

DIRECTOR'S REVIEW

The Directors are pleased to present the un-audited financial statements of the Bank for the third quarter ended March 31, 2005 and highlight some important aspects of its operations.

Operating Results

The Profit before tax for the third quarter ended March 31, 2005 is Rs. 129.96 million compared to Rs. 114.52 million for the corresponding period last year representing an increase of 13%.

During the period the Management laid special emphasis on the non-fund based activities of the Bank. As a result the non-fund based revenues have more than doubled to Rs. 92.1 million. The fund-based revenues have also increased by 17% to Rs. 255.71 million.

The Rise in administrative and operating expenses is mainly attributable to Equity Brokerage Division. This Division has become a major contributor to the Bank's profitability. Due to continuous rise in interest rate, the borrowing cost has increased which is largely compensated by corresponding increase in the total fund-based revenues.

Future Prospects

The Management foresees tough times ahead due to new regulations applicable to shares trading. Recent increase of 1.5% in the discount rate will also increase the borrowing cost. The Management expects to overcome this challenge by making greater efforts in identifying and grasping high yielding investment opportunities to maintain a steady growth in profits and to add value to the shareholders' investment.

Risk Management

The Management is aware of the risk management requirement particularly in equity brokerage and has instituted strict internal controls to safeguard against the kind of upheavals recently witnessed in the stock market.

Acknowledgement

We take this opportunity to place on record our sincere appreciation for the Securities and Exchange Commission of Pakistan, State Bank of Pakistan and the Management of Karachi Stock Exchange for their advice and guidance. We are also thankful to our clients whose patronage has been instrumental in the bank's improved performance. The staff of the Bank also deserves our appreciation for their commitment and hard work.

Karachi
April 26, 2005

On behalf of the board

NAIM FAROOQUI
Chief Executive

**BALANCE SHEET
AS AT MARCH 31, 2005 (UNAUDITED)**

	March 31, 2005 Rupees	June 30, 2004 Rupees
ASSETS		
Non-Current Assets		
Tangible fixed assets		
- Operating assets	17,469,968	12,005,852
- Advance against purchase of fixed assets	1,059,350	795,000
	<u>18,529,318</u>	<u>12,800,852</u>
Intangible assets	-	472,229
Stock exchange membership card and room	43,950,000	43,950,000
Long-term loans and term finances – net	283,460,948	265,093,515
Long-term security deposits	3,687,260	2,735,760
Deferred tax asset	44,850,523	44,136,560
	<u>394,478,049</u>	<u>369,188,916</u>
Current Assets		
Short-term investments	726,541,286	1,133,981,704
Advance subscription for Term Finance Certificates	60,000,000	50,000,000
Funds placements with financial institutions	297,479,728	584,736,818
Short-term finances – net	752,472,000	596,463,933
Advances, deposits, prepayments and other receivables	297,007,568	114,872,814
Advance taxation – net	20,388,837	11,548,976
Cash and bank balances	777,361,508	194,292,199
	<u>2,931,250,927</u>	<u>2,685,896,444</u>
TOTAL ASSETS	<u><u>3,325,755,976</u></u>	<u><u>3,055,085,360</u></u>
EQUITY AND LIABILITIES		
Share Capital and Reserves		
Authorized capital		
50,000,000 (2004 : 50,000,000) ordinary shares of Rs. 10/-each	500,000,000	500,000,000
Issued, subscribed and paid-up capital		
30,000,000 (2004 : 30,000,000) fully paid ordinary shares of Rs. 10/-each issued for cash	300,000,000	300,000,000
3,000,000 (2004 : Nil) fully paid ordinary shares of Rs. 10/-each issued as bonus rates	30,000,000	
Capital Reserves		
Statutory reserve	72,243,516	72,243,516
Revenue Reserves		
Securities price fluctuation reserve	15,000,000	15,000,000
Unappropriated profit	165,154,282	127,915,040
	<u>582,397,798</u>	<u>515,158,556</u>
Surplus / (Deficit) on revaluations of securities - net	(6,437,396)	(12,972,931)
Non-Current Liabilities		
Long-term loans	441,666,664	300,000,000
Long-term certificates of deposit	47,785,716	51,200,716
	<u>489,452,380</u>	<u>351,200,716</u>
Current Liabilities		
Current maturity of long-term loans	166,666,668	85,844,088
Short-term certificates of deposit	887,814,593	694,512,571
Short-term borrowings	1,120,000,000	1,354,500,000
Short-term security deposits	5,025,000	4,025,000
Accrued expenses and other liabilities	43,582,609	17,817,360
Provision for taxation	37,227,324	45,000,000
	<u>2,260,316,194</u>	<u>2,201,699,019</u>
	<u><u>3,325,755,976</u></u>	<u><u>3,055,085,360</u></u>

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

	July - March		Jan - March	
	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees
INCOME				
Income from loans, term finances and credit facilities	65,348,516	86,650,032	23,859,809	26,091,163
Income from investments	189,858,360	86,368,697	87,043,698	22,814,694
Net (loss) / gain on sale of investments	(578,047)	44,770,158	36,606,538	18,703,894
Fee, commission and brokerage	92,126,126	41,449,264	40,841,826	9,165,669
Other income	1,079,545	793,628	275,199	315,085
	<u>347,834,500</u>	<u>260,031,779</u>	<u>188,627,070</u>	<u>77,090,505</u>
EXPENDITURE				
Return/mark-up on certificates of deposit and borrowings	118,301,987	73,664,077	54,257,877	25,511,164
Administrative and operating expenses	79,973,418	44,852,427	34,004,219	15,047,041
	<u>198,275,405</u>	<u>118,516,504</u>	<u>88,262,096</u>	<u>40,558,205</u>
Profit before provision and taxation	<u>149,559,095</u>	<u>141,515,275</u>	<u>100,364,974</u>	<u>36,532,300</u>
Provision for losses on term finances / credit facilities	19,600,000	27,000,000	10,100,000	9,000,000
Profit before taxation	<u>129,959,095</u>	<u>114,515,275</u>	<u>90,264,974</u>	<u>27,532,300</u>
Provision for taxation - current	37,227,324	39,500,000	23,227,324	9,500,000
- deferred	(4,507,471)	(6,982,884)	(1,252,865)	(1,740,059)
	<u>32,719,853</u>	<u>32,517,116</u>	<u>21,974,459</u>	<u>7,759,941</u>
Profit after taxation	<u>97,239,242</u>	<u>81,998,159</u>	<u>68,290,515</u>	<u>19,772,359</u>
Basic earnings per share	<u>2.95</u>	<u>2.73</u>	<u>2.07</u>	<u>0.66</u>

**CASH FLOW STATEMENT
FOR THE PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

	March 31, 2005 Rupees	March 31, 2004 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	129,959,095	114,515,275
Adjustment for non cash and other items:		
Depreciation on fixed assets	2,880,317	2,532,084
Provision for losses on term finances / credit facilities	19,600,000	27,000,000
Amortisation of deferred costs	472,232	1,062,499
(Gain) / loss on sale of fixed assets	(260,292)	151,875
	22,692,257	30,746,458
Long-term security deposits	(951,500)	(475,000)
Cash flows from operating activities before working capital changes	151,699,852	144,786,733
Effect on cash flows due to working capital changes	345,880,596	68,241,510
Income tax paid	(55,839,868)	(38,747,219)
Net cash inflow from operating activities	441,740,580	174,281,024
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(10,103,491)	(46,384,987)
Long-term loans and term finances	(38,669,849)	109,029,398
Sale proceeds from disposal of fixed assets	960,000	123,066
Net cash (outflow) / inflow from investing activities	(47,813,340)	62,767,477
CASH FLOW FROM FINANCING ACTIVITIES		
Certificates of deposit - net	(3,415,000)	(86,950,000)
Long-term loans	222,489,246	6,967,308
Dividend paid	(29,932,177)	(59,509,162)
Net cash inflow / (outflow) from financing activities	189,142,069	(139,491,854)
Net increase in cash and cash equivalents	583,069,309	97,556,647
Cash and cash equivalents of the beginning of the period	194,292,199	91,456,620
Cash and cash equivalents at the end of the period	777,361,508	189,013,267

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31, 2005 (UNAUDITED)**

	2005 Rupees	2004 Rupees
Share Capital		
Issued, subscribed and paid-up capital	300,000,000	300,000,000
Issue of bonus shares	30,000,000	-
	330,000,000	300,000,000
Statutory reserve		
Beginning balance	72,243,516	48,871,226
Transferred during the period	-	-
Ending balance	72,243,516	48,871,226
Securities price fluctuation reserve		
Beginning balance	15,000,000	-
Transferred during the period	-	-
Ending balance	15,000,000	-
Unappropriated profit		
Beginning balance	67,915,040	50,484,913
Effect of change in accounting policy		
Appropriations declared subsequent to the year-end-added back		
- Dividend	30,000,000	60,000,000
- Bonus share	30,000,000	-
	60,000,000	60,000,000
Effect of change in accounting policy	127,915,040	110,484,913
Appropriations declared subsequent to the year end		
- Dividend	(30,000,000)	(60,000,000)
- Bonus share	(30,000,000)	-
	(60,000,000)	(60,000,000)
	97,239,242	81,998,159
Net profit for the period	165,154,282	132,483,072
Ending balance	582,397,798	481,354,298
Total shareholders' equity		
Beginning balance	485,158,556	399,356,139
Effect of change in accounting policy		
Appropriations declared subsequent to the year end-added back		
- Dividend	30,000,000	60,000,000
	515,158,556	459,356,139
Effect of change in accounting policy		
Appropriations declared subsequent to the year end		
- Dividend	(30,000,000)	(60,000,000)
Increase – net	97,239,242	81,998,159
Ending balance	582,397,798	481,354,298

Notes to the financial statements for the quarter ended March 31, 2005

- The accounting policies adopted for the preparation of these financial statements are same as those applied in preparing the financial statements for the year ended June 30, 2004 except for the change made in half yearly published accounts in line with the directives of SECP vide SRO 589(1)/2004.
- These quarterly financial statements have been prepared in compliance with the requirements of International Accounting Standards IAS 34 "Interim Financial Reporting".
- These financial statements are unaudited and are being submitted to shareholders as per the notification no. 2(52)/SE/2001 dated November 5, 2001, of Securities & Exchange Commission of Pakistan.
- Investments which are acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin are classified as held-for-trading. Investments with fixed maturity where Management has both the intent and ability to hold to maturity are classified as held-to-maturity, while investments which do not fall under any categories are classified as available for sale.
- At any date, all marketable government and equity securities and term finance certificates are mark to market in accordance with the guidelines contained in the SBP's BSD No. 20 dated 04 August 2000. The difference between carrying value and revalued amount is taken to surplus/(deficit) on revaluation of securities and shown separately in the balance sheet below shareholders' equity in accordance with the said circular.
- Certain prior figures have been re-arranged, wherever necessary to facilitate the comparison.

COMPANY INFORMATION

Board of Directors

Mr. Kunwar Idris	Chairman
Mr. Yoshitaka Matsuno	
Mr. Fumihiko Sato	
Mr. Benjamin Lee	
Mr. Humayun Murad	
Mr. Muhammad Rashid Zahir	
Mr. S. Shahid Usman	
Mr. Naim Farooqui	Managing Director & Chief Executive

Audit Committee

Mr. Kunwar Idris
Mr. Humayun Murad
Mr. S. Shahid Usman

Company Secretary

Mr. Intisar H. Alvi

Bankers

Allied Bank Limited
American Express Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited
Crescent Commercial Bank Limited
Habib Bank Limited
Metropolitan Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan
Oman International Bank S.A.O.G.
PICIC Commercial Bank Limited
Prime Commercial Bank Limited
Standard Chartered Bank
The Bank of Tokyo – Mitsubishi Limited

Auditors

Ford Rhodes Sidat Hyder & Co., Chartered Accountants

Legal Advisors

Mohsin Tayebaly & Co.

Registrar and Share Transfer Office

Noble Computer Services (Pvt) Limited,
2nd Floor, Sohni Centre, BS 5 & 6,
Main Karimabad, Block 4,
Federal B. Area, Karachi-75950
Tel: (021) 6801880-82
Fax: (021) 6801129

Registered Office

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Tel: (021) 2426020-9, UAN: 111-24-24-24, Fax: (021) 2425897

Head Office

2nd Floor, Islamic Chamber of Commerce Building,
ST 2/A, Block # 9, Clifton, Karachi – 75600, Pakistan.
Tel: (021) 586-1266 Fax: (021) 586-8862

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