capital work-in-progress

- Advances to suppliers and contractors for building renovation	15,455	4,792
- Advances for computer hardware	1,806	-
- Advances for purchase of vehicles	3,999	8,038
- Advances for computer software	5,635	-
	<u>26,895</u>	<u>12,830</u>

12.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2005	Rate of depreciation %
	As at January 1, 2005	Additions/ (disposals)	As at December 31, 2005	As at January 1, 2005	Charge/ (on disposals)	As at December 31, 2005		
Rupees in '000								
Land and buildings	55,329	-	55,329	2,766	2,766	5,532	49,797	5
Leasehold improvements	61,021	57,071	118,092	9,400	11,810	21,210	96,882	10
Furniture and fixtures	12,453	13,840	26,293	2,366	2,625	4,991	21,302	10
Electrical, office and computer equipments	75,999	51,372 (460)	126,911	39,852	37,946 (438)	77,360	49,551	33
Vehicles	53,214	29,533 (4,459)	78,288	20,865	12,263 (2,675)	30,453	47,835	20
2005	258,016	151,816 (4,919)	404,913	75,249	67,410 (3,113)	139,546	265,367	
2004	97,973	163,451 (3,408)	258,016	33,337	43,707 (1,795)	75,249	182,767	



12.3 Property, equipment and others - Movement of net book value

	Land and buildings	Leasehold improvements	Furniture and fixtures	Electrical, office and computer equipments	Vehicles	Total
..... Rupees in '000						
At January 1, 2004						
Cost	-	26,534	6,155	32,971	32,313	97,973
Accumulated depreciation	-	3,298	1,121	16,894	12,024	33,337
Net book value	-	23,236	5,034	16,077	20,289	64,636
Year ended December 31, 2004						
Additions	55,329	34,487	6,298	43,695	23,642	163,451
Net book value of disposals	-	-	-	412	1,201	1,613
Depreciation charge	2,766	6,102	1,245	23,213	10,381	43,707
	52,563	51,621	10,087	36,147	32,349	182,767
Year ended December 31, 2005						
Additions	-	57,071	13,840	51,372	29,533	151,816
Net book value of disposals	-	-	-	22	1,784	1,806
Depreciation charge	2,766	11,810	2,625	37,946	12,263	67,410
Net book value as at December 31, 2005	49,797	96,882	21,302	49,551	47,835	265,367

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

12.3.2 Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs 15.058 million (2004: Rs 6.986 million).

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

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
..... Rupees in '000						
Electrical, office and computer equipments						
Mobile	14	9	5	5	Bank policy	Mr. Aqeel Ahmed Siddiqui (Ex-employee)
Mobile	12	4	8	4	Bank policy	Mr. Pervez Mobin (Ex-employee)
Mobile	14	5	9	4	Bank policy	Mr. Gohar Iqbal Sheikh (Ex-employee)
Fax Machine	76	76	-	5	Trade-in	Mansha Brothers 5 - Amber Palm Block-B, Shahrah-e-Faisal, Karachi
Computers	344	344	-	25	Negotiation	Various buyers
Vehicles						
Honda Civic	955	573	382	509	Bank policy	Mr. Aqeel Ahmed Siddiqui (Ex-employee)
Toyota Corolla	1,169	701	468	526	Bank policy	Mr. Gohar Iqbal Sheikh (Ex-employee)
Suzuki Cultus	555	333	222	231	Bank policy	Ms. Mehnaz Ikram (Employee)
Honda Civic	995	597	398	398	Bank policy	Mr. Ayaz Wasay (Ex-employee)
Honda City	785	471	314	262	Bank policy	Mr. M. Rizvi (Employee)
	4,919	3,113	1,806	1,969		



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

12.4 Intangible assets

	COST				AMORTISATION			Rate of amortisation %
	As at January 1, 2005	Additions	As at December 31, 2005	As at January 1, 2005	Charge	As at December 31, 2005	Net book value as at December 31, 2005	
	Rupees in '000							
Computer software	10,928	7,514	18,442	1,788	3,331	5,119	13,323	20
2004	5,328	5,600	10,928	695	1,093	1,788	9,140	10

12.5 Intangible assets - Movement of net book value

	Year ended December 31, 2005				Year ended December 31, 2004			
	Net book value as at January 1, 2005	Additions	Amortisation charge for the year	Net book value as at December 31, 2005	Net book value as at January 1, 2004	Additions	Amortisation charge for the year	Net book value as at December 31, 2004
	Rupees in '000							
Computer software	9,140	7,514	3,331	13,323	4,633	5,600	1,093	9,140

2005 2004
Rupees in '000

13. BILLS PAYABLE

In Pakistan	260,732	196,145
Outside Pakistan	-	-
	260,732	196,145

14. DUE TO FINANCIAL INSTITUTIONS

In Pakistan	2,981,714	2,862,139
Outside Pakistan	-	-
	2,981,714	2,862,139

14.1 Particulars of due to financial institutions

In local currency	2,922,000	2,835,274
In foreign currencies	59,714	26,865
	2,981,714	2,862,139

14.2 Details of due to financial institutions

Secured		
Under Islamic export refinance scheme – note 14.2.1	2,922,000	2,665,274
Unsecured		
Call borrowing	-	170,000
Others	59,714	26,865
	2,981,714	2,862,139

14.2.1 These borrowings are on a profit and loss sharing basis maturing between January 2 to June 28, 2006 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 4,500 million has been allocated to the Bank by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2006.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
15. DEPOSITS AND OTHER ACCOUNTS		
Customers		
- Fixed deposits schemes	6,492,676	4,628,446
- Savings deposits	7,500,017	5,113,127
- Current accounts - non-remunerative	5,028,807	3,134,172
- Margin	207,290	90,675
	<u>19,228,790</u>	<u>12,966,420</u>
Financial institutions		
- Remunerative deposits	3,534,865	784,038
- Non-remunerative deposits	5,607	19,349
	<u>3,540,472</u>	<u>803,387</u>
	<u>22,769,262</u>	<u>13,769,807</u>
15.1 Particulars of deposits		
In		
- local currency	21,605,754	12,914,624
- foreign currencies	1,163,508	855,183
	<u>22,769,262</u>	<u>13,769,807</u>
16. OTHER LIABILITIES		
Return on deposits and other dues		
- payable in local currency - note 16.1	171,182	76,211
- payable in foreign currencies	1,436	818
Unearned commission	11,869	7,803
Accrued expenses - note 16.2	51,000	23,260
Advance payments	7,720	10,879
Unclaimed dividends	855	862
Unrealised loss (net) on forward foreign exchange contracts	-	1,184
Payable to defined benefit plan - note 32.3	5,627	6,530
Provision against off-balance sheet obligations - note 16.3	1,600	1,600
Security deposits against ijarah	885,628	480,863
Payable on account of purchase of securities	149,552	64,449
Other staff benefits	108,361	64,373
Others - notes 16.4, 16.5 and 16.6	74,428	31,799
	<u>1,469,258</u>	<u>770,631</u>
16.1 It includes Rs 49.006 million (2004: Rs 10.357 million) in respect of return accrued on borrowings from the SBP under the Islamic export refinance scheme.		
16.2 It includes Rs 7.4 million payable to a subsidiary.		
16.3 Provision against off-balance sheet obligations.		
Opening balance - note 16.3.1	1,600	1,600
Charge for the year	-	-
Reversals	-	-
Amount written off	-	-
Closing balance	<u>1,600</u>	<u>1,600</u>
16.3.1 This represents provision made against a bail bond issued on behalf of former employees of Societe Generale, The French and International Bank in a suit pending before a court.		



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

- 16.4** It includes charity payable aggregating Rs 6.740 million (2004: Rs 2.889 million). Charities amounting to Rs 0.5 million and Rs 0.649 million during the year ended December 31, 2005 were paid to the The Citizen Foundation and Alamgir Welfare Trust respectively. None of the other individuals received charity in excess of Rs 100,000 each. Charity and donation were not paid to any individual / organisation in which a director or his spouse had any interest at any time during the year.
- 16.5** It includes donation payable aggregating Rs 4 million for relief efforts for earthquake victims.
- 16.6** It includes amounts aggregating Rs 2.700 million and Rs 1 million which the Bank had earned from murabaha financings and income from dealing in foreign currencies respectively. These incomes have not been recognised as income on the directives of Bank's Shariah Advisor pending a detail review of the underlying transactions by the Shariah Supervisory Board. The related incomes may not be in accordance with the principles of Islamic Shariah.

2005 **2004**
Rupees in '000

17. DEFERRED TAXATION

(Debit) / credit balances arising on account of:

Excess of tax written down values over accounting net book values of owned assets	2,919	1,397
Other staff benefits	(37,926)	(24,461)
Excess of ijarah financings over tax written down values of ijarah assets	253,400	113,504
Carried forward unassessed tax losses	(29,480)	(86,284)
Excess of tax written down values over accounting net book values of investments	(2,609)	(2,404)
Provision against non-performing financings	(14,070)	(858)
Others	(1,960)	(608)
	<u>170,274</u>	<u>286</u>

- 17.1** The Bank has an aggregate amount of Rs 84.229 million (2004: 227.063 million) available as carried forward unassessed tax losses as at December 31, 2005. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

18. SHARE CAPITAL

18.1 Authorised, issued, subscribed and paid-up capital

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

	Ordinary shares	
	Number	Amount Rupees in '000
Authorised capital		
As at January 1, 2005	200,000,000	2,000,000
Increase during the year	100,000,000	1,000,000
As at December 31, 2005	<u>300,000,000</u>	<u>3,000,000</u>
Issued capital		
As at January 1, 2004	106,404,514	1,064,045
Ordinary shares of Rs 10 each issued as bonus shares	28,197,195	281,972
Right issue at Rs 10 each	35,113,489	351,135
As at December 31, 2004	<u>169,715,198</u>	<u>1,697,152</u>
Right issue at Rs 10 each	33,943,039	339,430
As at December 31, 2005	<u>203,658,237</u>	<u>2,036,582</u>
Subscribed and paid-up capital		
As at January 1, 2004	106,404,514	1,064,045
Issue of bonus shares	28,197,195	281,972
As at December 31, 2004	<u>134,601,709</u>	<u>1,346,017</u>
Right issue at Rs 10 each	69,056,528	690,565
As at December 31, 2005	<u>203,658,237</u>	<u>2,036,582</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



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

	2005	2004
	Rupees in '000	
19. CAPITAL RESERVES		
Statutory reserve - note 19.1	340,469	256,578
Reserve for issue of bonus shares	325,853	-
	666,322	256,578
19.1 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.		
20. REVENUE RESERVES		
General reserve	66,766	66,766
Unappropriated profit	201,270	191,559
	268,036	258,325
21. SURPLUS ON REVALUATION OF INVESTMENTS		
Quoted shares	50,772	40,866
Other securities (Quoted MTFCs)	2,870	4,284
	53,642	45,150
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Government	82,298	66,587
22.2 Transaction related contingent liabilities		
Guarantees favouring		
- Government	1,851,267	2,188,156
- Banks	18,397	32,717
- Others	1,224,058	714,812
	3,093,722	2,935,685
22.3 Trade related contingent liabilities		
Import letters of credit	5,880,513	2,880,866
Acceptances	2,242,686	1,236,296
	8,123,199	4,117,162

22.4 While finalising the issues set aside by CIT, Appeals under order no. Jud-11/R.P/cos-1/2000-2001/1415 for the income year ended June 30, 2001 (assessment year 2001-2002) the assessing officer has subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income. The Bank has filed an appeal in Income Tax Appellate Tribunal (ITAT). The matter is pending hearing in the tribunal.

The amount of tax levied by the assessing officer on such gain aggregated Rs 141.689 million, whereas the net tax liability for the aforesaid assessment year and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs 41 million. The management is confident that the ultimate outcome of the appeal would be in favour of the Bank especially for the reason that the State Bank of Pakistan through its letter No. 6226/Sec-296-2001 dated October 3, 2001 has confirmed that the assessee's deposits were covered under the Protection of Economic Reforms Act, 1992. Accordingly, no provision has been recognised in the financial statements in this regard.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005 2004
Rupees in '000

22.5 Commitments in respect of

Financings

13,417,146

10,754,024

22.6 Commitments in respect of forward exchange contracts

Purchases

1,908,163

573,145

Sales

4,641,603

1,808,208

22.7 Other commitments

Bills for collection (inland)

16,108

32,249

Bills for collection (foreign)

1,146,365

934,538

1,162,473

966,787

23. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED

On financings to:

- Customers

1,422,098

513,397

- Financial institutions

-

-

On investments in

- 'Held to maturity' securities – note 23.1

6,667

1,639

- 'Available for sale' securities

3,066

5,327

On deposits with financial institutions

27,398

14,037

1,459,229

534,400

23.1 It represents return on investments made in Qatar and Dubai Global Sukuk Bonds.

24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

Deposits – note 24.1

520,946

195,549

Other short term borrowings

169,472

54,844

690,418

250,393

24.1 It includes Rs 144.02 million (2004: Rs 34.38 million) paid to SBP under Islamic export refinance scheme.

25. OTHER INCOME

Gain on sale of shares in a subsidiary company

-

450

Gain on termination of ijarah financings

9,186

3,897

Gain on sale of property, equipment and others

163

704

Others

328

577

9,677

5,628

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
26. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	294,177	160,338
Charge for defined benefit plan - note 32.4	5,627	3,641
Contribution to defined contribution plan	7,776	4,606
Directors' fees - note 33	7,943	8,824
Rent, taxes, insurance, electricity, etc.	79,140	41,422
Insurance on consumer car ijarah	58,862	21,018
Communication	32,386	19,753
Stationery and printing	20,998	15,400
Entertainment	6,576	2,689
Local transportation and car running	8,506	8,506
Clearing charges and subscription fees	3,857	7,128
Security charges	7,439	3,646
Repairs and maintenance	6,699	3,435
Hardware and software maintenance	3,813	2,760
Advertisement and publicity	30,294	21,816
Depreciation - note 12.2	67,410	43,707
Amortisation - note 12.4	3,331	1,093
Travelling	7,195	5,785
Service charges - note 33.2	13,352	13,352
Portfolio management fee - note 26.1	9,568	559
Brokerage and commission	9,660	4,655
Legal and professional charges	8,876	5,345
Auditors' remuneration - note 26.2	5,360	4,925
Donations - note 16.5	4,000	-
Others	7,699	5,414
	<u>718,384</u>	<u>409,296</u>
26.1 This represents fee paid to a subsidiary for the management of investment portfolio of the Bank.		
26.2 Auditors' remuneration		
Audit fee	950	850
Fee for audit of employees' funds	75	75
Tax services	2,253	1,304
Special certifications and sundry advisory services	1,892	2,566
Out of pocket expenses	190	130
	<u>5,360</u>	<u>4,925</u>
27. OTHER CHARGES		
Penalties imposed by the SBP	<u>482</u>	<u>185</u>
28. TAXATION		
- Current - for the year	4,671	5,470
- for prior years	39,002	-
	43,673	5,470
- Deferred	169,988	(8,950)
	<u>213,661</u>	<u>(3,480)</u>



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

28.1 As the provision for current taxation for the year ended December 31, 2005 has been made on the basis of presumptive tax, therefore a relationship between the tax expense and the accounting profit has not been disclosed.

	2005	2004
29. BASIC EARNINGS PER SHARE		
Profit for the year (Rupees in '000)	419,455	224,358
Weighted average number of ordinary shares	184,024,464	164,303,450
Basic earnings per share - note 29.1 (Rupees)	2.28	1.37

29.1 The number of ordinary share as at December 31, 2004 has been adjusted for element of bonus in issue of right shares.

29.2 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2005 and 2004.

	2005	2004
	Rupees in '000	
30. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks – note 7	3,956,938	2,623,588
Balances with other banks – note 8	2,855,823	1,751,083
	6,812,761	4,374,671

	2005	2004
31. STAFF STRENGTH		
Total number of employees, including 105 (2004: 73) contracted employees at the end of the year	786	511

32. DEFINED BENEFIT PLAN

32.1 Principal actuarial assumptions

	2005	2004
Discount rate	10% p.a	9% p.a
Expected rate of increase in salaries	10% p.a	9% p.a
Expected rate of return on investments	10% p.a	9% p.a
Normal retirement age	60 years	60 years

	2005	2004
	Rupees in '000	
32.2 Reconciliation of amount payable to defined benefit plan		
Present value of defined benefit obligations	17,640	10,972
Fair value of plan assets - note 32.6	(6,841)	(1,956)
Net actuarial losses not recognised	(5,172)	(2,486)
	5,627	6,530

32.3 Movement in payable to defined benefit plan

	2005	2004
Opening balance	6,530	2,889
Charge for the year – note 32.4	5,627	3,641
Contribution made during the year	(6,530)	-
Closing balance	5,627	6,530

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
32.4 Charge for defined benefit plan		
Current service cost	4,700	3,126
Interest cost	987	513
Expected return on plan assets	(176)	(135)
Actuarial losses	116	137
	5,627	3,641
32.5 Actual (loss) / return on plan assets	(380)	473

32.6 It includes a balance of Rs 6.501 million (2004: Rs 1.223 million) kept in a saving account with the Bank.

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

The amounts charged in these financial statements are as follows:

	President and Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	Rupees in '000					
Fees	923	899	7,020*	7,925	-	-
Managerial remuneration	16,086	8,945	18,764	12,116	48,456	27,673
Charge for defined benefit plan	-	-	617	513	1,790	1,327
Contribution to defined contribution plan	-	-	741	615	2,118	1,517
House rent	-	-	270	135	6,606	2,601
Utilities	-	-	741	615	2,484	1,816
Medical	176	69	846	723	2,619	2,059
Conveyance	537	506	145	259	-	-
Leave fare assistance	-	-	-	138	-	-
Others	143	218	14	128	-	788
	17,865	10,637	29,158	23,167	64,073	37,781
Number of persons	1	1	10	10	26	20

* This includes amounts charged in these financial statements as fees to nine (2004: nine) non-executive directors.

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

33.2 In addition to the above, service charges (note 26) include Rs 13.892 million (2004: Rs 12.997 million) in respect of reimbursement, to a related party, of salary and other benefits paid by that related party to the chief executive as he is on secondment from that related party.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

34. MATURITIES OF ASSETS AND LIABILITIES

Category of classification	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	Rupees in '000				
Assets					
Cash and balances with treasury banks	3,956,938	3,956,938	-	-	-
Balances with other banks	2,855,823	2,855,823	-	-	-
Investments	1,606,490	385,804	180,657	135,404	904,625
Financings	19,740,886	8,132,987	5,078,199	3,657,980	2,871,720
Other assets	2,210,100	2,203,892	-	-	6,208
Operating fixed assets	305,585	-	-	-	305,585
	<u>30,675,822</u>	<u>17,535,444</u>	<u>5,258,856</u>	<u>3,793,384</u>	<u>4,088,138</u>
Liabilities					
Bills payable	260,732	260,732	-	-	-
Due to financial institutions	2,981,714	2,048,939	932,775	-	-
Deposits and other accounts – note 34.1	22,769,262	18,617,451	1,789,752	2,362,059	-
Other liabilities	1,469,258	488,806	187,101	724,954	68,397
Deferred taxation	170,274	-	-	170,274	-
	<u>27,651,240</u>	<u>21,415,928</u>	<u>2,909,628</u>	<u>3,257,287</u>	<u>68,397</u>
Net assets	<u>3,024,582</u>	<u>(3,880,484)</u>	<u>2,349,228</u>	<u>536,097</u>	<u>4,019,741</u>
Share capital	2,036,582				
Capital reserves	666,322				
Revenue reserves	268,036				
Surplus on revaluation of investments	53,642				
	<u>3,024,582</u>				

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005



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.

Effective yield / profit rate	2005						
	Total	Exposed to yield/ profit risk				Not exposed to yield / profit risk	
		Upto three months	Over three months to one year	Over one year to five years	Over five years		
..... Rupees in '000							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	-	3,956,938	-	-	-	-	3,956,938
Balances with other banks	4.08	2,855,823	1,941,735	-	-	-	914,088
Investments	5.61	1,606,490	-	10,098	10,404	179,142	1,406,846
Financings	10.60	19,740,886	8,130,727	5,068,477	3,628,993	2,828,196	84,493
Other assets	-	1,856,652	-	-	-	-	1,856,652
		30,016,789	10,072,462	5,078,575	3,639,397	3,007,338	8,219,017
Liabilities							
Bills payable	-	260,732	-	-	-	-	260,732
Due to financial institutions	7.52	2,981,714	2,048,939	932,775	-	-	-
Deposits and other accounts	3.84	22,769,262	13,375,747	1,789,752	2,362,059	-	5,241,704
Other liabilities	-	558,414	-	-	-	-	558,414
		26,570,122	15,424,686	2,722,527	2,362,059	-	6,060,850
On-balance sheet gap		3,446,667	(5,352,224)	2,356,048	1,277,338	3,007,338	2,158,167
Non-financial assets		659,033					
Non-financial liabilities		(1,081,118)					
Total net assets		3,024,582					
Off-balance sheet financial instruments							
Forward lendings		-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-
Total yield / profit risk sensitivity gap			(5,352,224)	2,356,048	1,277,338	3,007,338	
Cumulative yield / profit risk sensitivity gap			(5,352,224)	(2,996,176)	(1,718,838)	1,288,500	

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

36. CURRENCY RISK

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	25,932,340	25,345,464	2,740,589	3,327,465
United States dollars	3,807,012	1,053,679	(2,661,500)	91,833
Great Britain pounds	101,965	76,772	-	25,193
Japanese yen	4,632	-	(3,806)	826
Euro	165,511	94,207	(75,283)	(3,979)
Singapore dollars	1,009	-	-	1,009
Australian dollars	2,452	-	-	2,452
Canadian dollars	849	-	-	849
Swiss francs	1,019	-	-	1,019
	<u>30,016,789</u>	<u>26,570,122</u>	<u>-</u>	<u>3,446,667</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, except investments categorised as 'held to maturity' securities and investments in subsidiaries and associates is based on quoted market prices. The value of unquoted equity investments is reduced, if required, on the basis of break-up value of those investments based on the latest available financial statements as disclosed in notes 9.6 and 9.8.

The fair value of financings, other assets, other liabilities and deposits and other accounts cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of financings has been calculated in accordance with the Bank's accounting policy as stated in note 6.3. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values as these assets and liabilities are either short term in nature or in the case of financings and deposits are frequently repriced.

38. 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. Out of the total financial assets of Rs 30.017 billion, the financial assets which were subject to credit risk amounted to Rs 26.060 billion. 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.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



38.1 Segment by class of business

	2005					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	566,261	2.87%	299,517	1.32%	3,527,715	10.87%
Agribusiness	-	-	139,216	0.61%	366,711	1.13%
Textile	6,153,918	31.17%	592,740	2.60%	9,045,523	27.86%
Cement	2,404	0.01%	15,320	0.07%	62,587	0.19%
Sugar	822,842	4.17%	13,723	0.06%	686,149	2.11%
Shoes and leather garments	888,119	4.50%	38,146	0.17%	1,120,349	3.45%
Automobile and transportation equipment	736,566	3.73%	102,353	0.45%	1,228,349	3.78%
Financial	50,000	0.25%	3,540,472	15.55%	6,676,914	20.56%
Insurance	-	-	37,086	0.16%	-	-
Electronics and electrical appliances	154,168	0.78%	7,728	0.03%	976,307	3.01%
Production and transmission of energy	227,316	1.15%	518,299	2.28%	415,160	1.28%
Construction	850,503	4.31%	336,712	1.48%	-	-
Individuals	4,655,511	23.59%	9,620,204	42.25%	129,216	0.40%
Others	4,633,278	23.47%	7,507,746	32.97%	8,234,624	25.36%
	<u>19,740,886</u>	<u>100.00%</u>	<u>22,769,262</u>	<u>100.00%</u>	<u>32,469,604</u>	<u>100.00%</u>

38.2 Segment by sector

	2005					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	301,339	1.32%	-	-
Private	19,740,886	100.00%	22,467,923	98.68%	32,469,604	100.00%
	<u>19,740,886</u>	<u>100.00%</u>	<u>22,769,262</u>	<u>100.00%</u>	<u>32,469,604</u>	<u>100.00%</u>

39. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	633,116	30,675,822	3,024,582	32,469,604
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>633,116</u>	<u>30,675,822</u>	<u>3,024,582</u>	<u>32,469,604</u>

40. RELATED PARTY TRANSACTIONS

40.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

40.2 A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The service charges relating to secondment are on actual basis.

40.3 Subsidiary company
- Al Meezan Investment Management Limited

40.4 Key management personnel:
- President and Chief Executive Officer
- Chief Operating Officer

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

	Total		Subsidiary		Associates		Key management personnel		Other related parties	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Rupees in '000										
Financings										
At January 1,	148,269	100,000	1,352	-	146,917	100,000	-	-	-	-
Disbursed during the year	697,089	246,579	1,877	1,470	695,212	245,109	-	-	-	-
Repaid during the year	(531,259)	(198,310)	(1,042)	(118)	(530,217)	(198,192)	-	-	-	-
At December 31,	<u>314,099</u>	<u>148,269</u>	<u>2,187</u>	<u>1,352</u>	<u>311,912</u>	<u>146,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits										
At January 1,	1,259,319	452,650	24,100	8,495	583,923	162,940	23,354	11,415	627,942	269,800
Deposited during the year	34,125,701	24,057,966	410,569	380,430	20,057,083	8,574,710	54,925	51,804	13,603,124	15,051,022
Repaid during the year	(33,744,088)	(23,251,297)	(426,693)	(364,825)	(19,246,488)	(8,153,727)	(61,127)	(39,865)	(14,009,780)	(14,692,880)
At December 31,	<u>1,640,932</u>	<u>1,259,319</u>	<u>7,976</u>	<u>24,100</u>	<u>1,394,518</u>	<u>583,923</u>	<u>17,152</u>	<u>23,354</u>	<u>221,286</u>	<u>627,942</u>
Balances										
Bank balance	-	4,715	-	-	-	4,715	-	-	-	-
Profit receivable on financings	1,640	503	622	95	1,018	408	-	-	-	-
Service charges payable by the Bank	7,380	75	7,380	75	-	-	-	-	-	-
Acceptances	22,112	57,714	-	-	22,112	57,714	-	-	-	-
Letters of credit (unfunded)	243,283	180,890	-	-	243,283	180,890	-	-	-	-
Transactions, income and expenses										
Profit earned on financings	13,934	2,599	709	95	13,225	2,504	-	-	-	-
Profit earned on a bank account	-	5,560	-	-	-	5,560	-	-	-	-
Fees earned	9,603	5,722	9,603	5,722	-	-	-	-	-	-
Commission earned on letters of credit and acceptances	1,815	892	-	-	1,815	892	-	-	-	-
Dividend income earned	46,956	44,747	-	13,000	46,956	31,747	-	-	-	-
Dividend paid	-	31,295	-	-	-	-	-	1,854	-	29,441
Return on deposits expensed	54,667	15,841	536	563	43,226	6,535	926	581	9,979	8,162
Service charges incurred	23,460	13,734	9,568	559	-	177	-	-	13,892	12,998



41. ASSOCIATES – KEY INFORMATION

PARTICULARS	MUTUAL FUNDS	OTHERS	TOTAL
	Rupees in '000		
Assets	<u>6,740,421</u>	<u>2,467,193</u>	<u>9,207,614</u>
Liabilities	<u>286,411</u>	<u>620,244</u>	<u>906,655</u>
Operating revenue	<u>2,111,874</u>	<u>322,286</u>	<u>2,434,160</u>
Profit after tax	<u>2,137,182</u>	<u>105,354</u>	<u>2,242,536</u>

42. CORRESPONDING FIGURES

Corresponding figures of the following has been reclassified for the purposes of comparison

- Insurance on consumer car ijarah previously included in 'Rent, taxes, insurance, electricity, etc' has been shown separately in administrative expenses,
- musharakah financings has been further classified as diminishing musharakah financings - housing, diminishing musharakah financings - others and musharakah financings, and
- financings against bills has been further classified as financings against bills - salam and financings against bills - murabaha.

43. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 9, 2006 by the Board of Directors of the Bank.

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director

Consolidated Financial Statements





We have audited the annexed consolidated financial statements comprising the consolidated balance sheet of Meezan Bank Limited (the holding company) and its subsidiary company, Al Meezan Investment Management Limited as at December 31, 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have expressed a separate opinion on the financial statements of the holding company which include unaudited certified returns from the branches, except for five branches which have been audited by us. The financial statements of the subsidiary company were reviewed in accordance with the review standard as applicable in Pakistan and our opinion in so far as it relates to amounts included for the subsidiary company, is based solely on our review report.

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

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

As stated in notes 6.4.5 and 6.4.6 to the consolidated financial statements accounting policies with respect to investments have been changed by the subsidiary company.

In our opinion the consolidated financial statements, based on our examination as explained above, present fairly the financial position of Meezan Bank Limited and its subsidiary company as at December 31, 2005 and the results of their operations, changes in equity and cash flows for the year then ended.

A handwritten signature in blue ink that reads 'A. F. Ferguson & Co.'.

A. F. FERGUSON & Co.
Chartered Accountants
Karachi
March 13, 2006



CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	8	3,952,993	2,624,217
Balances with other banks	9	2,855,823	1,748,912
Due from financial institutions		-	-
Investments	10	2,061,009	1,613,957
Financings	11	19,738,699	12,339,660
Other assets	12	2,297,713	1,362,425
Negative goodwill	13	-	(3,920)
Operating fixed assets	14	318,123	209,424
		<u>31,224,360</u>	<u>19,894,675</u>
LIABILITIES			
Bills payable	15	260,732	196,145
Due to financial institutions	16	2,981,714	2,862,139
Deposits and other accounts	17	22,761,286	13,745,707
Sub-ordinated loan		-	-
Other liabilities	18	1,529,951	781,664
Deferred taxation	19	187,347	200
		<u>27,721,030</u>	<u>17,585,855</u>
NET ASSETS		<u><u>3,503,330</u></u>	<u><u>2,308,820</u></u>
REPRESENTED BY			
Share capital	20	2,036,582	1,346,017
Capital reserves	21	666,322	256,578
Revenue reserves	22	715,565	444,342
		<u>3,418,469</u>	<u>2,046,937</u>
Advances against issue of right shares		-	192,312
Surplus on revaluation of investments	23	53,642	45,150
MINORITY INTEREST	24	<u>31,219</u>	<u>24,421</u>
		<u><u>3,503,330</u></u>	<u><u>2,308,820</u></u>
CONTINGENCIES AND COMMITMENTS	25		

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2005



	Note	2005	2004
		Rupees in '000	
Profit/return on financings, investments and placements earned	26	1,458,637	535,258
Return on deposits and other dues expensed	27	689,882	249,862
Net spread earned		768,755	285,396
Provision against non-performing financings (net)	11.7	68,811	16,991
Reversal of provision for diminution in value of investments	10.2	(29,831)	-
Bad debts written off directly		-	-
		38,980	16,991
Net spread after provisions		729,775	268,405
OTHER INCOME			
Fee, commission and brokerage income		311,935	164,787
Capital gain on sale of investments		217,994	116,017
Dividend income		73,917	74,926
Unrealised gain on held for trading investments		57,780	44,551
Income from dealing in foreign currencies		77,961	26,830
Other income	28	20,999	18,315
Total other income		760,586	445,426
		1,490,361	713,831
OTHER EXPENSES			
Administrative expenses	29	773,173	438,861
Other provisions / write offs		-	-
Loss on disposal of shares in a subsidiary		-	4,112
Other charges	30	482	185
Total other expenses		773,655	443,158
		716,706	270,673
Extraordinary / unusual items		-	-
Share of results of associates before taxation	10.8	269,316	139,001
PROFIT BEFORE TAXATION		986,022	409,674
Taxation - for the year		40,803	23,925
- prior years		39,002	-
- deferred		187,147	(8,951)
	31	266,952	14,974
PROFIT AFTER TAXATION		719,070	394,700
MINORITY INTEREST	24	(38,103)	(24,890)
PROFIT AFTER TAXATION AND MINORITY INTEREST		680,967	369,810
Unappropriated profit brought forward		353,260	28,322
		1,034,227	398,132
APPROPRIATIONS AND TRANSFERS			
Transferred to			
Statutory reserve		(83,891)	(44,872)
Reserve for issue of bonus shares		(325,853)	-
		(409,744)	(44,872)
Unappropriated profit carried forward		624,483	353,260
Basic earnings per share - (Rupees)	32	3.70	2.25

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

Note	2005	2004
	Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	986,022	409,674
Dividend income	(73,917)	(74,926)
	<u>912,105</u>	<u>334,748</u>
Adjustments for non-cash charges		
Unrealised gain on held for trading investments	(57,780)	(44,551)
Provision against non-performing financings (net)	(68,811)	16,991
Provision for diminution in value of investments	1,128	-
Amortisation of negative goodwill	(3,920)	(6,764)
Shares in results of associates	(269,316)	(139,001)
Gain on sale of property, equipment and others	(490)	(704)
Depreciation	73,892	45,999
Loss on disposal of shares in a subsidiary	-	4,112
Amortisation	3,642	1,232
	<u>(321,655)</u>	<u>(122,686)</u>
	590,450	212,062
(Increase) / decrease in operating assets		
Net investments in held for trading securities	(91,652)	223,254
Financings	(7,330,228)	(4,959,172)
Other assets	(984,444)	(665,516)
	<u>(8,406,324)</u>	<u>(5,401,434)</u>
Increase / (decrease) in operating liabilities		
Bills payable	64,587	27,083
Due to financial institutions	119,575	1,873,175
Minority's share in the subsidiaries holding in its associates	(30,679)	(49,089)
Deposits and other accounts	9,015,579	5,997,340
Other liabilities	749,551	398,002
	<u>9,918,613</u>	<u>8,246,511</u>
	2,102,739	3,057,139
Income tax paid	(33,600)	(18,165)
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>2,069,139</u>	<u>3,038,974</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in		
- held to maturity securities	(852)	(120,893)
- available for sale securities	54,262	(90,329)
- quoted associated undertakings	69,762	71,238
- unquoted associated undertakings	(127,738)	(36,872)
- advance against issue of certificates	-	(180,465)
- advance against issue of shares	(17,000)	(72,000)
Sales proceeds on disposal of shares of the subsidiary	-	5,300
Dividends received	76,868	73,646
Investments in operating fixed assets	(189,689)	(178,418)
Sale proceeds on disposal of property, equipment and others	2,689	2,317
Net cash flow from investing activities	<u>(131,698)</u>	<u>(526,476)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Liability against an asset subject to a finance lease	-	(131)
Amount received against issue of right shares	498,253	192,312
Dividend paid	(7)	(52,447)
Dividend paid to minority	-	(7,000)
Net cash flow from financing activities	<u>498,246</u>	<u>132,734</u>
Net increase in cash and cash equivalents	2,435,687	2,645,232
Cash and cash equivalents as at January 1	33 4,373,129	1,727,897
Cash and cash equivalents as at December 31	33 <u>6,808,816</u>	<u>4,373,129</u>

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005



	Share capital	Capital reserves			Surplus on revaluation of Investments	Revenue reserves		Total
		Share premium account	Statutory reserve	Reserve for issue of bonus shares		General reserve	Unappropriated profit	
Rupees in '000								
Balance as at January 1, 2004	1,064,045	33,333	211,706	106,405	7,510	241,764	28,322	1,693,085
Surplus on revaluation of an investment in an associated company arising due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition amount)	-	-	-	-	-	(8,448)	-	(8,448)
Reversal of surplus on investments accounted under equity method	-	-	-	-	(7,510)	-	-	(7,510)
Issue of bonus shares	281,972	(33,333)	-	(106,405)	-	(142,234)	-	-
Profit after taxation and minority interest for the year	-	-	-	-	-	-	-369,810	369,810
Transfer to statutory reserve	-	-	44,872	-	-	-	(44,872)	-
Balance as at December 31, 2004	1,346,017	-	256,578	-	-	91,082	53,260	2,046,937
Issue of right shares	351,135	-	-	-	-	-	-	351,135
Issue of right shares	339,430	-	-	-	-	-	-	339,430
Profit after taxation and minority interest for the year	-	-	-	-	-	-	680,967	680,967
Transfer to statutory reserve	-	-	83,891	-	-	-	(83,891)	-
Transfer to reserve for issue of bonus shares	-	-	-	325,853	-	-	(325,853)	-
Balance as at December 31, 2005	2,036,582	-	340,469	325,853	-	91,082	624,483	3,418,469

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

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

Irfan Siddiqui
President and
Chief Executive

Istaqbal Mehdi
Director

Ariful Islam
Director



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

MBL was operating through twenty eight branches as at December 31, 2005 (2004: sixteen). Its registered office is at 3rd Floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

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

The Group's associates are as follows:

Entity / fund	Country of incorporation / domicile	Nature of business	Direct holding %	Indirect holding %	Total effective percentage holding %
Al Meezan Mutual Fund Limited (AMMFL)	Pakistan	Formed under the Investment Companies and Investment Advisor Rules, 1971. A closed end mutual fund.	2.64	10.76	13.40
Blue Water (Private) Limited (BWL)	Pakistan	Business of purchase and sale of land.	30	13	43
Falcon Greenwood (Private) Limited (FGL)	Pakistan	Business of purchase and sale of land.	25	-	25
Faysal Management Services (Private) Limited (FMSL)	Pakistan	Floation and management of modarabas under Modarabas Companies and Modarabas (Floation and Control) Ordinance, 1980.	30	-	30
Fayzan Manufacturing Modaraba (FMM)	Pakistan	Formed under the Modarabas Companies and Modarabas (Floation and Control) Ordinance, 1980 and Modaraba Rules, 1981 and is managed by FMSL. FMM is a specific purpose modaraba formed to construct, operate, manage and own a polyester staple fibre (PSF) spinning and processing plant.	23.84	-	23.84
Meezan Islamic Fund (MIF)	Pakistan	Open end scheme established under a trust deed executed between AMIML as the management company and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	N/A	-	N/A
Meezan Balanced Fund (MBF)	Pakistan	Closed end scheme established under a trust deed executed between AMIML as the investment adviser and the Central Depository Company of Pakistan Limited (CDC), as the trustee.	13.45	0.07	13.52
Plexus (Private) Limited	Pakistan	Business of development and export of IT enabled services and internet solutions.	50	-	50



2. BASIS OF PRESENTATION AND CONSOLIDATION

2.1 Basis of presentation

2.1.1 These consolidated financial statements have been prepared from the information available in the audited financial statements of the holding company for the year ended December 31, 2005 and the financial statements of AMIML for the six months period ended December 31, 2005 which have only been subjected to a review by its statutory auditors but are not audited. AMIML prepares its financial statements upto June 30 each year. In preparing the consolidated profit and loss account for the year ended December 31, 2005 the results for the period January 1 to June 30, 2005 have been calculated from the audited financial statements of AMIML for the year ended June 30, 2005 after eliminating the results for the six months period ended December 31, 2004. Certain disclosures relating to AMIML as incorporated in these consolidated financial statements were not included in its reviewed financial statements as of December 31, 2005. The accounting policies used by AMIML and associates in preparation of their respective financial statements are consistent with that of the holding company except for the accounting policy for investments.

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

Entity	Source of information
Al Meezan Mutual Fund Limited (AMMFL)	Financial statements for the half years ended December 31, 2005 and 2004, unaudited but subject to limited review by its statutory auditors, and audited financial statements for the year ended June 30, 2005.
Blue Water (Private) Limited (BWL)	Unaudited financial statements for the periods ended December 31, 2005 and 2004 and audited financial statements for the period ended June 30, 2005.
Falcon Greenwood (Private) Limited (FGL)	Unaudited financial statements for the periods ended December 31, 2005 and 2004 and audited financial statements for the period ended June 30, 2005.
Faysal Management Services (Private) Limited (FMSL)	Audited financial statements for the year ended December 31, 2005.
Fayzan Manufacturing Modaraba (FMM)	Audited financial statements for the year ended December 31, 2005.
Meezan Islamic Fund (MIF)	Financial statements for the half year ended December 31, 2005 and for the period ended December 31, 2004, unaudited but subject to limited review by its statutory auditors, and audited financial statements for the year ended June 30, 2005.
Meezan Balanced Fund (MBF)	Financial statements for the period November 30 to December 31, 2004 and the half year ended December 31, 2005, unaudited but subject to limited review and audited financial statements for the period ended June 30, 2005.
Plexus (Private) Limited (Plexus)	Unaudited financial statements for the half years ended December 31, 2005 and 2004 and audited financial statements for the year ended June 30, 2005.

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



5. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention except that investments are valued at market rates in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended vide BSD Circular No. 11 dated August 4, 2004 and BSD Circular No. 14 dated September 24, 2004 and the investments in AMIML are valued in accordance with the requirements of IAS 39.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

6.2 Revenue recognition

- (i) 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. Profit on murabaha is recognised on delivery of goods to the customer.
- (ii) The Group follows the finance method in recognising income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset and documentation charges under ijarah facility is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in the ijarah. Gains / losses on termination of ijarah contracts are recognised as income on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- (iii) Consistent with prior years, profit on diminishing musharakah financings are recognised on accrual basis. Profit on musharakah financings is recognised on declaration of profit by musharakah partner.
- (iv) Commission on letters of credit, acceptances and guarantees is recognised on receipt basis, except for commission on guarantees in excess of Rs 50,000 which is recognised over the period of the guarantee.
- (v) Dividend income is recognised when the Group's right to receive payment is established.
- (vi) Purchase and sale of investments are recorded on the dates of contract. Gains and losses on sale of investments are also recorded on those dates.
- (vii) Advisory fee and commission income are recognised by AMIML as and when services are provided. Performance fee related to advisory services are recorded on confirmation.

6.3 Financings

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

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

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

6.4 Investments

6.4.1 MBL classifies its investments as follows:

- **Held for trading**
These are investments acquired principally for the purpose of generating profit from short-term fluctuations in price.
- **Held to maturity**
These are investments with fixed or determinable payments and fixed maturity and the Group has positive intent and ability to hold to maturity.



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

6.4.2 AMIML classifies its investments as follows:

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

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

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

6.4.3 MBL values its investments as follows:

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

6.4.4 Any surplus / (deficit) arising as a result of revaluation of quoted securities categorised as 'available for sale' is presented below the shareholders' equity in the balance sheet. AMIML and associates account for investments in accordance with the requirements of IAS 39 whereby marketable investments are valued on a basis consistent with that of the Group except that surplus / (deficit) arising on revaluation of 'available for sale' investments is recognised in equity. Any surplus / deficit arising as a result of revaluation of 'held for trading' securities is credited / charged to the profit and loss account.

6.4.5 Consequent to amendments in IAS 39 'Financial Instruments – Recognition and Measurement' (IAS 39) AMIML has changed its accounting policy in respect of transaction costs incurred on acquisition of held for trading securities. Previously investments in such securities were initially recognised at cost inclusive of transaction costs. MBL recognises investments in such securities inclusive of transaction costs. The reason for this change in accounting policy is stated in note 7.

6.4.6 During the year AMIML changed its accounting policy in respect of transactions involving purchase of a security in the ready market and sale of the same security on deferred settlement basis in accordance with the requirements of IAS 39. The reason for this change in accounting policy is stated in note 7.

The aforementioned accounting policies of the subsidiaries and associates have not been revised to make these consistent with that of the Group because MBL complies with the requirements of SBP's BSD Circular No. 10 dated July 13, 2004 as amended through the BSD Circular No. 11 dated August 4, 2004 and BSD Circular No. 14 dated September 24, 2004 in accounting for its investments. Further, SBP has deferred the implementation of IAS 39 to MBL as more fully explained in note 4.2 to these consolidated financial statements.

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

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



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

6.5 Operating fixed assets

6.5.1 Tangible assets

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

Useful lives and residual values are reviewed at each balance sheet date, and adjusted if impact on depreciation is significant.

As of December 31, 2005 MBL has estimated the residual values of its vehicles and accordingly the depreciable cost has been adjusted. Had the residual values of vehicles not been considered for charging depreciation the profit after taxation for the year ended December 31, 2005 and net book values of the fixed assets as at that date would have been lower by Rs 1.446 million and Rs 2.751 million respectively. The effect on profit after taxation for the future periods as a result of the subject residual values is not considered material.

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

Items of fixed assets costing Rs 10,000 or less in MBL and Rs 5,000 or less in AMIML are not capitalised and are charged off in the year of purchase.

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

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

6.5.2 Assets subject to finance lease

Assets subject to finance lease are accounted for by AMIML by recording the asset at the lower of present value of minimum lease payments under the agreements and the fair value of asset acquired. The related obligation under the lease is accounted for as liability. Financial charges are allocated to accounting period in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation is charged on leased assets on a basis similar to that of owned assets.

6.5.3 Intangible assets

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

As at December 31, 2005 MBL has revised its estimate of useful lives of computer software and accordingly the amortisation charge has been adjusted. Had the useful lives of computer software not been revised, the profit after taxation for the year ended December 31, 2005 and net book values of intangible assets would have been higher by Rs 0.781 million and Rs 1.487 million respectively. The effect on profit after taxation for the future periods as a result of revision of useful lives is not considered material.

6.6 Taxation

Current

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



Deferred

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

6.7 Staff retirement benefits

Defined benefit plan

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

In case of MBL the scheme was approved by the tax authorities in April 2000 and the last actuarial valuation was conducted as at December 31, 2005. The projected unit credit method was used for actuarial valuation.

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

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

Defined contribution plan

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

6.8 Foreign currencies

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

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

6.9 Provisions and contingent assets and liabilities

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

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

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

6.10 Offsetting

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



6.11 Compensated absences

The Group recognises liability in respect of employees compensated absences in the period in which these are earned upto the balance sheet date.

6.12 Negative goodwill

Negative goodwill is measured and initially recognised as the excess of the Group's interest in fair values of identifiable assets and liabilities acquired over the cost of acquisition and recognised as income to the extent that it does not relate to identifiable expected future losses and expenses. Negative goodwill not exceeding the fair values of non-monetary assets acquired is recognised as income over the remaining weighted average useful life of the depreciable / amortisable non-monetary assets acquired. Negative goodwill in excess of the fair values of non-monetary assets acquired is recognised as income immediately. Negative goodwill is presented as deduction from assets.

6.13 Minority interest

Minority interest is calculated on the basis of the minority's proportion of pre acquisition carrying amounts of the identifiable assets and liabilities and share in post acquisition profit / loss of the subsidiary.

7. REASON AND EFFECT OF CHANGE IN ACCOUNTING POLICY

7.1 As stated in note 6.4.5 consequent to revision in IAS 39, AMIML has changed its accounting policy relating to transaction costs associated with investments at the fair value through profit or loss. Previously such charges incurred on acquisition of all class of investments were included in the cost. Transaction costs incurred on investments at fair value through profit or loss are not added to the cost at the time of initial recognition and are charged to the profit and loss account when incurred. The effect of this change in accounting policy is not considered to be material.

7.2 As stated in 6.4.6, AMIML has changed its accounting policy in respect of transactions involving outright purchase of securities in the ready market and sale of that security on deferred settlement basis in accordance with the requirements of IAS 39. The effect of this change in accounting policy is not considered to be material.

	2005	2004
	Rupees in '000	
8 CASH AND BALANCES WITH TREASURY BANKS		
In hand		
- local currency	711,359	266,608
- foreign currencies	117,213	59,858
With the SBP in		
- local currency current accounts - note 8.1	2,982,789	2,199,745
- foreign currency current accounts - note 8.1	136,043	97,000
With National Bank of Pakistan in		
- local currency current accounts	5,589	1,006
	<u>3,952,993</u>	<u>2,624,217</u>

8.1 This represents local and foreign currency amounts required to be maintained by MBL with the SBP as stipulated by the SBP.

9. BALANCES WITH OTHER BANKS

In Pakistan		
- on current accounts	57,689	21,818
- on deposit accounts	-	162,545
Outside Pakistan		
- on current accounts	856,399	817,793
- on deposit accounts	1,941,735	746,756
	<u>2,855,823</u>	<u>1,748,912</u>



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

10. INVESTMENTS

	2005			2004		
	Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total
Rupees in '000						
Investments by types						
Held for trading securities - note 10.3	346,932	-	346,932	210,729	-	210,729
Held to maturity securities - note 10.4	179,142	-	179,142	178,290	-	178,290
Available for sale securities - note 10.5	166,982	-	166,982	221,244	-	221,244
In related parties						
Associates (quoted) - note 10.6	987,398	-	987,398	614,346	-	614,346
Associates (unquoted) - note 10.7	253,261	-	253,261	47,182	-	47,182
Advance against issue of shares of Pak Kuwait Takaful Company Limited	17,000	-	17,000	-	-	-
Advance against issue of certificates by an associate	-	-	-	180,465	-	180,465
Advance against issue of preference shares of Falcon Greenwood (Private) Limited (an associate)	-	-	-	72,000	-	72,000
	<u>1,950,715</u>	<u>-</u>	<u>1,950,715</u>	<u>1,524,256</u>	<u>-</u>	<u>1,524,256</u>
Add: Surplus on revaluation of investments						
- 'Held for trading'	57,780	-	57,780	44,551	-	44,551
- 'Available for sale'	53,642	-	53,642	45,150	-	45,150
Less: Provision for diminution in value of investments - note 10.2	1,128	-	1,128	-	-	-
	<u>2,061,009</u>	<u>-</u>	<u>2,061,009</u>	<u>1,613,957</u>	<u>-</u>	<u>1,613,957</u>

10.1 Investments by segments

	2005	2004
Rupees in '000		
Fully paid up ordinary shares		
- Listed companies	682,292	823,408
- Unlisted companies	111,481	47,182
Musharakah term finance certificates	21,543	31,941
Term finance certificates	29,563	-
Preference shares	141,780	-
Sukuk bonds - note 10.4	179,142	178,290
Units of an open end fund	294,932	190,970
Certificates of closed end fund	472,982	-
Advance against issue of ordinary shares	17,000	-
Advance against issue of certificates	-	180,465
Advance against issue of preference shares	-	72,000
	<u>1,950,715</u>	<u>1,524,256</u>
Add: Surplus on revaluation of investments		
- 'Held for trading'	57,780	44,551
- 'Available for sale'	53,642	45,150
Less: Provision for diminution in value of investments - note 10.2	1,128	-
	<u>2,061,009</u>	<u>1,613,957</u>



10.2 Particulars of provision

	2005			2004		
	Associate	Others	Total	Associate	Others	Total
Rupees in '000						
Opening balance	-	-	-	-	-	-
Transferred from provision against non-performing financings	-	30,959	30,959	-	-	-
Charge for the year	1,128	-	1,128	-	-	-
Reversal	-	(30,959)	(30,959)	-	-	-
	1,128	(30,959)	(29,831)	-	-	-
Closing balance	1,128	-	1,128	-	-	-

10.3 Held for trading securities

The Group holds investments in ordinary shares and musharakah term finance certificates (MTFCs) of Rs 10 each, unless stated otherwise, in the following listed investee entities:

Name of the investee company	2005		2004	
	Number of shares / certificates		Cost / carrying value	
	Rupees in '000			
Textile composite				
Nishat (Chunian) Limited	-	50,000	-	3,910
Nishat Mills Limited	125,000	-	13,021	-
Synthetic and rayon				
Dewan Salman Fibres Limited	905,000	-	18,611	-
Cement				
DG Khan Cement Company Limited	133,000	60,000	13,992	2,870
Maple Leaf Cement Factory Limited	153,000	-	5,797	-
Refinery				
National Refinery Limited	72,000	26,000	27,295	4,160
Power generation and distribution				
Hub Power Company Limited	882,500	94,500	23,955	3,357
Kot Addu Power Company Limited	50,000	-	1,941	-
Oil and gas marketing				
Pakistan State Oil Company Limited	22,500	129,500	8,447	35,018
Shell Pakistan Limited	-	8,000	-	3,354
Sui Southern Gas Company Limited	309,712	39,712	8,412	1,168
Oil and gas exploration				
Pakistan Oilfields Limited	169,500	55,000	50,692	11,818
Oil and Gas Development Company Limited	155,000	-	16,574	-
Pakistan Petroleum Limited	267,000	180,000	55,971	24,071
Automobile assembler				
Agriauto Industries Limited - note 10.3.1	180,000	180,000	9,792	8,865
Dewan Farooque Motors Limited	85,000	-	2,606	-
Indus Motor Company Limited	50,000	-	6,291	-
Technology and communication				
Pakistan Telecommunication Company Limited (A)	-	953,500	-	38,466
Callmate Telips Telecom Limited	354,750	-	10,020	-
Fertilizer				
Engro Chemical Pakistan Limited	120,000	-	18,437	-
Fauji Fertilizer Bin Qasim Company Limited	35,000	-	1,340	-
Fauji Fertilizer Company Limited	269,775	596,365	24,256	60,354
Chemical				
ICI Pakistan Limited	50,000	-	7,008	-
Paper and board				
Packages Limited	120,116	81,712	21,433	11,026
Food and personal care products				
Unilever Pakistan Limited - note 10.3.2	-	980	-	874
Miscellaneous				
Tri-Pack Films Limited	-	900	-	77
MTFCs				
Sitara Chemicals Limited - note 10.3.3	257	257	1,041	1,341
			346,932	210,729



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

10.3.3 The paid up value of MTFCs is Rs 3,350 (2004: Rs 5,000) per certificate. The return on MTFCs is on Musharakah basis and will mature in 2006 and 2007.

10.4 Held to maturity securities held by MBL

Name of the investee entity	2005		2004	
	Number of bonds		Cost Rupees in '000	
Sukuk bonds				
Qatar Global Sukuk Bonds (Sukuk - Qatar) - note 10.4.1	1,000,000	1,000,000	59,714	59,430
Dubai Sukuk Bonds (Sukuk - Dubai) - note 10.4.2	2,000,000	2,000,000	119,428	118,860
			<u>179,142</u>	<u>178,290</u>

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

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

10.5 Available for sale securities

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

Name of the investee company	2005		2004	
	Number of shares		Cost Rupees in '000	
Ordinary shares				
Auto assembler				
Agriautos Industries Limited - note 10.3.1	120,000	120,000	5,929	5,929
Power generation and distribution				
Hub Power Company Limited	1,500,000	1,500,000	49,000	49,000
Oil and gas marketing				
Pakistan State Oil Company Limited	75,280	100,280	20,569	27,401
Shell Pakistan Limited	35,750	45,000	9,727	15,305
Sui Southern Gas Company Limited	600,000	1,100,000	16,422	30,107
Oil and gas exploration				
Pakistan Oilfields Limited	-	100,000	-	21,488
Technology and communication				
Pakistan Telecommunication Company Limited (A)	-	476,500	-	15,555
Fertilizer				
Fauji Fertilizer Company Limited	288,586	172,500	11,537	11,537
Paper and board				
Packages Limited	44,100	30,000	3,733	1,829
Food and personal care products				
Unilever Pakistan Limited - note 10.3.2	-	14,000	-	12,493
MTFCs				
Sitara Chemicals Limited - note 10.3.3	6,120	6,120	20,502	30,600
TFCs				
Dewan Cement Limited (formerly Pakland Cement Limited) - note 10.5.1	-	-	29,563	-
			<u>166,982</u>	<u>221,244</u>



10.5.1 During the year ended December 31, 2005, MBL has reclassified the loan amounting to Rs 30.959 million receivable from Dewan Cement Limited (formerly Pakland Cement Limited) as part of its investments in TFCs as 'available for sale' securities in accordance with the SBP's Circular No. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005. The provision against these investment has been reversed as repayments from these TFCs are being received in accordance with the repayment schedule. MBL holds following TFCs in the company:

- Series 'A' TFCs having face value of Rs 31.300 million; and
- Series 'B' TFCs having face value of Rs 5.600 million.

Series 'A' TFCs represents principal amount and carries a yield of 6 months ask KIBOR + 2.5 percent whereas Series 'B' has been issued for accrued markup and carries no yield. The TFCs will be redeemed between the periods January 15, 2006 to July 15, 2013. Subsequent to year end MBL has disposed off its investment in Series 'A' TFCs subject to certain conditions. The income relating to mark-up on TFCs have not been taken to profit and loss account pending its review in accordance with the Shariah requirements.

10.6 Associates (quoted)

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

Name of the investee entity	2005	2004	Effective holding %	2005	2004
	Number of shares / units			Rupees in '000	
Ordinary shares					
Closed end mutual fund					
Al-Meezan Mutual Fund Limited - note 10.8	22,948,239	9,402,025	13.40	273,032	147,511
Meezan Balanced Fund - note 10.8	16,269,292	-	13.52	199,950	-
Modaraba					
Fayzan Manufacturing Modaraba - note 10.8	21,457,500	26,857,500	23.84	219,484	275,865
Units of an open end fund					
Meezan Islamic Fund - notes 10.6.1 and 10.8	3,905,860	2,993,264	N/A	294,932	190,970
				987,398	614,346

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

10.6.2 Investments in quoted associates have a market value of Rs 921.150 million (2004: 664.256 million).



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

10.7 Associates (unquoted)

MBL holds investments in ordinary shares of Rs 10 each, unless stated otherwise, and preference shares of Rs. 100 each in the following investee companies:

Particular	2005 Number of shares / certificate	2004	2005 Rupees in '000	2004	Percentage of equity holding %	Break up value per share Rupees	Latest available financial statements	Name of the chief executive
Plexus (Private) Limited - note 10.8	1,499,980	1,499,980	10,068	8,675	50	6.71	December 31, 2005*	Mr. Ariful Islam
Faysal Management Services (Private) Limited - notes 10.7.1 and 10.8	540,000	540,000	55,513	607	30	117.80	December 31, 2005	Mr. Khalid S. Tirmizey
Blue Water (Private) Limited - notes 10.7.1 and 10.8	129,000	129,000	12,900	12,900	43	100	December 31, 2005*	Mr. Shuja-ul- Mulk
Falcon Greenwood (Private) Limited - Ordinary shares - notes 10.7.1 and 10.8 - Preference shares - note 10.7.2	250,000 1,417,800	250,000 -	25,000 141,780	25,000 -	25 N/A	100 N/A	December 31, 2005*	Mr. Abbas Khan
Pak-Kuwait Takaful Company Limited	800,000	-	8,000	-	10	8.59	December 31, 2005*	Mr. Istaqbal Mehdi
Total			<u>253,261</u>	<u>47,182</u>				

* Unaudited

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

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

10.8 Associates accounted for under the equity method of accounting

	Al Meezan Mutual Fund Limited	Blue Water (Private) Limited	Falcon Greenwood (Private) Limited	Faysal Management Services (Private) Limited	Fayzan Manufacturing Modaraba	Meezan Islamic Fund	Meezan Balanced Fund	Plexus (Private) Limited	Total
	Rupees in '000								
Carrying values of investments as at December 31, 2005 according to MBL's financial statements	24,165	9,000	25,000	54,000	214,596	125,000	161,345	8,675	621,781
Holding through AMIML	272,079	6,000	-	-	-	26,824	1,315	-	306,218
Minorities' shares in associates	(95,228)	(2,100)	-	-	-	(9,388)	(460)	-	(107,176)
Group's share in results of associates relating to periods upto December 31, 2004	54,791	-	-	2,684	5,190	59,275	-	(6,325)	115,615
Group's share in results of associates in current period's profits before taxation	83,781	-	-	4,898	20,510	104,686	53,998	1,443	269,316
Taxation	-	-	-	(885)	-	-	-	(50)	(935)
Dividend income	(4,155)	-	-	(5,184)	(20,812)	-	(16,134)	-	(46,285)
Reversal of surplus on revaluation of investments	(61,239)	-	-	-	-	(3,829)	(114)	-	(65,182)
Reversal of surplus on revaluation relating to 'held for trading' investments	(1,162)	-	-	-	-	(7,636)	-	-	(8,798)
Reversal of provision for diminution in the value of an investment upto December 31, 2005	-	-	-	-	-	-	-	6,325	6,325
	<u>273,032</u>	<u>12,900</u>	<u>25,000</u>	<u>55,513</u>	<u>219,484</u>	<u>294,932</u>	<u>199,950</u>	<u>10,068</u>	<u>1,090,879</u>
Note	10.6	10.7	10.7	10.7	10.6	10.6	10.6	10.7	

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FOR THE YEAR ENDED DECEMBER 31, 2005



11. FINANCINGS

	2005	2004
	Rupees in '000	
In Pakistan		
- Murabaha financings	8,117,096	4,856,083
- Net investment in ijarah - note 11.2	5,101,246	3,221,006
- Export refinance under Islamic scheme	2,923,000	2,705,274
- Diminishing musharakah financings - housing	1,900,763	677,349
- Diminishing musharakah financings - others	983,557	467,269
- Musharakah financings	104,500	104,500
- Financings against bills - salam	260,532	183,166
- Financings against bills - murabaha	353,433	87,779
- Loans, running finances, etc.- note 11.3	111,246	116,056
Total financings - notes 11.4, 11.5 and 11.6	19,855,373	12,418,482
Less: Provision against non-performing financings - note 11.7	116,674	78,822
	<u>19,738,699</u>	<u>12,339,660</u>

11.1 Particulars of financing

11.1.1 In		
- local currency	18,891,926	12,132,038
- foreign currencies	846,773	207,622
	<u>19,738,699</u>	<u>12,339,660</u>
11.1.2 Short-term (for upto one year)	13,210,486	8,583,182
Long-term (for over one year)	6,528,213	3,756,478
	<u>19,738,699</u>	<u>12,339,660</u>

11.2 Net investment in ijarah

	2005				2004			
	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	1,747,593	2,917,322	677,989	5,342,904	950,976	2,332,991	9,223	3,293,190
Residual value	137,663	679,252	68,397	885,312	14,650	452,418	395	467,463
Minimum ijarah payments	1,885,256	3,596,574	746,386	6,228,216	965,626	2,785,409	9,618	3,760,653
Profits for future periods	466,770	572,276	87,924	1,126,970	223,969	313,486	2,192	539,647
Present value of minimum ijarah payments	1,418,486	3,024,298	658,462	5,101,246	741,657	2,471,923	7,426	3,221,006

11.3 This includes Rs 84.493 million representing mark-up free loans to staff advanced under the Group's human resource policies.

11.4 Loans and financings to executives and a director

	Executives		Director	
	2005	2004	2005	2004
	Rupees in '000			
Opening balance	36,475	23,730	960	1,093
Loans disbursed during the year	24,871	16,519	-	-
Loans repaid during the year	(7,028)	(3,774)	(133)	(133)
Closing balance	<u>54,318</u>	<u>36,475</u>	<u>827</u>	<u>960</u>



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

	Balance as at December 31, 2005	Maximum total amount of financings including temporary financings granted during the year*
	Rupees in '000	
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons	121,902	121,902
Debts due by companies or firms in which the directors of MBL are interested as directors, partners or in the case of private companies as members - note 11.5.1	311,912	311,912
	<u>433,814</u>	<u>433,814</u>

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

11.5.1 This represents a musharakah facility outstanding from Blue Water (Private) Limited (an associated company) amounting to Rs 94.500 million (2004: Rs 94.500 million) and murabaha, financings against bills and ijarah facilities outstanding from The General Tyre and Rubber Company of Pakistan Limited (an associated company) amounting to Rs 50 million, Rs 72.015 million and Rs 95.396 million (2004: Rs 52.417 million) respectively. The musharakah facility is secured against equitable mortgage over property, whereas murabaha and financings against bills and ijarah facilities are secured against hypothecation charge over present and future stocks, book debts and the rented assets respectively.

11.6 Financings include Rs 183.373 million (2004: Rs 59.971 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				
Substandard	89,771	-	89,771	20,788	20,788
Doubtful	47,557	-	47,557	120	120
Loss	46,045	-	46,045	46,045	46,045
	<u>183,373</u>	<u>-</u>	<u>183,373</u>	<u>66,953</u>	<u>66,953</u>

11.7 Particulars of provision against non-performing financings:

	2005			2004		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	59,971	18,851	78,822	62,192	-	62,192
Transfer to 'available for sale' investments	(30,959)	-	(30,959)	-	-	-
Charge for the year	37,941	30,870	68,811	2,620	18,851	21,471
Reversals	-	-	-	(4,480)	-	(4,480)
	37,941	30,870	68,811	(1,860)	18,851	16,991
Amounts written off - note 11.8	-	-	-	(361)	-	(361)
Closing balance	<u>66,953</u>	<u>49,721</u>	<u>116,674</u>	<u>59,971</u>	<u>18,851</u>	<u>78,822</u>

11.7.1 During the year, the State Bank of Pakistan has directed banks to classify their non-performing financings and determine provision for doubtful financings in accordance with BSD Circular No. 7 dated November 1, 2005. Accordingly, MBL has classified its non-performing financings and determined provision for doubtful financings in accordance with aforementioned circular. The effect of this change in determination of provision is not considered to be material.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005



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

2005 2004
Rupees in '000

11.8 Particulars of write offs

11.8.1 Against provision – note 11.7	-	361
Directly charged to profit and loss account	-	-
	-	361
11.8.2 Write offs of Rs 500,000 and above	-	-
Write offs below Rs 500,000	-	361
	-	361

12. OTHER ASSETS

Profit / return accrued in local currency	307,660	106,555
Profit / return accrued in foreign currencies	7,144	1,945
Advances, deposits, advance rent and other prepayments	204,192	150,353
Advance taxation (payments less provisions)	131,047	177,252
Receivables on account of sale of securities	812,858	318,524
Dividends receivable	765	3,716
Receivable from associated undertakings / a related party of AMIML	54,809	24,069
Stamps	2,202	1,494
Advance against future murabaha	368,818	324,177
Advances against future ijarah	382,981	247,632
Security deposits	6,555	6,222
Unrealised gain (net) on forward foreign exchange contracts	17,038	-
Prepaid exchange risk fee	47	42
Other - note 12.1	1,597	444
	2,297,713	1,362,425

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

13. NEGATIVE GOODWILL

On acquisition of a subsidiary	(16,192)	(16,192)
Amortisation:		
Periods upto December 31, 2004 / 2003	12,272	4,733
Current period - note 28	3,920	6,764
Adjustment of negative goodwill on disposal of shares	-	775
	16,192	12,272
	-	(3,920)

13.1 Negative goodwill is amortised over the weighted average useful life, estimated as twenty five months, of depreciable / amortisable non-monetary assets of AMIML as on the date of its becoming a subsidiary.

14. OPERATING FIXED ASSETS

Tangible assets		
- Capital work-in-progress - note 14.1	26,895	12,830
- Property, equipment and others - note 14.2	277,159	186,991
	304,054	199,821
- Intangible assets – note 14.4	14,069	9,603
	318,123	209,424



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005
2004
Rupees in '000

14.1 Capital work-in-progress

- Advances to suppliers and contractors for building renovation	15,455	4,792
- Advances for computer hardware	1,806	-
- Advances for purchase of vehicles	3,999	8,038
- Advances for computer software	5,635	-
	<u>26,895</u>	<u>12,830</u>

14.2 Property, equipment and others

	COST			DEPRECIATION			Net book value as at December 31, 2005	Rate of depreciation %
	As at January 1, 2005	Additions/ (disposals) (adjustment)*	As at December 31, 2005	As at January 1, 2005	Charge/ (on disposals)	As at December 31, 2005		
Rupees in '000								
Land and buildings - note 14.3.1	55,329	-	55,329	2,766	2,766	5,532	49,797	5
Leasehold improvements	61,021	57,071	118,092	9,400	11,810	21,210	96,882	10
Furniture and fixtures	12,510	23,037 (1,241)*	34,306	2,419	5,342	7,761	26,545	10 and 20
Electrical, office and computer equipments	78,311	55,801 (460) (16)*	133,636	41,311	39,208 (438)	80,081	53,555	20 and 33
Vehicles	60,137	31,607 (5,604)	86,140	24,421	14,766 (3,427)	35,760	50,380	20 and 33
2005	267,308	167,516 (6,064) (1,257)*	427,503	80,317	73,892 (3,865)	150,344	277,159	
2004	101,528	169,188 (3,408)	267,308	36,113	45,999 (1,795)	80,317	186,991	

14.3 Property, equipment and others - Movement of net book value

	Land and buildings	Leasehold improvements	Furniture and fixtures	Electrical, office and computer equipments	Vehicles	Assets held under finance lease	Total
Rupees in '000							
At January 1, 2004							
Cost	-	26,534	6,212	34,780	33,447	555	101,528
Accumulated depreciation	-	3,298	1,174	18,045	13,133	463	36,113
Net book value	-	23,236	5,038	16,735	20,314	92	65,415
Year ended December 31, 2004							
Additions	55,329	34,487	6,298	44,198	28,876	-	169,188
Transfers	-	-	-	-	92	(92)	-
Net book value of disposals	-	-	-	412	1,201	-	1,613
Depreciation charge	2,766	6,102	1,245	23,521	12,365	-	45,999
	<u>52,563</u>	<u>51,621</u>	<u>10,091</u>	<u>37,000</u>	<u>35,716</u>	<u>-</u>	<u>186,991</u>
Year ended December 31, 2005							
Additions	-	57,071	23,037	55,801	31,607	-	167,516
Adjustments	-	-	1,241	16	-	-	1,257
Net book value of disposals	-	-	-	22	2,177	-	2,199
Depreciation charge	2,766	11,810	5,342	39,208	14,766	-	73,892
Net book value as at December 31, 2005	<u>49,797</u>	<u>96,882</u>	<u>26,545</u>	<u>53,555</u>	<u>50,380</u>	<u>-</u>	<u>277,159</u>



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

14.3.2 Included in cost of property, equipment and others are fully depreciated items still in use aggregating Rs 17.326 million (2004: Rs 6.986 million).

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

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
..... Rupees in '000						
Electrical, office and computer equipments						
Mobile	14	9	5	5	Bank policy	Mr. Aqeel Ahmed Siddiqui (Ex-employee)
Mobile	12	4	8	4	Bank policy	Mr. Pervez Mobin (Ex-employee)
Mobile	14	5	9	4	Bank policy	Mr. Gohar Iqbal Sheikh (Ex-employee)
Fax Machine	76	76	-	5	Trade-in	Mansha Brothers 5 - Amber Palm Block-B, Shahrah-e-Faisal, Karachi
Computers	344	344	-	25	Negotiation	Various buyers
Vehicles						
Honda Civic	955	573	382	509	Bank policy	Mr. Aqeel Ahmed Siddiqui (Ex-employee)
Toyota Corolla	1,169	701	468	526	Bank policy	Mr. Gohar Iqbal Sheikh (Ex-employee)
Suzuki Cultus	555	333	222	231	Bank policy	Ms. Mehnaz Ikram (Employee)
Honda Civic	995	597	398	398	Bank policy	Mr. Ayaz Wasay (Ex-employee)
Honda City	785	471	314	262	Bank policy	Mr. M. Rizvi (Employee)
	<u>4,919</u>	<u>3,113</u>	<u>1,806</u>	<u>1,969</u>		

14.4 Intangible assets

	COST			AMORTISATION			Rate of amortisation %	
	As at January 1, 2005	Additions	As at December 31, 2005	As at January 1, 2005	Charge	As at December 31, 2005		
..... Rupees in '000								
Computer software	11,589	8,108	19,697	1,986	3,642	5,628	14,069	20
2004	5,921	5,668	11,589	754	1,232	1,986	9,603	10 and 20

14.5 Intangible assets – Movement of net book value

	Year ended December 31, 2005				Year ended December 31, 2004			
	Net book value as at January 1, 2005	Additions	Amortisation charge for the year	Net book value as at December 31, 2005	Net book value as at January 1, 2004	Additions	Amortisation charge for the year	Net book value as at December 31, 2004
..... Rupees in '000								
Computer software	9,603	8,108	3,642	14,069	5,167	5,668	1,232	9,603



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005 2004
Rupees in '000

15. BILLS PAYABLE

In Pakistan	260,732	196,145
Outside Pakistan	-	-
	<u>260,732</u>	<u>196,145</u>

16. DUE TO FINANCIAL INSTITUTIONS

In Pakistan	2,981,714	2,835,274
Outside Pakistan	-	26,865
	<u>2,981,714</u>	<u>2,862,139</u>

16.1 Particulars of due to financial institutions

In local currency	2,922,000	2,835,274
In foreign currencies	59,714	26,865
	<u>2,981,714</u>	<u>2,862,139</u>

16.2 Details of due to financial institutions

Secured		
Under Islamic export refinance scheme - note 16.2.1	2,922,000	2,665,274
Unsecured		
Call borrowing	-	170,000
Others	59,714	26,865
	<u>2,981,714</u>	<u>2,862,139</u>

16.2.1 These borrowings are on a profit and loss sharing basis maturing between January 2 to June 28, 2006 and are secured against demand promissory notes executed in favour of the SBP. A limit of Rs 4,500 million has been allocated to MBL by the SBP under Islamic export refinance scheme for the financial year ending June 30, 2006.

2005 2004
Rupees in '000

17. DEPOSITS AND OTHER ACCOUNTS

Customers		
- Fixed deposits schemes	6,492,676	4,628,446
- Savings deposits	7,492,041	5,089,027
- Current accounts - non-remunerative	5,028,807	3,134,172
- Margin	207,290	90,675
	<u>19,220,814</u>	<u>12,942,320</u>

Financial institutions		
- Remunerative deposits	3,534,865	784,038
- Non-remunerative deposits	5,607	19,349
	<u>3,540,472</u>	<u>803,387</u>
	<u>22,761,286</u>	<u>13,745,707</u>

17.1 Particulars of deposits

In		
- local currency	21,597,778	12,890,524
- foreign currencies	1,163,508	855,183
	<u>22,761,286</u>	<u>13,745,707</u>



2005 2004
Rupees in '000

18. OTHER LIABILITIES

Return on deposits and other dues		
- payable in local currency - note 18.1	171,182	76,211
- payable in foreign currencies	1,436	818
Unearned commission	11,869	7,803
Accrued expenses	61,050	24,982
Advance payments	7,720	10,879
Unclaimed dividends	855	862
Unrealised loss (net) on forward foreign exchange contracts	-	1,184
Unrealised loss on re-measurement of derivative	261	-
Payable to defined benefit plan - note 35.4	5,627	6,530
Provision against off-balance sheet obligations - note 18.2	1,600	1,600
Security deposits against ijarah	885,281	480,863
Payable on account of purchase of securities	197,000	64,449
Payable to employees	1,224	4,054
Other staff benefits	117,440	64,808
Others - notes 18.3, 18.4 and 18.5	67,406	36,621
	<u>1,529,951</u>	<u>781,664</u>

18.1 It includes Rs 49.006 million (2004: Rs 10.375 million) in respect of return accrued on borrowings from the SBP under the Islamic export refinance scheme.

18.2 Provision against off-balance sheet obligations

Opening balance - note 18.2.1	1,600	1,600
Charge for the year	-	-
Amount written off	-	-
Closing balance	<u>1,600</u>	<u>1,600</u>

18.2.1 This represents provision made against a bail bond issued on behalf of former employees of Societe Generale, The French and International Bank in a suit pending before a court.

18.3 It includes charity payable aggregating Rs 6.740 million (2004: Rs 2.889 million). Charities amounting to Rs 0.5 million and Rs 0.649 million during the year ended December 31, 2005 were paid to the The Citizen Foundation and Alamgir Welfare Trust respectively. None of the other individuals received charity in excess of Rs 100,000 each. Charity and donation were not paid to any individual / organisation in which a director or his spouse had any interest at any time during the year.

18.4 It includes donation payable aggregating Rs 4 million for relief efforts for earthquake victims.

18.5 It includes amounts aggregating Rs 2.700 million and Rs 1 million which MBL had earned from murabaha financings and income from dealing in foreign currencies respectively. These incomes have not been recognised as income on the directives of MBL's Shariah Advisor pending a detail review of the underlying transactions by the Shariah Supervisory Board. The related incomes may not be in accordance with the principles of Islamic Shariah.



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005 2004
Rupees in '000

19. DEFERRED TAXATION

(Debit) / credit balances arising on account of:

Excess of tax written down values over accounting net book values of owned assets

Other staff benefits

Excess of ijarah financings over tax written down values of ijarah assets

Carried forward unassessed losses

Provision against non-performing financings

Investments accounted for under equity method of accounting

Others

3,661	1,429
(37,926)	(24,461)
253,038	113,386
(29,480)	(86,284)
(14,070)	(858)
14,844	(2,404)
(2,720)	(608)
<u>187,347</u>	<u>200</u>

19.1 MBL has an aggregate amount of Rs 84.229 million (2004: Rs 227.062 million) available as carried forward unassessed tax losses as at December 31, 2005. The management is confident that sufficient taxable profits will be available in the future against which these tax losses shall be offset. Accordingly, the full amount of carried forward tax losses has been considered in calculating the deferred tax balance.

20. SHARE CAPITAL

20.1 Authorised, issued, subscribed and paid-up capital

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

	Ordinary shares	
	Number	Amount Rupees in '000
Authorised capital		
As at January 1, 2005	200,000,000	2,000,000
Increase during the year	100,000,000	1,000,000
As at December 31, 2005	<u>300,000,000</u>	<u>3,000,000</u>
Issued capital		
As at January 1, 2004	106,404,514	1,064,045
Ordinary shares of Rs 10 each issued as bonus shares	28,197,195	281,972
Right issue at Rs 10 each	35,113,489	351,135
As at December 31, 2004	<u>169,715,198</u>	<u>1,697,152</u>
Right issue at Rs 10 each	33,943,039	339,430
As at December 31, 2005	<u>203,658,237</u>	<u>2,036,582</u>
Subscribed and paid-up capital		
As at January 1, 2004	106,404,514	1,064,045
Issue of bonus shares	28,197,195	281,972
As at December 31, 2004	<u>134,601,709</u>	<u>1,346,017</u>
Right issue at Rs 10 each	69,056,528	690,565
As at December 31, 2005	<u>203,658,237</u>	<u>2,036,582</u>

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
21. CAPITAL RESERVES		
Statutory reserve - note 21.1	340,469	256,578
Reserve for issue of bonus shares	325,853	-
	<u>666,322</u>	<u>256,578</u>
21.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount not less than 20% of the profit of MBL 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.		
22. REVENUE RESERVES		
General reserve-opening balance	91,082	241,764
Less: Reserve for issue of bonus shares	-	142,234
Surplus on revaluation of investment due to fair value adjustment resulting from acquisition of AMIML (pre-acquisition)	-	8,448
	<u>91,082</u>	<u>91,082</u>
Unappropriated profit		
Consolidated as at January 1, 2005 / 2004	353,260	28,322
Profit after taxation and minority interest for the year ended December 31, 2005 attributable to holding company's shareholders	680,967	369,810
Less: Transferred to Statutory reserve	(83,891)	(44,872)
Reserve for issue of bonus shares	(325,853)	-
	<u>271,223</u>	<u>324,938</u>
Consolidated as at December 31, 2005 / 2004	<u>624,483</u>	<u>353,260</u>
	<u>715,565</u>	<u>444,342</u>
23. SURPLUS ON REVALUATION OF INVESTMENTS		
Surplus on revaluation of investments		
Quoted shares	50,772	40,866
Other securities (Quoted MTFCs)	2,870	4,284
	<u>53,642</u>	<u>45,150</u>
24. MINORITY INTEREST		
Opening balance	24,421	52,272
Elimination of surplus on revaluation of an associate now accounted for under the equity method	-	(6,839)
Charge for the year	38,103	24,890
Increase in minority holding on disposal of shares by MBL	-	10,187
Dividend paid to minority shareholders	-	(7,000)
Minority's share in the subsidiaries holding in its associates	(31,305)	(49,089)
	<u>31,219</u>	<u>24,421</u>
25. CONTINGENCIES AND COMMITMENTS		
25.1 Direct credit substitutes		
Government	82,298	66,587
25.2. Transaction related contingent liabilities		
Guarantees favouring		
- Government	1,851,267	2,188,156
- Banks	18,397	32,717
- Others	1,224,058	714,812
	<u>3,093,722</u>	<u>2,935,685</u>



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

2005 2004
Rupees in '000

25.3 Trade related contingent liabilities

Import letters of credit	5,880,513	2,880,866
Acceptances	2,242,686	1,236,296
	8,123,199	4,117,162

25.4 While finalising the issues set aside by CIT, Appeals under order no. Jud-11/R.P/cos-1/2000-2001/1415 for the income year ended June 30, 2001 (assessment year 2001-2002) the assessing officer has subjected to tax the gain on foreign currency deposits claimed as exempt in the return of income. MBL has filed an appeal in Income Tax Appellate Tribunal (ITAT). The matter is pending hearing in the tribunal.

The amount of tax levied by the assessing officer on such gain aggregated Rs 141.689 million, whereas the net tax liability for the aforesaid assessment year and other relevant assessment years after considering relief for the related expenditure amounts to approximately Rs 41 million. The management is confident that the ultimate outcome of the appeal would be in favour of MBL especially for the reason that the State Bank of Pakistan through its letter No. 6226/Sec-296-2001 dated October 3, 2001 has confirmed that the assessee's deposits were covered under the Protection of Economic Reforms Act, 1992. Accordingly, no provision has been recognised in the consolidated financial statements in this regard.

25.5 Commitments in respect of

Financings	13,417,146	10,754,024
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25.6 Commitments in respect of forward exchange contracts

Purchases	1,908,163	573,145
Sales	4,641,603	1,808,208

25.7 Other commitments

Bills for collection (inland)	16,108	32,249
Bills for collection (foreign)	1,146,365	934,538
	1,162,473	966,787

26. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED

On financings to:		
- Customers	1,421,389	513,342
- Financial institutions	-	-
On investments in		
- 'Held to maturity' securities - note 26.1	6,667	1,639
- 'Available for sale' securities	3,066	5,327
On deposits with financial institutions	27,515	14,950
	1,458,637	535,258

26.1 It represents return on investments made in Qatar and Dubai Global Sukuk Bonds.

27. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

Deposits – note 27.1	520,410	195,018
Other short term borrowings	169,472	54,844
	689,882	249,862

27.1 It includes Rs 144.02 million (2004: Rs 34.38 million) paid to SBP under Islamic export refinance scheme.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005



	2005	2004
	Rupees in '000	
28. OTHER INCOME		
Gain on sale of property, equipment and others	490	704
Advisory services	109	689
Amortisation of negative goodwill	3,920	6,764
Sales load	7,182	6,123
Gain on termination of ijarah financing	9,186	3,897
Unrealised loss on remeasurement of derivatives	(261)	-
Others	373	138
	<u>20,999</u>	<u>18,315</u>
29. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	326,102	179,409
Charge for defined benefit plan - note 35.4	5,756	3,641
Contribution to defined contribution plan	8,565	4,606
Directors' fees - note 36	7,943	8,824
Rent, taxes, insurance, electricity, etc.	83,591	41,891
Insurance on consumer car ijarah	58,862	21,018
Communication	33,495	20,404
Stationery and printing	22,335	16,472
Entertainment	6,763	2,753
Local transportation and car running	16,775	8,597
Clearing charges and subscription fees	4,003	7,128
Security charges	7,439	3,646
Repairs and maintenance	6,919	3,439
Hardware and software maintenance	3,813	2,760
Advertisement and publicity	41,805	23,956
Depreciation - note 14.2	73,892	45,999
Amortisation - note 14.4	3,642	1,232
Travelling	7,769	6,237
Service charges - note 36.2	14,594	13,585
Brokerage and commission	9,812	4,655
Legal and professional charges	11,211	8,116
Auditors' remuneration – note 29.1	5,465	4,975
Donations	4,000	-
Transfer agency fees	1,942	-
Others	6,680	5,518
	<u>773,173</u>	<u>438,861</u>
29.1 Auditors' remuneration		
Holding company		
Audit fee	950	850
Fee for audit of employees' funds	75	75
Tax services	2,253	1,304
Special certifications and sundry advisory services	1,892	2,566
Out of pocket expenses	190	130
	<u>5,360</u>	<u>4,925</u>
Subsidiary company		
Audit fee	105	50
	<u>5,465</u>	<u>4,975</u>
30. OTHER CHARGES		
Penalties imposed by the SBP	482	185



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
	Rupees in '000	
31. TAXATION		
Current – for the year		
- Group	39,868	22,897
- Associates - note 10.8	935	1,028
	40,803	23,925
Current – prior year		
- Group	39,002	-
- Associates	-	-
	39,002	-
Deferred		
- Group	187,147	(8,951)
- Associates	-	-
	187,147	(8,951)
	<u>266,952</u>	<u>14,974</u>

31.1 As the provision for current taxation of MBL for the year ended December 31, 2005 has been made on the basis of presumptive tax therefore a relationship between the tax expense and the accounting profit has not been disclosed.

	2005	2004
32. BASIC EARNINGS PER SHARE		
Profit for the year (Rupees in '000)	680,967	369,810
Weighted average number of ordinary shares	184,024,464	164,303,450
Basic earnings per share (Rupees) - note 32.1	3.70	2.25

32.1 The number of ordinary shares as at December 31, 2005 has been adjusted for issue of right shares.

32.2 There were no convertible dilutive potential ordinary shares outstanding on December 31, 2005 and 2004.

	2005	2004
	Rupees in '000	
33. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks - note 8	3,952,993	2,624,217
Balances with other banks - note 9	2,855,823	1,748,912
	<u>6,808,816</u>	<u>4,373,129</u>

	2005	2004
34. STAFF STRENGTH		
Total number of employees of the Group including 105 (2004: 73) contracted employees at the end of the year	<u>808</u>	<u>522</u>

	2005	2004
35. DEFINED BENEFIT PLAN		
35.1 Principal actuarial assumptions		
Discount rate	10% p.a	9% p.a
Expected rate of increase in salaries	10% p.a	9% p.a
Expected rate of return on investments	10% p.a	9% p.a
Normal retirement age	60 years	60 years



	2005	2004
	Rupees in '000	
35.2 Reconciliation of amount payable to defined benefit plan		
Present value of defined benefit obligations	17,640	10,972
Fair value of plan assets - note 35.6	(6,841)	(1,956)
Net actuarial losses not recognised	(5,172)	(2,486)
	<u>5,627</u>	<u>6,530</u>
35.3 Movement in payable to defined benefit plan		
Opening balance	6,530	2,889
Charge for the year – note 35.4	5,627	3,641
Contribution made during the year	(6,530)	-
Closing balance	<u>5,627</u>	<u>6,530</u>
35.4 Charge for defined benefit plan		
Current service cost	4,700	3,126
Interest cost	987	513
Expected return on plan assets	(176)	(135)
Actuarial losses	116	137
	<u>5,627</u>	<u>3,641</u>
35.5 Actual (loss) / return on plan assets	<u>(380)</u>	<u>473</u>

35.6 It includes a balance of Rs 6.501 million (2004: Rs 1.223 million) kept in a savings account with MBL.

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

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

The amounts charged in these financial statements are as follows:

	President and Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	Rupees in '000					
Fees	923	899	7,020*	7,925	-	-
Managerial remuneration	16,086	8,945	18,764	12,116	59,291	30,417
Charge for defined benefit plan	-	-	617	513	1,790	1,327
Contribution to defined contribution plan	-	-	741	615	2,528	1,517
House rent	-	-	270	135	8,735	3,846
Utilities	-	-	741	615	2,957	2,091
Medical	176	69	846	723	2,619	2,059
Conveyance	537	506	145	259	-	-
Leave fare assistance	-	-	-	138	-	-
Others	143	218	14	128	-	788
	<u>17,865</u>	<u>10,637</u>	<u>29,158</u>	<u>23,167</u>	<u>77,920</u>	<u>42,045</u>
Number of persons	<u>1</u>	<u>1</u>	<u>10</u>	<u>10</u>	<u>31</u>	<u>21</u>

*This includes amounts charged in these consolidated financial statements as fees to nine (2004: nine) non-executive directors.

36.1 Certain executives are provided with free use of MBL's cars.



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

36.2 In addition to the above, service charges (note 29) include Rs 13.892 million (2004: Rs 12.997 million) in respect of reimbursement, to a related party, of salary and other benefits paid by that related party to the chief executive as he is on secondment from that related party.

37. MATURITIES OF ASSETS AND LIABILITIES

Category of classification	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	Rupees in '000				
Assets					
Cash and balances with treasury banks	3,952,993	3,952,993	-	-	-
Balances with other banks	2,855,823	2,855,823	-	-	-
Investments	2,061,009	434,275	180,657	305,336	1,140,741
Financings	19,738,699	8,132,825	5,077,661	3,656,493	2,871,720
Other assets	2,297,713	2,244,521	41,032	5,902	6,258
Operating fixed assets	318,123	-	-	-	318,123
	<u>31,224,360</u>	<u>17,620,437</u>	<u>5,299,350</u>	<u>3,967,731</u>	<u>4,336,842</u>
Liabilities					
Bills payable	260,732	260,732	-	-	-
Due to financial institutions	2,981,714	2,048,939	932,775	-	-
Deposits and other accounts – note 37.1	22,761,286	18,609,475	1,789,752	2,362,059	-
Other liabilities	1,529,951	510,948	216,850	733,756	68,397
Deferred taxation	187,347	-	-	187,347	-
	<u>27,721,030</u>	<u>21,430,094</u>	<u>2,939,377</u>	<u>3,283,162</u>	<u>68,397</u>
Net assets	<u>3,503,330</u>	<u>(3,809,657)</u>	<u>2,359,973</u>	<u>684,569</u>	<u>4,268,445</u>
Share capital	2,036,582				
Capital reserves	666,322				
Revenue reserves	715,565				
Surplus on revaluation of investments	53,642				
Minority interest	31,219				
	<u>3,503,330</u>				

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



38. YIELD / PROFIT RATE RISK

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

Effective yield / profit rate	Total	2005				Not exposed to yield / profit risk
		Exposed to yield/ profit risk				
		Upto three months	Over three months to one year	Over one year to five years	Over five years	
..... Rupees in '000						
On-balance sheet financial instruments						
Assets						
Cash and balances with						
treasury banks	-	3,952,993	-	-	-	3,952,993
Balances with other banks	4.08	2,855,823	1,941,735	-	-	914,088
Investments	5.61	2,061,009	1,041	10,098	10,404	1,860,324
Financings	10.60	19,738,699	8,130,564	5,067,940	3,627,506	2,828,196
Other assets	-	1,962,427	-	-	-	1,962,427
		30,570,951	10,073,340	5,078,038	3,637,910	3,007,338
						8,774,325
Liabilities						
Bills payable	-	260,732	-	-	-	- 260,732
Due to financial institutions	7.52	2,981,714	2,048,939	932,775	-	-
Deposits and other accounts	3.91	22,761,286	13,367,771	1,789,752	2,362,059	5,241,704
Other liabilities	-	619,453	-	-	-	619,453
		26,623,185	15,416,710	2,722,527	2,362,059	-
						6,121,889
On-balance sheet gap		3,947,766	(5,343,370)	2,355,511	1,275,851	3,007,338
Non-financial assets		653,409				
Non-financial liabilities		(1,097,845)				
Total net assets		3,503,330				
Off-balance sheet financial instruments						
Forward lendings		-	-	-	-	-
Forward borrowings		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-
Total yield / profit risk sensitivity gap			(5,343,370)	2,355,511	1,275,851	3,007,338
Cumulative yield / profit risk sensitivity gap			(5,343,370)	(2,987,859)	(1,712,008)	1,295,330

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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

39. CURRENCY RISK

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupees	26,486,502	25,398,527	2,740,589	3,828,564
United States dollars	3,807,012	1,053,679	(2,661,500)	91,833
Great Britain pounds	101,965	76,772	-	25,193
Japanese yen	4,632	-	(3,806)	826
Euro	165,511	94,207	(75,283)	(3,979)
Singapore dollars	1,009	-	-	1,009
Australian dollars	2,452	-	-	2,452
Canadian dollars	849	-	-	849
Swiss francs	1,019	-	-	1,019
	<u>30,570,951</u>	<u>26,623,185</u>	<u>-</u>	<u>3,947,766</u>

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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in listed securities, except investments categorised as 'held to maturity' securities and investments in subsidiaries and associates is based on quoted market prices. 'Held to maturity' securities are carried at amortised cost while investment in associates are valued under equity method of accounting.

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 Group's accounting policy as stated in note 6.3. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values as these assets and liabilities are either short term in nature or in the case of advances and deposits are frequently repriced.

41. 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. Out of the total financial assets of Rs 30.571 billion, the financial assets which were subject to credit risk amounted to Rs 26.618 billion. However, the Group does not believe that it is exposed to major concentration of credit risk. The Group manages its exposure to credit risk by portfolio diversification and adequate collateral, wherever applicable.

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



41.1 Segment by class of business

	2005					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	566,261	2.87%	299,517	1.32%	3,527,715	10.87%
Agribusiness	-	-	139,216	0.61%	366,711	1.13%
Textile	6,153,918	31.18%	592,740	2.60%	9,045,523	27.86%
Cement	2,404	0.01%	15,320	0.07%	62,587	0.19%
Sugar	822,842	4.17%	13,723	0.06%	686,149	2.11%
Shoes and leather garments	888,119	4.50%	38,146	0.17%	1,120,349	3.45%
Automobile and transportation equipment	736,566	3.73%	102,353	0.45%	1,228,349	3.78%
Financial	50,000	0.25%	3,540,472	15.55%	6,676,914	20.56%
Insurance	-	-	37,086	0.16%	-	-
Electronics and electrical appliances	154,168	0.78%	7,728	0.03%	976,307	3.01%
Production and transmission of energy	227,316	1.15%	518,299	2.28%	415,160	1.28%
Construction	850,503	4.31%	336,712	1.48%	-	-
Individuals	4,655,511	23.59%	9,620,204	42.27%	129,216	0.40%
Others	4,631,091	23.46%	7,499,770	32.95%	8,234,624	25.36%
	<u>19,738,699</u>	<u>100%</u>	<u>22,761,286</u>	<u>100%</u>	<u>32,469,604</u>	<u>100%</u>

41.2 Segment by sector

	2005					
	Financings		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	301,339	1.32%	-	-
Private	19,738,699	100%	22,459,947	98.68%	32,469,604	100%
	<u>19,738,699</u>	<u>100%</u>	<u>22,761,286</u>	<u>100%</u>	<u>32,469,604</u>	<u>100%</u>

42. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	986,022	31,224,360	3,503,330	32,469,604
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>986,022</u>	<u>31,224,360</u>	<u>3,503,330</u>	<u>32,469,604</u>

43. RELATED PARTY TRANSACTIONS

43.1 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.



NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

43.2 A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates. The service charges relating to secondment are on actual basis.

43.3 Key management personnel:

- President and Chief Executive Officer
- Chief Operating Officer

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

	Total		Associates		Key management personnel		Other related parties	
	2005	2004	2005	2004	2005	2004	2005	2004
..... Rupees in '000								
Financings								
At January 1,	146,917	100,000	146,917	100,000	-	-	-	-
Disbursed during the year	695,212	245,109	695,212	245,109	-	-	-	-
Repaid during the year	(530,217)	(198,192)	(530,217)	(198,192)	-	-	-	-
At December 31,	<u>311,912</u>	<u>146,917</u>	<u>311,912</u>	<u>146,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits								
At January 1,	1,235,219	444,155	583,923	162,940	23,354	11,415	627,942	269,800
Deposited during the year	33,715,132	23,677,536	20,057,083	8,574,710	54,925	51,804	13,603,124	15,051,022
Repaid during the year	(33,317,395)	(22,886,472)	(19,246,488)	(8,153,727)	(61,127)	(39,865)	(14,009,780)	(14,692,880)
At December 31,	<u>1,632,956</u>	<u>1,235,219</u>	<u>1,394,518</u>	<u>583,923</u>	<u>17,152</u>	<u>23,354</u>	<u>221,286</u>	<u>627,942</u>
Balances								
Bank balance	-	4,715	-	4,715	-	-	-	-
Profit receivable on financings	1,018	408	1,018	408	-	-	-	-
Acceptances	22,112	57,714	22,112	57,714	-	-	-	-
Letters of credit (unfunded)	243,283	180,890	243,283	180,890	-	-	-	-
Preliminary expenses received	1,944	-	1,944	-	-	-	-	-
Preliminary expenses incurred	13	-	13	-	-	-	-	-
Transactions, income and expenses								
Profit earned on financings	13,225	2,504	13,225	2,504	-	-	-	-
Profit earned on a bank account	-	5,560	-	5,560	-	-	-	-
Return on deposits expensed	54,131	15,278	43,226	6,535	926	581	9,979	8,162
Dividend income earned	46,956	42,719	46,956	42,719	-	-	-	-
Service charges incurred	14,594	13,198	-	177	-	-	14,594	13,021
Fees and commission earned	141,974	85,084	141,974	85,084	-	-	-	-
Commission earned on letters of credit and acceptances	1,815	892	1,815	892	-	-	-	-
Dividend paid	-	31,295	-	-	-	1,854	-	29,441
Placement fee paid	2,886	-	-	-	-	-	2,886	-

44. ASSOCIATES – KEY INFORMATION

PARTICULARS	MUTUAL FUNDS	OTHERS	TOTAL
 Rupees in '000		
Assets	<u>6,740,421</u>	<u>2,467,193</u>	<u>9,207,614</u>
Liabilities	<u>286,411</u>	<u>620,244</u>	<u>906,655</u>
Operating revenue	<u>2,111,874</u>	<u>322,286</u>	<u>2,434,160</u>
Profit after tax	<u>2,137,182</u>	<u>105,354</u>	<u>2,242,536</u>



45. CORRESPONDING FIGURES

Corresponding figures of the following has been reclassified for the purposes of comparison:

- Insurance on consumer car ijarah previously included in 'Rent, taxes, insurance, electricity, etc' has been shown separately in administrative expenses,
- musharakah financings has been further classified as diminishing musharakah financings - housing, diminishing musharakah financings - others and musharakah financings, and
- financings against bills has been further classified as financings against bills - salam and financings against bills - murabaha.

46. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on March 9, 2006 by the Board of Directors of MBL.

Handwritten signature of H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa in blue ink.

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

Handwritten signature of Irfan Siddiqui in blue ink.

Irfan Siddiqui
*President and
Chief Executive*

Handwritten signature of Istaqbal Mehdi in blue ink.

Istaqbal Mehdi
Director

Handwritten signature of Ariful Islam in blue ink.

Ariful Islam
Director



PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2005

No. of Shareholders	Having Shares		Shares held	Percentage
	From	To		
175	1	100	10,273	0.0050%
354	101	500	113,952	0.0560%
337	501	1,000	289,246	0.1420%
524	1,001	5,000	1,331,886	0.6540%
148	5,001	10,000	1,177,479	0.5782%
56	10,001	15,000	714,086	0.3506%
40	15,001	20,000	720,343	0.3537%
14	20,001	25,000	316,957	0.1556%
23	25,001	30,000	645,475	0.3169%
7	30,001	35,000	227,541	0.1117%
12	35,001	40,000	458,514	0.2251%
1	40,001	45,000	42,400	0.0208%
11	45,001	50,000	527,101	0.2588%
3	50,001	55,000	158,843	0.0780%
11	55,001	60,000	641,563	0.3150%
4	60,001	65,000	252,163	0.1238%
7	65,001	70,000	475,500	0.2335%
6	70,001	75,000	435,868	0.2140%
5	75,001	80,000	391,028	0.1920%
2	80,001	85,000	166,590	0.0818%
2	85,001	90,000	174,680	0.0858%
1	90,001	95,000	90,520	0.0444%
6	95,001	100,000	586,690	0.2881%
4	100,001	105,000	411,479	0.2020%
1	105,001	110,000	105,491	0.0518%
3	110,001	115,000	339,770	0.1668%
4	115,001	120,000	475,908	0.2337%
3	120,001	125,000	372,250	0.1828%
5	125,001	130,000	636,994	0.3128%
1	135,001	140,000	138,000	0.0678%
2	150,001	155,000	308,858	0.1517%
1	165,001	170,000	169,896	0.0834%
3	180,001	185,000	545,855	0.2680%
1	190,001	195,000	191,963	0.0943%
3	195,001	200,000	600,000	0.2946%
2	200,001	205,000	403,590	0.1982%
3	210,001	215,000	641,400	0.3149%
1	220,001	225,000	220,022	0.1080%
1	255,001	260,000	257,800	0.1266%
1	260,001	265,000	265,000	0.1301%
1	265,001	270,000	267,500	0.1313%
1	270,001	275,000	270,199	0.1327%
1	310,001	315,000	311,290	0.1528%
1	335,001	340,000	335,783	0.1649%
1	355,001	360,000	360,000	0.1768%
1	380,001	385,000	382,800	0.1880%
1	450,001	455,000	450,425	0.2212%
1	455,001	460,000	456,570	0.2242%
1	495,001	500,000	500,000	0.2455%
1	646,001	650,000	646,553	0.3175%
1	705,001	710,000	707,395	0.3473%
1	1,015,001	1,020,000	1,019,500	0.5006%
1	1,105,001	1,110,000	1,109,929	0.5450%
1	1,155,001	1,160,000	1,160,000	0.5696%
1	1,235,001	1,240,000	1,237,000	0.6074%
1	1,290,001	1,295,000	1,294,200	0.6355%
2	1,365,001	1,370,000	2,724,002	1.3375%
1	1,450,001	1,455,000	1,453,918	0.7139%
1	1,520,001	1,525,000	1,523,204	0.7479%
1	2,140,001	2,145,000	2,143,899	1.0527%
1	4,901,001	4,905,000	4,901,810	2.4069%
1	13,385,001	13,390,000	13,649,861	6.7023%
1	18,985,001	18,990,000	18,988,970	9.3239%
1	52,745,001	52,750,000	52,747,144	25.8998%
1	78,980,001	78,985,000	78,983,311	38.7823%
<u>1,814</u>			<u>203,658,237</u>	<u>100.0000%</u>

CATEGORIES OF SHAREHOLDERS AS AT DECEMBER 31, 2005



Particulars	Shareholders	Shares held	Percentage
Directors, Chief Executive, their spouse and minor children	7	10,572,511	5.19%
Associated Companies, undertakings and related parties	6	164,573,886	80.81%
Banks, Development Financial Institutions and Non Banking Financial Institutions	4	676,721	0.33%
Insurance Companies	4	900,806	0.44%
Modaraba and Mutual Funds	2	86,892	0.04%
General Public			
a. Local	1,707	18,310,564	8.99%
b. Foreign	31	1,702,115	0.84%
Others	53	6,834,742	3.36%
Total	1,814	203,658,237	100.00%

ADDITIONAL INFORMATION AS AT DECEMBER 31, 2005

Particulars	Shareholders	Shares held	Percentage
Associated Companies & Shareholders with more than 10% shareholding			
Pakistan Kuwait Investment Co. (Pvt.) Ltd.	1	78,983,311	38.78%
Shamil Bank of Bahrain E.C.	1	52,747,144	25.90%
Al-Meezan Mutual Fund	1	75,000	0.04%
CDC Trustee Meezan Islamic Fund	1	129,600	0.06%
NIT & ICP			
National Bank of Pakistan, Trustee Department	1	151	0.00%
Directors, Chief Executive, their spouse and minor children			
H.E. Sheikh Ebrahim bin Khalifa Al-Khalifa	1	1,362,001	0.67%
Mr. Naser Abdul Mohsen Al-Marri	1	1,362,001	0.67%
Mr. Mohamed Abdul Rehman Hussain	1	60,000	0.03%
Mr. Istaqbal Mehdi	1	360,000	0.18%
Mr. Irfan Siddiqui	1	4,901,810	2.41%
Mr. Ariful Islam	1	2,143,899	1.05%
Mr. Rana Ahmed Humayun	1	382,800	0.19%
Executives	25	2,591,166	1.27%
Public Sector Companies, Corporations, Banks, DFI's, NBFI's, Insurance Companies, Modaraba, Mutual Funds and other Organizations	64	41,137,841	20.20%
General Public	1,713	17,421,513	8.55%
	1,814	203,658,237	100.00%



Correspondent Banking Network





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

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



Branch Network





BRANCH NETWORK

KARACHI

PNSC Branch
3rd Floor PNSC Building, MT Khan Rd,
Karachi.
Tel: (92-21) 5610582

FTC Branch
Ground Floor, Block B, FTC Building,
Shahrah-e-Faisal, Karachi.
Tel: (92-21) 5650771

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

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

Jodia Bazaar Branch
H-91A, Darya Lal Street, Jodia Bazaar,
Karachi.
Tel: (92-21) 2473326-29

Federal B Area Branch
C-12, Block 10, Federal B Area, Karachi.
Tel: (92-21) 6805370-5

Clifton Branch
Ground Floor, Al-Karam Centre, BC1,
Block 7, Main Clifton Road, Karachi.
Tel: (92-21) 5372060-4

Korangi Branch
Plot No. LS 3, ST-3/1, Sector No. 15,
Korangi Industrial Area, Karachi.
Tel (92-21) 5071044, 5077113

SITE Branch
Plot No. B/9-C, Estate Avenue, SITE Area,
Karachi.
Tel: (92-21) 2586351-54

Cloth Market Branch,
Atique Market, Bunder Quarters, Karachi.
Tel: (92-21) 2418137-9

Shahrah-e-Faisal Branch,
29-A, Ground Floor, Sabah Palace,
P.E.C.H.S. Block No 6, Shahrah-e-Faisal,
Karachi.
Tel: (92-21) 4322183-91

QUETTA

Quetta Branch,
Mannan Chowk, Jinnah Road, Quetta.
Tel: (92-81) 2829470-3

LAHORE

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

Circular Road Branch
Circular Road, Outside Shah Alam Gate
Lahore. Pakistan.
Tel (92-42) 7642001 – 5

Azam Cloth Market Branch
61 Chandni Chowk , Azam Cloth Market,
Lahore.
Tel (92-42) 7642011-2,

New Garden Town Branch
Ground Floor , Ibrahim Centre
1-Aibak Block New Garden Town, Lahore.
Tel (92-42) 5941474-7

DHA Branch
152- Y, Phase III C, DHA, Lahore.
Tel (92-42)

GUJRANWALA

Kashmir Plaza Branch
Kashmir Plaza, Near Ghalla Mandi,
G.T Road, Gujranwala.
Tel: (92-55) 3847205-8

KASUR

Railway Road Branch
216-9R-IV, Railway Road, Kasur.
Tel: (92-492) 764999

RAHIM YAR KHAN

Rahim Yar Khan Branch
17-18 City Centre, Rahim Yar Khan.
Tel: (92-68) 5887603-4

FAISALABAD

Serena Hotel Branch
Serena Hotel, Club Road, Faisalabad.
Tel: (92-41) 2602595-7

Kotwali Road Branch
P-63 Kotwali Road, Faisalabad.
Tel: (92-41) 2602587- 8

People's Colony Branch
1/A-II, People's Colony-1 Faisalabad.
Tel: (92-41) 041-8555001-4

MULTAN

Abdali Road Branch
64, Abdali Road, Multan.
Tel: (92-61) 4588537-8

SIALKOT

Kashmir Road Branch
Kashmir Road Branch, Sialkot
Tel: (92-52) 4295301-4

ISLAMABAD

Jinnah Avenue Branch
32 Sohrab Plaza, Jinnah Avenue,
Blue Area, Islamabad.
Tel: (92-51) 2276712-5

RAWALPINDI

Bahria Town Branch
Bahria Heights, Bahria Town, Phase-1
Rawalpindi.
Tel: (92-51) 5730170-3

Chandni Chowk Branch
Umer Farooq Plaza No. 51/C, & 51/C-0
Block C, Satellite Town Chandni Chowk,
Murree Road Rawalpindi.
Tel: (92-51) 4851046-9

Saddar Branch
47/62, Bank Road Saddar, Rawalpindi.
Tel: (92-51) 9273404-6

PESHAWAR

Saddar Road Branch
6 Saddar Road Peshawar Cantt,
Peshawar.
Tel: (92-91) 9213470-5

Proxy Form



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

I/We _____ of _____ being a member(s) of
Meezan Bank Limited and holder of _____ ordinary shares as per Share
Register Folio No. _____ and/or CDC Participant I.D. No. _____
and Sub Account No. _____ do hereby appoint
_____ of _____ or failing him/her _____
of _____ as my/our proxy to vote and act for me/us on my/ our behalf at
the 10th Annual General Meeting of Meezan Bank Ltd. to be held on Monday, April 10, 2006
at Beach Luxury Hotel, M.T.Khan Road, Karachi, and at any adjournment thereof.

Signed this _____ day of _____ 2006.

Witness:

Signature: _____

Name: _____

Address: _____

CNIC or Passport No. _____

Please affix
Rupees five
revenue
stamp

Signature of Member(s)

NOTES:

1. Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting.
2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerised National Identity Card or Passport with this proxy form before submission to the company.

Please affix
correct
postage

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

www.meezanbank.com



Meezan Bank
The Premier Islamic Bank

Head Office: 3rd Floor, P.N.S.C. Building,
M.T. Khan Road, Karachi-74000.
Tel: (92-21) 5610582
Fax: (92-21) 5610375