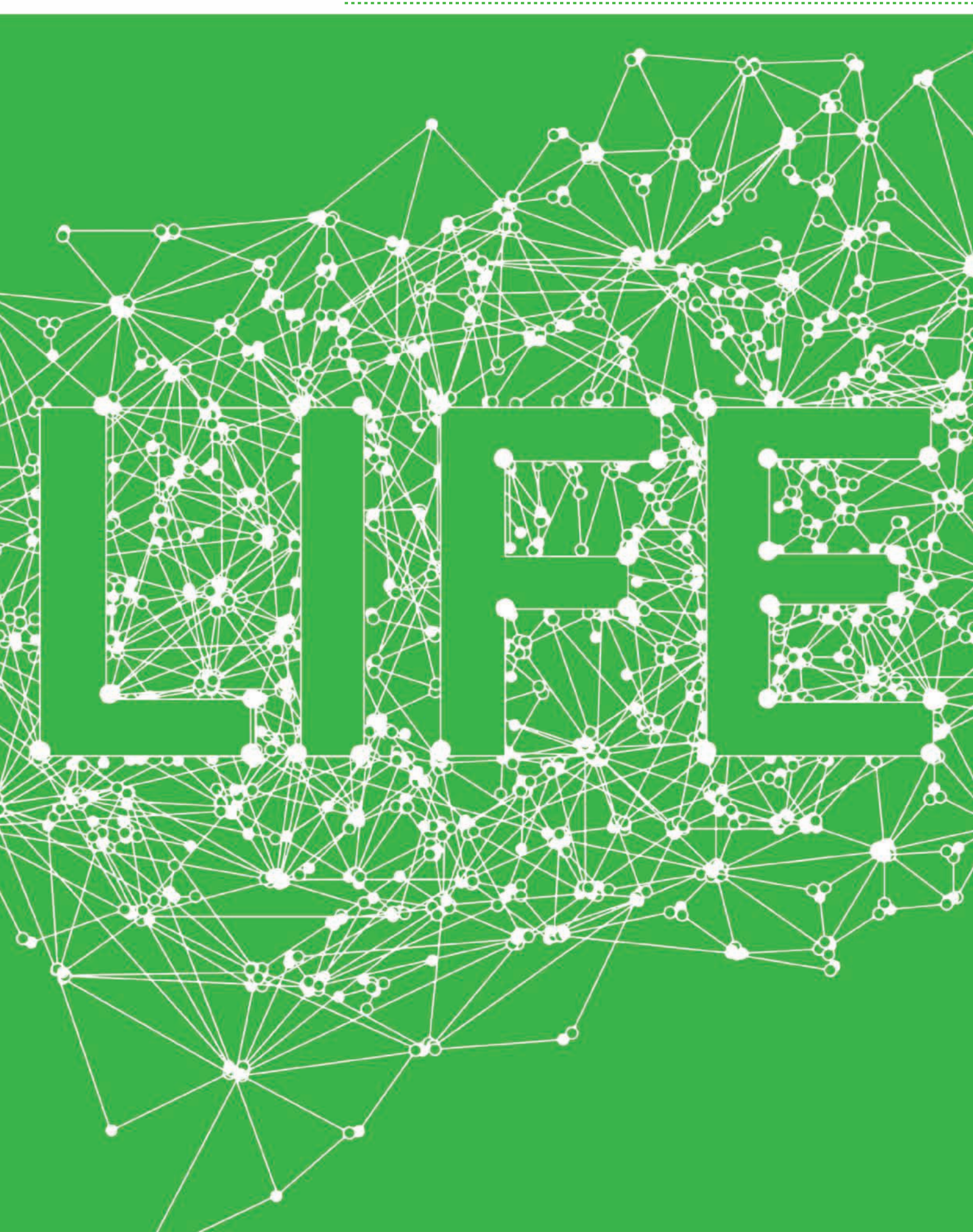




ANNUAL REPORT 2013







Life is About Connecting the Dots

In many ways, a dot is the starting point of all life forms. This dot denotes the atom, the basic building block of all organisms. This dot denotes the beginning point of a line and the birth of all design. A dot linked with many other dots helps weave a magical spread that we call the universe. Life is a series of events coming together, each one marking a new dot, an end in itself yet a new beginning. Where we go in life is a matter of how well we connect the dots. MCB is a banking partner in your life. We are involved in keeping an eye out for the finer details in life, making sure you connect the right dots to take you higher, make you better and keep you happy.







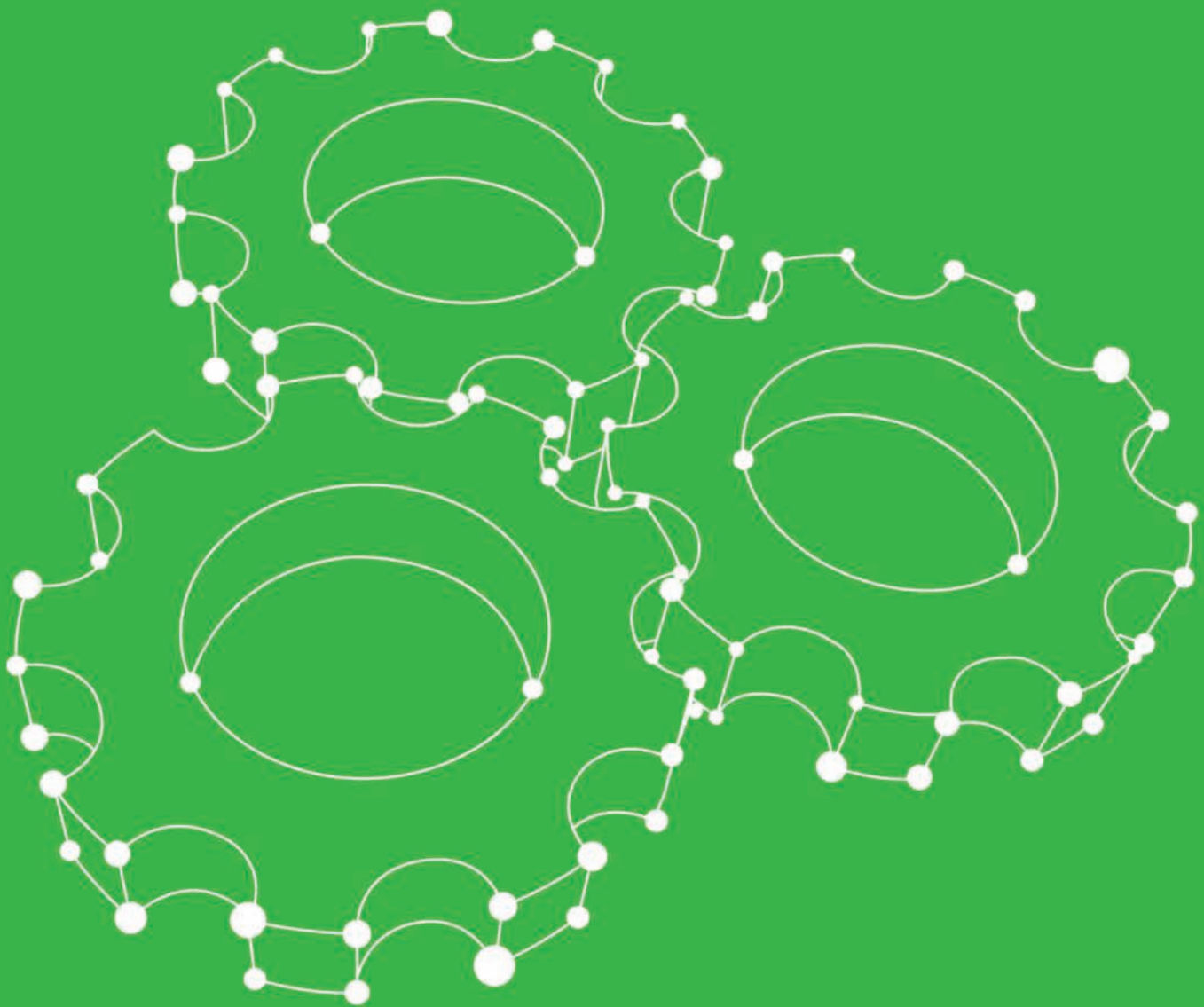
Vision & Mission

Vision

To be the leading financial services provider, partnering with our customers for a more prosperous and secure future.

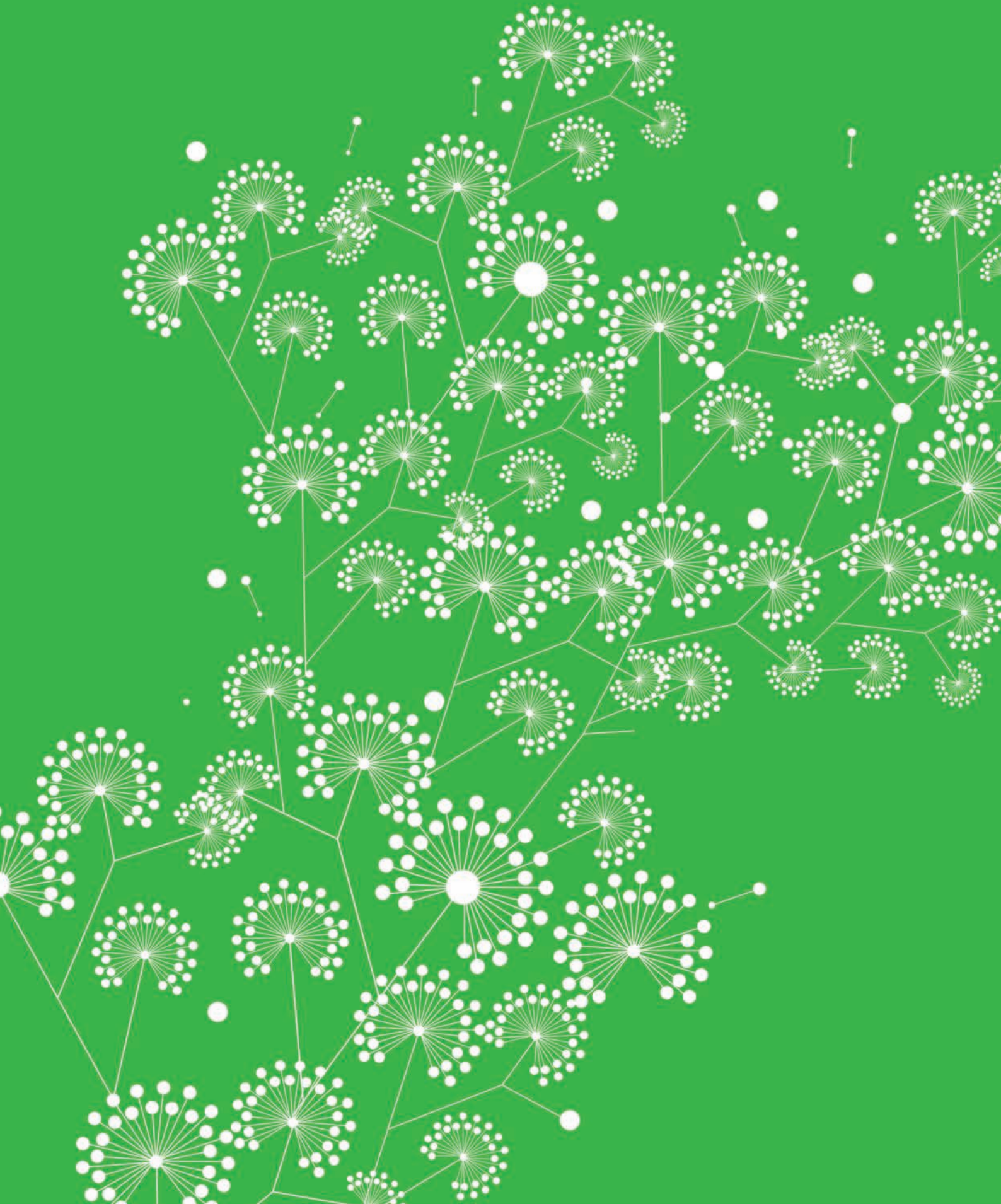
Mission

We are a team of committed professionals, providing innovative and efficient financial solutions to create and nurture long-term relationships with our customers. In doing so, we ensure that our shareholders can invest with confidence in us.



Strategic Objectives

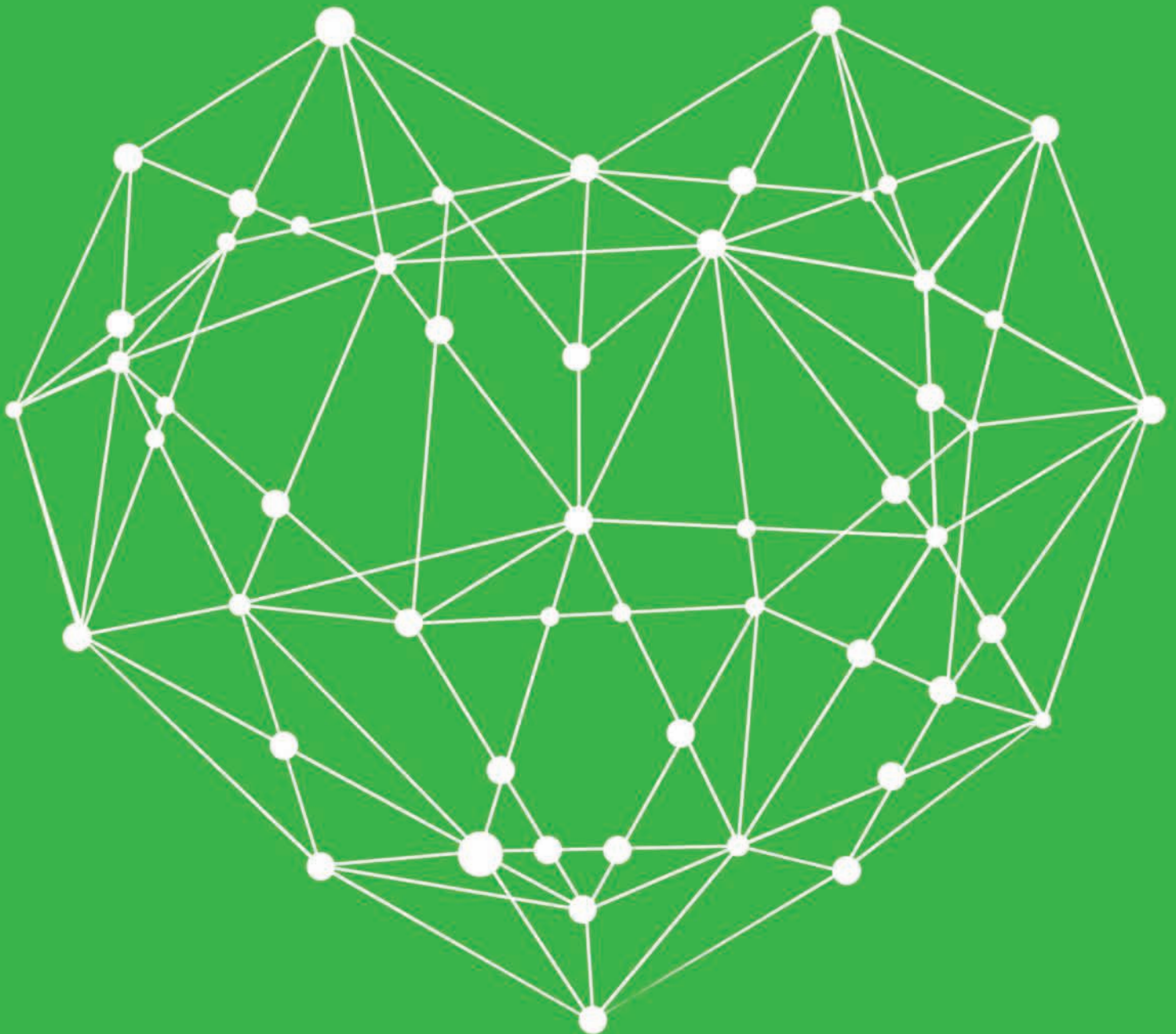
- Delivering remarkable returns to stakeholders, sustainable performance, exceeding market and shareholder expectations.
- Providing value added services through operational expansion, geography and upgraded systems.
- Building a corporate culture of equality, trust and team spirit as we remain dedicated to be a socially responsible organization.





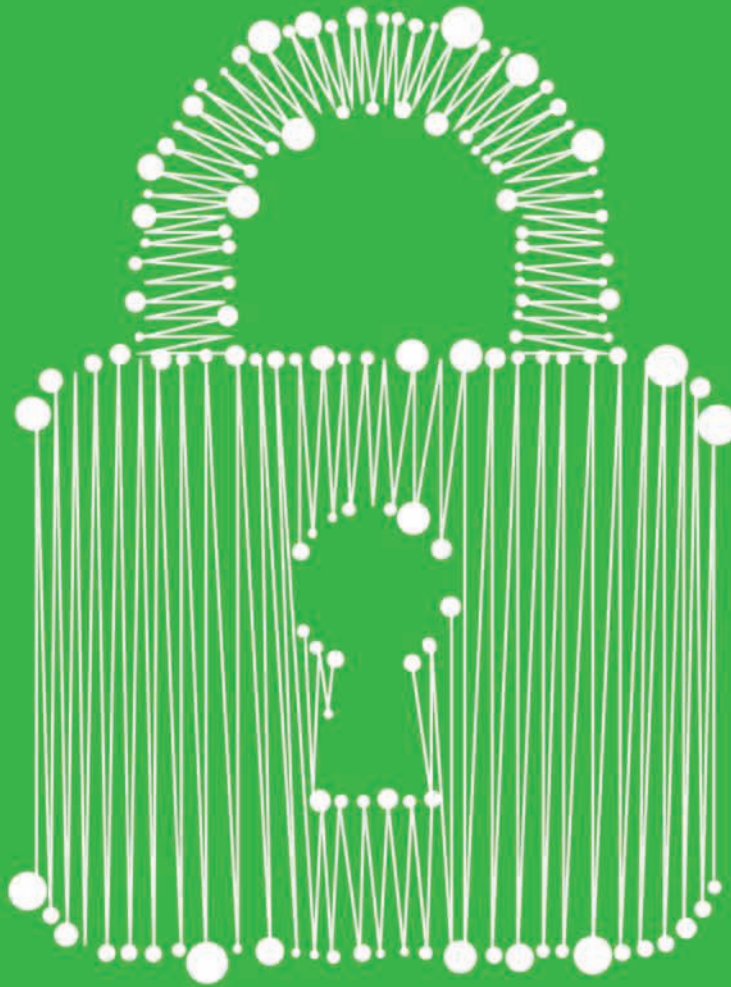
Connecting the Dots to Prosperity

We understand that the little decisions in our daily life eventually change our overall state of existence. You are working hard to ensure that your future is prosperous. MCB is marching right next to you, helping you with each decision, ensuring a state of affluence and abundance in your life with our efforts.



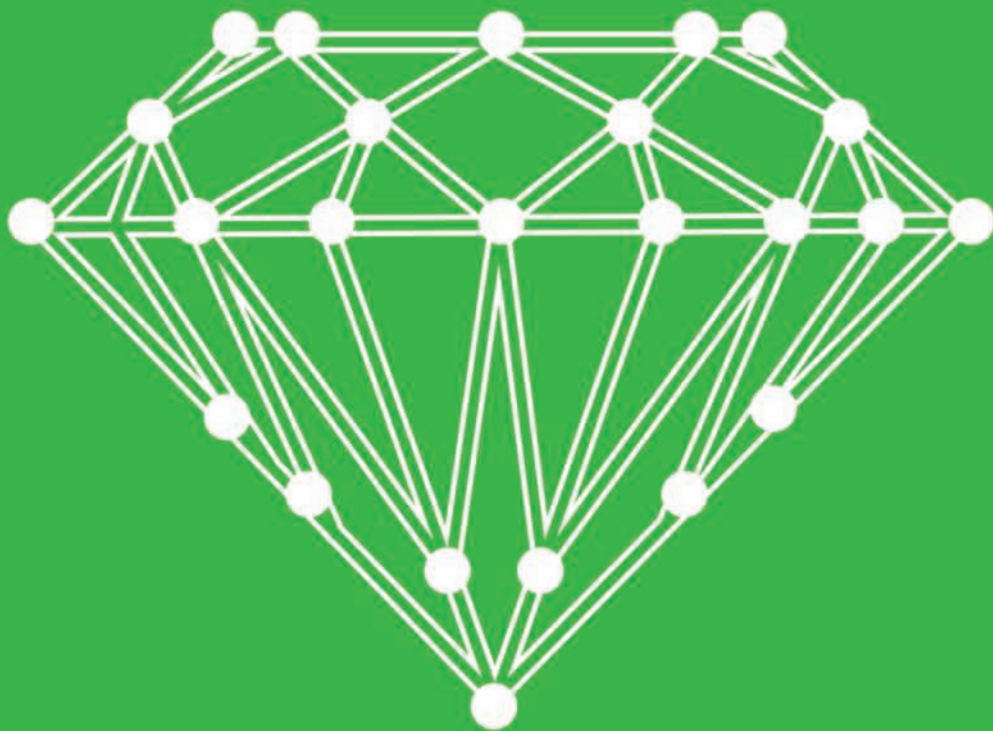
Connecting the Dots to Happiness

Your relationship with MCB helps you enjoy a unique happiness that only a reliable and vigilant banking solution can give. We are working day and night to identify the next dot that brings you closer to a joyous life.



Connecting the Dots to Security

Life is often unpredictable. For any unexpected turns that it might take, MCB works out efficient plans to help keep your tomorrow secure and give you greater independence with however you wish to design your life.



Core Values

Integrity

We are the trustees of public funds and serve our community with integrity. We believe in being the best at always doing the right thing. We deliver on our responsibilities and commitments to our customers as well as our colleagues.

Innovation

We encourage and reward people who challenge the status quo and think beyond the boundaries of the conventional. Our teams work together for the smooth and efficient implementation of ideas and initiatives.

Excellence

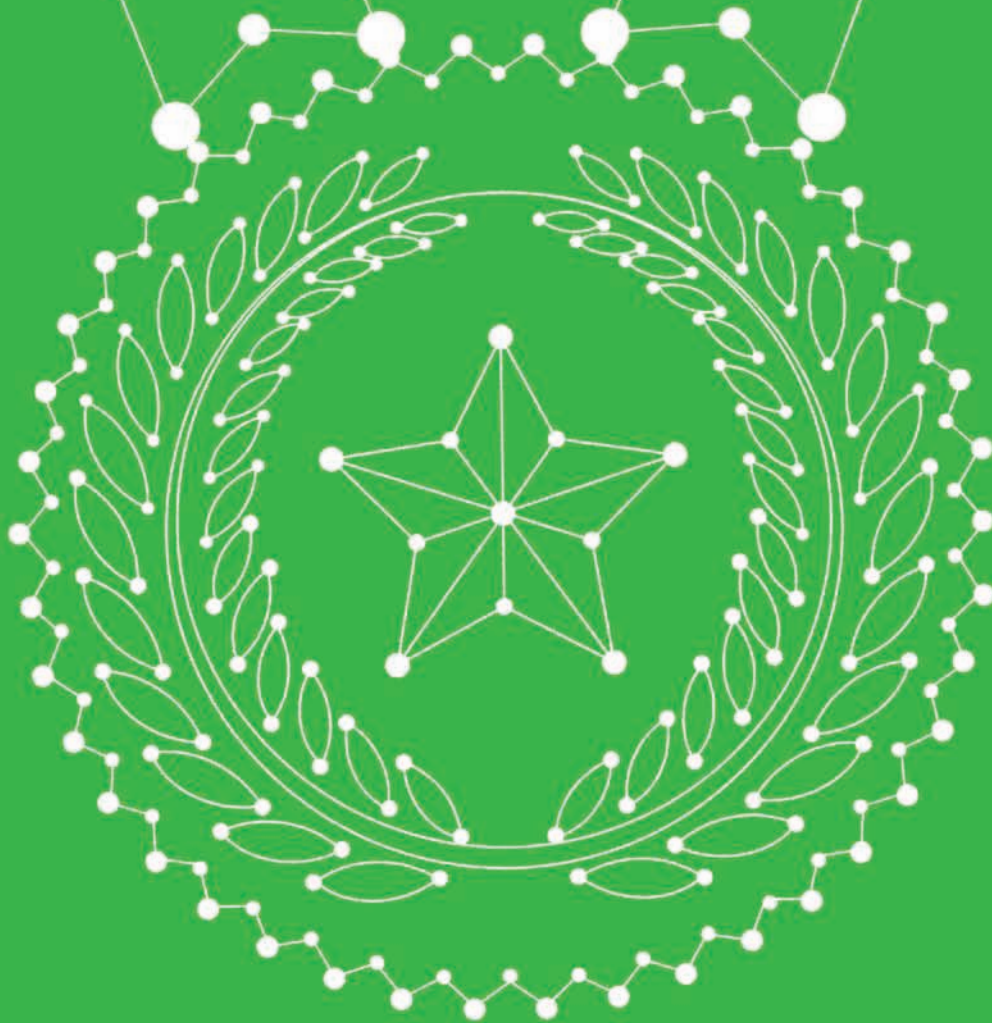
We take personal responsibility for our role as leaders in pursuit of excellence. We are a performance driven, result oriented organization where merit is the only criterion for reward.

Customer Centricity

Our customers are at the heart of everything we do. We thrive on the challenge of understanding their needs and aspirations, both realized and unrealized. We make every effort to exceed customer expectations through superior services and solutions.

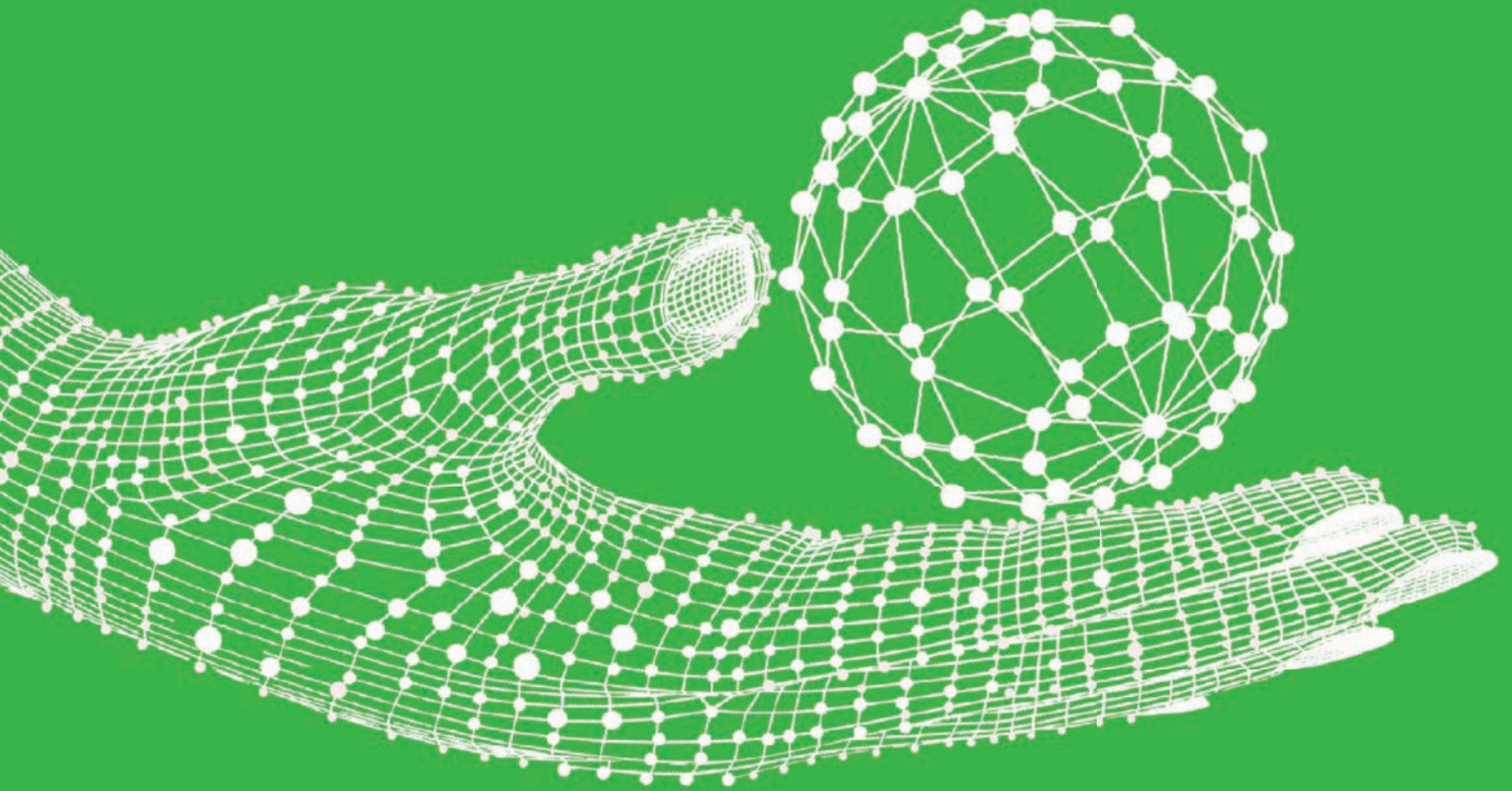
Respect

We respect our customers' values, beliefs, culture and history. We value the equality of gender and diversity of experience and education that our employees bring with them. We create an environment where each individual is enabled to succeed.



Awards

2013 The Asset Triple A:	Best Domestic Bank - Pakistan
2013 The Asset Triple A:	Best Islamic Deal
2013 ICAP and ICMAP:	1st - BCR Award 2012 - Banking Sector
2013 LK Domain Registry Sri Lanka:	Best Website Award
2013 Lanka Clear Pvt. Limited:	T+1 Cheque Clearing Award
2012 The Asset Triple A:	Best Domestic Bank - Pakistan
2012 Euromoney:	Best Bank in Pakistan
2012 NFEH:	CSR Business Excellence Award "Best Media Coverage"
2012 ICAP and ICMAP:	2nd Best Corporate Report Award 2011 - Banking Sector
2012 World Finance:	Best Commercial Bank - Pakistan
2012 Pakistan Centre for Philanthropy:	PCP Corporate Philanthropy Award
2011 CFA Association Pakistan:	Most Stable Bank of the Year
2011 CFA Association Pakistan:	Best Bank of the Year
2011 Euromoney:	Best Bank in Pakistan
2011 ICAP / ICMAP:	1st - BCR Award 2010 - Banking Sector
2011 SAFA:	Joint 2nd Runner-up for BCR 2010
2010 The Asian Banker:	Strongest Bank in Pakistan
2010 The Asian Banker:	Leadership Achievement Award
2010 MMT:	Best Bank Led MMT Service
2010 ICAP / ICMAP:	1st - BCR Award 2009 - Banking Sector
2010 SAFA:	Certificate of Merit Award for BCR 2009
2009 Asiamoney:	Best Domestic Bank in Pakistan
2009 The Asset:	Best Domestic Bank in Pakistan
2008 Euromoney:	Best Bank in Asia
2008 Euromoney:	Best Bank in Pakistan
2008 Asiamoney:	Best Domestic Bank in Pakistan
2006 Asiamoney:	Best Domestic Bank in Pakistan
2006 Euromoney:	Best Bank in Pakistan
2005 Asiamoney:	Best Domestic Bank in Pakistan
2005 Euromoney:	Best Bank in Pakistan
2004 Euromoney:	Best Bank in Pakistan
2004 Asiamoney:	Best Domestic Bank in Pakistan
2003 Euromoney:	Best Bank in Pakistan
2001 Euromoney:	Best Bank in Pakistan
2000 Euromoney:	Best Bank in Pakistan



MCB
Rupee Travelers Cheque



Products & Services

Current Account

MCB Bank offers a variety of current accounts in local and foreign currency to cater to the everyday transactional needs of various customers. These accounts ensure ease and freedom to bank from any of the 1200+ branches across the country. The different accounts include: the Basic Banking Account that has no minimum balance requirement; Business Account offering free online transactions, demand drafts, pay orders and lots more to meet the day-to-day business requirements; Current Life Account that offers the security of life insurance free of cost; and for all others, the conventional Current Account.

Savings Account

MCB Bank offers a wide array of local and foreign currency savings products that suit short-term growth and transactional needs. Our savings accounts offer attractive profit rates to diverse customer strata; have a tiered profit payment and different profit payment frequencies. The customers have an attractive Savings Accounts menu to choose from, like Savings 365 Gold Account for high-end depositors desiring higher returns, along with other attractive rate options for high, medium and low end savers and the generic Profit & Loss Saving Account for all other depositors. MCB savings accounts have something for everyone!

Term Deposit

MCB Term Deposits offer attractive short to mid-term investment options with flexibility, convenience and security. With various tenor options available, customers can choose one that suits their needs. This is combined with different profit pay-out options and the added facility of being able to avail credit facility against their deposits.

MCB Fun Club – Banking for Kids

MCB Fun Club – Banking for Kids is a product designed for the minors. This product offers two types of accounts; Savings & Current. The main features of this product include: customized and branded chequebook and debit card that are issued in the name of the minor & guardian both. The debit card is loaded with various deals and discount offered at several outlets across Pakistan. In addition to this, Fun Club also offers two augmented features; WWF-Tag a Plant, where the minor gets to tag a tree in his name and Adamjeelife – Education Plan, that acts as an insurance cover for the minor's education.

MCB Online Banking

MCB has a fast growing network of 1200+ online branches in the country providing customers real-time online transaction facilities.

MCB MNET

MNET is an electronic inter-bank connectivity platform for online transactions on ATM and other remote banking channels. It offers other value added services that include a portfolio of e-banking and payment system products as well as management and day-to-day operations of the same. Members include 10 local and foreign financial institutions enjoying ATM sharing and value added services.

MCB Cash Management

Cash Management provides a wide range of value-added services to large corporations through its vast network of online branches. Our structured and customized products enable our customers to realize their sales proceeds swiftly from all over the country, supported by real-time MIS. Cash Management also provides payment solutions through MCB network, dividend pay-outs, custodian banking and utility companies' bills processing.

MCB Channel Financing

MCB Channel financing provides working capital facilities to dealers and vendors of selected companies under a structured product programme. This product enables our customer's dealers to leverage themselves and increase their business capacity with their respective business partners.

MCB Home Remittance

MCB Home Remittances offers unmatched services for overseas Pakistanis to send money home FAST and FREE at no cost across Pakistan through MCB's large network of over 1200 branches. Money can be sent FREE & INSTANT through our international send agents like MoneyGram, Xpress Money and many others.

MCB Motherland Account

The Motherland account allows Non-Resident Pakistani's to open accounts in their home country while residing abroad. It is designed to allow transferring of funds to family & loved ones back home with the convenience of your own personal account.

MCB Transaction Banking

Transaction Banking provides a wide range of value-added services to large corporations through its vast network of online branches. Our structured and customized products enable our customers to realize their sales proceeds swiftly from all across the country, supported by real-time MIS. Transaction Banking also provides payment solutions on MCB & other bank's network.

TBD-Online Fund Transfer (OFT)

This web based electronic fund transfer facility has been specifically designed to enable large network of franchisees /dealers/distributors to conduct real time branch less transactions through secured MCB web site.

TBD-Tejarat Card

Tejarat card is a closed loop debit card designed for cash-less electronic cash transactions empowering businesses to conduct branchless transactions through Point of Sale (POS) terminal with 24-hour Call Center Support 111-000-622(MCB).

TBD-Sub Clearing Arrangement

Micro finance banks that do not have operating licenses for clearing can now rely on MCB to act as their sub clearing agent for processing transactions through NIFT.

TBD-Dividend Warrant Management

TBD provides a complete and comprehensive dividend solution to customers, from printing of dividend warrants to subsequent encashment through MCB branches & followed by a complete reconciliation. Foreign dividends through remittances are also processed by TBD.

MCB Local Correspondent Banking

Local Correspondent's Banking Department at MCB provides Cash Management Services to Financial Institutions such as Asset Management Companies, Mutual Funds, Insurance and Leasing companies.

Local Rupee Drawing Arrangements, a product for small banks and financial institutions to use our vast branch network platform to make payments in areas where their own branch network does not exist, thus extends their reach nationwide.

MCB Corporate Financing

MCB Corporate Financing provides access to diversified financing options, including working capital loans, term loans, trade finance services and investment banking.

MCB Project & Structured Finance

MCB Project & Structured Finance involves financing complex projects, usually in SPV structure, where the loan is tightly structured around the cash flows, risks are allocated amongst various stakeholders, and there is limited or no recourse to the sponsors.

MCB Syndicated Loans and Debt Capital Markets

MCB Syndicated Loans and Debt Capital Markets involves arrangement, underwriting and placement services for significant financing requirements by large corporate and institutional clients to other financial institutions or through the debt capital markets.

MCB Quasi Equity /Hybrid Instruments

MCB Quasi Equity/Hybrid Instruments structure and place a category of debt that has some characteristics of equity such as being unsecured, subordinated or with a potential equity upside.

MCB Equity Capital Raising

MCB Equity Capital Raising relates to raising capital for our clients by offering common or preferred equity to public or private investors, through initial public offers, offers for sale, rights issues and private equity placements.

MCB Advisory Services

Financial and Capital Raising Advisory provides our clients with financial advisory services, commercial structuring support and access to capital resources to help companies successfully finance their business/project.

MCB Islamic Banking

MCB-Islamic Banking Group (IBG) provides Shariah-compliant solutions to its valued customers to fulfill their deposit's as well as financing needs. Customers' needs on deposit side are being satisfied keeping in view of their business, short term and long term investment requirements; whereas on financing side, the Working Capital, Capital Expenditures, Trade Business and Consumer requirements are being satisfied through available sharia compliant financing products. In addition to existing IB products, IBG believe in facilitating its customer by offering new products both on assets and liability side. This year, IBG has introduced a new asset based product for satisfying exporter's pre-shipment financing needs by offering "Istisna Pre-shipment Export Finance". And for its valued depositors, a special term deposit scheme with attractive profit rates for senior citizens and widows under the name of "Aasoodgi" was also introduced.

MCB-Islamic Banking is offering its product through its 27 dedicated Islamic Banking branches in 14 cities across the country. In order to facilitate its customer and to increase outreach of Islamic banking deposit products, an initiative was taken by introducing Islamic banking windows in conventional branches. This initiative was taken up with 50+ IB windows, which is expected to further enhance in future.

MCB Agri Products

MCB is committed to the farming community to support their national objectives of self-sufficiency and food security to the people of Pakistan. Dedicated and specialized staff, supervised by the Agri Credit Division, is posted in lending branches to cater for strong business relationships and facilitation. The bank's extensive branch network in all the provinces and diversified product range extends our reach of agri credit facilities to encompass both crop and non-crop sectors.

MCB Trade Products

Trade Products provides a wide range of standard as well as tailor-made products and solutions to trade customers from all walks of life. Despite having inventory of standard market products in refined shape, specific new-to-market products include: "Quick-LC", which is an internal design of desktop application allowing customers to type-in and print out LC application form. The "XFlex" solution facilitates external export business for customers in cases where transportation of documents is not available at the counters of MCB's discounting/financing branch on the date of extending financing. "MCB-TRIMS" facilitates the financing of inland trade through the involvement of MCB at both ends thereby allowing an exporter to get receivables discounted, i.e. the exporter receives payment in a given time (in 48 hours) after performing obligations. "Econ-LC" product program allows drafts/bills of exchange to be waived as a requirement under LCs available by negotiation; as a consequence, there is reduction in overall transaction cost. "Avalization (Export)" has been designed to facilitate the financing of export by allowing an Exporter (Seller) to discount its receivables under credit granted to a counter party, i.e. Importer (Buyer), without taking payment risk on the Importer (Buyer) under a contract (non LC transactions). Under this "China LC Confirmation programme" branches of MCB's partner bank located in Hong Kong and China add "Confirmation" to MCB LCs on "Free of Cost" basis thus increasing acceptability of MCB's Import LCs and facilitate import customers.

We overwhelmingly cherish and stay committed to support the farmers in view of unparalleled significance of agri sector in our national life aligned with economic priorities of the country and role of our bank as a responsible corporate citizen.

MCB Privilege

As the first local bank to introduce high end retail banking, MCB Privilege through its dedicated, world-class Privilege Centers offers a higher level of personalized services, more rewarding in-branch experience and a wide array of deposit and investment products that are tailored to meet the financial expectations of our affluent clientele. As members of MCB Privilege, customers experience unparalleled advantages that put them ahead of others. MCB's dedicated Privilege Centers wait to welcome you in Karachi, Lahore, Islamabad, Faisalabad, Sialkot, Rawalpindi and Multan with plans to expand to more locations.

MCB Salary Club

A payroll solution designed to make life easy; it simplifies all the monthly payroll related banking needs of employers and opens the door to a world of special offers for employees. Salary Club provides the convenience of having an extensive range of financial services available to employees at their place of work.

MCB Investment Services

Investment Services operate with the aim to help you make the most of your wealth with investment opportunities that match your unique financial aspirations. MCB Investment Services offers distribution of mutual funds managed by the leading fund managers of Pakistan. We can suggest the products most suited for your needs, or work with you to create a personalized solution completely focused on your expectations of the capital markets.





Products & Services

MCB, our aim is to provide end to end approach to banking – we believe that our success is directly linked to achieve your investment objectives. We offer you the diversified range of investment products from the basic and classic options to the more evolved and structure ones. With our ability to provide you a range of products to suit your needs, we give you an opportunity to meet both your short & long term investment needs, following are rapid highlights below;

1. Mutual Funds: we help you identify a suitable mix of Mutual Fund schemes spreading across Equity, Balanced, Fixed Income and Liquid Funds.
2. Equity Funds: Equity funds are schemes where higher weight in investments is in equity and equity related securities of various companies.
3. Balanced Funds: Balanced fund is scheme geared toward mixture of safety, income and modest capital appreciation
4. Tax saving Funds: Tax savings funds are special products offered by mutual funds. To avail tax benefits, these funds have a lock-in-period. This period can change subject to amendments in "Income Tax Ordinance."
5. Fixed income Funds: These funds invest primarily in government and corporate debt. While fund holdings may appreciate in value, the primary objective of these funds is to provide a steady cash flow to investors.
6. Liquid Funds: Liquid Funds are investing in short-term money market instruments including treasury bills, commercial paper and certificates of deposit.

MCB Visa Credit Card

MCB offers a complete suite of Classic, Gold and Platinum Visa Credit Cards focusing on providing superior services, travel privileges and shopping pleasures. It also offers comprehensive insurance and installment plans, reward points and SMS alerts that give a different feel to the world of credit cards. Our other unique features include I Revolve, I Dial, I Switch, I Cash on Call, I Bill which makes MCB Credit Card the only card that is packed with world class features.

MCB Lite

The world's 1st socially connected mobile wallet that lets you transfer money from your bank account over to your mobile wallet. That's not all it is also enabled by a visa powered card that helps you withdraw money from an ATM or use it on a POS machine locally or Internationally, more so you may invite family and friends onto the MCB Lite grid and conveniently transfer money from one wallet to another, creating a financial connect in your inner circles while having full control over your funds.

MCB Visa Debit Card

MCB Visa Debit Card lets you have access to the money in your account wherever you are, whenever you want, wherever you see the Visa symbol. MCB Visa debit Card is Pakistan's first chip-based debit card with global acceptance at over 50 million merchants and close to 2 million ATMs across 200+ countries. The MCB Visa Debit Card also offers innovative promotional schemes designed to reward our customers every time they use the card at a Point of Sale (POS) for shopping, dining, fuel, travelling, etc.

MCB Gold Plus – The Mobile Enabled Visa Debit:

MCB Gold Plus is Pakistan's 1st chip based, mobile enabled Visa debit card. In just one and a half years, more than 300,000 Gold Plus customers enjoy easy access to ATM's and merchant networks. They also benefit from our award winning MCB Mobile service that has opened up a new, more convenient banking channel for transactions on the go.

MCB ATMs

MCB has one of the nation's largest ATM networks with 750+ ATMs covering 182 cities across the country and continues to grow at fast pace. MCB ATMs give you 24-hour access to cash withdrawal, mini-statement, utility bill payments, mobile top-ups, funds transfer services and much more as an added convenience

MCB Mobile ATM

MCB Mobile ATM brings extra comfort & convenience in our existing banking services. Our innovative MCB mobile ATM van ensures that we offer our services wherever the need may be felt be it concerts, fairs or any other occasion/special event.

MCB Call Centre- Here to help round the clock!

MCB Call Centre is the first financial call centre in the industry that provides the comfort of preferred Regional languages and enables you to manage your VISA Credit and ATM/Visa Debit Cards, confirm account balances and view last 6 transactions, pay unlimited utility/mobile phone and MCB Visa Credit Card bills, top-up your mobile, transfer money within MCB network accounts and register complaints or order MCB Lite over the phone & it also provides the feature of Call rating. Most importantly it provides you with our very own banking consultant to discuss your financial needs and requirements. Simply call at 111-000-MCB (622) round the clock 24/7 and we'll do the rest.

MCB Mobile

MCB Mobile is a quick, easy and secure way to recharge mobile phones, transfer money, pay bills and do much more. Visit the nearest MCB ATM or call 111-000-622 to activate and login to www.mcbmobile.com using your mobile phone or any other internet enabled device including a laptop or a PC to start transacting.

MCB Internet Banking

MCB Internet Banking Service is a convenient way to access your account(s) 24/7. It is secure; free of cost and lets you bank freely with a choice of location and time. This service allows you to transfer funds, pay utility/mobile bills, set up standing order instruction, download account statement and much more

MCB SMS Alert Service

MCB SMS Alerts Service helps keep track of your Banking transactions 24/7. By subscribing to the service, you can receive real-time SMS updates for transactions conducted on your account. SMS Alerts service makes your life easier and more convenient than ever before. Now you do not need to call or visit the branch to inquire about your daily transactions.

MCB Loyalty & Alliances

MCB entered the Loyalty & Alliance race in the year 2013, and now stands ahead of its

competition in a short span of time. Currently we have a portfolio of 100+ brands. Our next call to success was when we launched our Smart Phone Loyalty App the first of its kind in the banking industry offering discounts on all type of plastics including Prepaid Cards. For every PKR 10,000 spent a month virtually means PKR 2300 saved. Now that's a lot saved!

MCB Merchant Acquiring

MCB is the second largest merchant acquirer in Pakistan with 32% market share, currently our acceptance is spread around 41 cities of Pakistan. Quality service, Competitive Discount Rates and state of the art POS terminals are the primary objectives on which our business thrives. We readily accept Visa, Master & Union Pay local and international credit & debit cards

MCB Car4U

MCB Car4U brings for you an affordable and flexible opportunity to have your very own car. To suit your needs, our car financing solution is designed to give you unmatched convenience in helping you acquire a car of your choice in the shortest possible time at very competitive rates.

MCB Home Loan

A home of your own is a blessing and a long-held aspiration of many. Now with MCB Home Loan, fulfilling this dream has never been so easy. MCB Home Loan opens doors to numerous sensible financing options to help you purchase, build or renovate your new / existing home.

MCB Cash4Cash

A finance facility for individuals for fulfilling their personal needs, which is collateralized against securities such as local and foreign currency term deposits, national saving schemes instruments, mutual funds, bank guarantees, etc. This offering facilitates our customers in getting easy access to liquidity for fulfilling their immediate and/or long-term personal needs against their otherwise long-term savings stuck up in various investments made by them.

MCB Personal Loan

A Fast, Affordable and Flexible option for financing that offers loan limit up to PKR 2 million (subject to Terms & Conditions). The pricing is competitive, and no processing fee is charged if the loan is not approved. It is basically an option to meet all short term financing needs of our customers.

MCB Instant Finance

With MCB Instant Finance, get a loan instantly at any MCB branch against liquid collateral at competitive pricing.

MCB Rupee Travellers Cheque

MCB Rupee Travellers Cheque is the best and safest alternate way of carrying cash. It can be used by travellers, businessmen or by the general public in meeting their day-to-day cash requirements while they travel. It is a safe and secure way to make payments because it gives the purchaser security that even if the cheque is lost it can be refunded. Unlike other modes of funds/remittance transfer, which can only be drawn at a particular branch and can be encashed only at that branch, MCB Rupee Travellers Cheque can be encashed at any of our branches across the country.

MCB Lockers

MCB Lockers are the best protection for your valuables. Lockers of different capacities are available nationwide.

MCB Full-Day Banking

Enjoy the convenience of extended banking hours from 9am to 5pm, including Saturdays at MCB Full-Day Banking branches across the country.

MCB Bancassurance

As dreams pass into the reality of action, from the actions stems the dream again. This interdependence constructs the highest form of living. Your dreams may be to give your children the best education, live a dignified life after retirement, or just keep your loved ones financially secure and protected. What everyone wants from life is a continuous and genuine happiness. Your action to plan for your future financially will stem your dreams. MCB Bancassurance has a financial plan that fits all your needs by fulfilling you and your loved ones dreams and keeping your 'Har Pal Mehfooz.'

Combining the best of banking and financial solutions, MCB Bancassurance provides a one-stop shop solution for you by guaranteeing convenience and security with a wide range of products available for all your financial needs.

All our plans are specially designed by reputable insurance providers. These companies have excellent experience with insurance products and guarantee that your funds would be in good hands as there is a team of professional investment experts in each company working on making the funds grow higher in a secure manner.

Each plan is designed to give you a peace of mind because we know that in the end, it's not the years in your life that counts. It's the life in your years.

MCB Internet Banking

MCB Internet Banking Service is a convenient way to access your account(s) 24/7. It is secure, free of cost and lets you do your banking whenever and wherever it suits you. This service allows you to transfer funds, pay utility/mobile bills, set up standing order instruction, download account statement and much more.

Offshore Banking - OBU Bahrain

MCB Bank offers a variety of offshore banking services like current, savings & term deposits, trade finance and other funded/unfunded banking facilities mainly in US\$ to eligible and select clients through its offshore banking Unit in Bahrain.



MCB
mobile



PRIVILEGE





Corporate Information

Board of Directors

Mian Mohammad Mansha Chairman	(Non-Executive Director)
S. M. Muneer Vice Chairman	(Non-Executive Director)
Tariq Rafi	(Non-Executive Director)
Shahzad Saleem	(Non-Executive Director)
Sarmad Amin	(Non-Executive Director)
Mian Raza Mansha	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Mian Umer Mansha	(Non-Executive Director)
*Ahmad Alman Aslam	(Non-Executive Director)
Dato' Seri Ismail Shahudin	(Non-Executive Director)
Muhammad Ali Zeb	(Non-Executive Director)
Imran Maqbool President and CEO	(Executive Director)

Audit Committee

Tariq Rafi Chairman	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Dato' Seri Ismail Shahudin	(Non-Executive Director)
Ahmad Alman Aslam	(Non-Executive Director)

Chief Financial Officer

Salman Zafar Siddiqi

Company Secretary

Syed Mudassar Hussain Naqvi

Auditors

M/s. A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

M/s. Khalid Anwer & Co.
Advocates & Legal Consultants

Principal/Registered Office

MCB Building, 15-Main Gulberg
Jail Road, Lahore, Pakistan.

Contact us:

UAN: +92 42 111 000 622

Email: investor.relations@mcb.com.pk

Visit us: www.mcb.com.pk

Registrar's and Share Registration Office

Head Office

M/s. THK Associates (Pvt.) Ltd.

State Life Building No.3

Dr. Ziauddin Ahmed Road Karachi, Pakistan.

Branch Office

M/s. THK Associates (Pvt.) Ltd.

2nd Floor, DYL Motorcycles Ltd. Office Building
Plot No. 346, Block No. G-III, Khokhar Chowk
Main Boulevard, Johar Town, Lahore, Pakistan.

* Independent Non-Executive Director under CCG having relevant industry experience.

Board of Directors





Board of Directors



Mian Mohammad Mansha

Chairman

Mian Mohammad Mansha started his career at the age of 24 as the CEO for Nishat Mills Ltd. At present, the business group is one of the leading and most diversified in South East Asia, having presence in the Textile, Cement, Insurance, Banking, Financial Services, Power Generation, Hotel & Hospitality, Dairy, Paper Products and Aviation sectors. It operates in various countries across the globe including Sri Lanka, Azerbaijan, UAE, USA, Honk Kong and Bahrain.

Mr. Mansha served as the Chairman of MCB Bank since its privatization in 1991. Presently, he is the Chairman of Business Strategy & Development Committee, Human Resource & Remuneration Committee and Write Off & Waiver Committee, at MCB Bank Limited. Previously, he has been associated with Punjab Mineral Company (Pvt) Limited, Civil Aviation Authority, Board of Investment (BOI), Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC), Int'l Advisory Board, Babson College USA, National Management Foundation, Textile College Faisalabad and Government College of Faisalabad. He has also served as the president for All Pakistan Textile Mills Association (APTMA) and APTMA, Punjab.

He was presented with Pakistan's Civil Award, the Sitara-e-Imtiaz, for his contributions to industrial development, in 2004.

Directorships:

- MCB Bank Limited
- Punjab Board of Investment & Trade (PBIT)
- Shalamar Medical & Dental College
- Commonwealth Business Council
- Foundation for Advancement of Engineering Sciences & Advanced Technologies (FASAT)
- MCB Leasing Company, Azerbaijan
- MCB-Arif Habib Savings and Investments Ltd (formerly: Arif Habib Investments Ltd.)



S. M. Muneer

Vice Chairman

With experience in sectors ranging from tanneries, textiles, Mr. Muneer is a consummate industrialist. He has been awarded with The Best Export Performance trophy by the Federation of Pakistan Chamber of Commerce & Industry (FPCCI), the Gold Medallion Award from the International Export Association, UK and Best Businessman of the Year Award from FPCCI.

In addition, he has received the Sitara-e-Isaar and the Sitara-e-Imtiaz in 2006 and 2007 respectively by the President of Pakistan. His contributions and achievements go beyond the economic sphere into the education sector as well. He was awarded an Honorary PhD degree by the Governor of Sindh and is also a member of the Board of Directors of CBM and Greenwich College, Karachi and the Director of Shaukat Khanum Cancer Hospital, Lahore. Mr. S. M. Muneer is the Chairman of Chiniot Anjuman Islamia running many Hospitals, Maternity Homes, Schools & Colleges in Karachi, Faisalabad and Chiniot. Mr. S. M. Muneer was awarded "Life Time Achievement Award" by the President of Pakistan, Mr. Asif Ali Zardari, in the President House in 2012.

Directorships:

- MCB Bank Limited
- Din Textile Mills Limited
- Din Leather (Pvt.) Limited
- Din Farm Products (Pvt.) Limited



Tariq Rafi

Director

Mr. Tariq Rafi is the Chairman of Siddiqsons Group and is a recipient of the coveted civil award Sitara-e-Imtiaz and the Best Businessman of the year award. He is also the Honorary Counsel General of Republic of Serbia. At MCB Bank, he is on the board since privatization of the bank and presently is the Chairman of the Audit Committee and member of Write Off & Waiver Committee.

Directorships:

- MCB Bank Limited
- Siddiqsons Limited
- Siddiqsons Tin Plate Limited
- Canvas Company of Pakistan (Pvt.) Limited
- Askari Siddiqsons Development Company Ltd
- Central Depository Co. of Pakistan Ltd.



Shahzad Saleem

Director

Mr. Shahzad Saleem is the Chairman of Nishat Chunian Group, which comprises of Nishat Chunian Ltd. and Nishat Chunian Power Ltd. He graduated from the Lahore University of Management Sciences (LUMS) with a Masters in Business Administration in 1989 and laid the foundation of the Nishat Chunian Group with the setting up of a spinning mill in 1990. The group has since diversified into spinning, weaving, dyeing/printing, fabrication and power generation. Nishat Chunian Ltd. ranks amongst the top 5 textile companies in Pakistan.

Shahzad served on the board of Adamjee Insurance Company Ltd. from 2004-2009. He is on the board of MCB Bank since 1995 and has played a key role in the successful ventures undertaken by MCB Bank including listing on the London Stock Exchange and sale of 20 percent stake of MCB Bank to Maybank, Malaysia.

With strong ties to LUMS, Shahzad continues to serve the institution in various capacities. He is the founder of the LUMS Alumni Association and has served as its President for several tenures. He is currently serving on the Board of Trustees of LUMS as well as Director of Saleem Memorial Trust Hospital.



Sarmad Amin

Director

Mr. Amin has over 33 years of business experience in the fields of construction, electrical equipment's manufacturing and textiles. He is the Chairman of M/s. Samin Textiles Limited and is a Director of Schneider Electric Pakistan (Pvt.) Ltd. (Formerly AREVA T&D Pakistan (Pvt.) Ltd), Euronet Pakistan, MNET Services (Pvt.) Ltd and Alstom Grid Pakistan (Pvt.) Ltd.

At MCB Bank, he is the Chairman of the Committee on Physical Planning & Contingency Arrangements and a member of the Risk Management & Portfolio Review Committee and SBP Report Compliance Monitoring Committee.



Mian Raza Mansha

Director

Mian Raza Mansha received his Bachelors Degree from the University of Pennsylvania, USA, in 1994. He has more than 19 years diversified professional experience in various business sectors including Banking, Textile, Power, Cement, Insurance, Hotels, Properties, Natural Gas, Agriculture, Dairy etc.

Mr. Raza joined MCB Bank in 1997. At MCB, he is the Chairman of the IT Committee and a member of Business Strategy & Development Committee and Human Resource & Remuneration Committee.

Directorships:

- MCB Bank Limited
- D. G. Khan Cement Company Limited
- Sui Northern Gas Pipeline Limited (SNGPL)
- Nishat Paper Products Co. Limited (Un-listed)
- Nishat Hotels & Properties Limited (Un-listed)
- Nishat Developers (Pvt.) Limited
- Adamjee Life Assurance Company Limited (Un-listed)
- MCB Financial Services Limited
- MNET Services (Pvt.) Limited
- Euronet Pakistan (Pvt.) Limited
- Nishat (Gulberg) Hotels and Properties Limited (Un-listed)
- Nishat (Raiwind) Hotels and Properties Limited (Un-listed)
- Nishat (Aziz Avenue) Hotels and Properties Limited (Un-listed)
- Nishat Dairy (Pvt.) Limited
- Nishat Agriculture Farming (Pvt) Limited



Aftab Ahmad Khan

Director

Mr. Aftab Ahmad Khan is a fellow Chartered Accountant of the Institute of Chartered Accountants of Pakistan. Mr. Aftab Ahmad Khan has over 50 years of diversified professional experience in various sectors. Presently he serves on the board of various organizations i.e. Commercial Banking, Textile, Paper, Energy, Hotel and Tourism sectors. He had also served on the Punjab Industrial Development Board and in Public sector organizations such as Ghee, Sugar and Rice mills. At MCB Bank, he is a member of the Audit Committee, IT Committee, Write-off and Waiver Committee and Policy Review Committee.

Directorships:

- MCB Bank Limited
- Nishat Paper Products Co. Limited (Un-listed)
- Nishat (Chunian) Limited
- Nishat Chunian Power Limited
- Nishat Paper Products Co. Limited (Un-listed)
- Nishat (Gulberg) Hotels and Properties Limited (Un-listed)
- Nishat (Raiwind) Hotels and Properties Limited (Un-listed)
- Nishat (Aziz Avenue) Hotels and Properties Limited (Un-listed)



Mian Umer Mansha

Director

Mian Umer Mansha was elected as Director to the MCB Board in November 1997 and served till September 2007. He was re-elected as a Director at MCB Bank in the 61st AGM held on March 27, 2009. Presently, he is the Chairman of the Risk Management & Portfolio Review Committee and is a member of Business Strategy & Development Committee and Physical Planning and Contingency Arrangements at MCB Bank.

In addition, he has been serving on the board of various other businesses. Mr. Umer received his Bachelors Degree from Babson College, Boston, USA

Directorships:

- MCB Bank Limited
- Nishat Mills Limited
- Adamjee Insurance Company Limited
- Adamjee Life Assurance Company Limited (Un-listed)
- Nishat Hotels & Properties Limited (Un-listed)
- Nishat Developers (Pvt.) Limited
- Nishat (Raiwind) Hotels and Properties Limited (Un-listed)
- Nishat (Aziz Avenue) Hotels and Properties Limited (Un-listed)
- Nishat (Gulberg) Hotels and Properties Limited (Un-listed)
- Nishat Dairy (Pvt.) Limited
- Nishat Agriculture Farming (Pvt.) Limited



Ahmad Alman Aslam

Director

Mr. Aslam has over 38 years of professional experience in investment banking, corporate finance and advisory services. He is currently a managing partner of Ahmad Alman Aslam and Associates, an enterprise engaged in investment banking. Mr. Aslam started his career with Citibank in 1975 and continued with Citibank for 28 years, serving in various capacities. He was the Managing Director, based in New York, responsible for all debt issued by borrowers in the emerging markets. Mr. Aslam has also served as an advisor to EMP Washington, a US\$ 6 billion private equity fund.

In Pakistan, he has served on the boards of the State Bank of Pakistan, OGDC, Adamjee Insurance, IGI Asset Management, Punjab Coal Mining Company, The Bank of Punjab, Punjab Small Industries Corporation and the Private Power and Infrastructure Board.

Mr. Aslam has Masters in Business Administration from Punjab University and has attended the program for Management Development at Harvard University, Cambridge.



Dato' Seri Ismail Shahudin

Director

Dato' Seri Ismail Shahudin was appointed onto the Board of MCB on October 26, 2010, representing Malayan Banking Berhad (Maybank). He was appointed as Director of Maybank on 15 July 2009. He serves as Chairman of Credit Review Committee of the Board and is currently Chairman of Maybank Islamic Berhad, a wholly owned subsidiary of Maybank. He was Chairman of Bank Muamalat Malaysia Berhad from 2004 until his retirement in July 2008. He has held senior positions in Citibank, serving both in Malaysia and New York, and in United Asian Bank and Maybank. In 2002, he assumed the position of Group Chief Executive Officer of MMC Corporation Berhad prior to his appointment to the Board of Bank Muamalat Malaysia Berhad. He is also a Director of several public listed companies which include Ndayu Properties Berhad, EP Manufacturing Berhad, and Aseana Properties Limited, a company listed on the London Stock Exchange and Opus International Consultants Limited, a company listed on the New Zealand Stock Exchange.

Directorships:

- MCB Bank Limited
- Malayan Banking Berhad
- EP Manufacturing Bhd
- Aseana Properties Limited
- Ndayu Properties Berhad (Formerly Mutiara Goodyear Development Berhad)
- Opus International Consultants Limited
- Maybank Islamic Berhad
- EP Metering Services Sdn Bhd
- Peps-JV (M) Sdn Bhd
- UEM Group Bhd
- Opus Group Berhad
- Sutera Mentari Sdn Bhd
- Citra Busana Sdn Bhd
- PKEINPK Sdn Bhd (Formerly known as Perbadanan Kemajuan Ekonomi Islam Negeri Perak)
- Dewan Negara Perak
- UEM Environment Sdn Bhd
- Kualiti Alam Sdn Bhd
- Projek Penyeleggaran Lebuhraya Berhad
- Yayasan Sultan Azlan Shah
- KUISAS Berhad (Kolej Universiti Sultan Azlan Shah)



Muhammad Ali Zeb

Director

Mr. Muhammad Ali Zeb is currently the CEO of Adamjee Insurance Company Limited. He is a fellow member of Institute of Chartered Accountants of Pakistan and has more than 17 years of professional experience in Finance, Insurance & Manufacturing sectors.

He was co-opted as a Director at MCB in June 2013. At MCB, he is member of Risk Management and Portfolio Review Committee. He is also a member of Board of Directors of Adamjee Life Assurance Company Limited.



Imran Maqbool

President / CEO

Mr. Imran Maqbool serves as President & Chief Executive Officer of MCB Bank Limited. He is a seasoned professional with over three decades of diverse banking experience. Before taking on the CEO position, he was Head of Commercial Branch Banking Group, where he successfully managed the largest group of the Bank in terms of market diversity, size of workforce, number of branches on countrywide basis and diversified spectrum of products. In earlier roles, he worked as Head Wholesale Banking Group–North, remained Country Head of MCB Bank’s Sri Lanka Operations, spearheaded Islamic Banking and Special Asset Management Groups. Prior to joining MCB Bank in 2002, Mr. Maqbool was associated with local banking operations of Bank of America and CitiBank for more than seventeen years. He worked at various senior management level positions in respective banks. He is currently an Executive Member of Pakistan Banks’ Association (PBA). Mr. Maqbool holds an MBA from Institute of Business Administration (IBA) Karachi and MS in Management from MIT Sloan School of Management, Massachusetts USA.

Directorship status of Mr. Imran Maqbool, as at December 31, 2013, is as follows:

Directorships:

- | | |
|-------------------------------------|-----------------|
| • MCB Bank Limited | President & CEO |
| • MNET Services (Pvt) Limited | Chairman |
| • MCB Financial Services Limited | Director |
| • Adamjee Insurance Company Limited | Director |

Board Committees

Audit Committee

Meetings held: 5

Composition:

1. Mr. Tariq Rafi – Chairman
2. Mr. Aftab Ahmad Khan
3. Dato' Seri Ismail Shahudin
4. Mr. Ahmad Alman Aslam

Terms of Reference:

Determining appropriate measures to safeguard the Bank's assets, reviewing quarterly, half-yearly and annual financial statements of the Bank, prior to their approval by the Board of Directors, focusing on major judgmental areas; significant adjustments resulting from the audit; the going concern assumption; any changes in accounting policies and practices; compliance with applicable accounting standards; compliance with listing regulations and other statutory and regulatory requirements; and significant related party transactions, reviewing preliminary announcements of results prior to publication, facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary), reviewing management letter issued by external auditors and management's response thereto, ensuring coordination between the internal and external auditors of the Bank, making recommendation to the Board of Directors for appointment of external auditors, their removal, audit fees, the provision by the external auditors of any service to the Bank in addition to audit of its financial statements, reviewing the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Bank, consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto, ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective, reviewing of the Bank's statement on internal control systems prior to endorsement by the Board of Directors and internal audit reports, instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the CEO and to consider remittance of any matter to the external auditors or to any other external body, determining compliance with relevant statutory requirements, monitoring compliance with the best practices of corporate governance and identification of significant violations thereof and considering any other issue or matter as may be assigned by the Board of Directors.

Business Strategy and Development Committee

Meetings held: 4

Composition

1. Mian Mohammad Mansha - Chairman
2. Mr. S. M. Muneer
3. Mian Raza Mansha
4. Mian Umer Mansha
5. Mr. Ahmad Alman Aslam
6. President & CEO

Terms of Reference:

The main terms of reference of the Committee are to review and develop vision and mission statements and core values for MCB both from long and short term perspective, develop Bank's initiatives relating to business philosophy and acquisition, strategic investment and divestment, capital raising exercise, strategic alliances and brand management, reviewing the important matters with respect to policy initiatives; business organization; oversee expansion plans and contingency planning relating to business realignment, review and devise short, medium and long term business plans and policies based on strategy, future direction and milestones set by the Board, monitor the progress of the key strategy initiatives undertaken by the Bank and undertake such other tasks as may be delegated by the Board from time to time.

Human Resource and Remuneration Committee

Meetings held: 5

Composition

1. Mian Mohammad Mansha - Chairman
2. Mian Raza Mansha
3. Mr. Ahmad Alman Aslam
4. President & CEO

Terms of Reference:

The main tasks of the Committee shall be to ensure that the existing policies are reviewed periodically, and, as necessary, revised and recommended to the Board, in order to attract and retain highly qualified employees, the latest entry-level procedures are put in place for recruitment of entrants, the existing training facilities for the new entrants as well as for up-gradation of skill level of all employees are reviewed and revised, proper classification and reclassification of employees' pay scales, job description, and methods of their periodical review are put in place, an objective criterion for work appraisal/performance is developed & linked with the annual merit increase, a review is undertaken of the organizational structure to bring it in line with business strategy & development plan and approve an organizational set up or any revision in the existing set up taking into account the recommendations of the President, an in-house human resource expertise is developed. As appropriate, the Committee is empowered to hire Consultant(s) to undertake market analysis of above policies with a view to developing MCB policies, effective management information system is developed to monitor the implementation of policies as approved by the Board, the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO and recommend to the Board, the consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO, the selection, evaluation, compensation (including retirement benefits) and succession planning of the CFO, Company Secretary and Head of Internal Audit and recommend to the Board.

Risk Management and Portfolio Review Committee

Meetings held: 4

Composition

1. Mian Umer Mansha - Chairman
2. Mr. Sarmad Amin
3. Mr. Muhammad Ali Zeb
4. President & CEO

Terms of Reference:

Main terms of the committee are review the strategies relating to Bank's risk and policy framework for management of credit, market and operational risks, in light of internal developments, guidelines issued by the regulators and international best practices, on as and when required basis, monitoring of Bank's progress towards Basel-II implementation on as and when required basis (but at least on half yearly basis), review and recommend to Board Bank's risk appetite statement, as and when required and review various reports pertaining to the risk in the bank's portfolio prepared by the Risk Management Group. The Committee shall also consider comments of the relevant senior management official/ Committee while reviewing such reports and communicate the planned/executed corrective actions to the Board, if required.

Committee on Physical Planning and Contingency Arrangements

Meetings held: 4

Composition

1. Mr. Sarmad Amin – Chairman
2. Mr. S. M. Muneer
3. Mian Umer Mansha
4. President & CEO

Terms of Reference:

The main terms of reference of the Committee are to develop and device an overall plan for physical infrastructure and contingency arrangements for the Bank, to review and monitor all work in progress, including construction of premises and renovations, which shall, inter alia, be based on physical planning, to review, monitor and recommend to the Board the building plans, master development agreements and contingency arrangements and to review, from time to time, as the Committee deems appropriate, the administrative structures and plans in place to ensure the ongoing health and safety of utilities and physical assets, including land & buildings and recommend, as appropriate, changes in plans arising from this review.

IT Committee

Meetings held: 4

Composition

1. Mian Raza Mansha - Chairman
2. Mr. Ahmad Alman Aslam
3. Mr. Aftab Ahmad Khan
4. President & CEO

Terms of Reference:

The main terms of reference of the Committee with regard to governance and supervision include approval of an overall plan for IT system for the Bank, approval of the organizational strategic plan to ensure an effective use of information technology by all departments and branches, approval and overseeing the management's program to automate the organization's use of internal information to ensure that data is organized and shared in a manner that adds value and enhances productivity, to approve and oversee a reliable and secure communications infrastructure with the capacity to address future growth, to approve policies those promote development of information technology resources in an organized, deliberate, secured, and cost effective manner, to review and approve Management recommendations for IT standards for ensuring compliance with regulatory requirements and identifying and mitigating significant IT related risks, to review and approve the Administrative IT structure, to undertake any other IT related work assigned to the Committee by the Board.

SBP Report Compliance Monitoring Committee

Meetings held: 2

Composition

1. Mr. S. M. Muneer
2. Mr. Sarmad Amin
3. Mr. Ahmad Alman Aslam
4. President & CEO

Terms of Reference:

The terms of reference of the Committee are to review six monthly reports prepared by the Compliance Group and routed through the President on the actions taken on the recommendations and observations of SBP in its Annual Inspection Report, to guide the management in the matters pertaining to compliance of SBP's observations, to carry on liaison between the Board and the Management with a view to ensuring compliance pertaining to the SBP's observations; and to make recommendations to the Board, if necessary, for taking decisions on expedient and appropriate disposal of observations of SBP Inspection Report.

Write Off and Waiver Committee

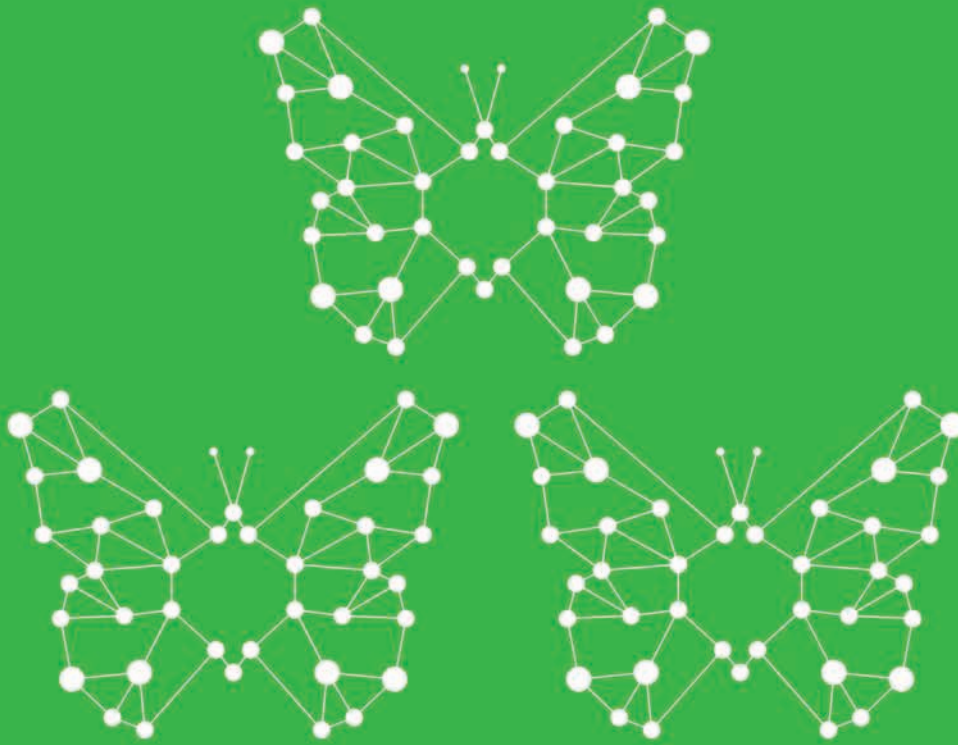
Composition

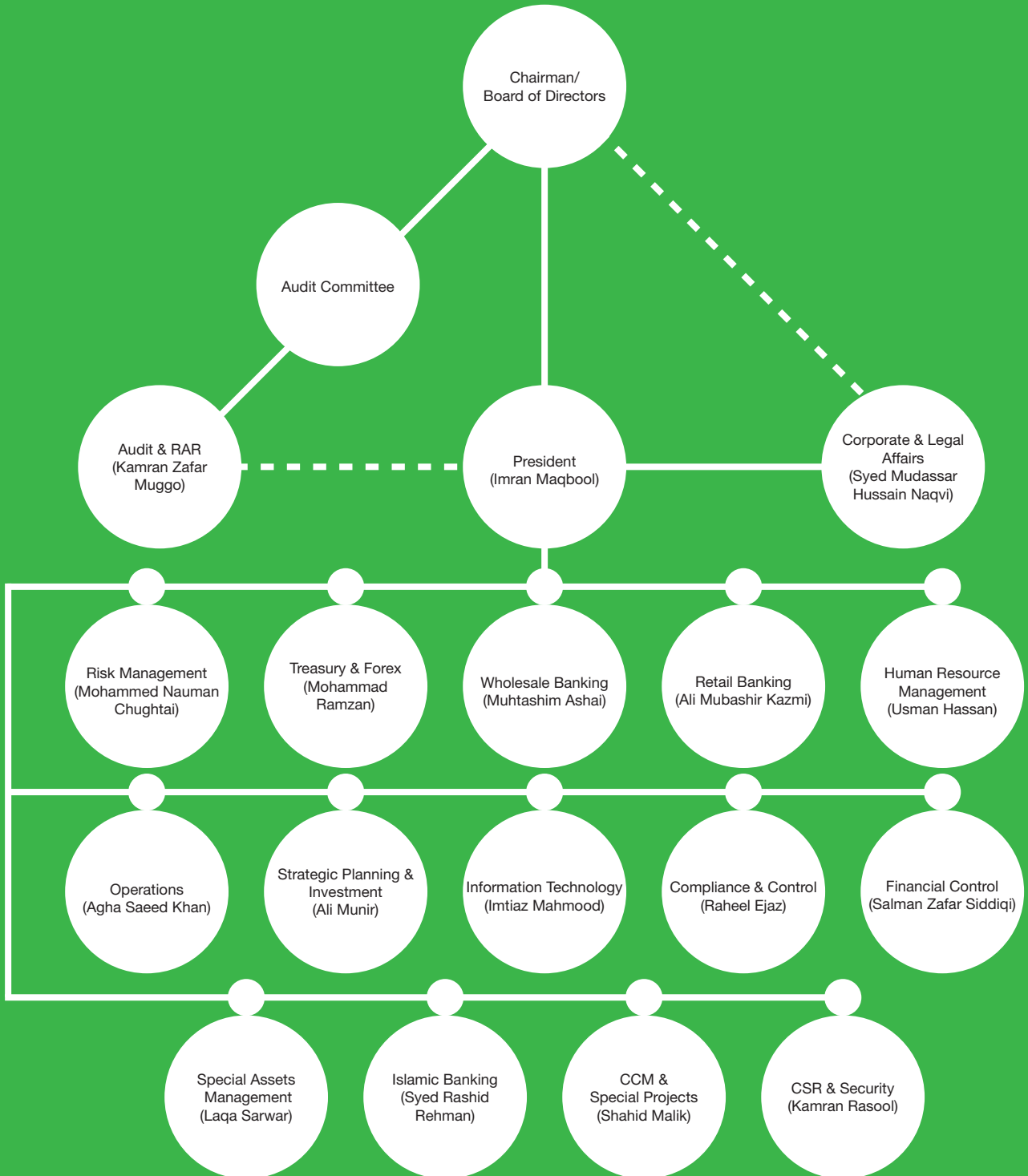
1. Mian Mohammad Mansha - Chairman
2. Mr. Tariq Rafi
3. Mr. Aftab Ahmad Khan

Terms of Reference:

The terms of reference of the Committee are to review and approve write off & waiver cases on behalf of the Board of Directors and to submit cases of write off and waiver for post facto ratification by the Board.

Organizational Structure





Management Committee

Muhtashim Ashai



Imran Maqbool



Ali Mubashir Kazmi



Ali Munir



Usman Hassan



Laqa Sarwar



Shahid Malik



Syed Rashid Rehman



Mohammad Ramzan



Agha Saeed Khan



Raheel Ijaz



Kamran Rasool



Syed Mudassar
Hussain Naqvi



Salman Zafar Siddiqi



Mohammed Nauman
Chughtai



Imtiaz Mahmood



1. Management Committee

1. Mr. Imran Maqbool - Chairman
2. Mr. Ali Munir
3. Mr. Mohammad Ramzan
4. Mr. Agha Saeed Khan
5. Mr. Raheel Ijaz
6. Mr. Usman Hassan
7. Mr. Imtiaz Mahmood
8. Mr. Ali Mubashir Kazmi
9. Mr. Muhtashim Ashai
10. Mr. Laqa Sarwar
11. Mr. Syed Rashid Rehman
12. Mr. Salman Zafar Siddiqi
13. Mr. M. Nauman Chughtai
14. Mr. Syed Mudassar Naqvi
15. Mr. Kamran Rasool
16. Mr. Shahid Malik

2. Assets & Liabilities Committee

1. Mr. Imran Maqbool - Chairman
2. Mr. Ali Munir
3. Mr. Salman Zafar Siddiqi
4. Mr. Muhtashim Ashai
5. Mr. Agha Saeed Khan
6. Mr. Ali Mubashir Kazmi
7. Mr. Mohammad Ramzan
8. Mr. Syed Rashid Rehman
9. Mr. M. Nauman Chughtai

3. Purchase & Expense Committee

1. Mr. Agha Saeed Khan - Chairman
2. Mr. Ali Mubashir Kazmi
3. Mr. Salman Zafar Siddiqi
4. Mr. Kamran Rasool

4. Investment Committee

1. Mr. Imran Maqbool - Chairman
2. Mr. Ali Munir
3. Mr. Mohammad Ramzan
4. Mr. Salman Zafar Siddiqi
5. Mr. Muhtashim Ashai
6. Mr. Ali Mubashir Kazmi
7. Mr. M. Nauman Chughtai

5. Write off Committee

1. Mr. Imran Maqbool - Chairman
2. Mr. Ali Munir
3. Mr. Salman Zafar Siddiqi
4. Mr. Muhtashim Ashai
5. Mr. Ali Mubashir Kazmi
6. Mr. Omair Safdar
7. Mr. M. Nauman Chughtai
8. Mr. Laqa Sarwar

6. IT Steering Committee

1. Mr. Imran Maqbool - Chairman
2. Mr. Ali Munir
3. Mr. Salman Zafar Siddiqi
4. Mr. Imtiaz Mahmood
5. Mr. Agha Saeed Khan
6. Mr. Ali Mubashir Kazmi
7. Mr. Muhtashim Ashai
8. Mr. M. Nauman Chughtai

7. Disciplinary Action Committee

1. Mr. Usman Hassan - Chairman
2. Mr. Agha Saeed Khan
3. Mr. Raheel Ijaz
4. Mr. Laqa Sarwar
5. Mr. Kamran Rasool

Other Senior Management

Syed Mudasser Hussain Naqvi
Company Secretary



Malik Abdul Waheed
Advisor to Chairman



Kamran Zafar Muggo
Group Head Audit & RAR



Azfar Alam Nomani
Country Head Sri Lanka



Entity Credit Rating

LONGTERM



SHORTTERM



Corporate Profile of the Bank



MCB is one of the oldest banks of Pakistan, incorporated in 1947. It was privatized in 1991. To accede to international capital markets, the Bank launched Global Depository Receipts (GDRs) in 2006. It was the first Pakistani Bank that got its GDRs listed on the London Stock Exchange. In 2008, the Bank entered into a strategic partnership with Maybank, Malaysia, which owns 20% stake in it through Mayban International Trust (Labuan) Berhad.

Subsidiaries

MCB Financial Services Limited

Holding: 99.999%

Profile: Float, administer and manage modaraba funds, modarabas and also acts as trustees of various mutual funds.

MNET Services (Private) Limited

Holding: 99.95%

Profile: One of the largest service providers for Electronic Transactions to various financial institutions/banks including related services in Information Technology, software and data processing.

MCB Trade Services Limited

Holding: 100%

Profile: Provides agency services.

Arif Habib Investments Limited

Holding: 51.33%

Profile: Asset management, investment advisory, portfolio management, equity research and underwriting.

“MCB Leasing” Closed Joint Stock Company, Azerbaijan

Holding: 95.00%

Profile: It leases various types of industrial equipment, public transports, real estate and retail auto leases.

With reference to significant holding, the following entities are associates of the Bank;

Adamjee Insurance Company Limited

Holding: 29.13%

Euronet Pakistan (Private) Limited

Holding: 30%

First Women Bank Limited

Holding: 15.46%

Chairman's Message



Once again, we at MCB Bank Limited are proud to announce another successful year of record growth. Our performance depicts that we are in the correct markets, with the correct strategy and have the right leadership in place to deliver consistent value for our shareholders.

Our Management and Board have played an integral part in ensuring our success in the year 2013 and for that we remain humbly grateful. The year was a challenging one encompassing democratic change of Government, with increased anticipation for the stabilization of the ailing economy. So far, the newly elected Government has taken a number of steps to overcome what Pakistan has been facing over the last few years; energy shortages, poor law and order situation and fiscal challenges. The economy of Pakistan is moving towards improvement and is one of the main reasons for increased foreign interest. The equity market has posted remarkable returns during 2013 indicating the repositioning of investors in the soil of Pakistan. This growth in foreign investment coupled with strategic investment interests in different projects would be a key step in revival of the economy with a catalytic impact on the banking industry.

Despite all the challenges faced during 2013, MCB Bank Limited continued to flourish in terms of our asset base, underlying financial strength, profitability, operational outreach, while ensuring constant periodic returns to our shareholders. We adhered to our strongly nurtured ethical culture and contributed significantly to our corporate social responsibilities. We are also keen to increase our international footprint to ensure recognition of MCB Bank Limited at a global level.

We are delivering what we stated in our strategic objective; remarkable returns exceeding market and the shareholders expectations. In summation, 2013 was another year of strong performance for MCB and the Board remains confident for the year ahead. Our results demonstrate the continued success of our strategy, our expanding branch network, our values and most especially, the quality of our people. We constantly look forward to improve our service quality standards and conduct business in a way that makes you and us proud to be part of MCB. I believe, we are strategically poised to take on the challenges of the new year and capitalize on every possible opportunity.



Mian Mohammad Mansha
Chairman
MCB Bank Limited

President's Review

MCB Bank Limited, a name synonymous with quality service and trust, is a recognized brand based on decades of above par financial performance and sustainable business growth.

Our exemplary performance history shapes the way we explore future growth opportunities. The Bank remains committed in providing its valued customers with efficient services; tailored to the specific financial requirements of respective customers while simultaneously identifying and catering to the needs of unbanked segments in Pakistan. We have been consistently gaining market share over the years, reposing confidence of our stakeholders and strengthening their faith in the financial stability of MCB Bank Limited. The Bank is blessed with an enormous talent pool of dedicated and committed professionals, who successfully embrace every challenge and endeavor to outperform competition across all our businesses while maintaining the highest standards of service quality.

Our broad spectrum of products and services provides a cutting edge advantage to service our customers countrywide through online branch network offering Corporate, Retail, Islamic and Investment banking products that have contributed towards making MCB Bank one of the leading banks in Pakistan. To account for change in trends and adding further 'customer-friendly' parameters, MCB's Internet Banking was re-launched during the year. Our revamped Call Centres is yet another step to reinforce our strategy to provide 24/7 product support and assistance to our valued clientele. To strengthen the retail product suite, consumer lending products i.e. personal loan and home loan facilities, were reintroduced to enlarge the range of MCB's products. Our Mobile Banking continues to be a strong player; attracting large segment of young educated tech-savvy professionals. Bancassurance / Investment products and Visa Debit Cards have been among MCB's best sellers and have gained substantial market share during the year under review.

As developing technology-driven product range is the need of the hour, MCB is moving in that direction with a clear vision. We are all set for the commercial launch of our 'Branchless Banking' initiative – MCB Lite, from January 1, 2014, which is expected to usher a new chapter of 'banking convenience' for MCB's existing and prospective customer base. We are confident that through these innovative products, coupled with our quality service standards, MCB would significantly increase its share of the business and support financial inclusion through alternate distribution channels.

Our extensive distribution network of over 1200 branches ensures countrywide reach; especially underserved regions through 430 rural branches, augmented by 789 ATMs performing at an impressive



average uptime of over 91% during 2013. On the security front, a total of 70 bank robberies were reported throughout the country, out of which only a single attempt was made on MCB branch. This speaks volumes of the security policy we follow and fortifies our initiative of 'guard-less' branches. 200 of our branches are already operating successfully on this new model while another 250 are in the process of being converted. In the domain of technology platform, our Core Banking System (CBS) is also being upgraded by key resources of the Bank to further improve internal systems and controls. The upgraded CBS would assist us in achieving scalability and sustainability to serve growing customer traffic generating higher transaction volumes resulting from diversified product range.

Overall performance of the banking sector during the year remained under pressure due to challenging operating environment with high level of competition and economic uncertainties. Under these challenging conditions, bank's profit (before tax) increased by 2% while profit (after tax) increased by an impressive 4% over last year. These strong results translated into a healthy ROA of 2.72% and ROE of 23.09%. From a peak of 14% in June 2011, the discount rate declined 400 basis points over the last two years, forcing net margins to follow a downward trajectory. To counter this declining trend, MCB focused on other business avenues i.e. trade, capital markets, treasury, other fee based income streams and recovery of NPLs to remain on the path of sustainable profit growth.

Loans to customers (net volume) increased by 4% reflecting improving business optimism in the economy. The Bank's asset base grew by 6% to Rs. 815 billion during 2013. MCB Bank followed its credit underwriting standards and actively pursued remedial risk management resulting in a 9% reduction in its infected portfolio. During the year, deposit base registered a robust growth of 16% with continuous focus on Current and Savings deposits, resulting into an all-time-high CASA composition of 90%.

In line with Bank's Five Year Business Strategy, our financial results reflected strong underlying performance across virtually all our businesses, fueled by strong Balance Sheet management and profit growth. We also maintained our leadership positions and continued to gain market share in key areas of our franchise. This financial performance has resulted in good stock performance to support growth in market capitalization.

Over the years, Bank has earned a series of accolades from prestigious institutions and during the year another award was conferred by 'The Asset;' declaring MCB Bank Limited as the 'Best Domestic Bank.' This goes, hand in hand, with highest entity rating of "AAA" (long-term) and "A1+" (short term) assigned to MCB by Pakistan Credit Rating Agency (PACRA) in 2013.

On the spectrum of social responsibility to the community, Bank donated Rs. 25 million for Earthquake Relief Fund for Baluchistan, while charity contribution of Rs. 5 Million to the Earthquake Relief fund and Rs. 5 million for rehabilitation of minority community were made by MCB.

Taking into account the importance of international footprint

to serve growing customer base, MCB is exploring various viable options to widen its business network into South Asia, Middle East, Africa and Europe. Similarly, in-line with SBP's strategic focus on Islamic banking, MCB is working actively towards establishing its own dedicated Islamic Bank to take the first mover advantage in serving growing Islamic Banking customer base which currently represents 12% of the overall banking system in the country.

On behalf of team MCB, I extend my heartiest gratitude to the Chairman and Board of Directors of MCB Bank for their vision, foresight and guidance in achieving 2013 results. I would also like to thank State Bank of Pakistan and other regulatory bodies for their continued support, our shareholders for their trust and belief in us, and last but not the least, management and staff of MCB Bank Limited for their teamwork, unity of purpose and faith in God in translating our goals for 2013 into reality.

Based on the successful 2013 results and our business momentum going forward, I expect 2014 to be yet another banner year. We will continue to remain prudent in areas of risk, cost, investment and will be using our strong balance sheet strength to service customer needs, distinguishing MCB as the most credible bank and making it "Bank for Life" for our stakeholders.

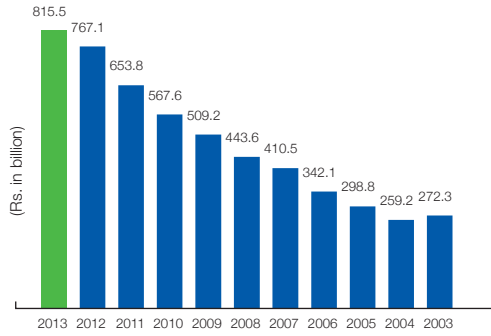


Imran Maqbool
President & CEO
MCB Bank Limited

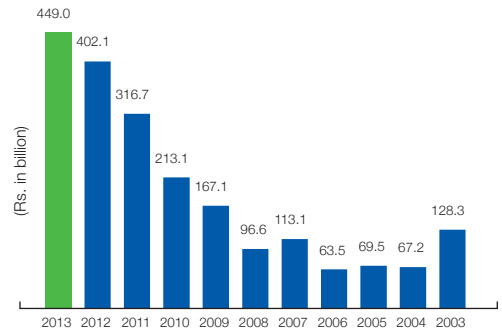
Financial Performance

10 Years Trend (2003 - 2013)

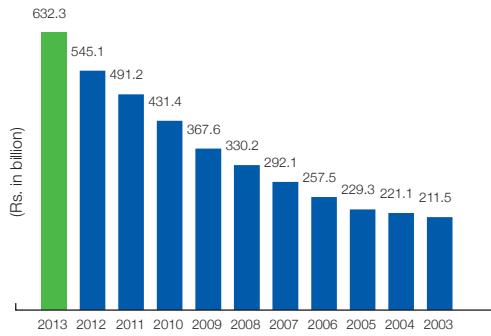
Total Assets
CAGR 12%



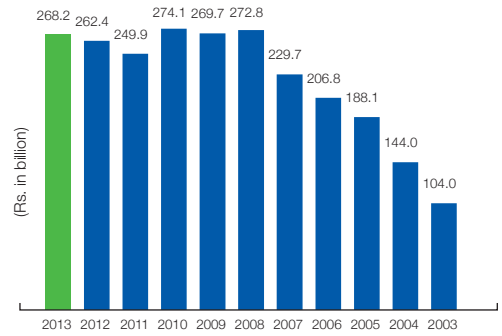
Investments
CAGR 13%



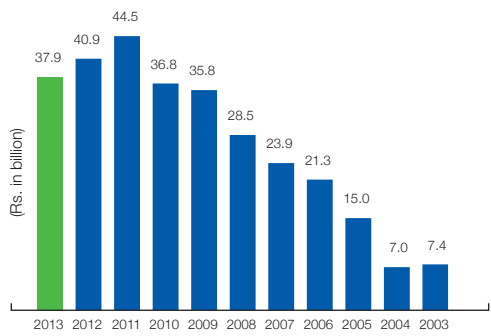
Deposits
CAGR 12%



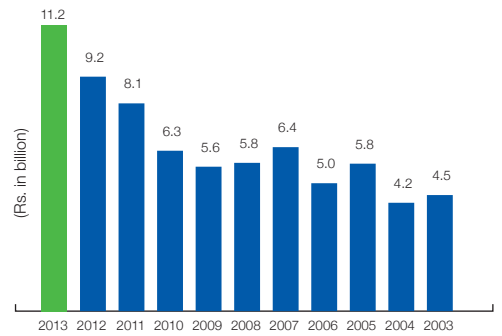
Gross Advances
CAGR 10%



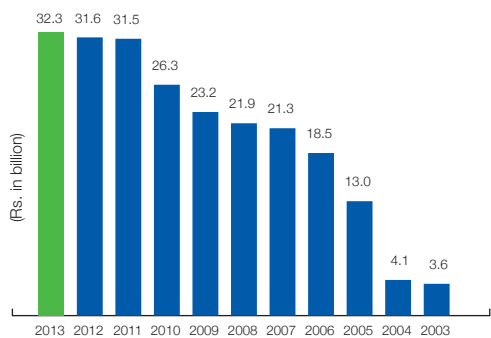
Fund Based Income
CAGR 18%



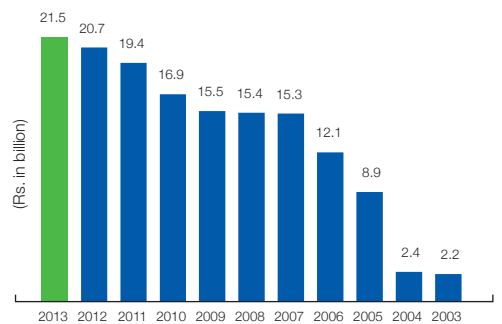
Non Markup Income
CAGR 9%



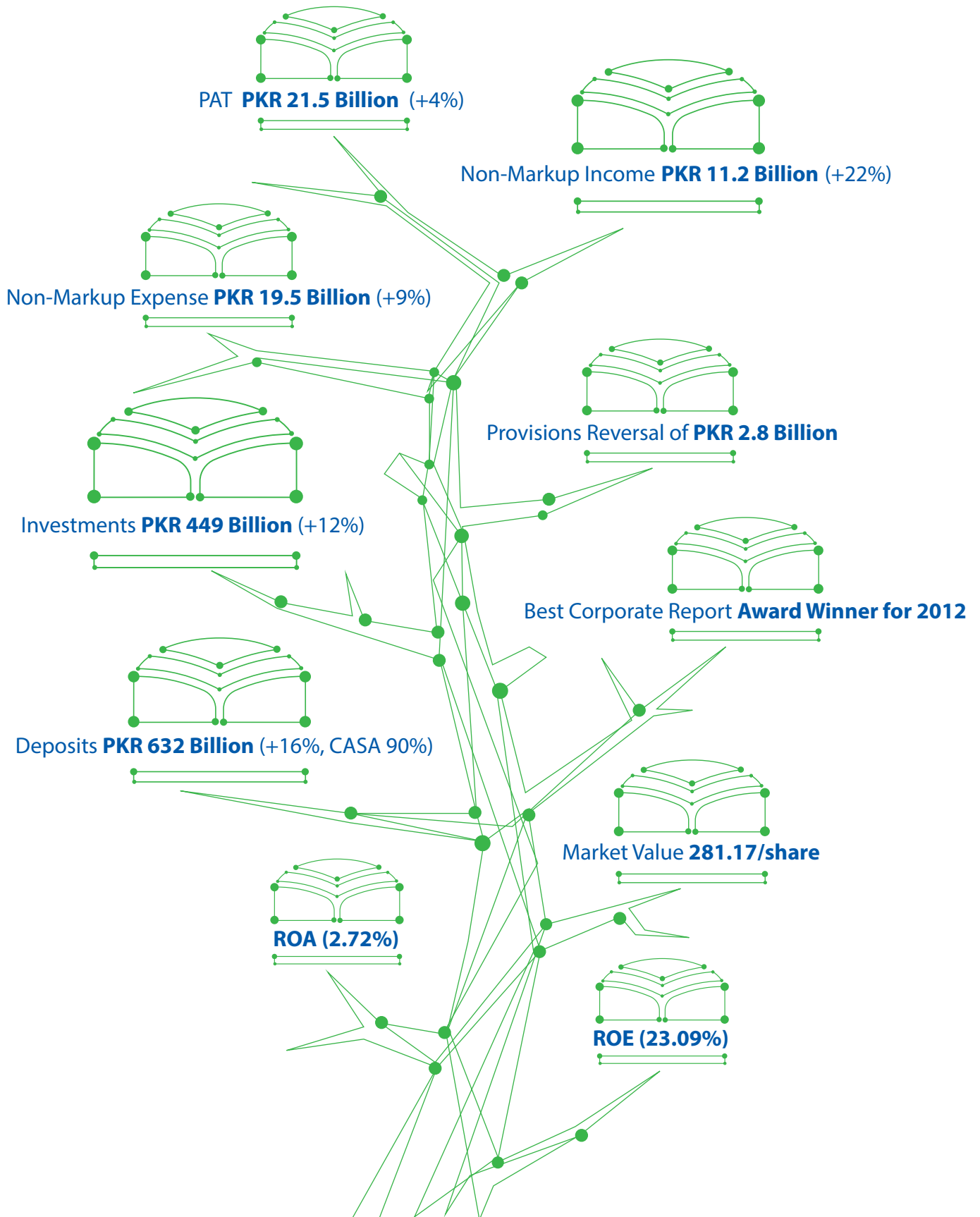
Profit Before Tax
CAGR 24%



Profit After Tax
CAGR 25%



Highlights 2013



Key Performance Indicators

Objective	KPI	Analysis	Future relevance
Sustained profitability while coping up with the operational challenges. Being recognized as one of the most profitable bank of the industry.	Profitability	Despite tough operating environment, MCB Bank posted a moderate growth in PBT of 2% with PAT growing by 4% over 2012. This was achieved despite the interest rate volatility and regulatory revisions in minimum deposit rate impacting net interest margins.	The KPI shall remain relevant in future
The Bank aims to deliver sustained payout to its investors.	Shareholder returns	The Bank has paid 140% cash dividend in 2013 (2012: 130%) along with 10% bonus issue (2012:10%)	The KPI shall remain relevant in future
The Bank aims to increase its share in the domestic deposit pie along with international deposit generation.	Deposit generation	Deposits to the tune of Rs. 87 billion added to the base in the year 2013 with CASA base touching 90%. Initiatives undertaken to increase international footprint of the franchise. During the year market share of deposits increased to 8.40% (2012: 8.16%).	The KPIs shall remain relevant in future
To ensure quality asset retention with measures to constantly decrease the NPL base of the Bank.	Asset Quality	Significant recoveries to the tune of Rs 1.1 Billion and Rs. 2.3 Billion have been posted in years 2012 & 2013 respectively. The infection ratio has improved significantly from 9.74% as at December 2012 to 8.68% as at December 31, 2013.	The KPI shall remain relevant in future
Introduction of cost cutting techniques ensuring operational efficiency.	Effective and efficient cost control	Moderate increase posted in the operating expenses block in line with the surged observed in inflationary pressures. Cost to income ratio is reported at 40.05 which can be rated as exceptional in such operating circumstances.	The KPI shall remain relevant in future
To maintain a strong capital base	Capital ratios	The capital adequacy ratios of the Bank are well above the specified percentages. Bank maintained Tier-1 to total risk weighted assets ratio at 20.89% against requirement of 6.50%.	The KPI shall remain relevant in future

Forward-looking disclosures of annual report 2012	Performance of the Bank in 2013
<p>MCB Bank Limited remains determined in maintaining its status as a leading bank, offering tailored products to meet the financial requirements of its customer base. The strength depicted in the financial position would continue to be translated into profits, ensuring quality asset reflection.</p>	<p>As an update on the forward looking information presented in 2012 financial statements, the Bank has been able to achieve strategic targets specified for 2013. We have added quality products and services to our menu with infrastructural and technical developments ensuring convenience to our large customer base.</p> <p>From financial performance perspective, MCB has posted 2% and 4% growth in PBT & PAT respectively. The asset quality of the Bank has depicted considerable improvement with infection ratio decreasing from 9.74% in 2012 to 8.68% in 2013. Detailed analysis covering performance and achievements of respective groups against their targets for 2013 is included in the Director's Report.</p>

Review of Six Years' Performance

In this section, commentary on the six years' performance of the Bank is being provided, covering most prominent highlights;

Statement of Financial Position

Total Assets:

The asset base of the Bank has almost doubled over the last 6 years growing from Rs. 443 billion as at December 31, 2008 to Rs. 815 billion at the end of financial year 2013, translating into an annual growth of 12% for the last six years; Prime contributors to the said increase have been advances and investments over years, which increased contributions from investments in the recent years. MCB Bank has been prudently able to manage the risks and returns of its earning asset base to deliver maximum return to its stakeholders.

Advances:

The macro-economic instability coupled with energy crisis has adversely affected the private sector credit demand of the local banking industry and a similar pattern can be observed for MCB Bank Limited. Being mainstream business line of the Bank, credit growth remained prime focus of the Bank but the lack of credit opportunities and intense competition resulted in a moderate growth in gross advances base. However, based on significant additions recorded in investment base, the ADR had been decreased as a result of shift in asset mix from 83% reported in 2008 to 42% reported for 2013.

Non-performing Loans:

Based on the stringent risk management policies and strengthened framework, the Bank has been able to control the infection in asset quality. The quality of asset has been one of the prime focus areas of the Bank and the significant recoveries posted in the last two years clearly spell out the

efforts that have been directed in this achieving this goal. After registering a decrease of Rs. 1.1 billion in NPLS in 2012, the NPL base has further contracted by Rs. 2.3 billion in 2013. The Bank has been conservative on the provisioning side which is substantiated by the fact that the Bank carries an unencumbered provision charge of Rs. 268M as general provision and has not taken the benefit of "FSV", in its specific provision classification. The coverage ratio of the Bank has improved from 54.17% in 2008 to 83.59% in 2013. Moreover, the NPLs classified in "loss" category constitute more than 90% of the NPLs base as at December 31, 2013, which specifies the adequacy of provision held in the books of the Bank.

Investments:

The lacks of credit opportunities have paved way for build-up in investment base over the years. The investment base of the Bank has increased extravagantly from Rs. 96 billion in 2008 to Rs. 449 billion in 2013 with major concentration levels in risk free Market Treasury bills and Pakistan Investment Bonds.

Deposits:

The deposit base of the Bank has steadily grown over the last six years, with absolute numbers increasing from Rs. 330B in 2008 to Rs. 632B in 2013. MCB Bank's competitive edge has been the highest CASA base, supporting its lower cost of deposits. The Bank has been constantly shifting its high cost deposit to low cost deposits, as CASA base has more than doubled in last 6 years, increasing from Rs. 268 billion in 2008 to Rs. 568 billion in 2013; MCB Bank has been able to maintain its share in the domestic industry deposit pie with an average share of approximately 8%. As depicted by the deposit categorization, the quality of service and returns provided by the Bank has enabled to keep the CASA base above 80% for the last six years.

Equity and Dividends

- The paid-up capital of the Bank has grown from Rs. 6.2B in 2008 to Rs. 10.1B in 2013, meeting the capital requirements set by the Central Bank.
- In 2008, most affluence strategic partnership occurred in Pakistan where the largest Bank of Malaysia, Maybank Berhad, acquired 20% holding in MCB Bank Limited. This brought synergies in technology, human resource and decision making.
- The equity base of the Bank is reflective of the outstanding financial results and underlying financial strength achieved through consistent performance over years.. The capital base of the Bank can be rated as strong which is substantiated by the reported CAR of 22.25% as at December 31, 2013 against the statutory specified percentage of 10%. The Shareholders' equity stands at Rs. 97B as at December 31, 2013 growing from Rs. 52B in 2008.
- The Bank has been amongst the leading distributor of cash dividends with regular interim dividends and remains one of the prime stocks preferred by foreign institutions / stakeholders.

Profit and Loss account

Net Interest Margin

- The composition of markup income has seen a shift in the last six years on the back of volumetric shift in the earning asset base of the Bank. The contribution from markup income earned on advances has reduced from 75.6% in 2008 to 38.4% in 2013 while markup income from investments has increased to 60.3% (2008: 21.7%).
- The volatility in the net interest margin of the Bank is on account of the movement in the

monetary policy rate and the setting of the minimum deposit rates to be offered on saving and fixed deposits and its linkage with interest rate corridor.

However, the Bank has been able to capitalize on the lower cost of deposits due to significant CASA base, translating into higher profitability numbers.

Non-Markup Income

- To cope up with the interest rate volatility, the bank has strategically focused on the increased contribution from non-markup based income. The product development teams of the Bank have been tapping the unbanked segment of the population and offering them tailored products to meet their specific financial requirements. Numbers of products have been launched in past 6 years in order to increase non-markup income like credit card, mobile banking, visa debit card, MCB Lite, prepaid cards etc.
- The fee, commission and brokerage block of the Bank has been constantly increasing over years with major contributions coming from commission earned on bancassurance business, remittances and intercity / intra-city cash transfers.
- The equity investment base of the Bank has been providing outstanding dividend yields with dividend income registering the second highest contribution to non-markup income. During the year 2013, substantial capital gains were earned, benefitting from the record levels posted by the equity markets.

Operating Expenses

- Owing to the strengthened risk management framework, the provision charge of the Bank has been on a declining trend over years. The provision and write-off charge was reported at Rs. 7.4billion for the year 2009 which has

reduced substantially to Rs. 291M for the year 2012. For the year 2013, the Bank reversed provisions to the tune of Rs. 2.8 billion based on the recoveries posted in loss categorized advances. It is pertinent to add that the Bank has been conservative on the provision side and has not taken the benefit of FSV in specific provision calculation for the year 2013.

- The growth in administrative block of the bank has been nominal considering the inflationary patterns followed over the period of six years and falls within the budgetary limits set. The management has been able to introduce cost effective techniques / methods to exercise control over the administrative expenses. This has helped the Bank to register one of the lowest cost to income ratios in the industry despite the inflationary pressures on core operating expenses which has currently been reported at 40.05% (2008:24.41%).

Profit before tax and Profit after tax:

- MCB Bank has been able to post outstanding profitability numbers over the period of last six years as corroborated by the highest EPS and remarkable return on asset. The annual pre-tax profitability numbers have grown from Rs. 21.9 billion for 2008 to Rs. 32.3 billion for 2013.
- The profitability ratios have been one of the best in the banking industry which are reflective of the effective management of the affairs and adoption of prudent strategies.

Other statistics

- The Bank has generated 1 million additional customers in the past six years and now a total number of customers are close to 5 million mark and has expanded its operational network by 157 new branches.
- With active participation in trade, MCB Bank has been able to improve trade volume in last 6 years which have increased to Rs. 421 billion

for imports and Rs. 209 billion for exports.

- The Bank has been able to increase its market share in the remittance business growing from Rs. 26 billion in 2008, the Bank has now volume of above Rs. 150 billion in a year.
- After its launch in 2007, MCB internet banking has been a preferred choice of our large customer base. We have been able to increase our customer base gradually with transactions volume in excess of 1.6 million.
- In 2008, the Bank launched Bancassurance which was a unique cross functional service to the customers of the Bank. With only 131 policies and 129 customers in 2008, MCB Bank now manages approximately 15,000 policies and customers with premium amount of over Rs. 2.5 billion.
- MCB Bank launched mobile banking in 2009 with approximately 53K customers reported by the end of the year. As of 2013, the numbers of mobile customers have grown to approximately 542 K , with transaction volume of above Rs. 10 billion.
- The Bank launched Privilege Banking in 2009 targeting a specific customer base. As of 2013, Privilege Bank proposition serves 2,389 customers.

Six Years Financial Summary 2008 - 2013

	2013	2012	2011	2010	2009	2008	
Profit & Loss account							
Mark-up/ return earned	Rs. Mln	65,064	68,356	68,147	54,821	51,616	40,044
Mark-up/ return expensed	" "	27,196	27,500	23,620	17,988	15,837	11,561
Fund based income	" "	37,868	40,856	44,526	36,834	35,779	28,483
Fee, Commission, brokerage & FX income	" "	8,108	7,131	6,373	5,310	4,409	4,537
Dividend Income & Capital gains	" "	3,063	2,022	1,739	956	1,234	1,255
Total income	" "	49,039	50,010	52,639	43,099	41,422	34,275
Operating expenses	" "	19,639	18,077	16,987	13,160	10,801	8,365
Operating profit before tax and provision	" "	29,400	31,933	35,651	29,938	30,620	25,910
Provisions / write-offs	" "	(2,888)	291	4,168	3,685	7,465	4,042
Profit before tax	" "	32,288	31,642	31,483	26,253	23,155	21,868
Profit after tax	" "	21,495	20,673	19,425	16,873	15,495	15,375
Cash Dividends*	" "	14,166	11,959	10,036	8,743	7,602	7,225
Bonus shares*	" "	1,012	920	836	760	691	628
Statement of Financial Position							
Authorised capital	" "	15,000	10,000	10,000	10,000	10,000	10,000
Paid up capital	" "	10,118	9,199	8,362	7,602	6,911	6,283
Reserves	" "	46,601	44,253	42,186	40,163	38,386	36,769
Unappropriated Profit	" "	40,552	35,425	28,724	21,416	15,779	9,193
Shareholder's equity	" "	97,272	88,877	79,273	69,180	61,076	52,245
Surplus on revaluation of assets - net of tax	" "	12,959	13,594	9,887	10,024	8,664	6,191
Net Assets	" "	110,231	102,471	89,160	79,203	69,740	58,436
Total Assets	" "	815,508	767,075	653,782	567,553	509,224	443,616
Earning Assets	" "	718,990	663,330	569,128	494,605	444,188	380,187
Gross Advances	" "	268,192	262,392	249,914	274,144	269,722	272,847
Advances - net of provisions	" "	248,243	239,583	227,580	254,552	253,249	262,135
Non-Performing Loans (NPLs)	" "	23,268	25,562	26,665	24,544	23,239	18,269
Investments	" "	449,006	402,069	316,652	213,061	167,134	96,632
Total Liabilities	" "	705,277	664,604	564,622	488,349	439,484	385,180
Deposits & other accounts	" "	632,330	545,061	491,189	431,372	367,605	330,182
Current & Saving Deposits (CASA)	" "	567,728	464,411	399,687	351,298	304,953	268,501
Borrowings	" "	38,543	78,951	39,101	25,685	44,662	22,664
Interest bearing Liabilities	" "	456,348	434,619	362,843	305,902	283,369	240,470
Contingencies and Commitments	" "	265,428	143,803	165,014	136,246	119,922	266,251
Profitability Ratios:							
Profit before tax ratio	%	49.63%	46.29%	46.20%	47.89%	44.86%	54.61%
Gross Yield on Average Earning Assets	" "	9.42%	11.08%	12.80%	11.68%	12.52%	11.07%
Gross Yield on Avg. Earning Assets (incl. dividend & capital gains)	" "	9.86%	11.42%	13.14%	11.88%	12.82%	11.42%
Gross Spread	" "	58.20%	59.77%	65.34%	67.19%	69.32%	71.13%
Non interest income to total income	" "	22.78%	18.30%	15.41%	14.54%	13.62%	16.90%
Return on average equity (ROE)	" "	23.09%	24.64%	26.23%	25.91%	27.35%	31.49%
Return on average assets (ROA)	" "	2.72%	2.91%	3.18%	3.13%	3.25%	3.60%
Return on Capital Employed (ROCE)	" "	23.09%	24.64%	26.23%	25.91%	27.35%	31.49%
Cost to income ratio	" "	40.05%	36.15%	32.27%	30.54%	26.08%	24.41%
Cost to income ratio (excluding pf reversal)	" "	43.52%	40.01%	36.43%	38.01%	35.55%	40.16%
Investment ratios:							
Earnings per share (after tax)**	Rs.	21.24	20.43	19.20	16.68	15.31	15.19
Earnings per share (before tax)**	" "	31.91	31.27	31.11	25.95	22.88	21.61
Breakup value per share (excl. surplus on rev. of assets)**	" "	96.13	87.84	77.99	68.37	60.36	51.63
Net assets per share**	" "	108.94	110.62	96.54	94.71	83.40	69.88
Market Ratios							
Cash Dividend	%	140%	130%	120%	115%	110%	115%
Bonus Shares Issued	" "	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Dividend Yield ratio (based on cash dividend)	" "	4.98%	6.20%	8.92%	5.03%	5.01%	9.14%
Dividend Payout ratio	" "	70.61%	62.29%	55.97%	56.32%	53.52%	51.08%
Price to book value ratio	Times	2.92	2.39	1.73	3.34	3.64	2.44
Price to earning ratio	" "	13.24	10.27	7.01	13.71	14.35	8.28
Dividend cover ratio	" "	1.52	1.75	1.94	1.75	1.68	1.60

Six Years' Financial Summary 2008-2013

	2013	2012	2011	2010	2009	2008	
Share Information							
Market value per share - Dec 31	Rs.	281.17	209.76	134.60	228.54	219.68	125.81
High - during the year	" "	323.00	216.75	250.48	233.80	244.00	494.80
Low - during the year	" "	182.20	133.00	134.00	173.04	75.00	125.81
Market Capitalisation	Rs. Mn	284,501	192,950	112,557	173,740	151,822	79,044
Asset Quality and Liquidity ratios:							
Gross Advances to deposits ratio	%	42.41%	48.14%	50.88%	63.55%	73.37%	82.64%
Net Advances to deposits ratio	" "	39.26%	43.96%	46.33%	59.01%	68.89%	79.39%
Investments to deposits ratio	" "	71.01%	73.77%	64.47%	49.39%	45.47%	29.27%
Weighted Average Cost of Deposits	" "	4.00%	4.45%	4.35%	3.96%	3.97%	3.03%
CASA to total deposits	" "	89.78%	85.20%	81.37%	81.44%	82.96%	81.32%
NPLs to Gross advances ratio	" "	8.68%	9.74%	10.67%	8.95%	8.62%	6.70%
Coverage Ratio (specific provision/ NPLs)	" "	83.59%	87.55%	82.02%	77.13%	67.47%	54.17%
Earning assets to total assets ratio	" "	88.16%	86.45%	87.31%	87.15%	87.23%	85.70%
Earning assets to interest bearing Liabilities	Times	1.58	1.53	1.57	1.62	1.57	1.58
Deposits to shareholder equity	" "	6.50	6.13	6.22	6.24	6.02	6.32
Assets to Equity	" "	8.38	8.63	8.28	8.20	8.34	8.49
Risk Adequacy							
Tier I Capital	Rs. Mn	95,102	86,341	77,030	67,701	59,896	51,301
Total Eligible Capital	" "	101,296	93,526	82,014	72,856	64,357	54,235
Risk Weighted Assets (RWA)	" "	455,189	422,583	376,442	330,135	337,417	329,537
Tier I to RWA	%	20.89%	20.43%	20.46%	20.51%	17.75%	15.57%
RWA to total assets	" "	55.82%	55.17%	57.63%	58.17%	66.26%	74.28%
Capital Adequacy Ratio	" "	22.25%	22.13%	21.79%	22.07%	19.07%	16.28%
Net Return on Average RWA	" "	4.90%	5.24%	5.50%	5.06%	4.65%	4.82%
Industry Share***							
Deposits	%	8.40%	8.16%	8.72%	8.42%	8.50%	8.55%
Advances	" "	6.59%	6.80%	7.32%	7.85%	8.24%	8.63%
Investments	" "	11.03%	10.34%	10.66%	10.14%	10.16%	9.85%
Total Assets	" "	8.43%	8.41%	8.76%	8.37%	8.52%	8.51%
Classified Advances	" "	3.98%	4.16%	4.51%	4.41%	5.21%	5.09%
Profit Before Tax	" "	20.14%	18.18%	18.92%	25.78%	30.29%	37.03%
Market Capitalisation	" "	22.96%	23.58%	20.40%	24.10%	22.35%	18.59%
Home Remittance	" "	10.48%	10.52%	9.97%	9.29%	6.44%	5.20%
Consolidated							
Total Assets	Rs. Mn	821,278	771,458	656,874	570,482	511,742	445,286
Shareholders' Equity	" "	100,165	91,350	81,392	71,228	63,120	54,121
Net Assets	" "	115,463	106,475	92,012	81,999	72,313	60,132
Profit before tax	" "	32,932	32,065	31,322	26,510	23,349	21,887
Profit after tax	" "	21,950	21,153	19,274	16,873	15,665	15,323
Return on Average Assets	%	2.76%	2.94%	3.14%	3.12%	3.27%	3.57%
Return on Average Equity	" "	22.80%	24.14%	25.24%	25.12%	26.72%	30.21%
Earnings per share**	Rs.	21.62	20.64	20.95	20.18	18.73	18.32
Breakup value per share (excl. surplus on rev. of assets)**	" "	114.11	99.07	88.63	85.18	75.48	64.72
Capital Adequacy Ratio	%	22.18%	22.16%	21.88%	22.04%	19.10%	16.37%
Per Branch							
Gross Advances	Rs. Mn	220.37	221.06	213.06	242.18	249.51	257.40
Deposits	" "	519.58	459.19	418.75	381.07	340.06	311.49
CASA	" "	466.50	391.25	340.74	310.33	282.10	253.30
PBT	" "	26.53	27.00	26.84	23.19	21.42	20.63

* This includes final cash dividend & bonus proposed by BOD

** Adjusted for prior years to reflect bonus shares issued during the year

*** Based on Banking Sector Data issued by SBP

Shares held by sponsors / directors / executives and associated companies is disclosed on Page # 307

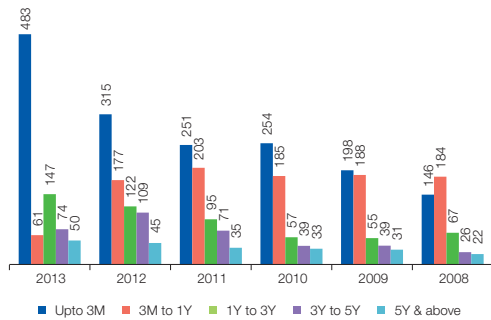
Six Years' Non Financial Summary 2008-2013

		2013	2012	2011	2010	2009	2008
No. of accounts	Absolute	5,299,439	4,931,631	4,687,993	4,239,487	3,893,531	3,915,009
No. of branches	"	1,217	1,187	1,173	1,132	1,081	1,060
No. of permanent employees	"	10,372	10,612	10,090	9,583	9,397	10,160
ATMs							
No. of ATMs	"	789	680	676	493	495	370
Total active smart/ debit card issued	"	1,875,258	1,367,858	1,242,271	1,144,403	1,490,887	1,283,430
No. of smart cards/Debit cards issued during the year	"	508,241	469,814	319,390	338,534	259,473	255,468
*Debit cards launched in 2011	"						
Credit Cards							
No. of new issuance	"	7,187	3,261	2,846	2,845	7,152	24,738
No. of customers	"	53,460	68,075	68,515	69,503	69,737	70,835
Total spend (transaction volume)	Rs. Mln	4,306	4,005	4,140	4,386	4,836	5,540
Virtual Banking							
No. of customers	Absolute	88,131	82,462	75,669	66,795	57,024	47,312
No. of transactions	"	1,603,669	998,789	741,818	663,411	458,985	612,359
Volume of transactions	Rs. Mln	30,725	14,627	9,333	5,379	7,296	10,818
Mobile Banking							
No. of customers	Absolute	542,449	292,756	149,057	105,372	53,182	-
No. of transactions - financial	"	906,522	704,008	501,876	437,870	102,021	-
No. of transactions - non-financial	"	2,996,584	2,673,556	2,139,421	1,857,001	1,278,687	-
Volume of transactions	Rs. Mln	10,484	8,516	5,647	3,104	525	-
Bancassurance							
No. of customers	Absolute	14,714	10,769	7,835	5,644	2,507	129
No. of policies	"	15,481	11,001	8,060	5,812	2,614	131
Bancassurance Premium	Rs. Mln	2,837	1,888	1,160	683	247	9
Bancassurance Revenue	Rs. Mln	723	474	385	275	136	6
Privilege Banking							
No. of accounts	Absolute	2,833	2,372	1,988	1,430	733	-
No. of customers	"	2,389	1,872	1,494	1,048	579	-
Trade							
Imports - volume	Rs. Mln	420,964	326,120	341,348	280,392	186,418	204,748
Exports - volume	"	208,640	161,776	149,603	121,870	88,321	85,623
Market share of total market trade	%	7.03%	7.61%	8.20%	8.03%	6.87%	7.28%
Home Remittance							
Volume of home remittance - MCB	USD Mln	1,529	1,470	1,242	898	560	365
Volume of home remittance - MCB	Rs. Mln	154,656	137,376	106,791	76,485	45,772	25,795
Home Remittance MCB Market Share	%	10.48%	10.52%	9.97%	9.29%	6.44%	5.20%

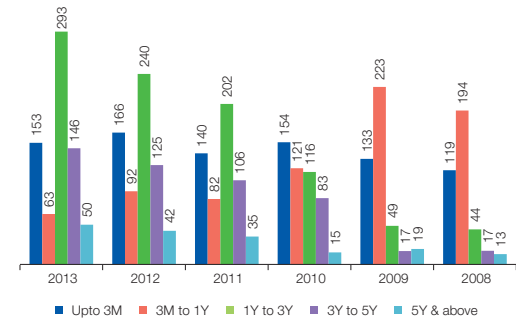
Six Years' Concentration & Maturities

Maturities of Total Assets and Total Liabilities

Maturities of Assets (2008-2013)
(Rs. in Billion)

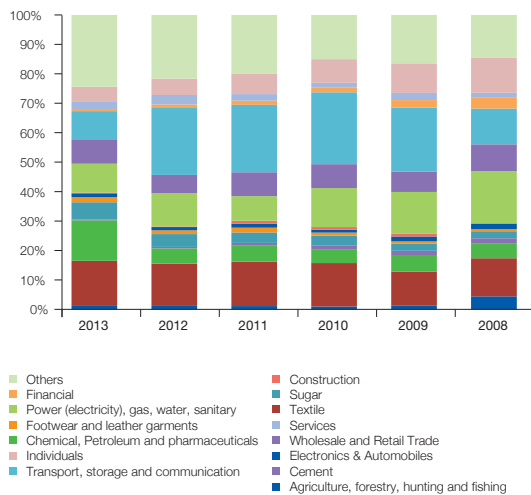


Maturities of Liabilities (2008-2013)
(Rs. in Billion)

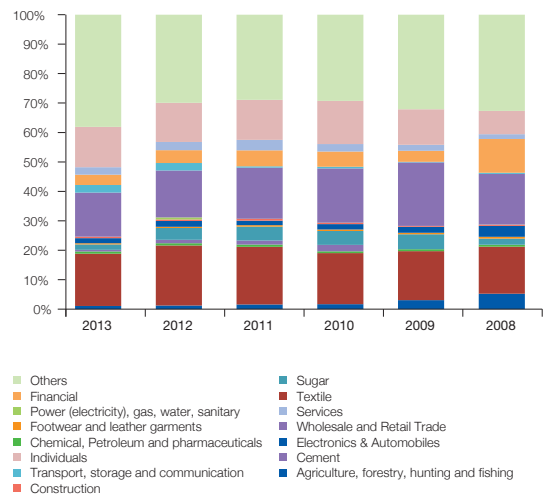


Concentration of Advances, NPLs, Deposits and Off-Balance Sheet Items

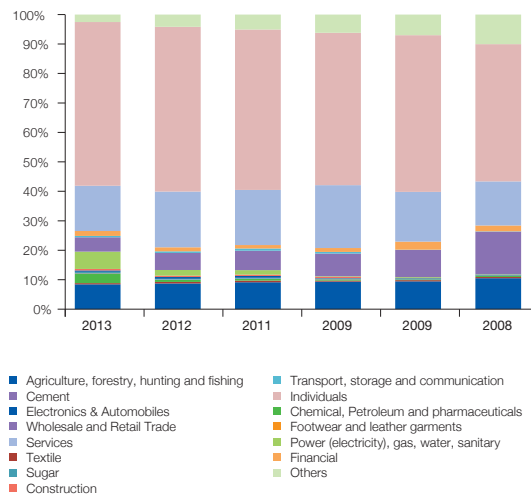
Gross Advances (2008-2013)



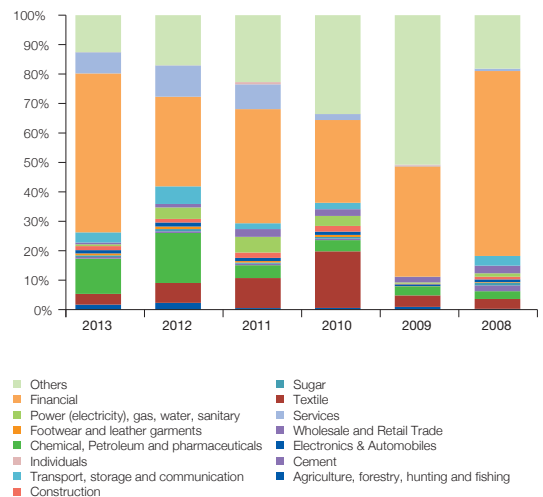
Classified Advances (2008-2013)



Deposits (2008-2013)



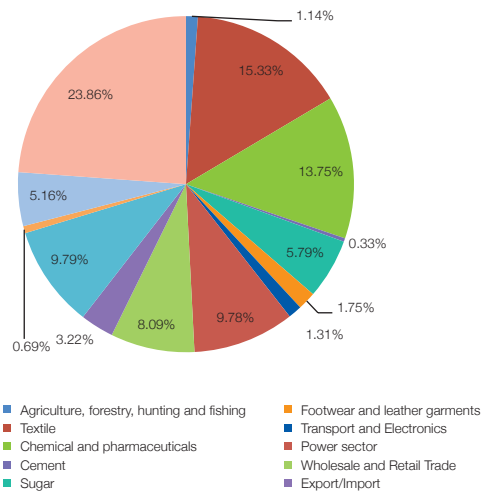
Off Balance Sheet Items (2008-2013)



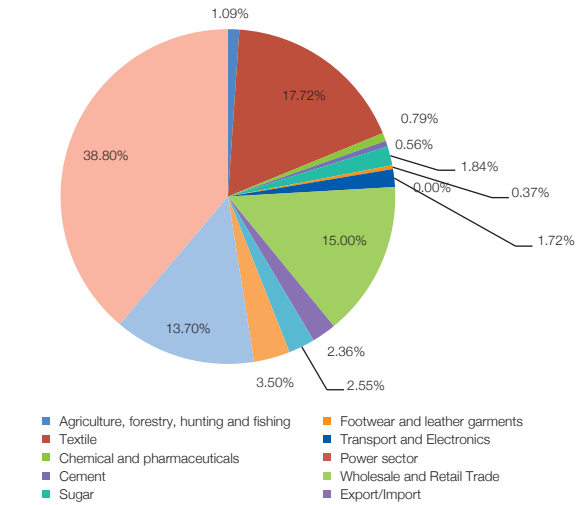
Concentration of Advances, NPLs, Deposits & Off-Balance Sheet Items

Segments by class of business	Advances (Gross)			Classified Advances			Deposits			Off balance sheet items		
	PKR Mln	Mix	Var. %	PKR Mln	Mix	Var. %	PKR Mln	Mix	Var. %	PKR Mln	Mix	Var. %
Agriculture, forestry, hunting and fishing	3,057	1%	2%	255	1%	-18%	52,085	8%	10%	2,366	1%	-29%
Textile	41,120	15%	9%	4,122	18%	-21%	2,436	0%	-14%	9,612	4%	-1%
Chemical, petroleum and pharmaceuticals	36,888	14%	173%	183	1%	-7%	21,103	3%	640%	31,781	12%	265%
Cement	894	0%	-33%	131	1%	-56%	830	0%	52%	1,596	1%	97%
Sugar	15,537	6%	37%	428	2%	-59%	2,314	0%	86%	1,474	1%	31%
Footwear and leather garments	4,683	2%	40%	86	0%	-18%	386	0%	109%	1,718	1%	42%
Transport and Electronics	3,522	1%	20%	401	2%	-21%	2,598	0%	-16%	2,898	1%	44%
Power sector	26,224	10%	-12%	-	0%	-100%	37,510	6%	258%	1,651	1%	-70%
Wholesale and Retail Trade	21,689	8%	34%	3,490	15%	-14%	30,726	5%	-3%	1,640	1%	-2%
Export/Import	8,644	3%	98%	548	2%	-	1,284	0%	11%	4,035	2%	16%
Transport, storage and communication	26,260	10%	-56%	593	3%	-8%	2,914	0%	-2%	9,164	3%	6%
Financial Institutions	1,842	1%	-30%	815	4%	-26%	10,307	2%	37%	143,263	54%	227%
Individuals	13,851	5%	-5%	3,188	14%	-6%	351,397	56%	15%	43	0%	57%
Others	63,980	24%	4%	9,027	39%	6%	116,440	18%	-9%	54,186	20%	1%
Total	268,192	100%	2%	23,268	100%	-9%	632,330	100%	16%	265,428	100%	85%

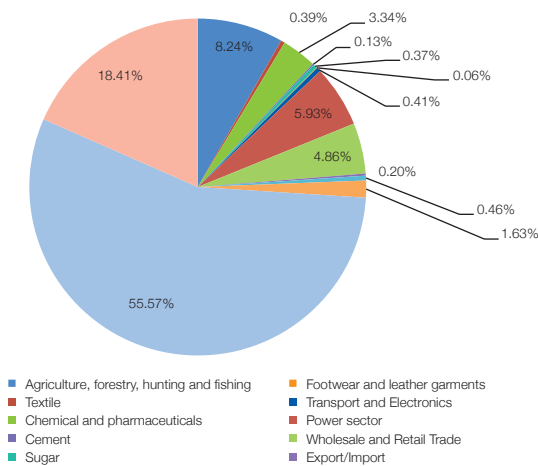
Advances (Gross)



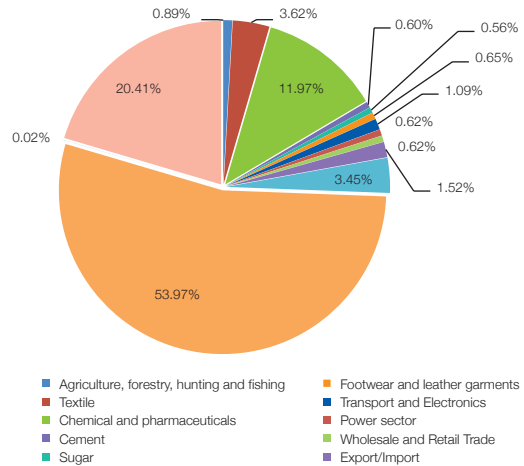
Classified Advances



Deposits



Off balance sheet items



Maturities of Assets & Liabilities

(Rs. in Millions)

	Total	Upto 3M	3M to 1Y	1Y to 3Y	3Y to 5Y	5Y & above
Assets						
Cash and balances with treasury banks	59,946	59,946	-	-	-	-
Balances with other banks	1,537	1,537	-	-	-	-
Lendings to financial institutions	1,225	1,225	-	-	-	-
Investments - net	449,006	314,337	24,984	66,071	26,770	16,844
Advances - net	248,243	89,421	30,652	77,513	36,780	13,877
Operating fixed assets	28,595	450	1,351	3,603	3,603	19,587
Deferred tax assets	353	20	81	251	-	-
Other assets - net	26,956	15,872	4,386	-	6,699	-
	815,861	482,809	61,454	147,439	73,852	50,308
Liabilities						
Bills payable	10,139	10,139	-	-	-	-
Borrowings	38,543	29,318	6,866	2,359	-	-
Deposits and other accounts	632,330	104,600	49,699	286,585	143,637	47,809
Deferred tax liabilities	4,554	50	123	714	2,285	1,382
Other liabilities	20,064	8,950	6,733	3,348	272	761
	705,630	153,057	63,421	293,006	146,194	49,952

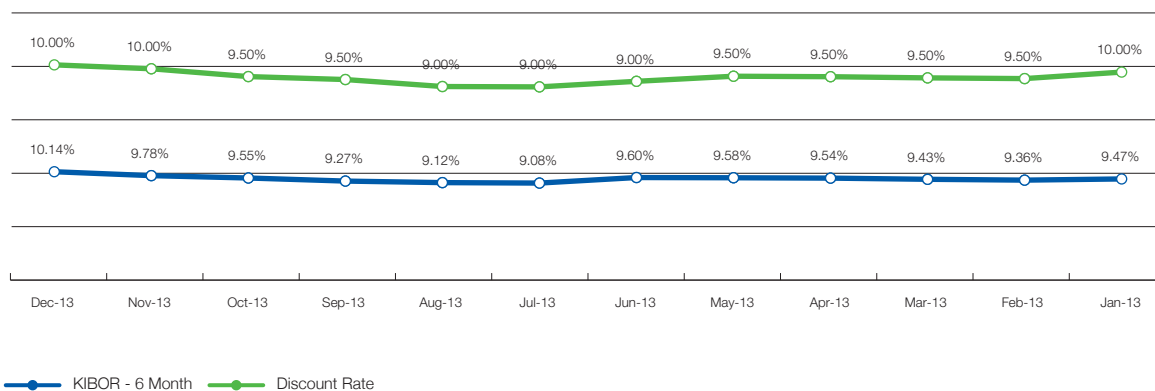
*Maturities of deposits are based on working prepared by the Assets and Liabilities Committee of the Bank.

Key Interest Bearing Assets and Liabilities

	2013			2012		
	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)
Interest Earning Assets						
Lendings to Financial Institutions	8,592	8.68	746	2,777	10.1	280
Gross Advances (excluding NPLs)	229,192	10.90	24,990	227,210	12.7	28,811
Gross Investments (excluding equity investments)	396,573	9.89	39,233	335,753	11.6	39,034
Interest Bearing Liabilities						
Deposits (excluding current deposits)	376,239	6.26	23,561	341,105	6.8	23,043
Borrowings	33,656	8.36	2,813	39,353	9.6	3,782

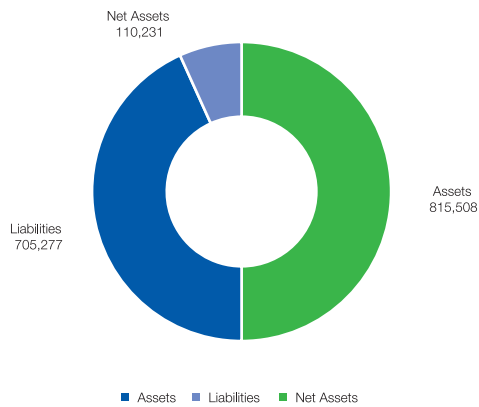
Spread

Discount Rate & KIBOR - 6 months

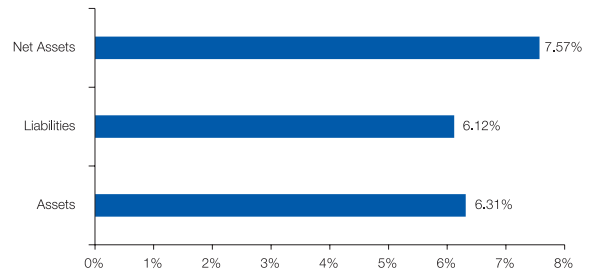


Graphical Presentation of Financial Statements

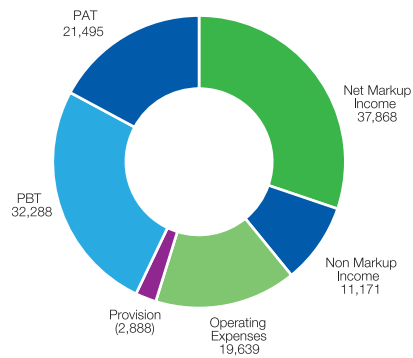
Statement of Financial Position
(Rs. in Million)



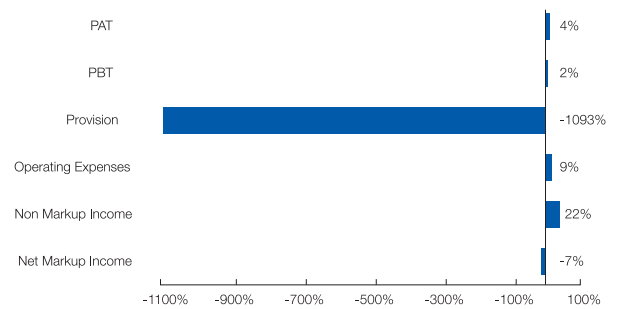
Variance from YE 12



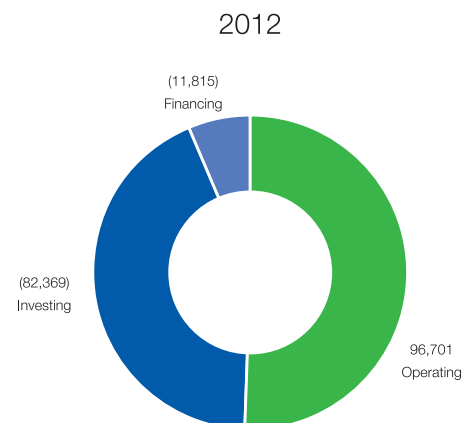
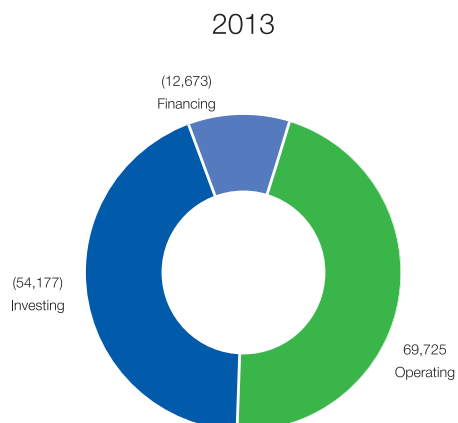
Profit and Loss
(Rs. in Million)



Variance from YE 12



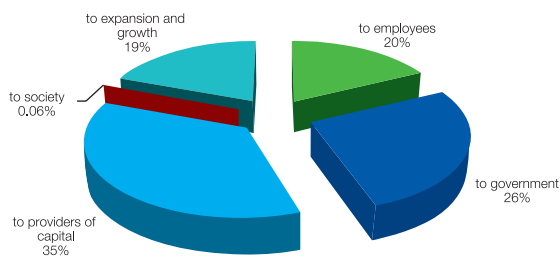
Cash Flows
(Rs. in Million)



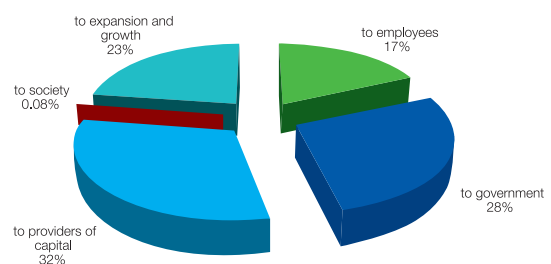
Statement of Value Added

	2013		2012	
	PKR Mln	%	PKR Mln	%
Value Added				
Net interest income	37,868		40,856	
Non interest income	11,171		9,153	
Operating expenses excluding staff costs, depreciation, amortization and WWF	(8,582)		(8,751)	
Provision against advances, investments & others	2,888		(291)	
Value added available for distribution	43,345		40,968	
Distribution of value added:				
To employees				
Remuneration, provident fund and other benefits	10,286	23.73%	8,948	21.84%
Pension fund reversal	(1,701)	-3.93%	(1,933)	-4.72%
	8,584	19.80%	7,015	17.12%
To government				
Worker welfare fund	646	1.49%	641	1.56%
Income tax	10,793	24.90%	10,969	26.77%
	11,439	26.39%	11,610	28.34%
To providers of capital				
Cash dividends to shareholders	14,166	32.68%	11,959	29.19%
Bonus shares	1,012	2.33%	920	2.25%
	15,178	35.02%	12,878	31.44%
To Society				
Donations	25	0.06%	31	0.08%
To expansion and growth				
Depreciation	1,541	3.56%	1,379	3.37%
Amortization	260	0.60%	260	0.63%
Retained earnings	6,318	14.58%	7,795	19.03%
	8,120	18.73%	9,433	23.03%
	43,345	100%	40,968	100%

2013



2012



Summary of Cashflows

	(Rs. in Millions)					
	2013	2012	2011	2010	2009	2008
Cash flows from operating activities	69,725	96,701	124,460	58,701	78,148	2,032
Cash flows from investing activities	(54,177)	(82,369)	(105,805)	(48,123)	(70,369)	8,234
Cash flows from financing activities	(12,673)	(11,815)	(9,785)	(8,568)	(6,736)	(10,313)
Cash and cash equivalents at beginning of the year	57,783	55,293	46,886	44,785	43,674	43,491
Cash and cash equivalents at end of the year	60,857	57,783	55,293	46,886	44,785	43,674

Commentary on Cash Flow Statement:

Operating Activities

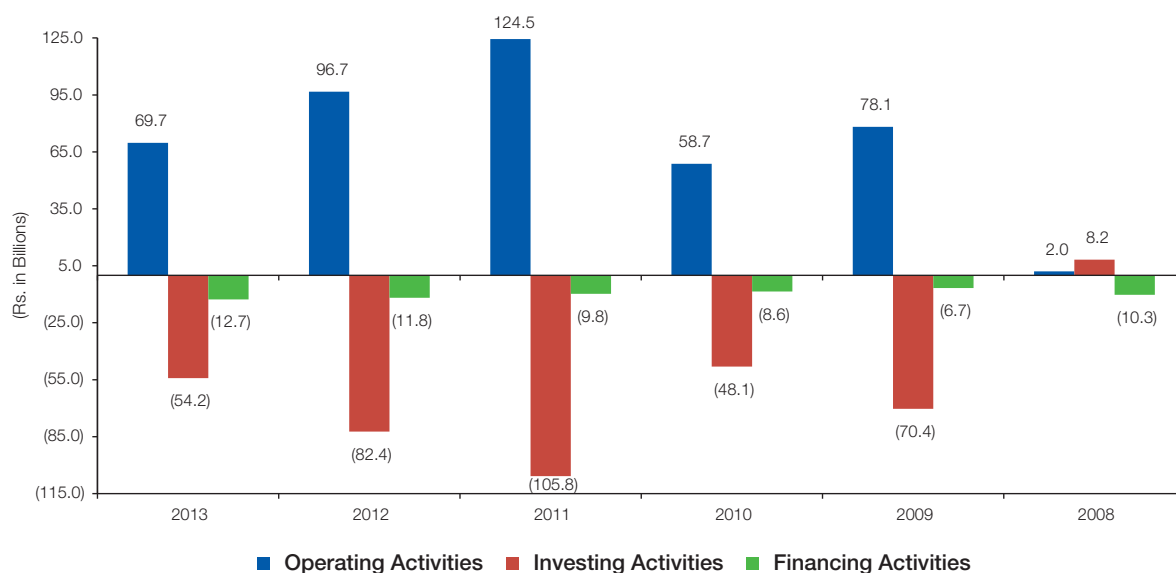
From an operational perspective, the cash flow activities present a different layout for the respective year. Net cash outflow from operating activities in 2013 is Rs.69.7 billion growing from Rs. 2.0 billion in 2008. Operational cashflow of 2011 depicts an inflow of Rs. 124.4 billion, primarily on account of recoveries recorded in advances and significant build-up of Rs. 59.8 billion in deposits. Inflows observed in operating activities were observed mainly due to increase in deposit base of the bank during past 6 years as advances have shown steady growth over 6 years.

Investing Activities

Total cash outflow from investing activities was at the highest level in 2011 amounting to Rs. 106 billion. Cash outflow in investing activities can be observed over years primarily on account of increased concentration levels of investment base.

Financing Activities

Cash outflow from financing activities was primarily by way of dividends to shareholders over the years. MCB has the history of paying higher return to its shareholders. Approximately Rs. 60 billion has been paid to shareholders over 6 years span.



Cash Flow Statement

Direct Method

(Rs. in Millions)

	2013	2012 Restated
Cash flows from operating activities		
Mark-up / return / interest and commission receipts	74,661	75,486
Mark-up / return / interest payments	(32,879)	(26,905)
Payments to employees, suppliers and others	(19,859)	(18,121)
	21,923	30,459
(Increase) / decrease in operating assets		
Lendings to financial institutions	327	(596)
Advances - net	(5,831)	(12,888)
Other assets	(2,169)	(1,314)
	(7,673)	(14,798)
Increase / (decrease) in operating liabilities		
Bills payable	242	429
Borrowings	(40,205)	39,132
Deposits and other accounts	87,270	53,872
Other liabilities	3,797	2,229
	51,103	95,662
	65,353	111,323
Receipt from pension fund	14,732	-
Income tax paid	(10,358)	(14,622)
Net cash flows from operating activities	69,726	96,701
Cash flows from investing activities		
Net investments in 'available for sale' securities	(51,033)	(81,386)
Net investments in 'held to maturity' securities	406	1,260
Investment in subsidiary company	-	(94)
Dividends received	941	1,198
Investments in operating fixed assets	(4,663)	(3,405)
Sale proceeds of property and equipment disposed off	173	58
Net cash flows from investing activities	(54,177)	(82,369)
Cash flows from financing activities		
Dividend paid	(12,673)	(11,815)
Net cash flows from financing activities	(12,673)	(11,815)
Exchange differences on translation of the net investment in foreign branches	198	(27)
Increase in cash and cash equivalents	3,074	2,490
Cash and cash equivalents at beginning of the year	57,174	54,728
Effects of exchange rate changes on cash and cash equivalents	610	565
	57,783	55,293
Cash and cash equivalents at end of the year	60,857	57,783

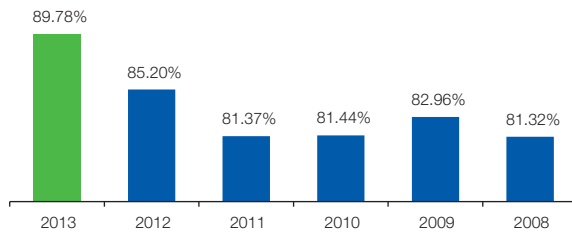
Cash flow statement in annual financial statements is required to prepare in line with the format prescribed by State Bank of Pakistan under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements',.

Deposits & Advances

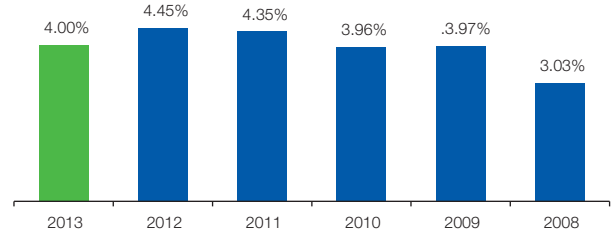
(Rs. in Billion)

	Groupwise Deposits				Groupwise Advances			
	2013	2012	Variance		2013	2012	Variance	
			Amount	%			Amount	%
Commercial	576	508	68	13%	70	59	11	19%
Corporate	31	15	15	99%	155	162	-7	-4%
Consumer	6	6	1	15%	11	12	-1	-11%
Islamic	11	10	2	16%	11	10	1	13%
Others	8	6	2	26%	21	19	2	9%
Total	632	545	87	16%	268	262	6	2%

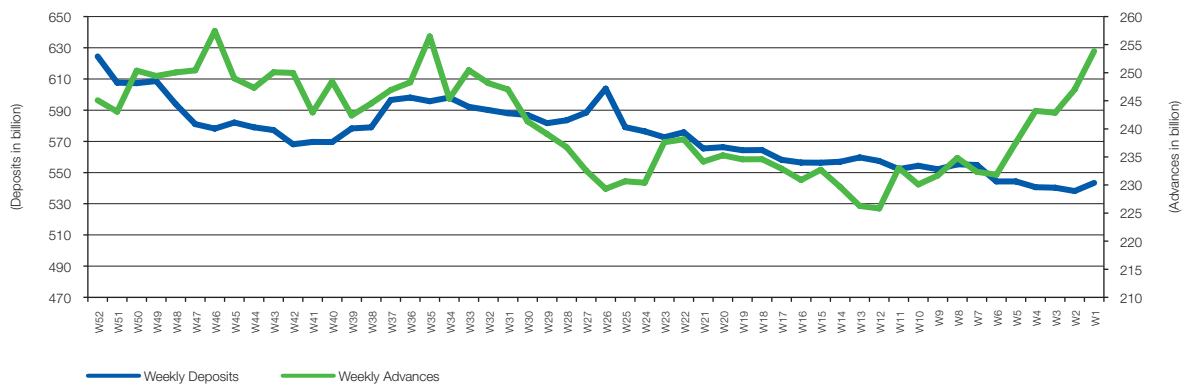
CASA to Total Deposit (2008-2013)
%



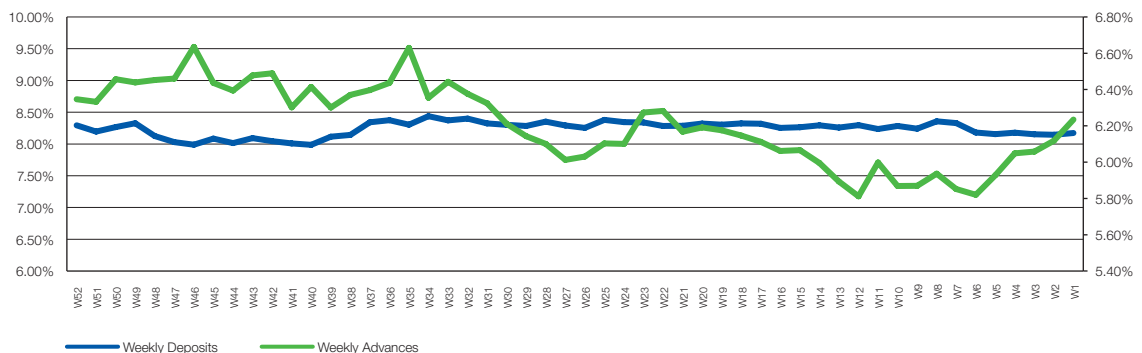
Weighted Average Cost of Deposits (2008-2013)
%



Weekly Trend of MCB Deposits and Advances - 2013



MCB's Industry share in Deposits and Advances - 2013

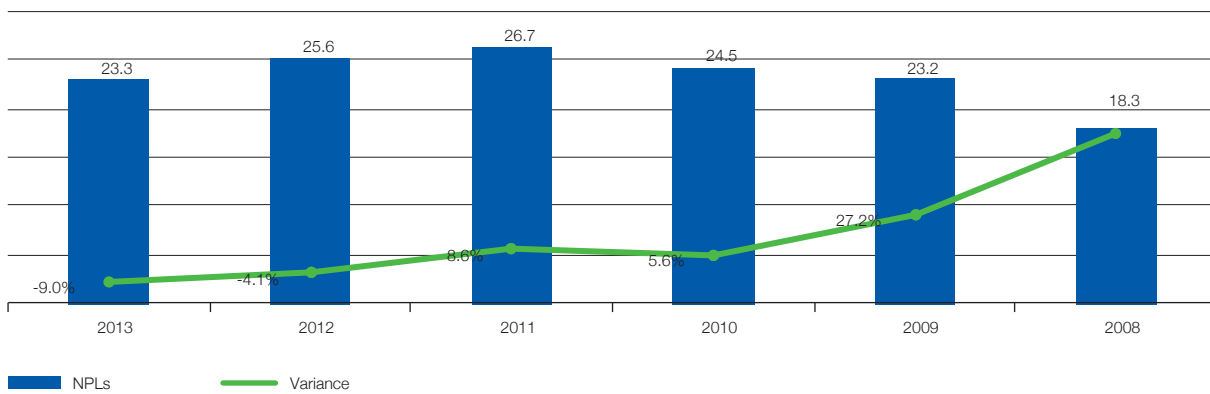


Non-Performing Loans

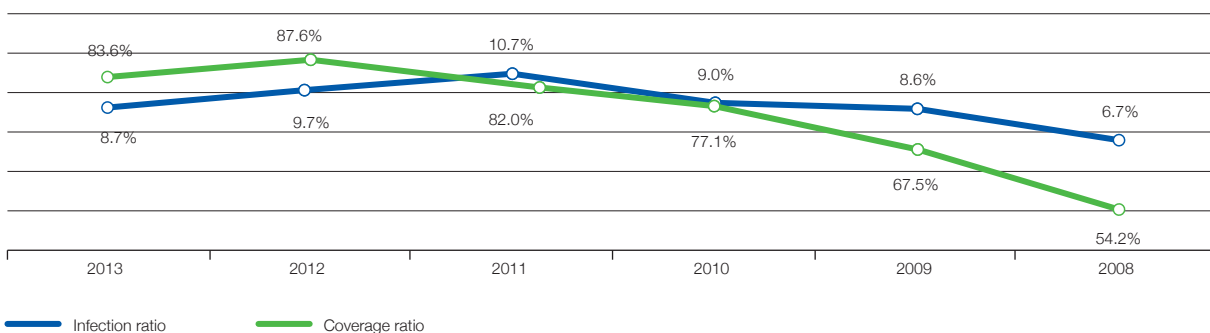
(Rs. in Millions)

	2013		2012		Variance		2013 Coverage
	NPLs	Provision	NPLs	Provision	NPLs	Provision	
Categorywise							
Substandard	255	56	286	36	-11%	56%	22%
Doubtful	1,453	406	850	424	71%	-4%	28%
Loss	21,560	18,988	24,426	21,920	-11.7%	-13%	88%
Total	23,268	19,450	25,562	22,380	-9%	-13%	84%
Groupwise							
Commercial Banking	3,704	3,569	5,098	4,896	-27%	-27%	96%
Consumer Banking	2,326	2,263	2,883	2,759	-19%	-18%	97%
Corporate Banking	3,952	2,925	5,388	4,963	-27%	-41%	74%
SAMG	8,252	8,193	7,590	7,554	9%	8%	99%
Islamic	8	2	2	0	410%	1545%	25%
Overseas	5,026	2,498	4,601	2,208	9%	13%	50%
Total	23,268	19,450	25,562	22,380	-9%	-13%	84%

NPLs and Variance (2008-2013)



Infection and Coverage Ratios (2008-2013)



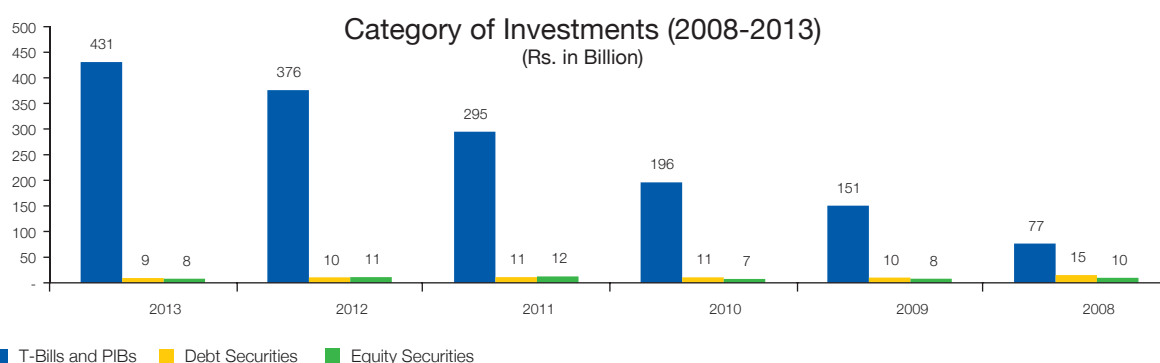
INVESTMENTS

Top 10 Listed Equity Holdings as on December 31, 2013

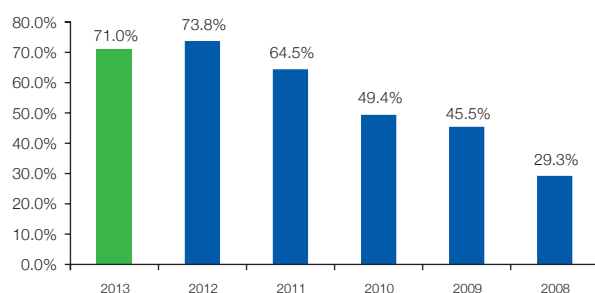
Company Name	Total Shares / units (number)	Book Value (Rs. Mln)	Market Value (Rs. Mln)
Sui Northern Gas Pipelines Limited	55,126,789	2,205.25	1,174.20
Fauji Fertilizer Company Limited	10,032,000	738.91	1,123.18
Allied Bank Limited	8,830,421	547.66	794.74
Pakistan Oilfields Limited	1,190,045	509.43	592.30
United Bank Limited	4,544,340	445.09	602.35
Pakistan Petroleum Limited	2,135,918	432.01	457.00
Attock Petroleum	990,426	387.52	494.91
National Bank of Pakistan	7,385,000	378.33	428.77
Bank Al-Habib	12,851,435	355.24	533.98
Kot Addu Power Company	5,955,500	349.78	367.75

Investment in Associates and Subsidiaries

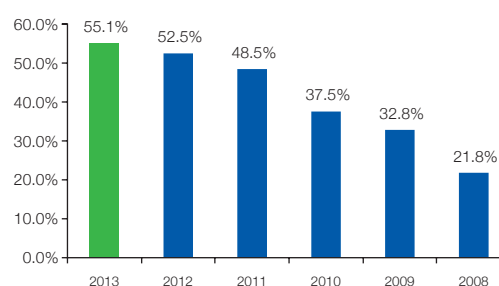
Company Name	Holding	Total Shares (numbers)	Book Value (Rs. Mln)
Associates			
Adamjee Insurance Company Limited	29.13%	101,950,924	943.60
First Women Bank Limited	15.46%	23,095,324	63.30
Euronet Pakistan (Pvt.) Limited	30.00%	52,521	52.52
Subsidiaries			
MCB - Arif Habib Savings & Investments Limited	51.33%	36,956,768	320.12
MNET Services Limited	99.95%	4,997,500	49.98
MCB Financial Services Limited	99.999%	2,750,000	27.50
MCB Trade Services Limited	100.00%	10,000	0.08
MCB Leasing Closed Joint Company Limited	95.00%	1,585,400	178.83



Investments to Deposits Ratio



Investments to Total Assets Ratio

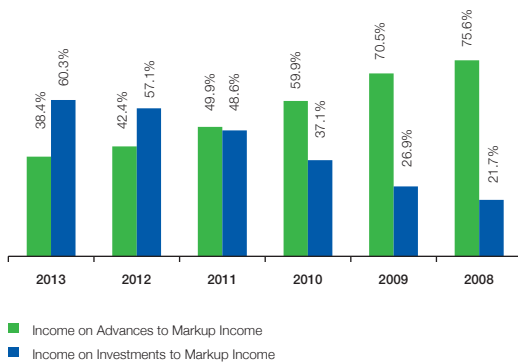


Markup and Non Markup Income

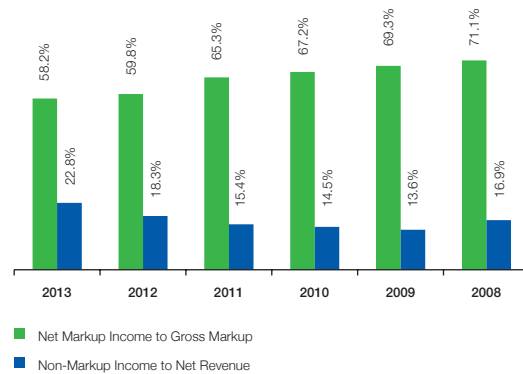
(Rs. in Millions)

	2013	2012	2011	2010	2009	2008
Markup Income						
Loans and advances	24,990	29,002	33,985	32,816	36,413	30,260
Investments	39,233	39,034	33,120	20,320	13,894	8,690
Deposits with financial institutions	95	40	12	16	133	110
Securities purchased under resale agreements	732	257	958	1,564	838	582
Money at call	14	23	72	105	336	402
	65,064	68,356	68,146	54,821	51,615	40,044
Markup Expense						
Deposits	23,561	23,043	20,083	15,806	13,867	9,427
Securities under repurchase agreements	1,706	2,628	1,575	623	723	945
Other short-term borrowings	1,108	1,154	1,211	902	775	520
Discount, Commission and brokerage	534	512	662	554	449	443
Others	288	164	89	103	24	226
	27,196	27,500	23,620	17,988	15,837	11,560
Net Markup Income	37,868	40,856	44,526	36,833	35,777	28,484
	2013	2012	2011	2010	2009	2008
Non Markup Income						
Fee, Commission & Brokerage Income	6,741	5,934	4,921	4,130	3,332	2,953
Dividend Income	933	1,198	1,003	544	460	618
Income from dealing in foreign currency	917	823	921	632	341	728
Gain on sale of securities	2,130	825	736	412	774	637
Other Income	450	374	531	548	736	856
	11,171	9,153	8,112	6,266	5,643	5,792

Markup Income from Advances and Investments (2008 - 2013)



Income Composition (2008 - 2013)

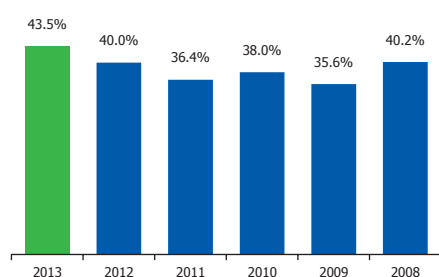


Administrative Expenses

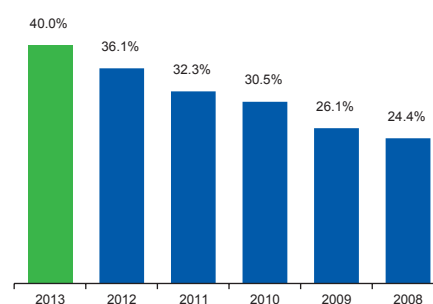
(Rs. in Millions)

	2013	2012	2011	2010	2009	2008
Personnel expenses						
Salaries and allowances	9,698	8,434	8,307	7,218	6,471	6,696
Contributions to defined contribution plan - provident fund	198	188	177	159	149	135
Post retirement medical benefits	188	187	170	136	130	99
Employees' contributory benevolent scheme	55	40	51	71	65	48
Employees' compensated absences	147	98	181	191	151	(76)
	10,286	8,948	8,886	7,775	6,966	6,903
Others Administrative expenses						
Rent, taxes, insurance, electricity	2,555	1,965	1,695	1,569	1,356	1,040
Legal and professional charges	272	177	187	222	240	202
Communications	862	932	936	842	995	844
Repairs and maintenance	1,103	1,208	949	681	534	506
Stationery and printing	503	402	385	363	330	327
Advertisement and publicity	119	393	427	232	215	197
Auditors' remuneration	32	21	25	15	15	16
Depreciation	1,541	1,379	1,115	1,012	909	815
Amortization of intangible asset	260	260	250	160	153	142
Travelling, conveyance and fuel	214	745	728	684	589	619
Entertainment	118	110	102	69	74	100
Training Expenses	41	30	46	58	47	96
Petty Capital items	33	35	56	64	49	103
Credit Card Related Expenses	238	147	129	129	58	64
Non-executive directors' fees	32	33	36	32	10	4
Cash transportation charges	482	461	450	403	516	399
Instrument clearing charges	125	187	198	166	137	113
Subscription	20	18	28	26	14	24
Donations	25	31	84	15	25	-
Others	1,551	1,926	1,063	877	799	431
Total other administrative expenses	10,126	10,462	8,888	7,619	7,069	6,043
Administrative expenses - without PF reversal	20,411	19,410	17,774	15,394	14,035	12,946
Pension fund reversal	(1,701)	(1,933)	(2,189)	(3,220)	(3,923)	(5,399)
Total Administrative expenses	18,710	17,477	15,585	12,174	10,111	7,547

Cost to Income Ratio
(excluding pension fund reversal)



Cost to Income Ratio



Six Years' Vertical Analysis

Statement of Financial Position / Profit & Loss

	2013		2012		2011		2010		2009		2008	
	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	59,946	7%	57,420	8%	53,123	8%	45,407	8%	38,775	8%	39,631	9%
Balances with other banks	1,537	0.2%	1,192	0.2%	2,281	0.4%	1,479	0.3%	6,010	1%	4,043	1%
Lendings to financial institutions	1,225	0.2%	1,551	0.2%	955	0.2%	4,402	1%	3,000	1%	4,100	1%
Investments	449,006	55%	402,069	52%	316,652	48%	213,061	38%	167,134	33%	96,632	22%
Advances	248,243	30%	239,583	31%	227,580	35%	254,552	45%	253,249	50%	262,135	59%
Operating fixed assets	28,595	4%	23,738	3%	22,008	3%	20,948	4%	18,015	4%	17,264	4%
Other assets	26,956	3%	41,520	5%	31,184	5%	27,706	5%	23,040	5%	19,810	4%
	815,508	100%	767,075	100%	653,782	100%	567,553	100%	509,224	100%	443,616	100%
Liabilities												
Bills payable	10,139	1%	9,896	1%	9,467	1%	10,266	2%	8,201	2%	10,551	2%
Borrowings	38,543	5%	78,951	10%	39,101	6%	25,685	5%	44,662	9%	22,664	5%
Deposits	632,330	78%	545,061	71%	491,189	75%	431,372	76%	367,605	72%	330,182	74%
Deferred tax liabilities	4,201	1%	9,530	1%	6,488	1%	4,934	1%	3,197	1%	437	0.1%
Other liabilities	20,064	2%	21,166	3%	18,378	3%	16,092	3%	15,819	3%	21,346	5%
	705,277	87%	664,604	86%	564,622	86%	488,349	86%	439,484	86%	385,180	87%
Net Assets	110,231	14%	102,471	13%	89,160	14%	79,204	14%	69,740	14%	58,436	13%
Represented by												
Share capital	10,118	1%	9,199	1%	8,362	1%	7,602	1%	6,911	1%	6,283	1%
Reserves	46,601	6%	44,253	6%	42,186	6%	40,163	7%	38,386	8%	36,769	8%
Unappropriated profit	40,552	5%	35,425	4%	28,724	5%	21,416	4%	15,779	3%	9,193	2%
Surplus on revaluation of assets - net of tax	12,959	2%	13,594	2%	9,887	2%	10,024	2%	8,664	2%	6,191	1%
	110,231	14%	102,471	13%	89,160	14%	79,204	14%	69,740	14%	58,436	13%
Profit & Loss Account												
Mark-up earned	65,064	85%	68,356	88%	68,147	89%	54,821	90%	51,616	90%	40,044	87%
Mark-up expensed	(27,196)	-36%	(27,500)	-35%	(23,620)	-31%	(17,988)	-29%	(15,837)	-28%	(11,561)	-25%
Net mark-up income	37,868	50%	40,856	53%	44,526	58%	36,834	60%	35,779	62%	28,483	62%
Provisions & write off	2,888	4%	(291)	-0%	(4,168)	-5%	(3,685)	-6%	(7,465)	-13%	(4,042)	-9%
Net mark-up income after provisions	40,756	53%	40,565	52%	40,358	53%	33,148	54%	28,314	49%	24,441	53%
Non-mark-up income	11,171	15%	9,153	12%	8,112	11%	6,265	10%	5,643	10%	5,791	13%
Non-mark-up expenses	(19,639)	-26%	(18,077)	-23%	(16,987)	-22%	(13,160)	-22%	(10,801)	-19%	(8,365)	-18%
Profit before taxation	32,288	42%	31,642	41%	31,483	41%	26,253	43%	23,155	40%	21,868	48%
Taxation	(10,793)	-14%	(10,969)	-14%	(12,058)	-16%	(9,380)	-15%	(7,660)	-13%	(6,493)	-14%
Profit after taxation	21,495	28%	20,673	27%	19,425	25%	16,873	28%	15,495	27%	15,375	34%

Six Years' Horizontal Analysis

Statement of Financial Position / Profit & Loss

	2013	13 Vs 12	2012	12 Vs 11	2011	11 Vs 10	2010	10 Vs 09	2009	09 Vs 08	2008	08 Vs 07
	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%	Rs. Mln	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	59,946	4%	57,420	8%	53,123	17%	45,407	17%	38,775	-2%	39,631	-0.1%
Balances with other banks	1,537	29%	1,192	-48%	2,281	54%	1,479	-75%	6,010	49%	4,043	6%
Lendings to financial institutions	1,225	-21%	1,551	62%	955	-78%	4,402	47%	3,000	-27%	4,100	290%
Investments	449,006	12%	402,069	27%	316,652	49%	213,061	27%	167,134	73%	96,632	-15%
Advances	248,243	4%	239,583	5%	227,580	-11%	254,552	1%	253,249	-3%	262,135	20%
Operating fixed assets	28,595	20%	23,738	8%	22,008	5%	20,948	16%	18,015	4%	17,264	8%
Other assets	26,956	-35%	41,520	33%	31,184	13%	27,706	20%	23,040	16%	19,810	11%
	<u>815,508</u>	<u>6%</u>	<u>767,075</u>	<u>17%</u>	<u>653,782</u>	<u>15%</u>	<u>567,553</u>	<u>11%</u>	<u>509,224</u>	<u>15%</u>	<u>443,616</u>	<u>8%</u>
Liabilities												
Bills payable	10,139	2%	9,896	5%	9,467	-8%	10,266	25%	8,201	-22%	10,551	1%
Borrowings	38,543	-51%	78,951	102%	39,101	52%	25,685	-42%	44,662	97%	22,664	-42%
Deposits	632,330	16%	545,061	11%	491,189	14%	431,372	17%	367,605	11%	330,182	13%
Deferred tax liabilities	4,201	-56%	9,530	47%	6,488	31%	4,934	54%	3,197	631%	437	-63%
Other liabilities	20,064	-5%	21,166	15%	18,378	14%	16,092	2%	15,819	-26%	21,346	82%
	<u>705,277</u>	<u>6%</u>	<u>664,604</u>	<u>18%</u>	<u>564,622</u>	<u>16%</u>	<u>488,349</u>	<u>11%</u>	<u>439,484</u>	<u>14%</u>	<u>385,180</u>	<u>8%</u>
Net Assets	<u>110,231</u>	<u>8%</u>	<u>102,471</u>	<u>15%</u>	<u>89,160</u>	<u>13%</u>	<u>79,204</u>	<u>14%</u>	<u>69,740</u>	<u>19%</u>	<u>58,436</u>	<u>6%</u>
Represented by												
Share capital	10,118	10%	9,199	10%	8,362	10%	7,602	10%	6,911	10%	6,283	0%
Reserves	46,601	5%	44,253	5%	42,186	5%	40,163	5%	38,386	4%	36,769	8%
Unappropriated profit	40,552	14%	35,425	23%	28,724	34%	21,416	36%	15,779	72%	9,193	79%
Surplus on revaluation of assets - net of tax	12,959	-5%	13,594	37%	9,887	-1%	10,024	16%	8,664	40%	6,191	-36%
	<u>110,231</u>	<u>8%</u>	<u>102,471</u>	<u>15%</u>	<u>89,160</u>	<u>13%</u>	<u>79,204</u>	<u>14%</u>	<u>69,740</u>	<u>19%</u>	<u>58,436</u>	<u>6%</u>
Profit & Loss Account												
Mark-up earned	65,064	-5%	68,356	0%	68,147	24%	54,821	6%	51,616	29%	40,044	26%
Mark-up expensed	(27,196)	-1%	(27,500)	16%	(23,620)	31%	(17,988)	14%	(15,837)	37%	(11,561)	47%
Net mark-up income	37,868	-7%	40,856	-8%	44,526	21%	36,834	3%	35,779	26%	28,483	19%
Provisions & write off	2,888	-1093%	(291)	-93%	(4,168)	13%	(3,685)	-51%	(7,465)	85%	(4,042)	32%
Net mark-up income after provisions	40,756	0%	40,565	1%	40,358	22%	33,149	17%	28,314	16%	24,441	17%
Non-mark-up income	11,171	22%	9,153	13%	8,112	29%	6,265	11%	5,643	-3%	5,791	-10%
Non-mark-up expenses	(19,639)	9%	(18,077)	6%	(16,987)	29%	(13,160)	22%	(10,801)	29%	(8,365)	39%
Profit before taxation	32,288	2%	31,642	1%	31,483	20%	26,254	13%	23,155	6%	21,868	3%
Taxation	(10,793)	-2%	(10,969)	-9%	(12,058)	29%	(9,380)	22%	(7,660)	18%	(6,493)	7%
Profit after taxation	<u>21,495</u>	<u>4%</u>	<u>20,673</u>	<u>6%</u>	<u>19,425</u>	<u>15%</u>	<u>16,873</u>	<u>9%</u>	<u>15,495</u>	<u>1%</u>	<u>15,375</u>	<u>1%</u>

Commentary on Horizontal and Vertical Analysis:

Horizontal Analysis

Asset base of the bank has increased considerably over the past 6 years; highest increase was observed in 2012 where assets have increased by 17%, mainly contributed by investments in terms of volume. On an annualized basis, the asset base has recorded an increase of 13% over the last six years with major contributions coming from investments. Highest increase in investments was posted in 2009 summing up to 73%, followed by 49% increase reported for 2011.

The deposit base of the Bank has increased considerably over the years growing from Rs. 330 billion in 2008 to Rs. 632 billion in 2013 translating into an annual growth of 14% over past 6 years. Equity of the bank has also posted healthy increase due to higher profitability in past 6 years, translating into 14% average growth over 6 year period.

Moving on to Profit and Loss side, gross markup earned has posted an average increase of 10% over a span of six years. Corresponding to the shift in asset mix, contribution from income on investments has increased over years. The increase in markup expense on deposits is on account of regulatory revisions enacted by the Central Bank and increased deposit base. In 2008, minimum deposit rate (MDR) was set at 5% by the Central Bank. In 2012, the MDR was revised to 6% on all local currency saving and fixed deposit products. In 2013, two regulatory revisions were enacted; computation of interest on average balance basis and pegging of MDR with the floor rate of the repo corridor.

Non Markup income have shown steady growth of 14% average over 6 years while PBT and PAT have shown 8% and 7% average growth in past 6 years. Non markup expense has shown 19% average growth over past 6 years which is in-line with the operational growth and inflationary surge over the past few years. Provision against advances and investments has been on the decreasing trend with reversal to the tune of Rs. 2.8 billion recorded for 2013.

Vertical Analysis

Vertical analysis highlight over the last six years signifies higher concentration levels of investments and advances in the asset base of the Bank. The advances base of the Bank has posted moderate growth over the last few years due to the lack of credit opportunities and intense competition impacting earning potential. Resultantly, the significant increase in deposit base has been invested in T-Bills and PIBs over years with a substantial increase in the concentration levels from 22% in 2008 to 55% in 2013.

Corresponding to the infrastructural and operational growth registered by the Bank, the deposit base has increased considerably over the period of six years. Improved quality service levels and tailored products has earned the loyalty of our customers. The fact can be substantiated with the fact that the CASA base of the bank has been above 80% over the last many years.

Markup income growth has been steady over the last 6 years. On an average, the contribution from markup income approximates 88% of the total revenue. Markup expense has increased over the last 6 years, based on regulatory revisions enacted over the period and growth registered in the deposit base. Non markup income has a steady concentration of almost 12% of gross revenue.

MCB Calendar

Incorporation	1947
Nationalisation	1974
Investment in First Women Bank	1989
Privatisation	1991
Incorporation of MCB Financial Services Limited	1992
Incorporation of MNET Services (Private) Limited	2001
Investment in Adamjee Insurance Company Limited	2004
Incorporation of MCB Trade Services Limited	2005
Incorporation of MCB Asset Management Company Limited	2005
Change of name from Muslim Commercial Bank Limited	2005
Issuance and Listing of Global Depository Receipts on London Stock Exchange	2006
Strategic acquisition by Maybank	2008
Incorporation of MCB Leasing Closed Joint Stock Company	2009
Investment in Euronet Pakistan (Private) Limited	2011
Amalgamation of MCB Asset Management Company with Arif Habib Investment Limited	2011

Financial Calendar

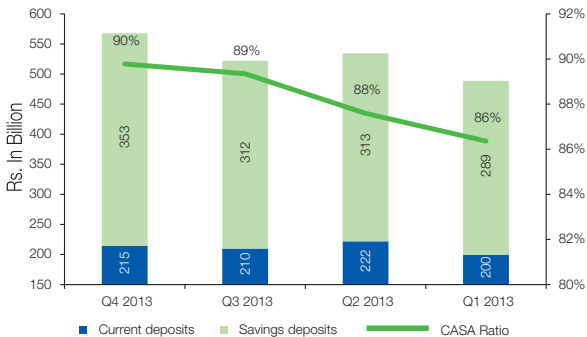
2013	
1st Quarter Results issued on	April 29, 2013
2nd Quarter Results issued on	August 16, 2013
3rd Quarter Results issued on	October 24, 2013
Annual Results issued on	February 11, 2014
66th Annual General Meeting	March 27, 2014
2012	
1st Quarter Results issued on	April 24, 2012
2nd Quarter Results issued on	August 7, 2012
3rd Quarter Results issued on	October 17, 2012
Annual Results issued on	February 7, 2013
65th Annual General Meeting	March 26, 2013
2011	
1st Quarter Results issued on	April 26, 2011
2nd Quarter Results issued on	July 26, 2011
3rd Quarter Results issued on	October 25, 2011
Annual Results issued on	February 21, 2012
64th Annual General Meeting	March 27, 2012
2010	
1st Quarter Results issued on	April 21, 2010
2nd Quarter Results issued on	August 05, 2010
3rd Quarter Results issued on	October 26, 2010
Annual Results issued on	February 10, 2011
63rd Annual General Meeting	March 31, 2011
2009	
1st Quarter Results issued on	April 23, 2009
2nd Quarter Results issued on	August 08, 2009
3rd Quarter Results issued on	October 23, 2009
Annual Results issued on	February 25, 2010
62nd Annual General Meeting	March 26, 2010
2008	
1st Quarter Results issued on	April 25, 2008
2nd Quarter Results issued on	August 22, 2008
3rd Quarter Results issued on	October 24, 2008
Annual Results issued on	February 16, 2009
61st Annual General Meeting	March 27, 2009

Quarterly Variance Analysis - 2013

Statement of Financial Position

The statement of financial positions analysis highlights that MCB has been gradually increasing the asset base over the financial year 2013 with robust increase posted in the fourth quarter. The last quarter recorded a growth of Rs. 69 billion which was primarily contributed by investments to the tune of Rs. 44 billion with advances contributing Rs. 24 billion to the said increase.

During the 2nd quarter of 2013, the bank crossed the land mark deposit base of Rs. 600 billion. During the financial year 2013, the Bank continued with its strategy of shifting its base to low cost current and saving accounts, each growing by 13% and 28% respectively over December 31, 2012 and taking the total CASA base to an all-time high of 90%. Strategic decrease in term deposit base can be marked over the quarterly intervals converging with the declining interest rate scenario. The overall decrease in term deposit sums upto 20% for the year 2013 when compared with December 2012. The Bank reported constant improvement in its CASA base in each quarter, ensuring that the negative impact of interest rate volatility is minimized. An extravagant growth in CASA base was observed in 2nd quarter and 4th quarter with Rs. 46 billion and 45 billion added respectively for the said quarters.



Equity of the bank has also increased averaging out Rs. 2 billion in each quarter.

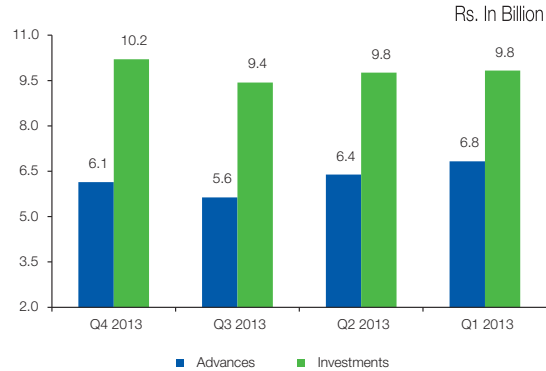
Profit & Loss Account

In terms of profitability, the Bank reported highest quarterly profit before tax in excess of Rs. 9 billion for the 2nd quarter of 2013 in its history.

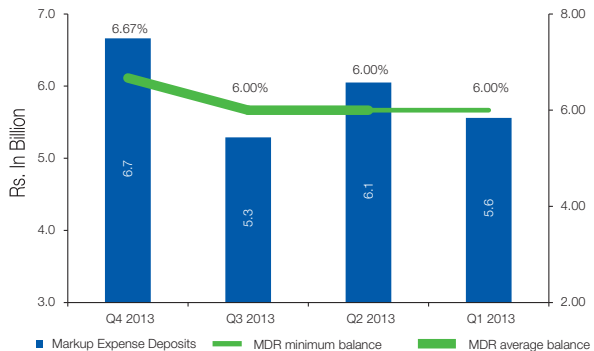
The substantial reversal in provision charge is reflective of the prudent and aggressive provision strategy adopted and rigorous efforts put in by the recovery units. In all quarters substantial recovery efforts were put in place and massive recovery of approximately 2.8B has been made out of which 830 million was made in Q1.

On markup Income side, the volatility in interest rate environment had its effect on quarterly earnings with MCB earning the highest markup income in 1st quarter of 2013 as compared to subsequent quarters. Interest income

on advances was Rs. 6.8 billion in the first quarter with a decreasing trend observed in the 2nd and 3rd quarters with increase recorded in the last quarter.



On the interest expense on deposit side, the year saw some regulatory revisions in terms of revision in interest calculation formula and pegging of minimum deposit rate (MDR) with the floor of SBP repo corridor. These revisions resulted in compression in net interest margins earned by the Banks which was off-set by strategic decrease of high cost deposits. Corresponding to the revisions in the monetary policy rate, the MDR has been revised to 6.5% for the months of October and November, 2013 and to 7% for the month of December 2013.



Non Markup Income was the highest in 2nd quarter due to capital gain on sale of shares of Unilever holding. The Bank was able to increase its fee, commission and brokerage block by 14% with major contributions coming commission income earned on bancassurance, home remittances and card related business.

The administrative expense base of the Bank depicted a controlled increase despite the surge in inflationary pressures recorded in the later part of the financial year. The increase in administrative expenses block reported in the last quarter of 2013 is primarily on account of the Voluntary Separation Scheme offered to the clerical/non-clerical staff. The cumulative charge on account of VSS sums to Rs. 1.058 billion other than charge recorded in respective employee retirement benefits.

Quarterly Performance - 2012 & 2013

Rs. In Million

	2013				2012			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Profit & Loss Account								
Mark-up earned	16,593	15,496	16,260	16,715	16,453	17,411	16,947	17,545
Mark-up expensed	(7,216)	(5,814)	(7,173)	(6,993)	(6,838)	(7,075)	(6,740)	(6,847)
Net mark-up income	9,377	9,682	9,087	9,723	9,616	10,335	10,207	10,698
Provisions & write off	987	524	546	830	(190)	351	(360)	(91)
Non-mark-up income	2,618	2,711	3,492	2,350	2,218	1,740	2,782	2,413
Non-mark-up expenses	(6,441)	(4,869)	(4,102)	(4,226)	(5,276)	(4,226)	(4,097)	(4,478)
Profit before taxation	6,540	8,048	9,023	8,677	6,367	8,200	8,532	8,543
Taxation	(2,227)	(2,753)	(2,903)	(2,909)	(2,247)	(2,852)	(2,897)	(2,972)
Profit after taxation	<u>4,313</u>	<u>5,295</u>	<u>6,119</u>	<u>5,768</u>	<u>4,120</u>	<u>5,347</u>	<u>5,635</u>	<u>5,571</u>
Statement of Financial Position								
Assets								
Cash and balances with treasury banks	59,946	58,231	62,563	49,532	57,420	49,880	52,771	46,916
Balances with other banks	1,537	1,695	1,920	2,820	1,192	2,113	3,159	2,452
Lendings to financial institutions	1,225	3,474	6,412	375	1,551	3,308	32	2,820
Investments	449,006	405,071	410,222	402,733	402,069	415,212	327,513	327,630
Advances	248,243	224,241	223,090	240,384	239,583	228,339	240,954	230,457
Operating fixed assets	28,595	25,345	24,913	24,126	23,738	23,920	23,645	22,369
Other assets	26,956	28,468	46,037	39,146	41,520	38,510	38,029	34,001
	<u>815,508</u>	<u>746,525</u>	<u>775,156</u>	<u>759,116</u>	<u>767,075</u>	<u>761,282</u>	<u>686,103</u>	<u>666,644</u>
Liabilities								
Bills payable	10,139	11,608	9,588	9,422	9896.284	8,683	9,679	8,405
Borrowings	38,543	15,579	18,397	49,504	78951.103	84,802	27,523	28,545
Deposits and other accounts	632,330	584,239	610,341	565,799	545060.728	541,613	529,366	512,067
Deferred tax liabilities	4,201	8,331	10,440	9,045	9529.727	8,487	6,813	6,538
Other liabilities	20,064	20,191	17,726	21,026	21166.166	17,856	17,896	18,658
	<u>705,277</u>	<u>639,948</u>	<u>666,491</u>	<u>654,796</u>	<u>664,604</u>	<u>661,441</u>	<u>591,277</u>	<u>574,213</u>
Net assets	<u>110,231</u>	<u>106,578</u>	<u>108,665</u>	<u>104,320</u>	<u>102,471</u>	<u>99,842</u>	<u>94,826</u>	<u>92,431</u>
Represented by:								
Share capital	10,118	10,118	10,118	10,118	9,199	9,199	9,199	9,199
Reserves	46,601	46,188	45,461	44,890	44,253	43,720	43,103	42,506
Unappropriated profit	40,552	40,319	39,086	37,015	35,425	33,614	32,473	30,110
Surplus on revaluation of assets - net of tax	12,959	9,952	13,999	12,297	13,594	13,309	10,052	10,616
	<u>110,231</u>	<u>106,578</u>	<u>108,665</u>	<u>104,320</u>	<u>102,471</u>	<u>99,842</u>	<u>94,826</u>	<u>92,431</u>

Market Statistics of MCB's Share

	Share Price			GDRs (REG S) USD	Free Float		Market Capitalisation	
	MCB Scrip (Rs.)		Closing		Shares ('000s)	%	Capital (Mln)	Value (Mln)
	High	Low						

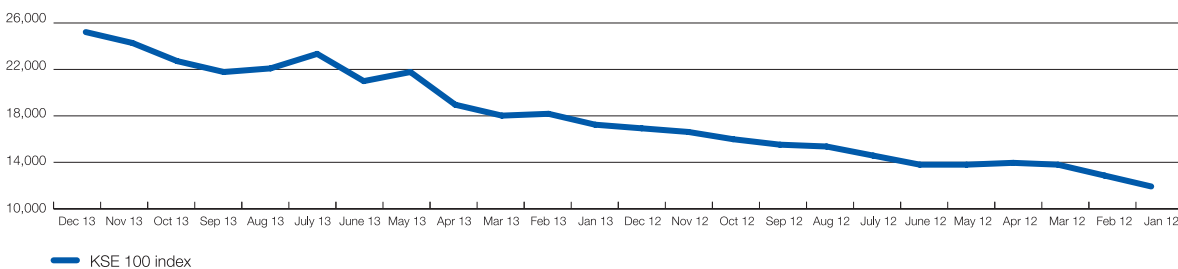
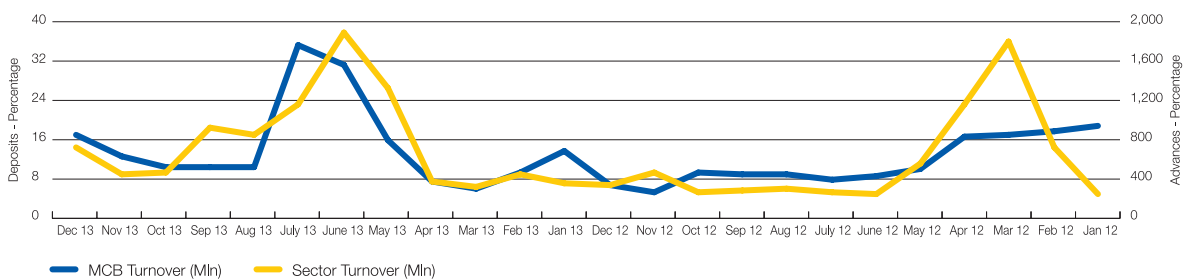
2013

December 31, 2013	303.25	245.00	281.17	4.20	382,395	37.79%	10,118	284,501
September 30, 2013	314.85	240.50	263.05	4.92	381,355	37.69%	10,118	266,166
June 30, 2013	323.00	188.86	242.59	1.94	380,890	37.64%	10,118	245,464
March 31, 2013	239.30	182.20	189.29	2.44	374,879	37.05%	10,118	191,532

2012

December 31, 2012	216.75	180.63	209.76	4.32	336,953	36.63%	9,199	192,950
September 30, 2012	192.34	165.85	186.03	3.92	335,126	36.43%	9,199	171,122
June 30, 2012	184.24	154.00	166.24	3.52	335,221	36.44%	9,199	152,918
March 31, 2012	190.9	133.00	175.44	3.86	334,435	36.36%	9,199	161,380

Dividend and Bonus	2013		2012	
	Mln	%	Mln	%
Final cash dividend	3,541	35	2,760	30
3rd interim dividend	3,541	35	2,760	30
2nd interim dividend	3,541	35	3,679	40
1st interim dividend	3,541	35	2,760	30
Bonus	1,012	10	920	10



Share Price Sensitivity Analysis

Factors that can influence the share price of MCB Bank Limited are given below:

Discount rate / Monetary Policy:

Based on different assessment parameters, the State Bank of Pakistan can change the monetary policy rate. Any decrease in discount rate will result in lower net interest income and reduce profitability of the Bank. As a result, its share price may drop.

Minimum Rate of Return on Deposits

Any upward revision in the minimum deposit rate will result in compression in net interest margins earned due to increased cost of deposits. Such revision can negatively impact the earning and correspondingly the share price of the scrip.

Inflation

Inflation is considered as a key determinant for policy rate change. Any uptick in the inflation statistics will have a corresponding impact on the monetary policy rate. With higher discount rates, the Banks will be able to invest in high yielding investments, thus resulting in increased profitability. This, in turn will have a positive impact on the share price.

Political Stability & Law and order situation

Political stability and controlled law & order situation is a pre-requisite for any economic development. This in turn reposes investor confidence in the soils of Pakistan, making our corporates a potential investment opportunity. However, any act of terrorism or political instability can negatively impact the equity market and share prices of traded stocks.

Directors' Report to the Members

I am pleased to place before you, on behalf of the Board of Directors, the 66th annual report of MCB Bank Limited for the year ended December 31, 2013.

Economy Review

As we enter in 2014 the world economy is on a sounder footing albeit still quite nascent. The new policy challenges lie ahead and policy spillovers are becoming a major concern. Market players are of view that U.S. monetary policy is reaching a turning point. Although the U.S. economy is showing a positive momentum there is still a need to resolve long term fiscal issues. Volatility in Europe has reduced during the previous year but the region is still hampered by financial fragmentation and downside risk to the economic recovery remains significant. After leadership transition the Chinese government has shifted its focus from investment to consumption led growth. Economic growth in China is expected to settle down at lower levels than previously seen. Growth in Emerging and Frontier economies showed resilience during the year. Going forward their progression hinges on how they respond to the shift in U.S. monetary policy through their macroeconomic policies.

In Pakistan, after the successful transition of the Government to PML-N in May, the country's economic conditions have moderated in the second half of 2013. Pakistan's gross domestic product (GDP) increased by 5.0% in Q3 2013 as compared to 2.9% same period last year. The economic activity picked up on the back of new government settling the circular debt and business community's confidence in the newly elected pro-growth government.

During the year the new government set the ambitious target of reducing the fiscal deficit from 8% to 6%. To ease the pressure on fiscal account the government increased the electricity tariffs in two stages during the year. On the other hand, to boost the revenue, they increased the General Sales Tax (GST) from 16% to 17% and withdrew tax exemption on few products. This step while increasing the revenue base of the Bank, adversely affected the outlook of inflation as it accelerated from the 5 year low of 5.1% in May to 10.9% in November.

On the external sector Pakistan's foreign exchange reserves dwindled to critical level on account of large IMF loan

repayments, huge oil import bill and market interventions to curtail USD/PKR slide. Such pressures resulted in Pakistan entering in IMF program (Extended Fund Facility – EFF) worth \$6.5 billion in September 2013.

Numbers of Monetary policy shifts were observed during the year. It was eased in the first half of the year. However, State Bank of Pakistan (SBP) increased the policy rate by 50 basis points each in September and November to tame inflation outlook and curtail deterioration in balance of payments.

Turning to the prospects for the 2014, our outlook for the domestic economy remains positive. With the GSP-plus status accorded to Pakistan by EU, settlement of circular debt, removal of subsidies, some fiscal consolidation measures in place, uptick in credit to private sector and the economic activity seems to be looking up. Significant risks remain, nevertheless, particularly on energy and law-and order side.

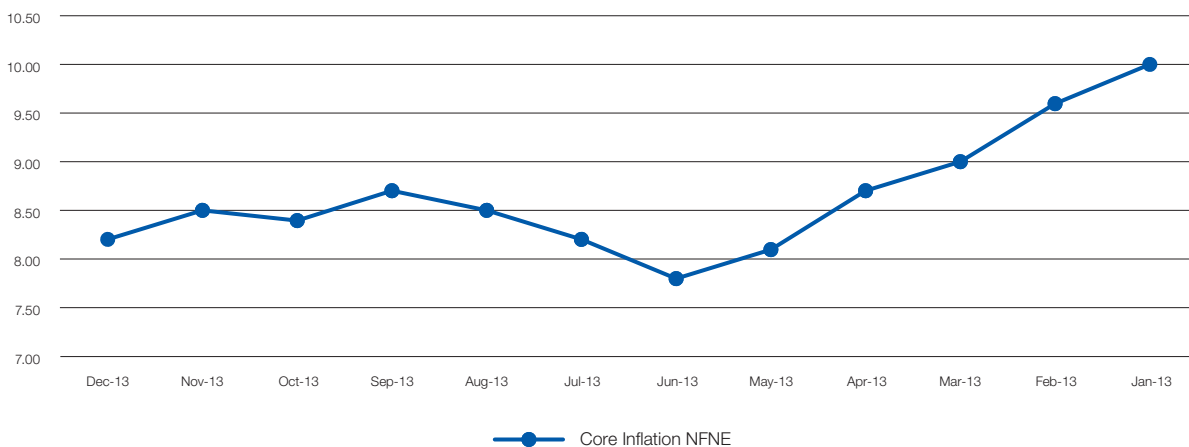
Economy Snapshot

Period Average Inflation 2013	8.64
Discount Rate December 31, 2013	10.0
KIBOR (6 month Offer) December 31, 2013	9.47
USD Exchange rate as on December 31, 2013	105.3246
Liquid Foreign Exchange Reserve – (USD Mln)	8,521.4
Inflation base year 07/08 =100	

Group Reviews

Wholesale Banking Group

2013 remained a challenging year for wholesale banking group. We continued to maintain a low infection loan book in comparison to the industry. Advances growth, in a conservative credit expansion era witnessing energy crises and security issues, was further hampered due to delay in offtake of approved lines by the Telecom sector due to postponement in 3G license auction and decreased commodity offtake. Overseas operations also continued to show stable growth despite depressed global conditions, with profitability in Sri Lanka and Bahrain increasing in double digits.



Strong rate competition in top tier corporate clients and fluctuation in policy rates during the year had a negative impact on spreads. Despite these challenges, the group managed to achieve its profitability targets with growth in fee based income through enhanced volumes.

To ensure that growth in the group's loan book is in a structured manner with minimal risk, the group has ensured periodic monitoring of corporate exposure in terms of industrial sectors and regional concentration. During the year, a number of concentration management papers for large corporate groups, sector study reports and Risk Asset Acceptance Criteria (RAAC) were developed for enhanced risk assessment on an ongoing basis.

The investment and Corporate banking arms were involved in various transactions focusing on provision of effective tailored solutions to cater to business requirements of our corporate clients. During the year WBG succeeded in earning accolades for the bank through dedication and hard work of its business teams in various areas.

- Best Islamic Deal Award 2013 – “The Asset Triple A” in 2013 awarded to MCB Bank, the highly commended Best Islamic Deal Pakistan Award for the syndicated long term multi-financing facility arranged for Pakistan Mobile Communication Limited (PMCL) for PKR 6B in which MCB Bank Limited acted as Lead Advisor, Arranger, Exclusive Agent, and Investment Agent.

The increasing trade deficit required prudent and watchful eye on trade assets and commitments. We managed to focus and deliver exceptional growth in 2013. The bank's market share in foreign trade business of Pakistan increased from 6.41% in 2012 to 6.95% in 2013; with 30% increase in the bank's trade volumes.

WBG's transaction banking business made significant product and volume progress and achieved high growths during 2013. Our throughput volumes were close to Rs. 1 Trillion. This growth has been achieved despite several challenges and constraints such as fierce competition from other banks and customers becoming more cost conscious and demanding in view of tight economic conditions and requirement for technically advanced solutions. In 2013, work on “Payment Station” started which would become a front line product in 2014, enabling TBD to substantially increase fee base income.

MCB along with its foreign remittance houses tapped by the Transaction Banking team has become a household name in the field of Home Remittance. Our real time system allows payments in all our branches within minutes of being initiated overseas. While we have strong foothold in traditional Middle East and Saudi Arabian markets, we have started exploring European and American corridors. In 2013 we have particularly focused on branding our products under the name of Burqraftaar Cash and Burqraftaar Transfer for Non-Resident Pakistanis. We also offer Motherland Account allowing overseas Pakistanis to open accounts in their home country whilst abroad.

During 2013, TBD's focus remained concentrated on cross sell with Retail Banking by opening dealers, low cost deposits

accounts and migrating conventional branch network related businesses to electronic business platforms to achieve further efficiencies. In this regard we migrated TBD's Telecom business to automated fund transfer solutions. During 2013, TBD has also refurbished its systems and applications to have more stability so that they are ready to handle even more challenging volumes.

WBG is all geared up to continue with its growth strategy and focus on book building, service based fee and FX revenue yielding transactions through introducing innovative products and solutions, identifying new opportunities and leveraging on growing FI relationships with customers.

In Overseas Operations, we are on the verge of completing two decades of presence in Sri Lanka. Out of our many accomplishments throughout this journey, we hold the 3rd largest branch network among the foreign peer banks in the country. Internet banking facility is also available to our customers through our award winning website www.mcb.com.lk by LK Domain Registry. Our operational efficiency has been recognized by the award received as Best Facilitator T+1 Cheque Clearing Award (small bank category) offered by Lanka Clear Pvt. Ltd for our effective and efficient clearing processes.

During 2013 MCB expanded its operations in Sri Lanka by opening a new branch in Galle, in the southern part of the country. In 2014 there are plans to enhance our international footprint through opening of new branches at existing as well as new locations, subject to regulatory approvals.

Special Assets Management Group

During 2013, SAMG surpassed all previous records of recovery by achieving highest ever figure of Rs.1.502 billion and maintained its average recovery yield @19%. This year Group has not only exhibited a consistent run-rate in recovery across the period but also extended its recovery base, in terms of number of settlements /cases, by 23% over the previous year. More so, with a comprehensive strategy, covering multiple remedial measures, SAMG has been successful in settling a number of chronic, complex and protracted big ticket defaults during this period.

Resultantly, Group during 2013 maintained its legacy of recovering over Rs.1.000 billion for the 6th consecutive year and over Rs.1.500 billion for the 2nd year in a row. Achievement of such a humongous goal with a lean & mean setup was not possible without a team of committed professionals, whose untiring commitment and dedication in execution of professional responsibilities has produced such remarkable results. This performance is even more noteworthy amidst current political milieu, time consumption in legal processes and weak repayment capacity of the borrowers.

The strength of SAMG is not only about the numbers being achieved in a year – it is also about the foundation SAMG has built for the future.

Going forward, keeping in view the volume of non-performing loans, special assets management function will continue to perform a pivotal role during 2014. In this regard, SAMG

has planned to further enhance its operational capability and efficiency. Building on its current human resource and infrastructure base, the underlying philosophy of “innovative pro-activism” will further be entrenched into the mindset of SAMG’s workforce, which will positively contribute towards the achievement of organizational goals in times to come.

Consumer Banking Segment (Retail Banking Group)

Consumer Banking (Product) has continued to show impressive growth in profitability and revenue in 2013 coupled with robust expense management. As part of our strategy, we have been focusing on the right mix of product and services by shifting from lending to non-lending revenue streams. Our non-lending business is supported by 2 strong pillars i.e. Remote Banking and Bancassurance while the Investment Service business continues to show steady improvement.

Remote Banking’s contribution towards Revenue, Net Profit and customer engagement continued on the increasing trend throughout 2013. MCB saw a historic moment when its Visa Debit Card (VDC) Launch to date issuance reached 1 MM landmark which is one of the quickest in the industry. By the end of 2013, we have been able to sell more than 500,000 debit cards in the same year. MCB also activated the option of having supplementary cards against VDCs. MCB Mobile has also continued to grow at a fast pace with active customer base touching ~400 K customers. Our focus has been to maximize the value of our Alternate Delivery Channels (ADCs) including ATMS, Mobile Banking, Internet Banking and Call Center.

In 2013, MCB re-launched Internet banking which is an upgrade of the existing virtual banking system with enhanced features. This is part of our overall strategy to shift load from branches to ADCs. MCB Bank’s ATM tally crossed 750 making it one of the biggest networks in the country. Our call center is also equipped to handle increasing call volume due to introduction of new products on the back of technology / infrastructure upgrade. We take pride in the fact that MCB call center offers multiple regional languages for customer service. Another important achievement in 2013 has been the introduction of MCB Loyalty card which enables MCB customers to get discounts at more than 65 different outlets. Moreover, in 2013, MCB successfully launched a new service “SMS Alerts” for customer convenience and transactional updates.

Another segment which falls in the ambit of Remote Banking is the Point of Sale (POS) business. MCB is one of the biggest players in the industry in terms of total POS machines deployed. Due to tactical placement of POS machines, MCB has one of the highest per POS productivity in the industry.

In the twilight of 2013, MCB successfully got the license from State Bank of Pakistan to go commercial with MCB Lite which is one of the most innovative products offered in banking industry in Pakistan. This is a mobile wallet powered with a Debit Card which is Inter Bank Fund Transfer enabled. In the coming years, this will be one of the most important tools in increasing the customer base of the bank (mainly low cost deposit) and customer retention on the back of convenience and features it offers.

In 2013, MCB made another strategic move by putting Bancassurance and Investment Services under the Wealth Management umbrella. The Bancassurance business continued its rapid pace of growth in 2013 with total premium since inception crossing the PKR 3 billion mark. Even more importantly, 2013 was the first year in which new premium crossed PKR 1 Bn, with full year sales of close to PKR 1.3 billion. Portfolio persistency level remained above 75% in 2013 for the first time, making MCB eligible for a persistency bonus from its Insurance partner. Our Investment Services business also showed growth despite low-yields in the market, and this business is poised for further growth in 2014 with the issuance and distribution of some new financial instruments. MCB is the leader in Mutual Fund Sales through branch network with coverage in ~ 350 branches across Pakistan.

Substantial growth was observed in 2013 from only 9 operational Privilege Centers across Pakistan with a major positive shift in CASA:TD mix. We intend to provide value added services, with a focus on cross-sell, to our top depository clients through this set up.

Rupee Traveller Cheque (RTC) business is yet another feather in MCB cap. With total sales hovering around ~PKR 54 Bn in 2013, MCB leads the market in this segment and caters to the bulk of total industry needs. The product is offered from more than 800 Active branches out of the total network of more than 1,150 MCB branches.

Due to merger of Consumer Banking and Commercial Banking into Retail Banking Group, clear cut synergies were observed in the consumer lending front where the credit card issuance increased more than 2 times in 2013 as compared to 2012. A similar trend was observed in Auto Loans sale as well wherein the quantum almost increased by 43%. Not only the total sales number increased but due to concentrated efforts, the sales team also managed to increase the Net Financed Amount (NFA) per customer. With introduction of Product shop in the Retail Banking Group which focuses on management of existing Retail Banking Products (both consumer and commercial) as well as prime objective of developing new products, a lot of activity was observed on this front. This immediately resulted in re-launch of Personal Loan & Home Loan products, giving MCB a full suite of consumer lending products once again. With this, the focus is now very much on building a healthy consumer lending book in 2014.

Priorities in 2014

- Emphasis on ADCs i.e. Internet Banking, Mobile Banking, Call Center, ATMs and cards
- Sales entrenchment
- Resource optimization
- Improve Non Fund revenue
- Leveraging retail client base
- Best in class service quality
- Attract more deposits
- Lead in transacting convenience

Commercial Branch Banking (Retail Banking Group)

CBBG (Network) continued to make sustained progress in growing its deposits base in 2013. Representing 91% of MCB's total deposits, a growth of 13.4% was contributed by Network over last year, with a net amount of PKR 68B added to the deposit base. Important to note was the improvement in overall CASA portfolio which went above 90% (historic high) despite tremendous increase in volume. Throughout the year, MCB Retail Banking deposit growth rate remained above the overall industry deposit growth apart from a few weeks in the last quarter.

A total of 29 branches were added to the branch network bringing the number of outlets to 1,161 and the Bank continued its focus on sustainable low cost deposits. The management placed special emphasis on managing operational risks and this was reflected in significant improvement in internal audit ratings which improved to 94% during the year as compared to 85% in 2012. Responding to customer needs, MCB ATMs also recorded higher uptimes throughout the year despite deteriorating law and order situation and energy crisis in the country.

One of the biggest achievements of Retail Banking Group in 2013 was an extraordinary success during Hajj campaign. The team went for this campaign with a different and innovative theme of "being the first hosts of the people on their sacred journey". With dedicated and focused efforts across the network, MCB became the market leader and set a record of catering highest Hajj applications in the industry.

In 2013, MCB Product shop developed another important product offering "Fun Club" which focuses on the banking needs of the children. Besides serving the banking needs, this product maintains balance between personal, corporate, social and environmental responsibilities. MCB has entered into an agreement with WWF for sowing a plant in the name of the kid who subscribes for this product. The progress of the plant growth can be observed through Google earth.

Another important initiative taken in 2013 was introduction of Islamic counter in conventional branches for basic banking needs. A pilot project was run in more than 50 branches after obtaining necessary approvals from State Bank of Pakistan to cater the industry needs. This not only helped MCB increase its book size but also helped in retention of existing customers.

Due to a focused strategy, MCB managed to substantially increase commercial lending book by ~PKR 11 Bn in 2013. This also helped in increasing the overall commercial Trade which crossed PKR 190 Bn.

For 2014, goal is to continue growth of sustainable and low-cost CASA deposits. The group will focus on introducing new liability products to address market needs & will also continue to focus on cross-selling, growing quality loans and aggressive volume growth in Trade.

Priorities in 2014

- Strategic relationship management
- Lead in trade business
- Accelerate use of alternate delivery channels

- Reduce operational risk
- Better quality lending
- Rely on low cost account base
- Optimize usage of existing network

Islamic Banking Group

MCB- Islamic Banking Group offers the solutions of Shariah Compliant products and services both on the liability and asset sides to its valued customers of all demographic segments to cater their wide range of needs of safe keeping of funds for business use, sharia compliant investments to earn Halal profit, Working Capital financing, Capital Expenditures, Trade business and consumer's requirements.

On liability side, these products include the Hidayat Current Account, Hifazat Saving Account and Na'mat Term Deposit. In addition to these products a special term deposit scheme with attractive profit rates for senior citizens and widows under the name of "Aasoodgi" was also introduced. Whereas, on the Asset sides, our product includes Murabaha, Car Ijarah, Equipment Ijarah, Diminishing Musharka (Equipment), Musharka Export Finance, Shariah Compliant Bank Guarantee, Istisna Pre-shipment Export Finance and Letter of Credit.

Islamic banking group also provides customized solution to its valued customers for execution of complex financial transactions and Shariah advisory services in structuring of various syndicated transactions.

MCB-Islamic Banking has a network of 27 branches in 14 cities across the country. In the year 2013, MCB also focused on further improvement of MCB- Islamic Banking brand images like the last years. This was made possible through branding of all new Islamic Banking products and dedicated Islamic Banking branches. In line with regulator's strategy of spreading awareness of Islamic banking concepts and products, MCB-Islamic Banking Group also participated in various forums for awareness of its Islamic Banking Products through distribution of brochures, marketing campaigns, participating in seminars and placing of stalls on Islamic Finance conferences etc.

During 2013, the group remained cost efficient in its business operations. To strengthen Islamic banking book size, MCB Islamic banking has shown significant growth both in liability and assets portfolio.

To comply with instructions of regulatory authority and bank's policy, Islamic Banking Group has got reviewed and approved its Operational and Islamic banking Asset based product manuals. Further, under the instructions of regulator, Islamic Banking Group has also developed a Pool Management System for transparent calculation and distribution of profit for its customers.

Like the past year's excellent trend, in 2013, IBG arranged ex-house and In-house training for its staff members and for other groups of the bank, on Shariah Compliant Products. The group shall continue the trainings of its staff members to remain competitive and quality services provider and to mitigate the reputation risk of Shariah non-compliance of Islamic banking transactions in the coming years as well.

Moreover, In order to facilitate it's customer and to increase outreach of Islamic banking deposit products, an initiative was taken by introducing Islamic banking windows in conventional branches of Retail Banking Group after inculcating the training of sharia compliant product. This initiative was taken up with more than 50 Islamic Banking windows, which will further enhance in future.

We are pleased to inform that MCB Bank Limited applied for an NOC in 2013 for establishment of full fledge Islamic Bank as its subsidiary with a Paid-up Capital of Rs. 10 Billion. This request has duly been approved by the State Bank of Pakistan in 2014. This initiative will certainly help in further growth of Islamic Banking Business and to serve it's valued customers by offering a complete set of Sharia compliant product with excellent service quality.

Treasury and FX Group

In the year 2013, Treasury & FX Group exhibited incredible growth. It outperformed its achievements by a colossal margin in all areas of its operations. The Group's contribution towards bank was significant once again in terms of both interest-based and non-interest based revenues. Its superior success was mainly due to the effective interest rate management and by calling the market direction accurately in spite of high level of uncertainties in the financial markets during the year. Treasury succeeded in managing this challenge quite well by keeping abreast of the key developments on the economic and political fronts. However, the key element of its success was the high quality of its ability to predict the future course of economic events and policies. The changes in the composition of its portfolio over the year are reflective of the Group's success in this regard. The effective duration management and appropriate use of yield enhancing techniques provided the much-needed stability to the Bank's revenues during times when the banking industry's spreads remained under pressure. The Group has also managed to achieve significant growth in case of Non-markup income despite multiple challenges through timely and effective decision-making and by employing effective strategies. Going forward, Treasury aims to focus on further strengthening its existing client relationships, penetrate into new markets and niches and enhance its product capabilities, especially the derivatives and structured products. This is in harmony with Treasury's customer centric marketing approach and aims value-addition to our clients' business models. In order to complement these goals, and as part of the Group's overall strategy, Treasury will strengthen the alignment of objectives with other stakeholders within the bank. Treasury management is acutely sensitive towards its leading role within the bank.

Information Technology Group

In 2013, MCB Bank has positioned itself at the peak not only with the induction of advanced technology but by upgrading the existing at par, in order to meet the parallel challenges like, new releases of the mission critical applications, Business needs, strengthening stability, scalability and security, providing enhancements and adequate platform for those enhancements and to meet the right and precised technological requirement of new projects.

IT Solutions & Business Applications:

IT solutions play a strategic role in capturing, drawing and transforming data from transactions into a decision making framework for designing and administering innovative products as well as enhancing the quality of service delivery:

- IBFT enabled New Internet Banking Solution (Oracle FlexCube Direct Banking).
- IBM Message Broker (Middleware)
- Migration to Microsoft Outlook
- IBM Email & File Archiving Solution.
- SMS alerts on banking transactions.
- ATM EJ & Proview Integration.
- Oracle Enterprise Monitoring Tool & ATS (Apps & DB performance testing tools).
- Oracle WebLogic.
- Very Early Smoke Detection Apparatus (VESDA)

Technology Infrastructure Upgrade & Business Continuity:

- Oracle Database upgrade to 11g.
- Call Center (IVR, CTI, Nice & PABX)
- CRM Unison II & RDV Upgrade
- ATM Helpline Centralization
- Deployment of IBM PureFlex Engineered System
- Data Domain Upgrade.
- Data Center Energy Optimization.
- DR Drill of critical applications.
- IT Application DR drill plan 2014 approval.

Technology Infrastructure Enhancement

- Backend Communication Infrastructure Implementation
- Cloud Computing (Thin Clients - 1000 Units Implementation).
- Addition of 133 ATMs in ATMs/CCDMs Footprint

Connectivity Platform:

- Core Network Upgrade with the installation of Juniper Qfabric & CITRIX load balancer.
- Replacement of all obsolete network equipment.
- 100 % branches on Dual Media.
- Branch end media upgrade to 1 Mbps.

Information Security:

- PCI DSS Compliance (In Process): Bank has almost achieved more than 60 % compliance.
- Anti-Skimming Devices for ATMs
- ATM Transaction Video Solution.
- Vulnerability Assessment & Penetration testing of all critical websites.

In-House Business Solutions:

- Shariah compliant Pool management system (Islamic Profit distribution).
- Warehouse Management System.
- Banca Assurance System.
- Loan Management system.
- IBAN adaption.

Compliance & Governance:

- Exceeding 92 % Compliance of audit observation raised by External Auditor, Internal Auditor and SBP.
- Finalization of Long Term Strategy (LTS) 5 Years (2013-2017).
- Finalization of Short Term Strategy (STS) FY 2014.
- Conducted 6 IT Steering Committee & 4 Board IT Committee meetings.
- Review and approval of Information Security and Information Technology Policy.

Looking Forward 2014: Both Revolution & Evolution:

All along, it must be remembered that IT is not an end in itself, but acquired and deployed to serve business requirements efficiently. IT strategies (LTS & STS) have been sewn into the fabric of the bank's vision and business strategy. In order to be able to meet customer demands, IT Group is determined to follow a prudent asset procurement plan to invest in technology, upgrade technology infrastructure and deploy new technology solutions:

- Datacenters environments Revamp (primary and secondary as well).
- Internet Segment Upgrade.
- Upgrade of Branch end network equipment.
- Video Conferencing/TelePresence recording solution.
- Expansion of Telepresence solution.
- Implementation of Security Operation Center (SOC)
- Acquisition and Deployment of "Derivative" solution.
- Feasibility study for "Workflow management solution" and "Data warehousing".
- DR drill of critical applications.
- Enhancement/Improvements in existing solutions:
 - Oracle EBS
 - Oracle FCDB (Internet Banking)
- Development and deployment of Reward Point Management System.
- Upgrade of Oracle Mantas to Oracle FCCM.
- Deployment of Oracle FCCM for AML case management & "Know Your customer" (KYC).
- Acquisition/Development and implementation of Core banking system (CBS) at Bahrain.
- Integration of CRM with Core banking system (CBS): Improvement in customer experience.

Operations Group

Customer service; operational efficiency; and strengthened controls & compliance environment within the Bank remained key priority areas for Operations Group throughout the year. The group is leading a major system implementation project, i.e. Upgrade of the Core Banking Application that will bring significant advantages for the Bank, which include enhanced functionalities for process automation and straight-through integration; implementation of modules relating to Advances for Limit monitoring, Collateral and Loan management, improved user access and controls; technology platform upgrade; and centralized architecture for better maintenance & support. Functional support was provided in developing and strengthening business processes especially in the backdrop of various system implementations, changes in regulations, products and processes helping businesses launch/enhance new/existing products, channels, and services. In order to achieve account number standardization resulting in efficient and effective processing of electronic funds transfer transactions, International Bank Account Number (IBAN) has been enabled. More than 1000 branches across Pakistan are now centralized for account opening whereas footprint of Trade Services Centers has expanded to 8 major cities covering trade processing for the entire country. In order to bring servicing efficiencies in currency management, a new Cash House was opened in Multan city. As part of the MasterCard initiative to move its local processing onto an automated process, MCB implemented the same in May 2013, leading to reduction in cost. As mandated by Visa International, Visa Money Transfer Service was also enabled during the year.

Aggressive business targets related to various consumer products/ channels such as SMS Alerts, Internet Banking, Visa Debit/Credit/Prepaid/Fun Club/Tejarat Cards, MCB Lite, MCB Mobile, UBP/ Telcos, Auto Loans and Motherland Accounts were fully complemented with operational expertise and processing support. Exponentially high volumes were witnessed while servicing transaction banking/ home remittances transactions. Infrastructure projects for new branches and offices including renovation of buildings were completed across the country; highlights being the new state of the art office complex 'MCB Center' and Corporate branch 'MCB @ The Boulevard' in Lahore. As part of Skill Profiling initiative, the branch operations have been strengthened through development of role based training modules along with HRM Group and other functions for Branch Operations Manager (BOMs) and Regional Operations Managers (ROMs). During the year, exclusive trainings on role based modules were conducted for BOMs and similar trainings are being planned for ROMs during 2014. Senior resources of the group also conducted in-house trainings for Bank staff during the year.

Strategic Planning and Development Group

The Strategic Planning Division (SPD) made significant strides towards its vision of building a leading international bank, becoming the partner of choice for our customers and creating value for all our stakeholders. The focus has been on expanding our global footprint by expanding into new markets like Europe, Africa, South Asia and the Far East. In line with our objective of growing our presence in

the Islamic Banking Space, MCB has made considerable progress towards establishing an Islamic banking subsidiary in Pakistan and is in the process of finalizing the acquisition of a local Islamic Bank. MCB has also received approval by the State Bank of Pakistan to set up a wholly owned subsidiary.

The Capital Markets Division of SPIG continued to build on the previous years performance under its scope as 2013 witnessed record contributions by the Division to the Bank's bottom line. Net income was an extraordinary 4.5x the years target. These gains can be attributed to careful allocation changes to position the portfolio to fully benefit from market events. The group carefully refines its outlook on the macroeconomic environment into actionable investment strategies and asset allocation decisions to achieve risk/return objectives. Our positions in Unilever, Mutual Funds, the Banking and Oil sector stocks provided significant upside. Going forward the group will continue to look for potential pockets of value while closely monitoring risk.

Service Quality

To ensure a culture of Quality Customer Service within MCB Bank Limited, we have a dedicated Service Quality Division. The objective of this Division is to strengthen the bank's Service culture, competitiveness and infrastructure by working closely with other Divisions. The emphasis is on achieving an enhanced overall Customer Satisfaction level. Moreover, the Division also initiates Process Improvements in order to achieve the fundamental business objectives of 'growing', 'deepening' and 'retaining' customer relationships. Achievements of Service Quality during the year 2013 are given in Corporate Sustainability.

Compliance and Controls Group

Compliance and Controls Group (CCG) continued to strengthen its processes across the Bank during the year. Keeping in view the Bank's strategic objectives, CCG enforces a well-integrated and robust compliance framework that identifies, manages & monitors all potential risks that could lead to breach of laws & regulations.

Regulatory Risk & International Compliance is a key CCG function which provides support and advice to management and staff on compliance and regulatory issues. It also reviews policies and procedures, supports new Initiatives, products, services, etc. along with maintaining relationship with regulatory authorities. The function is also involved in managing CDD/AML aspects for Correspondent Banks and Money Services Business. CDD & AML/CFT Procedural Handbook has been updated and made available across the Board in line with changes in AML/CFT Laws and Regulations. It is also involved in the process of developing a Digital Library which will provide access to all internal circulars issued by the bank along with all circulars issued by SBP, FMU & SECP along other multimedia with just a click to all users.

AML function is committed to the highest standards of AML / CFT compliance and requires management and employees to adhere to these standards to prevent use of bank's channels, products and services for money laundering and terrorist financing. It monitors out of pattern transactions

to detect possible Money Laundering activities through Transaction Monitoring Solution (MANTAS). In addition AML function in collaboration with Regulatory Risk & International Compliance reviews products and policies from AML perspective.

Compliance Assurance function is essentially concerned with identification, monitoring and resolution of regulatory/control issues through on-site reviews by Regional Compliance Officers, who also provide training to the branch staff. It also conducts Know Your Employee (KYE) exercise by reviewing credentials of newly hired regular employees. Issues Tracking & Monitoring (ITAM) Committee structure, with members comprising of Senior Management, is in place which spearheads expeditious resolution of issues pointed out by SBP.

The Internal Control function promotes higher standards of control through implementation of internationally accepted COSO framework. The Bank's Risk & Control Self-Assessment (RCSA) framework is effectively functioning for ensuring ongoing operating effectiveness of key controls.

Compliance Training & Validations function in coordination with Human Resource Management Group initiated a specialized program under "Certified Branch Managers (CBM)" & "Certified Branch Operation Managers (CBOM)". Further, comprehensive training programs on compliance and controls were also developed and implemented for field staff. In order to enhance Compliance and Controls awareness, Compliance knowledge testing through CKAS was managed for all newly hired permanent staff.

The Issues Resolution function enhanced its working scope during the year by carrying out off-site reviews of critical accounts and GL control heads while also ensuring effective monitoring.

Whilst focusing on creativity and innovation, Compliance & Controls Group will continue to increase its effectiveness through professional development of its staff and strengthening of functional solutions.

Audit and Risk and Review Group

Internal audit function plays a pivotal role in an organization's control structure- serving as a foundation intended to lift the organization to a greater level of operational excellence. Audit & RAR Group is responsible for the internal audit function within MCB Bank Ltd. The Group conducts audits/reviews of various areas of the bank under the globally recognized Risk Based Auditing Methodology.

2013 was a year of significance for the Audit & RAR Group. The Group embarked on its journey with a commitment to further improve its operations through creative thinking. Enhancement in efficiency of audit operations without compromising on effective auditing was the key to all the development and re-engineering that the Group went through during the year. Prime focus was placed on the automation of various processes operating within the Group. While the Group ensured coverage of various critical areas of the Bank, measures were also taken to improve the visibility of results of the audit activities. The Group also aligned its activities in a

manner so as to address the critical challenges being faced by the banking industry in Pakistan. During 2013 the Bank demonstrated significant improvement in both the design and implementation aspects of the internal controls whilst enhancing its focused efforts to strengthen the compliance culture. Audit Group takes pride in providing significant assistance to the bank in achieving these milestones.

With a commitment to support the Bank in its journey towards continuous improvement, Audit & RAR Group will continue to strengthen its resources and framework to cope with the changing and challenging banking environment.

Human Resource

In 2013, HRMG maintained its focus on addressing performance needs to address strategic imperatives of the business. This has translated into provision and development of trained and motivated human resource to meet the requirements of the business. The year also marked the realignment of a number of HR functions for better service delivery and efficient resource management. This also resulted in role enhancement and job enrichment for a number of key positions in HR with a corresponding reduction in manpower and delivery costs.

HRM also embarked on a number of new initiatives in the areas of recruitment, training, organizational development, compensation, HR operations & HR financial services in order to stay abreast of increasing challenges faced by the business in an increasingly competitive environment.

The Balance scorecard Performance management system was strengthened across the retail banking network to ensure objectivity in assessment of performance. This included use of automated decision support systems driven by technology including target and achievement matrices, Audit report and operational result monitoring as well as results of service quality audits. A number of HR policies were reviewed and new policies introduced after extensive deliberations with stake holders to ensure customer centricity while strengthening controls across the spectrum including introduction of subsidiary ledgers to monitor costs on more specific bases. The composition of the workforce was managed to increase the proportion of permanent officer and executive cadres, thereby resulting in a positive impact on long term costs and improving controls. The subsequent demands on Talent Acquisition to meet the personnel requirements across the retail banking network were fulfilled through timely implementation of a comprehensive hiring plan with the support of the business. The induction of more than 2600 employees in the bank during 2013 bears testimony to the massive efforts to ensure smooth business continuity for the bank within the ambit of our rigorous selection and placement criteria.

As mentioned earlier, organizational structures were strengthened to provide job enrichment and upward mobility not only in HR but across the bank. The bank also participated in salary surveys to address compensation needs in line with prevalent market trends. The learning and development division contributed over 40,800 man days of training in core banking areas and management development programs which was a 63% increase over 2012 and 36% above the yearly target.

Another significant development on the service delivery front was the automation of HR operations across the board using SAP infrastructure. This included material improvements in the organization and standardization of HR database in leave management, transfer posting and training management to create real time MIS delivery to the business groups as well as HR managers. Furthermore, the creation of employee self-service portals for SVP & above staff as well as employee centered dashboards for Group Heads has initiated efficient decision support and instant information access.

The Human Resource Group, in 2014 would like to further broaden its focus as a strategic business partner of the business and pro-actively respond to emerging challenges to take its customer service and delivery to a world class level in keeping with the bank's vision and organization mission.

CSR and Security

Security & CSR Group performed its assigned functions with commendable results, particularly when seen in the context of a precarious security environment all over the country. As many as 70 bank robberies were committed across Pakistan in 2013, only one of which was in an MCB Branch. In addition to this the Group launched an initiative to replace night guards from selected branches with electronic sensors, alarms with armed response and patrolling. 211 branches were converted to the guard less model in 2013. The Group plans to take number to 600 in 2014.

Risk Management Framework

Better management of risk is one of the corner stones that underlays our leadership role in the banking industry and our strong profitability.

The Board of Directors, at MCB Bank Ltd., drive a risk management framework that provide an active approach in dealing with factors that influence the bank's financial standing. Bank, under the guidance of BOD, has always sought to generate recurrent earnings and create meaningful returns for its shareholder.

An Effective Risk Management Framework and the Risk Governance Structure remains a cornerstone towards ensuring realization of the Bank's vision.

Collectively the bank's risk profile's strength comprises of:

- Robust Risk Governance Structure
- Strong Capital and Liquidity Position
- Quality of credit Portfolio

Empowerment and independence in risk management is the basic principle that is applied as a fundamental part of BOD's vision. Independence of areas that are responsible for measuring, analyzing, controlling and monitoring risk from the frontline risk takers (i.e. business soliciting groups) is ensured within the bank. In line with this principle, CRO functionally reports to the "Risk Management & Portfolio Review Committee" (RM&PRC) which is a sub-committee of the BOD.

This separation of functions between the risk takers and the risk managers provides sufficient independence and yet joint responsibility in decision making. Four-Eye-Principle is the structure that provides a tangible shape and assigns joint responsibility to business & risk approving authorities on credit & market areas' lending/exposure requests.

Additionally, use of better risk measurement and management techniques is also a hallmark of bank's overall Risk Management Framework that provides enabling environment to generate recurrent earnings and create shareholder value.

The Board of Directors and its Risk Management & Portfolio Review Committee have ensured formulation and implementation of a comprehensive Risk Management Framework. Under Board of Directors' guidance, the Bank continued to execute the risk strategy and undertake controlled risk-taking activities within this risk management framework; combining core policies, procedures and process design with active portfolio management. The Bank continuously challenges and improves its Risk Management Framework in the light of the international best practices and State Bank of Pakistan guidelines.

Various policies related to management of different risks were approved or renewed by the BOD on recommendations of the RM&PRC. The RM&PRC guides the management on its risk taking activities within the Board approved policy framework.

Regular meetings of RM&PRC were convened to oversee the risk exposures and their trends as a result of the bank's activities. The committee reviewed different aspects of the loan portfolio which, among others, include asset growth, credit quality, credit concentration, lending business trend and cross sectional analysis. Review of various aspects of Operational and Market risks including sub areas functions of these risks was also a regular feature. Management Committee for Risk is an additional platform to discuss and deliberate key risk issues in the portfolio at the management level.

Bank is exposed to market risks through its trading and other activities. A comprehensive structure is in place aimed at ensuring the bank does not exceed its qualitative and quantitative tolerance for market risk. The bank has followed a non-aggressive and balanced approach towards risk taking in the market risk area coupled with robust risk management architecture, thus achieving the target of keeping the exposures within the defined risk appetite and a reward justifying the efforts. A number of metrics like VaR methodologies complemented by sensitivity measures, notional limits, loss triggers at a detailed portfolio level, and extensive stress testing are used to capture and report the multi-dimensional aspects of market risk. The Bank will continue to pursue to have a risk return balanced portfolio to keep its market risk exposure in line within the approved risk limits.

In accordance with the Operational Risk policy and framework, a database covering losses, control breaches and near misses is being maintained. Major risk events are analyzed from the control breaches perspective and

mitigating controls are assessed on design and operating effectiveness. Quarterly updates on Operational Risk events are presented to senior management and Board's risk committee. The bank has an internal Operational Risk awareness program which is aimed at building capacity and inculcating risk culture in the staff through workshops and on-job awareness. Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, the bank continues to pursue a number of initiatives for the adoption of The Alternative Standardized Approach (ASA) including business line mapping and risk and control self-assessment exercises. The bank is engaged into dialogue with regulator for adoption of advance approach for operational risk.

Bank has been selective in disbursing its loan to good quality borrowers engaged in different businesses. The Bank continues to maintain lower than average industry level NPL ratios. Bank has a fairly diversified loan portfolio. Even the top 20 Non-Government Borrowers account for less than 25% of total (Funded + Non-Funded) exposure. For risk categorized as sovereign/government risk, our lending exposure is spread over multiple government owned or controlled organizations and departments which are engaged in a variety of tasks that range from different development related works to utility distribution and production etc. Many of these government owned corporations operate on profitable self-sustained basis. To manage worst outcomes in terms of scenarios multiple factors in bank's lending structure provide additional comfort and support, these include quality of eligible collateral, pre disbursement safety measures, post disbursement monitoring, etc.

Capital Assessment and Adequacy

MCB maintains the highest Capital Adequacy Ratio (CAR) among peer banks. The Bank remains a well-capitalized institution with a capital base well above the regulatory limits and Basel-III requirements. Bank continues the policy of sufficient profit retention to increase its risk taking capacity. Quality of the capital is evident from Bank's Tier-1 to total risk weighted assets ratio which comes to 20.89% against requirement of 6.50%.

The Bank has complied with all externally imposed capital requirements throughout the year. Furthermore, there has been no material change in the Bank's management of capital during the year. The Bank has carried out an assessment of its future capital requirements in accordance with Basel III regulations which are being phased in over subsequent periods, and the existing capital structure comfortably supports future growth.

Liquidity Management and strategy to overcome liquidity problem

Bank's comprehensive liquidity management framework assists it to closely watch the liquidity position through monitoring of early warning indicators and stress testing thus enabling an effective decision-making. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in the balance sheet.

Asset Liability Management Committee of the bank has the responsibility for the formulation of overall strategy

and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation.

Bank's liquidity position remained satisfactory. Bank's large and stable base of customer deposits, along with bank's strong capital base provided a source of strength and supported maintenance of strong liquidity position during the year. Bank also has a substantial portfolio of marketable securities that can be realized in the event of liquidity stress. Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio are well within the Basel prescribed limits.

Financial Highlights

MCB Bank Limited delivered remarkable results for the year ended December 31, 2013 meeting stakeholder expectations ensuring significant contribution to the sector and economy:

Profit and Appropriation

The profit before and after taxation for the year ended December 31, 2013 together with appropriations is as under:

	Rs. In Million
Profit before taxation	32,288
Taxation	10,793
Profit after taxation	21,495
Un-appropriated Profit Brought Forward	35,425
Remeasurement of defined benefit plans - net of tax	49
Transfer from Surplus on Revaluation of Fixed Assets (net of tax)	36
	35,510
Profit Available for Appropriation	57,005
Appropriations:	
Statutory Reserve	2,150
Final Cash Dividend - December 2012	920
Issue of Bonus Shares - December 2012	2,760
Interim Cash Dividend - March 2013	3,541
Interim Cash Dividend - June 2013	3,541
Interim Cash Dividend - September 2013	3,541
Total Appropriations	16,453
Un-appropriated Profit Carried Forward	40,552

Dividends

The Board has recommended a final cash dividend @ 35% and bonus shares @10% for the year ended December 31, 2013. This is in addition to 105% interim cash dividends announced during the year. The effect of the recommendation is not reflected in the above appropriations.

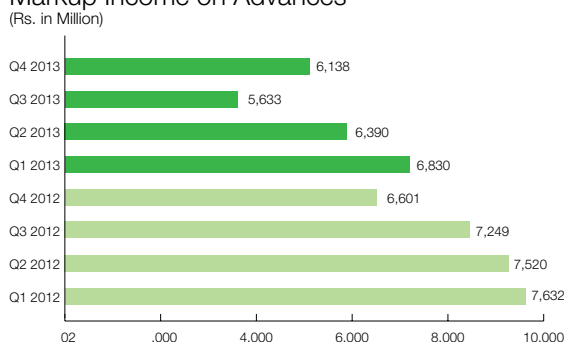
In addition to the financial analysis presented in the stakeholder's information section, detailed analysis of MCB Bank Limited's performance compared to the previous year is as follows:

Profitability

Profit after tax of the Bank rose to Rs. 21.495 billion with an increase of 4% over last year while profit before tax was reported at Rs. 32.288 billion with an increase of 2% over restated profit of 2012. Markup income has decreased by Rs. 3.292 billion whereas non-markup income of the Bank registered a healthy increase of Rs. 2.017 billion primarily on account of higher capital gains.

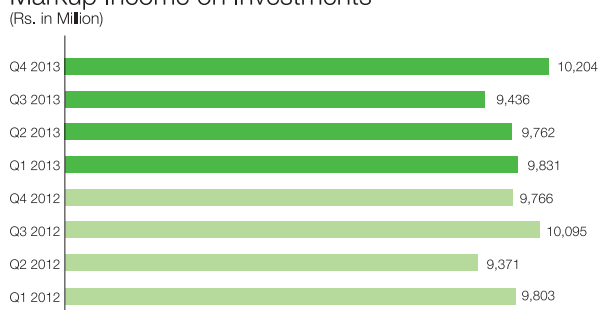
The comparative reduction in the monetary policy rate resulted in a decrease in markup earned on advances which was off-set by an increase in average advances.

Markup Income on Advances



On the investments side, the negative interest rate impact of 6.58B is off set by the volumetric positive variance of 6.7B.

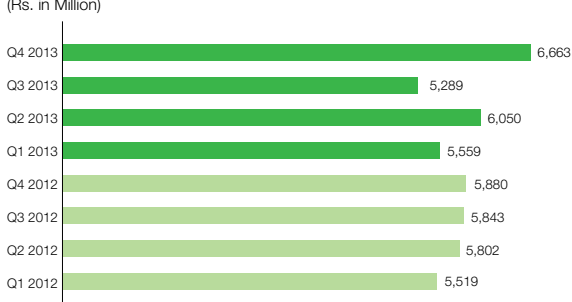
Markup Income on Investments



On the interest bearing liabilities side, the total cost of deposit has decreased by 36 bps with average volume increase of 59B over December 2012. The cost of saving deposits has increased by 4.49B translating into 55 bps increase. On the fixed deposit side, the interest has decreased by 3.972B when compared with corresponding period last year. The price variance analysis highlights that 1.8B of the said decrease is contributed by volume whereas the balancing 2.1B is due to decreased interest rates. There have been few regulatory revisions by the Central Bank on the minimum deposit rate being offered on saving and term deposits. The comparison highlights that the Banks offered 5% as MDR for the first four months of 2012 before it was revised to 6% from May 2012 onwards. From April 2013 onwards, the formula for computation on interest on deposits was revised from minimum monthly balance to average monthly balance by the Central Bank. In September 2013, Central Bank linked the MDR with the floor rate of the repo corridor where Banks were mandated to offer 50bps less than the floor repo rate on saving and fixed deposits. Corresponding to the revisions

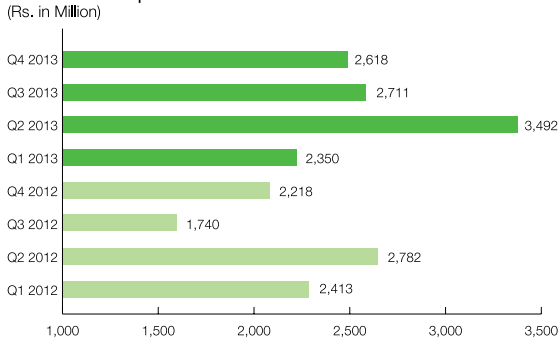
in the monetary policy rate, the MDR has been revised to 6.5% for the months of October and November, 2013 and to 7% for the month of December 2013.

Markup Expense on Deposits

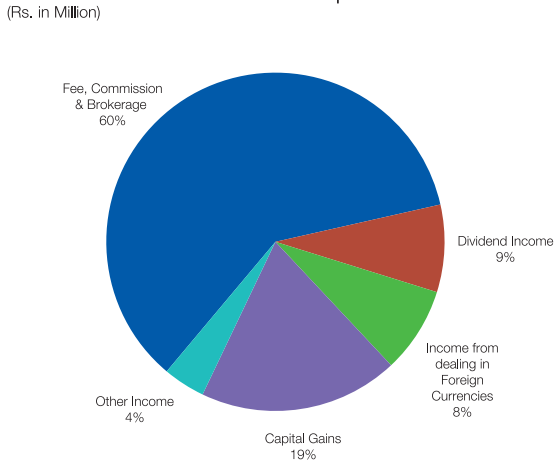


The Bank registered a growth of Rs. 2.017 billion in non-markup income owing to Rs. 1.306 million increase in capital gains and Rs. 807 million increase in fee, commission and brokerage income. The overall increase has improved the ratio of non-markup income to net revenue to 22.8% from 18.3% in 2012.

Non-Markup Income

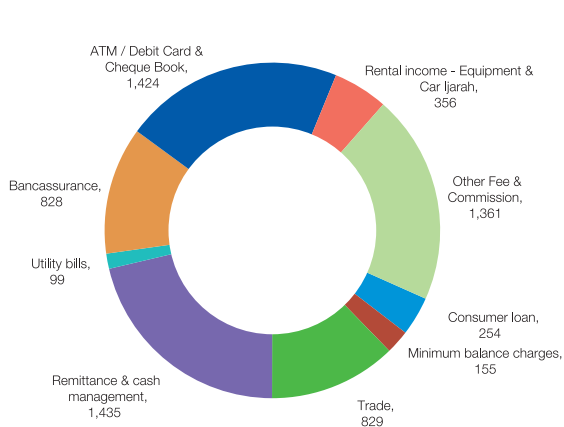


Concentration of Non-Markup Income



Components attributing to the increase in fee, commission and brokerage income this year were commission earned from ATM and Debit cards (+ Rs. 272 million), commission income from Bancassurance (+ Rs. 268 million) and commission earned on remittance business (+ Rs. 141 million).

Fee, Commission & Brokerage Income

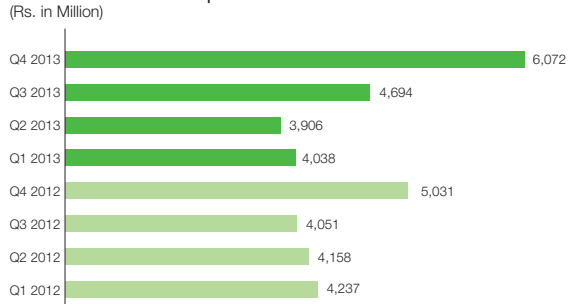


The substantial reversal in provision charge is reflective of the prudent and aggressive provision strategy adopted and rigorous efforts put in by the recovery units. A massive recovery of approximately 2.8B was reported in the loss categorized loans which enabled the bank to reverse the specific provision held in respect of such loans.

Continuing with its cost centric approach, the Bank was able to contain growth in its operating expense block to acceptable levels.

On the administrative expenses side, the Bank recorded a one-off charge for the voluntary separation scheme offered to its clerical / non-clerical staff for which an approximate cost of 1.1B was recorded in the financial results for the year ended December 31, 2013. Charge amounting to 1.058B on account of Ex-gratia/VSS settlement is reflected in the administrative charge breakup with the balancing amount recorded as settlement loss / gain of respective funds. Nullifying the impact of VSS charge and pension fund reversal, the administrative expense base of the Bank recorded a decrease of approximately 117M which is indicative of the cost effective synergies attained through central authorizations and annual capping. The pension fund reversal for the period was 1.7B as compared to 1.9B reported for last year.

Administrative Expenses



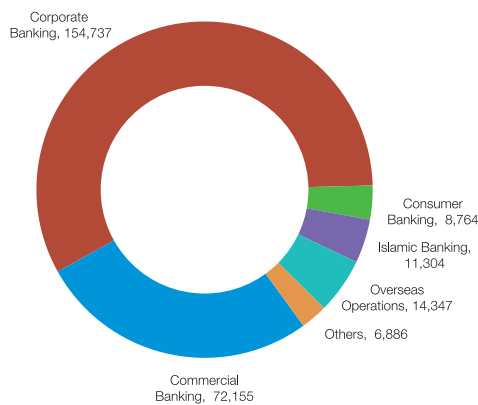
Statement of Financial Position

The Bank's total asset base strengthened with an increase of 6% to Rs. 816 billion. The increase was led by Rs. 46.9 billion increase in investments and Rs. 8.6 billion increase in net advances.

Advances gained a stable growth momentum this year and closed at Rs. 268.2 billion with an increase of Rs. 5.8 billion over 2012. This increase of 2% is attributed to commercial banking group that contributed an increase of Rs. 11.2 billion (16%) and while corporate banking advances have shown decrease of Rs. 7.2 billion (5%). The Islamic banking and overseas advances have also continued to grow and provide an increase of Rs. 1.3 billion (12%) and Rs. 1.2 billion respectively. In line with the system increase in advances, the market share of the Bank has decreased to 6.23% from 6.46% as at December 31, 2012.

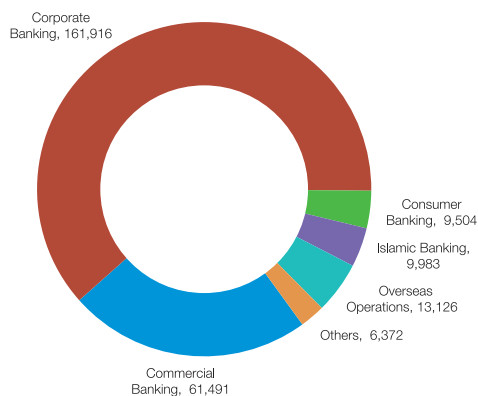
Groupwise Advances - Concentration 2013

(Rs. in Million)



Groupwise Advances - Concentration 2012

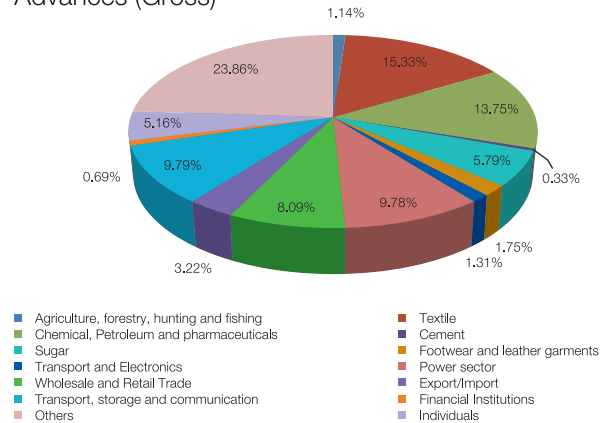
(Rs. in Million)



The Bank remained focused in serving the credit demand of the private sector with a substantial share of Rs. 218 billion out of the total gross advances as at December 31, 2013. Sectoral split of advances highlights growth of 173% in Chemical, Petroleum and pharmaceuticals sector followed by 37% growth in sugar sector. Textile, carrying one of the highest concentration level in advances base registered an increase of 9% over 2012. A significant decrease of 56%

was recorded in the transport, storage and communication chemicals.

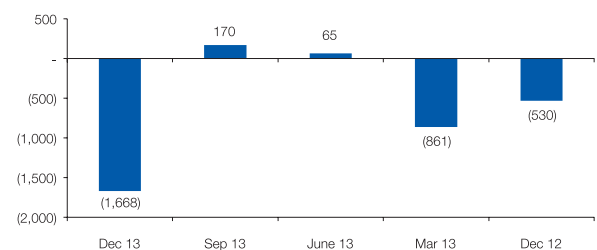
Advances (Gross)



The Bank, with its risk averse lending approach, has constantly been able to improve the asset quality of its portfolio. As of December 31, 2013, the Bank's classified advances were reported at Rs. 23.2 billion compared to Rs. 25.5 billion as at December 31, 2012 registering a decrease of Rs. 2.3 billion. The reduction was primarily the result of strengthened risk management framework and efforts posted by the recovery teams. With reference to the concentration of NPLs, 92.66% of the total base is categorized in the "loss" category for which 100% provision is held after deducting liquid security benefit. It is pertinent to highlight that MCB has not taken benefit of "Forced Sales Value" and carries an unencumbered general provision of around 0.1% of the gross advances which signifies the conservative and aggressive stance on provisioning.

Quarterly Trend in NPLs

(Rs. in Million)

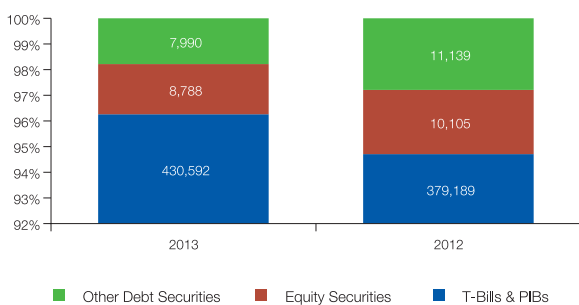


The reduction in NPL base has improved the infection ratio of the Bank to 8.68% compared to 9.74% as at December 31, 2012. Coverage ratio of the Bank came to 85.74% (2012: 89.23%).

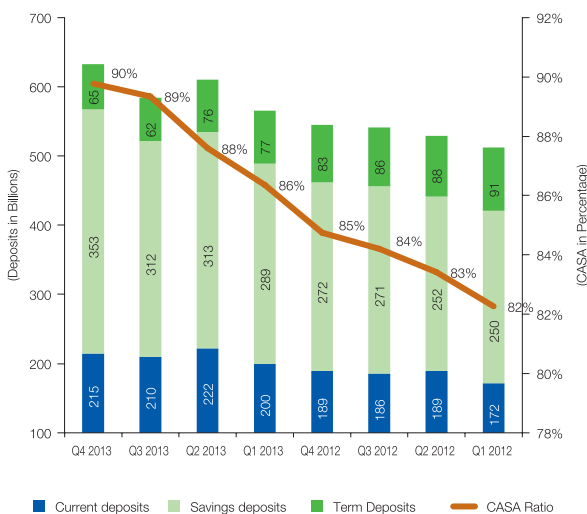
The gross investment base of the Bank has grown by 11% over December 2012 and was reported at 450Bn, reflecting an increase of approximately 50B over December 31, 2012 in absolute terms. Approximately 95.82% of the investment base is in government securities with major additions in Pakistan Investment Bonds growing by 22.5B whereas T-Bills increased by 32.2B over December, 2012. The weighted average yield on the current PIB portfolio is

around 11.71% and 9.25% on T-Bills. With reference to the concentration levels in different maturity buckets, 88% of the T-Bill exposure is classified in 3-Month tenor, 8% in 6 month category and balancing 4% in 1 year category. On the PIBs side, 35% is concentrated in 3 years, 51% in 5 years and 14% in 10 year category. On the equities side, the decrease is primarily reflected by disposal of Metro Sovereign Fund and Unilever Shares resulting in a capital gain of approximately 1.1B in the financial year 2013.

Composition of investments
(Rs. in million)



The deposit base of the Bank posted an extravagant increase of 87 B, translating into 16% over December 31, 2012. The Bank continued with its strategy of shifting its base to low cost current and saving accounts, each growing by 13% and 28% respectively over December 31, 2012 and taking the total CASA base to an all-time high of 90%. Convergent with the declining interest rate scenario, the decrease in high cost fixed deposits can be marked over a series of quarters, with a 20% decline for the year 2013 when compared with 2012 numbers. With the domestic deposit industry growing by 12.6% over December 2012, the share of the Bank has increased by 23bps when compared with December 2012 pie of the domestic deposits of the industry.



Non-financial performance

Non-financial performance during the year is tabulated below:

		2013	2012
Volume of home remittance-MCB	USD Min	1,529	1,470
Credit card issued during the year	Numbers	7,187	3,261
Branches opened during the year	Numbers	30	14
ATM installed during the year	Numbers	109	4
ATM card issued during the year	Numbers	508,241	469,841

Market Performance

During the year 2013, Karachi Stock Exchange continued its up trending, crossing previous highs and closed at 25,261. The year posted remarkable returns for equity investors after a democratic change of pro-business PML-N led government, resulting in reposition of the investor confidence. The year recorded investment at local and foreign fund levels, resulting in an outperforming growth statistics for the capital markets of the country. Basic statistics are summarized below:

Listed companies	560
Listed Capital (Billion Rupees)	1,129.79
Market Capitalization (Billion Rupees)	4,455.65
Index KSE 100	
High	25,579.33
Low	16,107.89
Closing	25,261.14

MCB Bank's scrip remained the sector leader both in terms of price and free float on the local exchanges. Market capitalisation of the Bank was recorded at Rs. 284.5 billion and the share price closed at Rs. 281.17.76 (High: Rs. 323.00, Low: Rs. 182.20).

Key sources of estimation uncertainty

The key sources of estimation uncertainty are discussed in detail in note 4.3 of the financial statements.

Future Outlook

2014 embarks with significant challenges in the shape of deteriorated law and order situation, energy crises / circular debt management and fiscal reforms. While the Government has amply proven its intentions by deploying its resources and energies in the right direction in 2013, the moderate stability achieved remains fragile. Structural reforms shaping up for the financial year 2014 will pave out the way for economic development and achieving the targets set for fiscal development and budgetary deficit. From the banking industry perspective, the volatility in the monetary policy along with regulatory revisions in the minimum deposit rates remains a key risk to profitability. However, higher deposit rates coupled with service quality levels provide an opportunity to bring the unbanked segments into banking net. To capitalize on such growth opportunities, the industry will focus on introduction of new products and services taking advantage of the technological development.

From MCB's perspective, we are committed to deliver exceptional financial performance while strategizing our way forward in wake of the developing challenges. Our key focus areas include global recognition through increased international presence, improvement in our asset quality, deployment of cost efficient techniques and increased contribution from non-markup income block. Apart from international expansion, we are looking forward to a quick penetration in the unbanked segment of the population through branchless banking tools and an Islamic Banking setup to serve the financial needs of our domestic customers.

We remain hopeful that we would maintain the status of one of the leading banks operating in Pakistan through improved service quality, financially viable tailored products to meet requirements of our esteemed customer and translating the underlying financial strength of the entity into profits.

Corporate Awards and Recognitions – 2013

- Top 25 Companies award by the Karachi Stock Exchange.
- MCB won the Best Domestic Bank in Pakistan in The Asset Triple A Country Awards 2012.
- Annual report of MCB Won Best Corporate Report Award 2012- Banks category, by the Joint Committee of Institute of Chartered Accountants Pakistan (ICAP) and Institute of Cost Management Accountants of Pakistan (ICMAP).
- Annual report of MCB for 2011 ranked 2nd runner in Banking sector up by South Asia Federation of Accountants (SAFA).
- Best website (www.mcb.com.lk) award won by LK domain registry Sri Lanka.
- Best Facilitator T+1 Cheque Clearing Award (small bank category) by Lanka Clear Pvt. Limited.
- Best Islamic Deal Award 2013 by "The Asset AAA".

Credit Rating

The Pakistan Credit Rating Agency (PACRA) upgraded the long term entity credit rating to AAA [triple A] and maintained the short term rating to A1+ [A one plus], through its notification in February 2013.

Statement on Internal Control

The Board is pleased to endorse the statement made by management relating to Internal Control over Financial Reporting (ICFR) and overall internal controls. The Management's Statement on Internal Controls is included in the Annual Report.

Evaluation of Board Performance

The Board is vested with the fiduciary duty of safeguarding the interests of the shareholders, setting up strategic direction, devising roadmap for attaining the strategic map and evaluating the performance while ensuring regulatory compliance. The broader role of the Board is specified in the Companies Ordinance along with Code of Corporate Governance. Specific guidelines on composition of Board

and its sub-committees along with the training requirements set by the statute, is an embedded control feature set up by the regulators operating in Pakistan. Board annually reviews the significant activities and achievement made by the Board committees. The Board evaluates its performance by looking at the overall performance of the Bank. Every members of the Board of Directors tries to attend all the meeting of the Board and to actively participate in its proceedings.

During the year Board deliberated on below significant issues:

- Approved annual business plan for 2014 and strategic plan for 2013-2017;
- Considered matters recommended by the Board committees
- Reviewed and approved quarterly operating results of the Bank and performance of business groups
- Internal audit reports, including cases of fraud and irregularities of a material nature;
- Management letter issued by the external auditors;
- Status and implications of all material law suit filed by and against the Bank
- Reviewed report on governance, risk management and compliance issues
- Reviewed report on CSR activities

Evaluation criteria

It is the duty of the Board of Directors to serve as a prudent fiduciary for shareholders and to oversee the management of the Bank's business. To fulfill its responsibilities and to discharge its duty, The Board of Directors set following evaluation criteria to judge its performance.

1. Ensuring adequate systems and controls are in place for identification and redress of grievances arising from unethical practices.
2. Ensuring professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviors. The board shall take appropriate steps to disseminate Code of Conduct throughout the Bank along with supporting policies and procedures and these shall be put on the Bank's website.
3. Ensuring that a vision and/or mission statement and overall corporate strategy for the Bank is prepared and adopted.
4. Ensuring that that significant policies have been formulated.
5. The directors shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the Bank.
6. The Board exercises its powers as required under Code of Corporate Governance and Companies Ordinance 1984.
7. The Board ensure that a system of sound internal control is established, which is effectively implemented and maintained at all levels within the Bank.

8. Compliance with the legislative system in which the Bank operates, particularly Companies Ordinance, 1984, listing regulation of Stock Exchanges.

Performance Evaluation of the Chief Executive Officer

President / Chief Executive Officer of the Bank is vested with the responsibility of managing overall affairs of the Bank. The Board, assuming a monitoring role, delegates its authority to the CEO to effectively manage the Bank, implement strategic decisions / policies and align the Bank's direction with the vision and set objectives. Performance evaluation of the CEO covers quantitative as well as qualitative aspects and is conducted on defined parameters which primarily cover financial performance against budgets, adherence to regulations, nurturing an ethical culture within the organization and goal congruence of the entire MCB family. The assessment is conducted on quarterly intervals where specific queries / observations raised by the BOD are addressed.

For the Year 2013, MCB Bank's overall performance covering every aspect, has been exceptional under the able leadership of Mr Imran Maqbool and has been duly recognized by the BOD. Such performance becomes even more noteworthy considering it was achieved in a challenging operating environment with high level of competition and in a highly regulated industry.

Statement under Code of Corporate Governance

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report that:

- The financial statements, prepared by the management of the Bank, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Bank have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements except for except for the change in accounting policy as described in note 5.6 and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as

applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained;

- There has been no material departure from the best practices of corporate governance.
- The system of internal control is sound in design and has been effectively implemented and monitored;
- There are no significant doubts upon the Bank's ability to continue as a going concern;
- Key operating and financial data of last six years is presented in the stakeholder's section of this report;
- Pattern of Shareholding, complying with the requirements prescribed by the code is annexed with the report;
- Statement of Compliance with Code of Corporate Governance is included in the Annual Report;
- The number of board and committees' meetings held during the year and attendance by each director is mentioned below;
- The Value of investment of provident and pension fund as at June 30, 2013 on the basis of audited accounts is Rs. 15,687.379 Million and Rs. 4,884.797 Million respectively;
- The Board members have the prescribed education and experience required for exemption from training programs of Directors pursuant to clause xi of CCG. However, one of the directors does not fulfill the exemption criteria; therefore, he has completed Directors Training Program during the year 2013.

Change in Board of Directors

During the year 2013, two casual vacancies occurred on the Board of Directors. One was filled within the prescribed period as narrated in Clause (iii) of the Code of Corporate Governance (CCG) by Mr. Muhammad Ali Zeb who was co-opted as Director by the Board on June 17, 2013 in place of Mr. Manzar Mushtaq. The other casual vacancy occurred due to the resignation of Datuk Abdul Farid Bin Alias, which was accepted by the Board on October 01, 2013. However, Securities and Exchange Commission of Pakistan, vide its letter No. SMD/SE/2(10)2002, dated January 22, 2014, granted the relaxation to the Bank from the requirement of Clause (iii) of CCG and extended the period of filling such casual vacancy till February 28, 2014.

Number of Board and sub-committee meetings held and attendance by each Director

	Board of Director		AC		BSDC		RM PRC		HR & RC		PPCA		ITC		SBP RCMC	
	Meetings Held: 5		Meetings Held: 5		Meetings Held: 4		Meetings Held: 4		Meetings Held: 5		Meetings Held: 4		Meetings Held: 4		Meetings Held: 2	
	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance
Mian Mohammad Mansha	◆	5	-	-	◆	4	-	-	◆	5	-	-	-	-	-	-
S. M. Muneer	◆	3	-	-	◆	3	-	-	-	-	◆	2	-	-	◆	2
Tariq Rafi	◆	3	◆	4	-	-	-	-	-	-	-	-	-	-	-	-
Shahzad Saleem	◆	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sarmad Amin	◆	5	-	-	-	-	◆	4	-	-	◆	4	-	-	◆	2
Mian Raza Mansha	◆	5	-	-	◆	4	-	-	◆	4	-	-	◆	4	-	-
Abdul Farid Bin Alias	◆	1*	-	-	◆	1*	◆	1*	-	-	-	-	-	-	-	-
Aftab Ahmad Khan	◆	4	◆	4	-	-	-	-	-	-	-	-	◆	4	-	-
Dato' Seri Ismail Shahudin	◆	5	◆	5	-	-	-	-	-	-	-	-	-	-	-	-
Mian Umer Mansha	◆	4	-	-	◆	3	◆	4	-	-	◆	4	-	-	-	-
Manzar Mushtaq	◆	1**	-	-	-	-	◆	2**	-	-	-	-	-	-	-	-
Ahmad Alman Aslam	◆	5	◆	5	◆	3	-	-	◆	5	-	-	◆	4	◆	2
Muhammad Ali Zeb	◆	3	-	-	-	-	◆	1***	-	-	-	-	-	-	-	-
Imran Maqbool (President & CEO)	◆	5	-	-	◆	4	◆	4	◆	5	◆	4	◆	4	◆	2

*Mr. Abdul Farid Bin Alias resignation as director was accepted by Board of Directors on October 01, 2013. Hence he attended.

- One (1) Board of Directors meeting
- One (1) Business Strategy & Development Committee meeting
- One (1) Risk Management & Portfolio Review Committee meeting

**Mr. Manzar Mushtaq resignation as director was accepted by Board of Directors on June 17, 2013. Hence he attended.

- One (1) Board of Directors meeting
- Two (2) Risk Management & Portfolio Review Committee meetings

*** Mr. Muhammad Ali Zeb was co-opted on the board on June 17, 2013 by casual vacancy created with resignation of Mr. Manzar Mushtaq. Hence he attended.

- Three (3) Board of Directors meetings
- One (1) Risk Management & Portfolio Review Committee meeting

Pattern of shareholdings

The aggregate shares held by directors, their spouses and minor children along with other executives of the Bank as at December 31, 2013, are as follows:

Directors	Self	Spouse & Minor Children	Total
Mian Mohammad Mansha	7,122	5,840,052	5,847,174
S. M. Muneer	1,872	2,207,260	2,209,132
Tariq Rafi	29,098,968	5,195,540	34,294,508
Shahzad Saleem	820	-	820
Sarmad Amin	2,592	-	2,592
Mian Raza Mansha	11,510,624	25,873,969	37,384,593
Mian Umer Mansha	29,078,526	-	29,078,526
Aftab Ahmad Khan	832	-	832
Ahmad Alman Aslam	605	-	605
Dato' Seri Ismail Shahudin	609	-	609
Muhammad Ali Zeb	500	-	500
Other executives			15,269

All the trade in shares carried out by Directors, CEO, CFO, Secretary, their spouses and minor children is reported as under:

Name	No. of Shares	Purchase / Sale / Transfer
Muhammad Ali Zeb	500	Purchased

Auditors

The retiring auditor M/s A.F. Ferguson & Co. Chartered Accountants, being eligible for the next term have offered themselves for reappointment. Upon recommendation of the Audit Committee, the Board recommends appointment of M/s A.F. Ferguson & Co., Chartered Accountants, as the auditors for the year 2014.

Acknowledgements

The Board would like to thank the State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Ministry of Finance and Federal Board of Revenue for their cooperation, improved regulatory policies and governance framework and their continued effort to improve the banking sector and state of the economy. Our gratitude is also extended to the senior management for their determination to achieve targeted milestones and to the business, support and operational staff for their contribution in materializing set goals.

On behalf of Directors,



Mian Mohammad Mansha
Chairman
MCB Bank Limited

February 11, 2014

Corporate Sustainability Report

It requires the Bank to get involved in social, economic, environmental, cultural and innovational conduct besides the financial deliverables. A better future of convenience for the stakeholders of MCB Bank; by convenience we mean all aspects from service to personal care. Technology is one front via which we aim to work on centricity lags.

Our aim is to float the products and services that could help improve the life of customers, masses and communities in which we operate.

In the past the Bank has developed a strong product portfolio that has brought innovative solutions, innovative front-end services and improvement in customer dependency.

Bank for Life

MCB Bank truly adheres to its philosophy i.e. "Bank for Life". It is our commitment to empower all our stakeholders with best corporate practices and constructive projects that help them in pursuing their goals and achievements.

The Bank maintains highly professional working culture in its organization that includes mandatory compliance towards the betterment of its stakeholders at every level. Hence various capacity building and welfare projects have been initiated in the current years to promote the living standard of the communities as whole to ensure their high performance and instill a sense of satisfaction amongst them.

Corporate Social Responsibility

MCB Bank being one of the market leaders in banking sector understands its pivotal role in the national economy and it continues to operate with strict adherence to regulations and principles of good governance.

The Bank is always active in carrying out community services under its different programs aimed at nurturing the various facets of life and to foster the growth of communities in which it operates. It has so far accomplished numerous projects and services in the areas of education, health, environment, sports, social awareness, promotion of culture and welfare of charitable organizations keeping in view the greater interest of its employees, customers and beloved country as a whole.

The Bank holds an approved "Corporate Social Responsibility Policy" by the Board that shows Bank's commitment to serve the community.

CSR at MCB Bank has continuously geared up its capabilities in order to act as an adequate point of convergence for the design and implementation of specific initiatives intended to further its engagement with the society and its people. These initiatives have also been recognized by entities such as Pakistan Centre of Philanthropy.

Education for All: MCB Bank places special emphasis on education and extends maximum financial support to individuals and schools for the promotion of this noble cause. The Bank has been engaged with CARE Foundation to support its extensive network of schools. It aims to develop personality and character of Pakistan's future generations by perpetrating qualities of inner discipline and control. In this regard, the bank has signed an agreement with LUMS for the purpose of providing soft loans to undergraduate students. MCB

also did a virtual classroom project with CISCO to promote a good standard of education for the less privileged children. MCB CSR has allocated funds especially for the activities brought in by various educational institutes. Some of these activities include sponsorship for Forman Christian College Model United Nations, 5th Inter School Debate Competition and The LUMS Model United Nations Society on 10th Annual LUMS UN Conference. On the same lines, MCB Bank has provided sponsorship to Roots International School Education Next: Future School and also took part in the cultural engagement events organized by Civil Services Academy - Sindh.

Human Rights: At MCB Bank, our mission is to ensure the political, educational, social and economic quality of rights of communities that we operate in and to help advocate the elimination of social biases and hatred. The Bank pays special attention to human rights and ensures that its policies reflect the interest of all of its members and customers without any discrimination. Environment at MCB is maintained with utmost professionalism, instilling a feeling of mutual respect, aiding in upholding the basic rights of the people coming in at the bank. We have supported various nonprofit initiatives that serve for the rights of humanity.

Sports: MCB Bank's CSR has always been at the forefront for promoting various sports at all levels. In such an endeavor, the Bank facilitated the Ixex Golf Club – Sargodha, Pakistan Club and the Interact Club of Karachi Continental. Further, it has also assisted the All Pakistan Multan Open Golf Championship – 2013, Jashan-e-Baharan Festival by Pakistan Expatriates Coop Housing along with the Ramzan Sports Gala-2013 held by CDA. Further, the Bank has been able to sponsor Punjab Youth Festival 2013-2014.

Energy conservation

MCB Bank carries a very conscious approach towards the current energy crisis. Keeping this concern in mind; the Bank financed few 'Bagasse Based Generation Power Projects'. These Projects are being setup under the Framework for Power Co-generation 2013 for Bagasse / Bio Mass to include bagasse/ biomass under the ambit of the 'Renewable Energy Policy, 2006'. This Alternative Energy Development Policy incentivizes the sugar companies to expand and upgrade their power generation businesses.

The Bank also believes that energy conservation is a dire need of time. It should be rooted in the behavior of every human being to get more effect towards the plan of energy conservation. The Bank has constructed a new building near Lahore Airport that truly reflects the concept of "Going Green". Also, MCB Karachi Tower is considered as an "Efficient Building" wherein the 'Air-Conditioning' is solely run through "waste-heat".

The Bank is currently involved in a project that aims to generate energy with the help of windmills. It also supports the idea of solar energy panels and plans to transform its branches to alternate energy generation portfolios. In 2013, the bank has improved the energy efficiency of its offices and branches wherein electricity expenses have been decreased by 7.73%.

Environmental protection measures

MCB Bank recognizes the importance of safe environment that is closely linked to the welfare of our community at large. The bank has taken initiatives to promote a paperless environment in order to control operating expenses resulting from photocopy and printed papers.

Corporate Sustainability Report

In 2013, MCB Product shop developed another important product offering “Fun Club” which focuses on the banking needs of the children. Besides serving the banking needs, this product maintains balance between personal, corporate, social and environmental responsibilities. MCB has entered into an agreement with WWF for sowing a plant in the name of the kid who subscribes for this product. The progress of the plant growth can be observed through Google earth.

MCB offices are very particular about plantation; special staff is hired that looks after the greenery and plantation within and in the surroundings of our buildings. In 2013, the bank has spent an overall 13.4 million on plantation expenses which is an evidence of its profound interest towards healthy environment measures.

Community investment & welfare schemes

MCB Bank’s initiatives have been aimed at supporting the deprived and underprivileged. To cater the needs of these, aided by advances in information and communication technology, The Bank has partnered with various NGOs that have helped to focus attention on the social and capacity building issues of the communities e.g. ‘Our Lady of Fatima Church’, ‘Pakistan Foundation Fighting Blindness’, ‘The Lahore Businessmen Association for Rehabilitation of the Disabled (LABARD)’ and ‘Rehman Kayani Memorial Society’ are few such names. Moreover, The Bank also supported ‘Al-Khidmat Orphan Care Program’ by providing them financial assistance so that they can also excel and move on in the mainstream life cycle. The Bank has also been supporting “Breast Cancer Awareness” across the country with “Pink Ribbon”.

The Bank in collaboration with ‘Sundas Foundation’ has organized a blood donating camp at MCB House Lahore and MCB Tower Karachi. The turnarounds at these camps were tremendous and Sundas Foundation managed to collect around 400 blood bottles for the treatment of its patients.

Realizing the needs of our minority groups, The Bank has sponsored various activities for minorities during the year e.g. Fund Raising events for St. Anthony’s Church Lahore and St. Patrick’s Cathedral Karachi.

Besides direct financial support, MCB Bank has helped various charities through alternative and innovative mediums e.g. fund-raising via electronic banking, distribution of flyers with bills & statements and free media space to charities so that they can conveniently advocate for their cause over mass mediums. Edhi, The Citizens Foundation, LABARD, Al-Shifa, and SOS, to name a few.

Consumer protection measures

MCB Bank is committed to provide world-class quality products and services to its customers and is very much concerned about the safety of its consumers. It maintains a privacy statement for the usage of its products i.e. Credit Cards, ATM pins etc. Staff at customer care department is trained to specially ensure the customer privacy and protection policy while dealing with sensitive information.

To ensure a culture of “Quality Customer Service” within the Bank, we have a dedicated Service Quality Division. The objective of this Division is to strengthen the Bank’s service culture, competitiveness and infrastructure by working closely with other divisions. The emphasis is on achieving an enhanced overall “Customer

Satisfaction” level. Moreover, the Division also initiates process improvements in order to achieve the fundamental business objectives of ‘growing’, ‘deepening’ and ‘retaining’ customer relationships.

Regular training sessions were conducted in all circles, call centers and other front-end staff on “Service Excellence” & “Customer Satisfaction”.

Customer Satisfaction: is the core element of any business. We truly believe in pampering our customers. Their satisfaction is the key to our success. Our help desks are always there to resolve queries. A total of 48,249 complaints were resolved and an overall 99.2% complaint resolution rate has been recorded during 2013.

	2013	2012
Total Complaints Received	48,621	41,828
Average complaints per 1,000 customers	9.18	8.48
Total Complaints Resolved	48,249	40,852
% Complaints Resolved	99%	98%
Average complaints per 1,000 customers	9.10	8.28
Complaints Resolved (Avg TAT)	8.19	6.00

Turn Around Time (TAT) Monitoring: Monitoring and Evaluation of Service Indicators is a part of the belief in increasing and retaining our customer base by improving the turnaround time and process improvements. In order to keep a strong hold on processes within the bank, that can cause customer satisfaction or dissatisfaction, SQ evolved several controllable measures based on the market practice. Against each measure, a tolerance level along with the timelines is set. Similar to the Branch Banking, Indicators for Consumer Assets, Credit Cards, Bancassurance, Call Centre, Mobile Banking and ATM Uptime are monitored monthly by SQ. The TAT for day-to-day activity and their performance against it is then presented to the management to ensure excellent service through fast delivery process.

Service Management Program (SMP): Service Quality has ensured that all Service Related activities and (TAT) Turn Around Times for Branch Banking are documented. This SMP has been launched in MCB Branches to ensure that a program is always available to reference regarding the service related issues.

Service Council: Service Council has been formulated to bring together key stakeholders from across the bank with a view to place service on the forefront through thought leadership, collaborative discussions and creation of a clear roadmap supported by facts and data. A meeting is held periodically which is convened by SQD Head and chaired by the President himself along with all the Group Heads and relevant Business Heads.

Service Protocols, Complaint Logging and Suggestion Forms: SQ introduced Service Protocols Booklet in all the branches for the Standardization Service Standards. Also Complaint Management Posters are made available in all branches for “Customers” to log their complaints as and when required. A new, improved complaint and suggestions forms “Your Priority, Our Concerns!” has been introduced in the branches for customer convenience in order to get their feedback recorded.

Quality Checks and Mystery Shopping: During the year, around 400 branches were ‘Mystery Shopped’ by independent external agency and results of this activity were shared with management

Corporate Sustainability Report

for further improvement. The average scores remained between 73 percent to 78 percent of all the regions including far-flung troubled areas.

Further, during the year, around 550 branches were internally gauged on defined parameters by SQ. Considerate support has been provided to all branches for betterment and improvement of Service Health. The overall 'Health and Quality Check' score remained between 80 percent to 85 percent for these branches.

Industrial relations:

MCB Bank being a collectivist and pluralist in its outlook is fully responsible for maintaining a healthy relationship between individual workers, employees and plays a critical role in facilitating the staff coming in from all walks of life. It gives special heed towards the agreement and satisfaction of its staff as a whole. The bank has been taking various interventions to match with the pace of its labor union. An agreement has been signed with the Staff Union of clerical and non-clerical staff at MCB Bank's head office so that it works on the same pace as does the other teams working at the bank. The Bank has allocated a dedicated staff who is there to ensure fair labor practices, grievance handling and to ensure just businesses amongst the labor union.

MCB Bank has introduced a special staff finance facility along with Voluntary Separation Scheme (VSS). It has been introduced for the purpose of facilitating the clerical and non-clerical staff. Further, scholarships are being offered to enhance the educational needs of the children that are being supported by all the clerical and non-clerical staff working with the Bank.

The management has always been very cordial and receptive towards staff issues and it staunchly believes in the power of one when it comes to leading a group of people coming in from various walks of life.

Employment of special persons

MCB Bank is an equal opportunity provider. It has never discriminated on the basis of race, gender, age or disability. The bank has recruited a sufficient number of special persons at various branches all over Pakistan. At MCB Bank, special persons are not discriminated on the basis of their handicaps. We believe in skills more than the conditions that have been bestowed on us from Mother Nature. The Bank is a staunch believer of the fact that diversity comes with variety only and that talent can never be discouraged merely because of natural hindrances.

Occupational safety & health

The safety and health of personnel are of paramount importance to the Bank. The Bank ensures that maximum safety standards are met at all businesses, offices and branches and encourages all employees to promote the safety of their fellow employees and customers. A special "Safety and Health Policy" has been developed for this purpose. This Policy aims at providing a safe and healthy working environment to the people working and visiting the Bank.

Emergency Lights, Fire Proof Cabinets, Fire Detection, Alarm System, Portable Fire Extinguishers, Safety-Anti Shatter Films, Conducive Working Environment, First Aid Kits, Evacuation Drills, Arrangement for Disables, Emergency Exit Doors, Fire Sprinkler

System and Medical Health Insurance are some of the measures that the Bank assures for the safety and security of its stakeholders.

At ATMs and other Alternative Delivery Channels (ADC), special safety measures have been taken to protect customers by implementing Installation of locks and cameras in all ATM Rooms with 24/7 recording, Anti-Skimming devices have been installed on all ATMs, ATM-safe-usage-guidelines are displayed on all ATM screens before the customer undertakes a transaction, all customer calls to Call Centre are recorded, IVR Transactions are secured via a separate Telephone Banking, PIN (T-PIN), SMS alerts service keeps the customers constantly updated of any activity (Debit or Credit) in their account.

Developing a positive health and safety culture, where safe and healthy working becomes second nature to everyone is what MCB Bank aims to achieve and for that, all possible efforts are being continuously utilized to touch an optimum level.

Business ethics & anti-corruption measures

"Fraudulent Market and Credit Risk" cannot be eliminated however the Bank has always been active in identifying and mitigating possible risks and losses through promulgation of policies and procedures to reduce possibility of such incidents. To achieve this, the "Compliance & Control Group" of the Bank devised tests to encourage awareness on areas specifically related to "Know-Your-Customers". This exercise is aimed to educate the Bank's employees to better understand the terminologies of "Know-Your-Customer" and "Anti Money Laundering", its requirements and hence minimize the chances of error or frauds and help the Bank to remain fully compliant of regulatory instructions.

The "Human Resources Management Group" of the Bank provides "Code of Conduct and Standard of Ethics"; a comprehensive document is in place as a part of the Human Resource Policy & Procedure Manual which is available to all staff members on the Bank's Intranet. The document is approved by the Board's Human Resource and Remuneration Committee. The Disciplinary Action Committee (DAC) takes action on any violation of policies & procedures, act of fraud & forgery, breach of discipline and code of conduct, ethics & business practices, law of land and statutory regulations by an employee. Appeals of the staff against whom DAC has already taken disciplinary action is reviewed by an independent Disciplinary Action Review Committee (DARC) which is formed with a view to ensure a fresh review of each appeal filed against the DAC decision. Details of the Standard of Ethics, Business Practices & Code of Conduct are available in this Annual Report.

The Bank wants to deliver long-term value for its shareholders and society. This means having the right culture, structures and processes in place to ensure that we practice strong governance, serve our clients and customers well and provide a great workplace for our people. Doing what we can to combat financial crime and protect the environment is one of the utmost components that have taken the Bank ahead till now.

National Cause Donations

Supporting national cause for the betterment of community at large is the utmost philosophy that MCB Bank is proud of. The bank very generously takes part in charitable activities. In 2013, rupees five million were donated by Islamic Banking Group for the effected Christian Community owing to riots in Joseph Colony, Badami Bagh, Lahore. Also, rupees thirty million (including Rs. 5 million

Corporate Sustainability Report

charity by IBG) were donated to the Prime Minister's Earth Quake Relief Fund for Baluchistan 2013.

MCB Bank's contribution towards the community has also been recognized by various local and international organizations. We have received "CSR Business Excellence Award" and have recently been ranked 8th because of the volume of donation among 490 top Pakistani companies which is definitely a source of motivation for us to continue towards such gallant initiatives.

Contribution to national exchequer

The number one bank in highest market capitalisation and one of the most profitable bank, MCB Bank always one of the leaders in contribution to the national exchequer. The Bank paid Rs. 10.36 billion as income tax to Government treasury during 2013. Furthermore, the Bank contributed over Rs. 5 billion to the National Exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001.

The Bank's contribution to the national economy by way of value addition was Rs. 43.35 Billion, out of which Rs. 10.29 Billion was distributed to employees and Rs. 15.18 Billion to shareholders.

The Bank has generated direct and indirect employment for a large number of people over the years. With the payment of taxes and the investment in the network, the bank is making a significant contribution to the country's development and growth.

Rural development programmes

MCB Bank realizes the pivotal role agriculture plays in driving the growth of our economy. Pakistan is an agrarian society and majority of its population is dependent on the agriculture sector for their livelihood. Keeping this fact in mind, MCB deliberately took part in the 5th Farmers Festival (HARI MELO) & National Conference in order to further enhance the agriculture sector of the country.

The bank has partnered with State Bank of Pakistan by partially sponsoring the Farmers Financial Literacy and Awareness Program Phase – II (FFLP). It is an Agricultural Awareness Program that is held at District Level in order to educate the agrarians at grass root level. Also, the bank has initiated a Kisan Dost Help Desk campaign at its selected branches from where farmers can confidently consult professionals for any relevant assistance.

MCB has 430 rural branches where we offer customized product menu to suit and meet the requirements of these people. MCB is committed in enhancing knowledge and understanding of banking business vis-a-vis spreading and exploring neglected regions of the country.

Human Resource Management

The focus of Human Resource Management and Development at MCB Bank is to recruit, develop, retain, reward best talent. We strive to ensure that our employment policies meet relevant social, statutory and regulatory conditions and remain committed to building and maintaining strong collective relationships and agreements. We have an employee relations presence providing regulatory support in all our key markets, ensuring greater alignment of our people-governance policies while also promoting flexible employment practices. Creating a workplace that endorses diversity and recognises the generational differences of our growing multi-generational workforce remains a key priority for us.

We have also continued to improve employee awareness and understanding of our Speaking Up policy, which enables staff to confidentially report concerns about misconduct, as part of our focus on ensuring fair and sustainable employee relations.

HRMG-Learning & Development

People development is the focal point of HR activities and involves continuous efforts to develop the skills of the employees at all levels. Various accomplishments & initiatives taken by MCB HRMG-Learning & Development in order to achieve and maintain a competitive advantage for the organization during the Year 2013 reflect the commitment of management towards employee development.

With the aim of improving the performance of the employees, various learning opportunities (In-house, ex-house & overseas) were organized during the Year 2013 to impart knowledge and skills to 15060 participants earning around 40850 Training man-days.

In house Learning approach is being provided by our Learning & Development Centers across Pakistan and AJK.

Elite Leadership Program: MCB HRMG organized an Elite Leadership Program by Dr. Marshall Goldsmith in Karachi & Lahore as Lead sponsor. It was a unique opportunity to allow our executives the exposure and learning that would not only enhance their potential to add greater value to their roles but would also help them develop their skills.

7 Habits of Highly Effective People signature programs were conducted for Senior and Middle Management.

Certification Programs - CBOM, CBM: A first of its kind initiative was taken via diverse certification programs such as CBOM and CBM. These are tailored made programs, comprising of in-house Training Sessions led by in-house trainers. These programs address the developmental needs of different functional roles in Branch banking. The overall aim of these programs is to enrich the available human capital through role based training & assessment, while simultaneously enabling the management to benefit from the availability of our vast talent pool for future strategic planning & deployment.

Succession Planning

"Succession Management is the development and retention of high potential employees so as to create a talent pool from which to fill key positions in the organization. Succession planning is a continuous process that involves identification, assessment and development of talent, to ensure that an organization's management can keep up with the changing business environment.

Recognizing the need for securing future leadership capability and achieving strategic viability, MCB has incorporated the Succession Management initiative in its HR policy, as part of its organizational development efforts. The Bank has formulated a comprehensive succession plan for critical positions to ensure operational continuity and grooming of our talent for subsequent elevation to higher assignments. Succession plans are revised periodically in line with the business needs and career development of employees

Motivational Environment and Merit Culture

MCB ensures motivational environment and merit culture throughout its operational units. It is a Bank that encourages its employees to do their best and get equal reward, position and monetary incentive on performance and merit basis.

The incentive-based pay system at Bank encourages competition among the employees and fosters the talent of staff members to perform their tasks remarkably with commitment.

MCB deploys KPI-based performance evaluation system to align and measure deliverables from the leadership to the front line managers ensuring that all employees contribute to the overall objectives of the bank as one team.

The Bank compensates its employees well in accordance with their work performance and completion of targets. Hence, employees are rewarded timely and meritoriously that provides exceptional results in the context of organizational effectiveness and employee motivation.

Equal Opportunity Employer

MCB Bank's recruitment policies provide unbiased criteria for hiring people from any religion as long as they qualify for the professional criteria required by the Bank. Our culture at MCB Bank also depicts a healthy, team based and cooperative environment. As of 2013, the Bank held a ratio of 9,142(88%) male and 1,230 (12%) female ratio with approximately 1 % of the employees from the minority population of the country.

Reward – Award Program

In order to provide the due recognition and incentive to the staff and keep them motivated this Program is successfully being run by SQ. Realizing that employees are a valuable commodity in today's ever-changing workplace, and recognition is a key component to employee satisfaction, we feel that Service Awards are an ideal way to ensure that all of our employees receive the recognition they need to be productive members of the corporate team. In the Year 2013, around 1,175 Employees were given "Cash Awards" on providing excellent service to the customers. Moreover, 657 Employees were recognized on monthly performance and were awarded with "Employee of the Month" award. Apart from this the collective efforts of Teams were recognized from all Groups Quarterly and yearly and were awarded with "Service Team of the Quarter" and "Team of the Year Awards".

Managing Conflict of Interest

Overview

A director owes certain fiduciary duties, including the duties of loyalty, diligence, and confidentiality, to Bank, which require that a director must act in good faith and exercise his or her powers for shareholders' interests and not for their own or others' interest.

The Board and management of MCB Bank Limited is committed to the transparent disclosure, management and constant monitoring of potential conflicts of interest to ensure that no undue benefit is passed on. The BOD recognizes the responsibility to adhere to the defined policies / procedures and avoid perceived conflicts of interest that may arise during the course of business.

The Bank in compliance with the Code of Corporate Governance annually circulates Code of Conduct applicable to all its employees and Directors, which is specifically signed off by all concerned. Apart from business ethics, the Code of Conduct specifically highlights scenarios where conflict of interest arises and specifies ways to deal with such situations.

Related Party transactions

The Bank has devised a fool proof mechanism for identification of related parties and execution of related party transaction at arm length, which are executed in the normal course of business. Based on the statutory requirements, complete transactional details of related parties are presented before the Audit Committee for review and deliberations on a quarterly interval. The Audit Committee reviews and recommends the related party transactions to the Board for approval.

Moreover, as a statutory requirement, a comprehensively prepared return is submitted on a half yearly interval to the State Bank of Pakistan that primarily covers every related party transaction executed during the said period.

Disclosure of interest by director

Every director (including spouse and minor children) of a Bank who

is in any way, whether directly or indirectly, concerned or interested in any contract or arrangement entered into, or to be entered into, by or on behalf of the Bank shall disclose the nature of his concern or interest at a meeting of the directors. Directors are required to disclose existing or perceived conflicts of interest prior to the commencement of each Board meeting.

Where a conflict of interest or potential conflict of interest has been disclosed, the Board member concerned shall not take part in the Board discussion of that topic. The member who has disclosed the conflict cannot vote on that item.

Exposure in companies where directors are interested

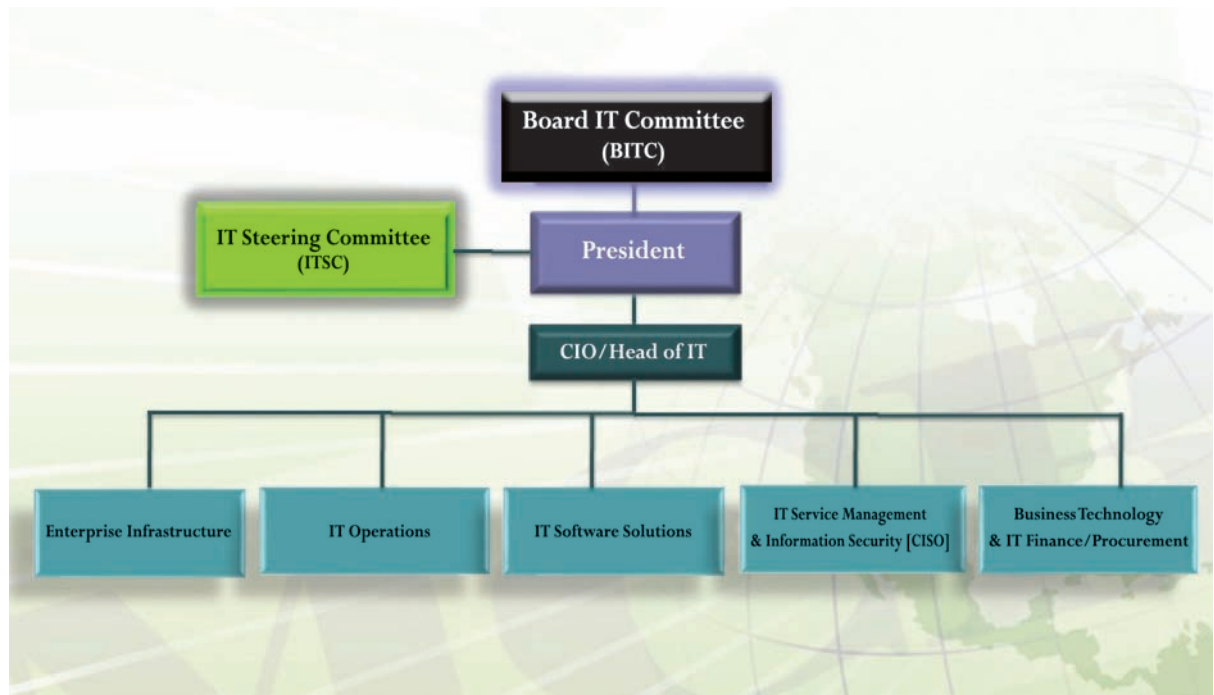
The Bank takes exposure in the companies in which our Directors (including their spouses, parents, and children) hold key management positions, or are interested as partner, director or guarantor, or shareholders holding 5% or more of the share capital of that concern, with the approval of the majority of the directors excluding the director concerned. The facilities to the persons mentioned above shall be extended at market terms and conditions and be dealt with at arm length basis.

Bank is not taking exposure against the guarantee of any of its directors, any of the family members of any of directors and any firm or private company in which our directors are interested as director, proprietor and partner.

Conflicts of Interest Register

The Bank maintains a register in which shall be entered separately particulars of all contracts, arrangements or appointments in which directors are interested.

IT Governance



IT Governance is an integral part of enterprise governance and consists of the leadership and organizational structures and processes that ensure that the organization's IT sustains and extends the organization's strategies and objectives. IT Governance systematically engages the Board members, executive management and underlying staff. The framework establishes a discipline used by the organization to measure transparent accountability of decisions, and ensures the traceability of decisions to assigned responsibilities. Well-structured IT Governance would assist in creating efficiencies, enhance conformity to internationally accepted best practices, improve overall IT performance and also enable better control and security.

Information Technology Group is headed by Head of IT who in turn reports functionally and administratively to the President/CEO. The Office of the Head of IT provides the leadership for the development and delivery of world-class technology services. The position is directly responsible for;

- Directing the operations of Information and technology Services for efficient and smooth delivery of technology services;
- Integrating IT Strategy with Bank's Strategy;
- Encouraging technical innovation and the development of a robust and dependable technology infrastructure;
- Strengthening the IT Governance;
- Providing guidance, oversight, and strategic thinking on information technology;
- Setting the overall direction for IT Group to introduce and implement innovative technology solutions;
- Ensuring the availability of Bank's mission critical services are up running and active DR invocation mechanism at the time of disaster.

Information Technology Group (ITG) has been taken care by teams of committed professionals, providing innovative and efficient solutions to achieve and nurture strategic objectives and goals of Business as well as other support groups under the guidance of Board IT Committee (BITC) and management IT Steering Committee (ITSC).

Group is further be strengthened by following functions:

- IT Operations
- IT Enterprise Infrastructure
- IT Service Management & Information Security
- IT Software Solutions
- Business Technology, IT PMO & Procurement

Internal Governance

The Bank's IT steering committee (ITSC) & Board IT Committee (BITC) are the governing bodies that review, monitor, prioritize and approve major IT projects. Key Objectives of these committees are:

- To provide a forum for discussions, review and advice on Technology needs, Investments, Issues & Progress.
- Prioritize, approve and monitor investments (projects & resource allocation), financial objectives and performance in order to review whether IT and Business strategies aligned with each other.
- Assessment of IT capability and adequacy of the IT infrastructure & Guidance on strategic goals and direction to see if enterprise achieving the optimum use of the IT resources.
- To review adoption of best practices, standardization and interoperability internally and externally.
- To provide resolution of cross-function or intercompany critical issues.

- Consideration of risk exposures and monitoring of risk management.
- To review the communication path between the board/ executive and middle management.

Information Security & Compliance: MCB management has centralized the authority, direction, management, and monitoring of Information Security activities for the entire organization in the Information Technology Group (ITG) under the umbrella of Information Security (IS) Team, led by Head of Information Security. This function is responsible for establishing, elaborating, and maintaining IT system's security compliance, define security controls in the following listed sections of Information Security Policy, processes, and documentation (SOPs, manuals, etc.) commensurate with Information Security Policy, departmental framework, and the changing threat landscape. Information Security function is responsible to ensure bank wide compliance with Information Security Policy, handling incidents of security breach, and recommending corrective action. Other responsibilities includes; IT Compliance of regulatory guidelines, internal policies and processes, Risk & Control Self-Assessment (RCSA) and to bridge the reviews, audits, inspections, and special assignments as conducted by the Regulator, Internal & External Audit, etc.

Project Governance: Effective project governance needs to be in place to ensure the Project is adequately supported and guided towards achieving its intended outcomes, and to ensure key decisions are made with appropriate governance oversight. BT/IT PMO is a central point of contact at Information Technology Group to facilitate ITG's other verticals and Other Groups for endeavoring successful deliveries of major and critical "IT Projects". The function is mainly responsible for:

- Establishing a connect between Technology and Business to understand business needs and to translate into technology solutions;
- Providing an Interface of the IT Group for other business groups to discuss their initiatives/projects for end-state solutions;
- End to end Project management of technology solution specifically and providing support for all other business initiatives in general, from technology perspective only;
- Project governance, support processes and methodologies for successful delivery of projects and customer requirements;

Whistle Blowing Policy

Preamble

The purpose of this policy is to provide a channel in MCB Bank Limited (the Bank) for the bank's staff and outside parties to raise concerns, expose irregularities, help uncover financial malpractices, prevent frauds, eliminate personnel harassments and attend to grievances of those associated without any fear of reprisal or adverse consequences.

Objectives

The main objective of the policy is to address the concerns of customers and employees for reported wrongdoings, impropriety and services inefficiencies affecting bank's overall performance, as per scope approved by the Board of Directors.

Scope

The policy refers to the deliberate, voluntary disclosure of individual or organizational impropriety by a person who has or had privileged access to data, event or information about an actual, suspected or anticipated wrongdoing within or by an organization that is within its ability to control.

Protection of Whistleblowers

The MCB Bank is committed to the protection of genuine complainants against action taken in reprisal for the making of protected disclosures. Confidentiality of the complainant's identity, the nature of the report, and the suspected person's identity is strictly maintained.

The Bank does not tolerate harassment or victimization and takes action, which could involve disciplinary proceedings, to protect complainant when they raise a concern in good faith. Retaliation against a whistleblower is prohibited regardless of the outcome of the investigation.

Incentives for Whistle Blowing

Complainant may be awarded monetary benefit / career advancement depending upon the nature and gravity of the disclosure.

Whistle Blowing Mechanism

Employees or outside parties may report their concerns or complaints to Whistle Blowing Unit through any of the following means:

Hotline
E-mail
Fax
Regular Mail

Concerns and complaints received through these means are investigated and findings are shared with the senior management for their necessary action. These findings are also shared with the Audit Committee.

Number of instances reported to Audit Committee

Number of whistle blowing incidences reported to the Audit Committee during the year 2013 were 22.

Record Management Policy

The Bank has put in place comprehensive guidelines for the management and control of its business records. These guidelines outline the processes for handling, protection, retention, retrieval, and disposition of recorded business information in a consistent, efficient and reliable manner. The guidelines cover following aspects:

Identification of Record

All business and support functions are required to identify, protect and retain records as required for normal business activities and for such periods as are necessary to fulfill the Bank's obligations to customers, employees, and stakeholders and for compliance with all applicable laws and regulations.

Classification of Record

Records are classified as to their value to the Bank and maintained and kept according, to their usage (activity level) and retention characteristics. Recorded information is classified as. Vital, Essential or Non-Essential.

Handling of Record

After classification, the recorded information is given a retention schedule that documents how the records will be handled, stored and disposed of from creation through active and inactive status to ultimate disposition. Appropriate procedures are followed to ensure that all records / documentation are carefully secured after business hours. It is ensured that all security stationery, negotiable instruments, confidential customer, employee documents etc., are properly placed in the vaults/ cabinets and before the close of the branch/ office appropriate controls and procedures related to securing records, data storage and backup are complied. Further, all business and support functions are required to ensure that no records are destroyed while under legal or regulatory requirements or the subject of pending or anticipated litigation.

SWOT Analysis

Strengths

- Strong capital base & Highest Capital Adequacy Ratio in peer Banks
- Highest CASA ratio / low cost deposits (90%) in the industry
- Offering of comprehensive solutions to clients across products (Debt, equity issuance, advisory and facility arrangement)
- Ability to introduce new products to improve margin and volumes
- Diversified Portfolio of loans and advances and diversified income streams
- 2nd lowest infection ratio in peer banks
- Conservative and sustainable business policy

Weaknesses

- Limited credit opportunities having low risk profiles
- Concentration in Govt securities & Lending to Public/Govt owned entities
- Lesser international / Global presence as compare to peer banks
- Dependence on the money and capital markets
- Linkage of minimum deposits rate with discount rate by regulator squeezing banks margin
- Exposure to the Euro/US dollar exchange rate, with an impact on growth and results

Opportunities

- Potential for capitalization on the anticipated growth in Islamic industry
- Strong capital base enable the Bank to explore international markets
- GSP plus status helping to raise the credit demand and recovery of classified portfolio in textile sector
- Positive and macroeconomic stability will increase demand
- Significant increase in the customer base, further extension of the range of the products
- Expansion in Africa, Europe and Middle East- Growth and expansion opportunities in emerging economies
- Expanding the advisory and other services offered to clients and investors
- Potential relationship with non-resident Pakistanis to attract FDI and home remittance
- Population demographics show an increase in working age population and hence increase in Banking needs

Threats

- Competition from peer banks
- Competition from growing branchless banking
- Inflationary expectation, high degree of dollarization
- Delinquencies of credit portfolio due to ailing economic conditions
- Squeezing margin of Banking industry due to minimum threshold for deposits rates and reducing discount rate
- Prevailing global financial markets crisis, sovereign debt crisis in Europe, increasing US debt levels, slowdown in the world economy
- Prevalent energy crises adversely affecting projects viabilities and demand for credits

Risk and Opportunity Report

Risk, being inherent in the banking business has to be mitigated through operational design to ensure safeguarding of an entity's value. At MCB, an appropriate risk appetite is defined for every identified risk to ensure that Bank has evaluated the associated risk and has designed an operational mitigating control. On the flip side, the Bank remains committed to pounce on every possible opportunity to translate it into revenues / returns for the stakeholders, while making sure that the related risk is adequately addressed.

In the chart to follow, we have summarized risks and opportunities and the related mitigating factors.

Risks:

Risk type	Description	Plans and Strategies for Mitigating Risks & Capitalizing Opportunities
Capital adequacy risk	The risk that the Bank has insufficient capital or is unable to meet the statutory defined capital requirements	<p>The Bank remains a well-capitalized institution with a capital base well above the regulatory limits and Basel-III requirements. The Bank regularly assesses the capital requirements and ensures that the minimum capital requirements specified by the Central Bank are adhered to. Quality of the capital is evident from Bank's Tier-1 to total risk weighted assets ratio which comes to 20.89% against requirement of 6.5% for 2013 .</p> <p>The Bank will continue the policy of sufficient profit retention to increase its risk taking capacity and capitalize opportunities</p>
Liquidity risk	The risk that the Bank is unable to meet its financial liabilities as they fall due.	<p>MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure.</p> <p>The Bank's large and stable base of customer deposits, along with Bank's strong capital base supplemented underlying strength and strong liquidity position during the year. Bank also has a substantial portfolio of marketable securities that can be realized in the event of liquidity stress. Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio are well within the Basel prescribed limits.</p>
Credit risk	The risk that the Bank will incur losses owing to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts.	<p>Bank has been selective in disbursing its loan to good quality borrowers engaged in different businesses. The Bank continues to maintain lower than average industry level NPL ratios. Bank has a fairly diversified loan portfolio. Even the top 20 Non-Government Borrowers account for less than 25% of total (Funded + Non-Funded) exposure. For risk categorized as sovereign/government risk, our lending exposure is spread over multiple government owned or controlled organizations and departments which are engaged in a variety of tasks that range from different development related works to utility distribution and production etc.</p> <p>To manage worst outcomes in terms of scenarios multiple factors in bank's lending structure provide additional comfort and support, these include quality of eligible collateral, pre disbursement safety measures, post disbursement monitoring, etc.</p> <p>Credit Risk Management function identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and reviews clients' performance on an ongoing process.</p>

Risk and Opportunity Report

<p>Market risk</p>	<p>The risk arising from fluctuations in interest rates, foreign currency, credit spreads, equity prices, commodity prices and risk related factors such as market volatilities</p>	<p>Bank is exposed to market risks through its trading and other activities. A comprehensive structure is in place aimed at ensuring the bank does not exceed its qualitative and quantitative tolerance for market risk. The bank has followed a non-aggressive and balanced approach towards risk taking in the market risk area coupled with robust risk management architecture, thus achieving the target of keeping the exposures within the defined risk appetite and a reward justifying the efforts. A number of metrics like VaR methodologies complemented by sensitivity measures, notional limits, loss triggers at a detailed portfolio level, and extensive stress testing are used to capture and report the multi-dimensional aspects of market risk.</p> <p>The Bank will continue to pursue to have a risk return balanced portfolio to keep its market risk exposure in line within the approved risk limits.</p>
<p>Operational risk</p>	<p>The risk of loss resulting from inadequate or failed processes, people, systems or from external events.</p>	<p>In accordance with the Operational Risk policy and framework, a database covering losses, control breaches and near misses is being maintained. Major risk events are analyzed from the control breaches perspective and mitigating controls are assessed on design and operating effectiveness. Quarterly updates on Operational Risk events are presented to senior management and Board's risk committee. The bank has an internal Operational Risk awareness program which is aimed at building capacity and inculcating risk culture in the staff through workshops and on-job awareness.</p>
<p>Regulatory risk</p>	<p>The risk arising from noncompliance with regulatory requirements, regulatory change or regulator expectations</p>	<p>Management of regulatory risk entails early identification and effective management of changes in legislative and regulatory requirements that may affect the Bank. We review key regulatory developments in order to anticipate changes and their potential impact on our performance</p>
<p>Country risk</p>	<p>The risk of material losses arising from significant country specific events.</p>	<p>Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns and exposures on foreign domiciled counter parties. Additionally, business product wise sub limits involving cross border exposure are also implemented. Monitoring of these limits is a regular feature of Risk Management.</p>

Opportunities

- Strong capital base and highest Capital adequacy Ratio in peer banks provides the opportunity of exploring International avenues in emerging market.
- Growing Islamic Banking Market will be capitalized through incorporating Islamic Bank subsidiary
- Various Risks described below are counterbalanced by the opportunities that could result from positive trends
- MCB has launched MCB Lite first chip based card to capitalize branchless Banking opportunities
- MCB re-launched Payara Ghar , Personnel Loan, Student Loan, etc during the year
- Potential relationship with non-resident Pakistanis to attract FDI and home remittance
- Population demographics show an increase in working age population and hence increase in Banking needs
- MCB expanding its network to tapped unbanked population

Stakeholder engagement

Stakeholders are those individuals, groups of individuals or organisations that impact and/ or could be impacted by our Bank's activities, products or services. In achieving and entrenching its integrated approach to sustainability, MCB Bank takes a highly collaborative approach, ensuring maximum interaction with, and input by, all its stakeholders.

For MCB, stakeholder engagement involves far more than merely communicating to our various stakeholder groups. We regard all our stakeholders as partners with our and make every effort to use the engagement we have with them to provide full disclosure, deepen our relationships and afford them opportunities to provide us with valuable input and feedback that will help us to grow and strengthen our business.

The following tables provide an overview of MCB's stakeholder engagements:

Stakeholder	Reasons for Engagement	Frequency of Engagement	Methods of Engagement
Employees	<ul style="list-style-type: none"> - To ensure that we remain an employer of choice by providing a safe, positive and inspiring working environment. - To understand and respond to the needs and concerns of our staff members. - To provide staff with strategic direction and pertinent information regarding Bank's activities. 	Ongoing and daily engagement at all levels of the Bank. As and when required by staff members.	<p>In addition to the regular communication that took place with direct managers and teams through a range of interactive channels, specific employees engagement included:</p> <ol style="list-style-type: none"> 1. Regular electronic and printed newsletters 2. Compliance letters 3. Annual conference 4. Strategy sessions
Customers	<ul style="list-style-type: none"> - To gain a better understanding of the financial services needs of our customers - To provide appropriate advice and solutions to meet our customers' identified financial needs. - To ensure accuracy of personal information. 	Dependent on customers' needs New products launch	Interactions through branch outlets, relationship managers and call centres, social media, surveys and marketing and advertising activities.
Shareholders	<ul style="list-style-type: none"> - To provide relevant, timeous information to current and potential shareholders - To keep shareholders informed at all times, to ensure that our shares trade at a fair value - To ensure that our image and the trust placed in us by shareholders, continues to improve, thereby minimizing the potential for reputational risk. 	Formally, four times a year at the release of year-end, half year, first- and third-quarter results. As requested by the analysts and investors.	Local and international road shows. Communications and answering investor/analyst questions. Annual general meeting Press releases.
Regulator	<ul style="list-style-type: none"> - To maintain open, honest and transparent relationships with regulator. - To ensure compliance with legal and regulatory requirements 	Daily, weekly, quarterly and as required.	These include meetings with representative of regulator and written communication on need basis.
Communities	<ul style="list-style-type: none"> - To create partnerships that best facilitates our integrated sustainability activities. - To obtain input from communities regarding key focus areas. - To create awareness of our integrated sustainability commitment and initiatives 	Dependent on events, requirements and request from either side	Ongoing support of projects and interaction with a wide variety of non-profit organization
Government	<ul style="list-style-type: none"> - To build and strengthen relationships with government, both as a partner in the development of the country and as a current or potential client. - To provide input into legislative development processes that will affect our activities and operations. - To reaffirm our commitment to public sector business development through proactive interaction with government 	As deemed necessary or requested by either side.	These include meetings with representative of Government bodies
Media	<ul style="list-style-type: none"> - To leverage the media as a channel to communicate with relevant stakeholders and public at large 	Frequent interaction with print and electronic media	Personal engagement, written reply, phone calls, interviews and capacity building seminars

Code of Conduct

In line with "Statement of Ethics and Business Practices" prepared in 2002, the Employees of the bank shall;

Abidance of Laws / Rules

- Conform to and abide by the Bank rules and policies and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control, the persona will, for the time being, be placed. To undertake at all times compliance with and observation of all applicable laws, regulations and Bank's policies, wherever the bank operates.

Integrity

- Conduct the highest standards of ethics, professional integrity and dignity in all dealings with the public, customers, investors, employees, and government officials, State Bank of Pakistan and fellow bankers and non-engagement in acts discreditable to the Bank, profession and nation.
- In case of awareness of any breaches of laws and regulations, frauds and other criminal activities or other
- similar serious incidents that might affect the interests of the Bank, the same shall be informed to the senior management immediately, including any issue, which may pose a reputational risk.
- Not use this policy to raise grievances or act in bad faith against colleagues.

Professionalism

- Serve the Bank honestly and faithfully and strictly serve the Bank's affairs and the affairs of its constituents.
- Use utmost endeavour to promote the interest and goodwill of the Bank and show courtesy and attention
- in all transactions/correspondence with officers of Government, State Bank of Pakistan, other Banks &
- Financial Institutions, other establishments dealing with the Bank, the Bank's constituents and the public.
- Disclose and assign to MCB all interest in any invention, improvement, discovery or work of authorship that may be made or conceived and which may arise out of the employment with MCB.
- In case the employment is terminated, all rights to property and information generated or obtained as part of employment relationship will remain the exclusive property of MCB.
- Comply with the laws and regulations on money
- laundering and fraud prevention and immediate reporting of all suspicions of money laundering as per the guidelines provided in KYC & AML Procedures Handbook for Management and Staff.

- Not to engage in any act of violation of KYC & AML guidelines given by State Bank of Pakistan and exercising of extreme vigilance in protecting MCB from being misused by anyone to launder money by violating these guidelines.
- Ensure that all customer complaints are resolved quickly, fairly and recorded appropriately.

Conflict of Interest

- Avoid all such circumstances in which there is personal interest conflict, or may appear to be in conflict, with the interest of the Bank or its customers.
- In case of potential conflict of interest, the same should be declared immediately to senior management, action is taken to resolve and manage it in open manner and resolving the conflict of interest on their own would be avoided.
- Report to the Company Secretary about any sale and purchase of MCB shares (own or spouse) in case the annual basic salary exceeds Rs. 500,000/-.

Political Participation

- Stand firmly against supporting the activities of any Group or individual that unlawfully threatens public order and safety.
- Not obtain membership of any political party, or take part in, subscribing in aid of, or assist in any way, any political movement in or outside of Pakistan or relating to the affairs of Pakistan.
- Not express views detrimental to the ideology, sovereignty or integrity of Pakistan.
- Not canvass or otherwise interfere or use influence in connection with or take part in any election as a candidate to a legislative/local body or issue an address to the electorate or in any manner announce or allowed to be announced publicly as a candidate or prospective candidate whether in Pakistan or elsewhere. However, the right to vote can be exercised.
- Not bring or attempt to bring political or other pressure/influence directly or indirectly to bear on the authorities/superior officers or indulge in derogatory pamphleteering, contribute, or write letters to the newspapers, anonymously or in own name contribute or appear in media, with an intent to induce the authority/superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

Financial Interest

Not indulge in any of the following activities:

- Borrow money from or in any way place myself under pecuniary obligation to a broker or moneylender or

anyone, including but not limited to any firm, company or person having dealings with the Bank.

- Buy or sell stock, shares or securities of any description without funds to meet the full cost in the case of purchase or scripts for delivery in the case of sale.
- However, a bona-fide investment of own funds in such stocks, shares and securities as wished can be made.
- Lend money in private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government paper or any other securities.
- Act as agent for an insurance company otherwise than as agent for or on behalf of the Bank.
- Be connected with the formation or management of a joint stock company or hold office of a director.
- Engage in any other commercial business or pursuit, either on own account or as agent for another or others.
- Accept or seek any outside employment or office whether stipendiary or honorary.
- Undertake part-time work for a private or public body or private person, or accept fee thereof.

Gift, Favors Etc.

- Not use the employment status to seek personal gain from those doing business or seeking to do business with MCB, nor accept such gain if offered.
- Not accept any gift, favors, entertainment or other benefit the size or frequency of which exceeds normal business contacts from a constituent or a subordinate employee of the Bank or from persons likely to have dealings with the Bank and candidates for employment in the Bank.
- Not accept any benefit from the estate of, or a trust created by a customer, or from an estate or trust of which a Bank's Company or business unit is an executor, administrator or trustee.
- Not give or accept bribes or engage in any form of corruption.

Confidentiality

- Maintain the privacy and confidentiality (during the course of employment and after its termination for whatever reason), of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefit of any individual(s).
- Not use for self gain, or for that of others either directly or

indirectly, all inside information about Bank's customers / affairs including customer data, product manuals, confidential research work, technical processes, operating manuals, marketing plans and strategies and other confidential financial and business information of the Bank etc.

- Not trade in relevant investments or indulge in giving tips to another person or dealing on behalf of relatives, friends or any other third parties, whilst in possession of non-public price sensitive information.
- Not disclose that a suspicious transaction or related information is being reported for investigation to the customer or any irrelevant quarter.

Data Security

- Only access or update the system and data according to the authority given by the bank. Any unauthorized access or updation will hold the person liable for a penal action by the bank in accordance with HR policies.
- Not compromise access to system by communicating my identification and /or passwords to others.

Communication / Contact with Media

- Be truthful in all advertisings and promotional efforts and to publish only accurate information about the Bank's operations under valid authority as prescribed in the Bank's policy.
- Not give any interview on behalf of the Bank or in official capacity in the print/electronic media or have the photograph displayed or an act in television/stage plays or in cinema without having permission from the competent authority.

Business / Work Ethics

- Respect fellow colleagues and work as a team. To be, at all times, courteous and to not let any personal differences affect work.
- Treat every customer of the Bank with respect and courtesy.

Personal Responsibility

- Demonstrate commitment to the code through words and actions.
- Be responsible for data relating to official responsibilities and to not alter / modify / amend Bank's record so as to obtain any personal benefits, attempt which in doing so shall hold the person liable to disciplinary action as per Bank's policy.
- Safeguard as a personal responsibility, both the tangible and intangible assets of MCB and its customer(s) that are under personal control and to not use Bank's assets for personal benefits except where permitted by MCB.
- Not use any Bank facilities including a car or telephone to promote trade union activities, or carry weapons

into Bank premises unless so authorized by the management, or to carry on trade union activities during office hours, or subject Bank officials to physical harassment or abuse.

- Not indulge in any kind of harassment or intimidation whether committed by or against any senior/ junior, coworker, customer, vendor or visitor.
- Not use language, written or spoken in intra-office or communication(s) with individual(s) outside the office that may contain any statement or material that is offensive to others.
- Not engage in any discrimination against an individual's race, colour, religion, gender, age, marital status, sexual orientation or disability.

Punctuality

- Ensure good attendance and punctuality and demonstrate a consistently good record in this area.
- Obtain, for any absence during working hours, written permission of the immediate supervisor.
- Not absent oneself from assigned duties, nor leave station over night, without having first obtained the permission of the competent authority. In case of emergency, if it is not possible to obtain prior permission, necessary permission / confirmation to be obtained from the competent authority within 24 hours.

Dress Code

- Maintain a standard of personal hygiene and dress appropriate for attendance at work. The appearance must inspire confidence and convey a sense of professionalism.

Work Environment

- Help in maintaining a healthy and productive work environment to meet the responsibilities to fellow employees, customers and investors, and to not get engaged in the selling, manufacturing, distributing, using any illegal substance or getting under the influence of illegal drugs while on the job.
- Ensure strict adherence to all policies of the Bank, as announced by the management from time to time and will contribute utmost effort in maintaining a conducive work environment by meticulously adhering and ensuring adherence to Anti Harassment and SHE (Safety, Health & Environment) Policies of the Bank.

Usage of Communication Tools

- Ensure strict adherence to the use of internet, emails and telephone provided by the Bank for professional use only.
- Never use the Bank's system to transmit or receive electronic images or text containing ethnic slurs,

social epithets or any thing that might be construed as harassing, offensive or insulting to others.

- Never utilize Bank's system to disseminate any material detrimental to the ideology, sovereignty or integrity of Pakistan.
- Never utilize the Bank's system for supporting any terrorist activity within and/or outside Pakistan.

Reporting and Accountability

- Maintain all books, data, information and records with scrupulous integrity, reflecting in an accurate and timely manner and to ensure that all business transactions are reported and documented correctly according to the business practices.

Ensure facts are not misinterpreted pertaining to:

- Issuing an incorrect account statement / any other information for any customer or staff member.
- Placing a fake claim for reimbursement of any expenses.
- Unrecorded funds or assets of Bank in custody for any reason.
- Posting of false, artificial or misleading entries in the books or record of the Bank.
- Intimate Human Resources Management of any changes in the personal circumstances relating to employment or benefits.

Statement on Internal Controls

The Bank's internal control structure comprises of the Board of Directors, Senior Management, Risk Management Group, Compliance & Control Group, Financial Control Group, Audit & RAR Group and self-Assessment process within business groups. The Management is responsible for establishing and maintaining a system of adequate internal controls and procedures for implementing strategy and policies as approved by the Board of Directors, designed to provide reasonable assurance as to the integrity and reliability of those controls and reports produced there from; developing processes that identify, measure, monitor and control risks incurred by the Bank; maintaining an organizational structure that clearly assigns responsibilities, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; monitoring the adequacy and effectiveness of the internal control system through evaluation and validation by internal auditors who have been entrusted the supervisory function with respect review of internal controls, the internal auditors reporting significant findings directly to Audit Committee of the Board; and taking timely due cognizance of the observations / recommendations concerning the system of internal controls made by the internal auditors, external auditors and the regulators. In view of the above and based on its supervision the Management has evaluated the effectiveness of the Bank's internal controls that encompassed material matters and reports that the System of Internal Control is sound in design and has been effectively implemented and monitored for material aspects. Keeping in view the risk exposure and identification, evaluation and management of significant risks faced by the Bank and based on regular review of internal controls and reports on their soundness, improvements are brought about by the Management with the approval of Board of Directors in the internal controls and policies. These are being continually reviewed and updated not only to conform to and achieve full compliance with State Bank of Pakistan's Guidelines on Internal Controls, but also to conform, wherever feasible and practicable, with international best practices and good corporate governance models.

However, it needs to be stated that systems are designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In making this assessment, the Bank used criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The Bank's assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal controls over financial reporting (ICFR). The Bank's internal controls over financial reporting include those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with approved accounting standards, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of Management and Directors of the Bank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements. Because of its inherent limitations, Internal Controls over Financial Reporting may not prevent or detect misstatements. Also, projections of any revaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Furthermore, the bank has developed a comprehensive management testing and reporting framework for

ensuring ongoing operating effectiveness of majority of key controls. In accordance with SBP directives, the Bank has completed all stages of ICFR roadmap and the third Long Form Report (LFR) for the year 2012 issued by the statutory auditors has been submitted to SBP as per given timeline, on June 28, 2013. The Bank will continue enhancing its coverage and compliance with the SBP guidelines on Internal Controls and further strengthen its control environment on an ongoing basis.

A separate Issues Tracking & Monitoring (ITAM) Committee structure with membership comprising of Senior Management is in place to expedite the resolution/compliance of identified issues. The ITAM Committee is assisted by a 'Working Group', which regularly conducts meetings and follows up with the process owners for resolution of issues. The Working Group escalate/refer key issues to ITAM Committee for its advice, decision or support. Moreover, the ITAM Committee regularly monitors performance of the Working Group in its meetings.

The scope of Audit & RAR Group, independent from line management, inter-alia includes, review and assess the adequacy and effectiveness of the control activities across the Bank as well as implementation of and compliance with all the prescribed policies and procedures. All significant and material findings of the internal audit reviews are reported to the Audit Committee of the Board of Directors. The Audit Committee actively monitors implementation, to ensure that identified risks are mitigated to safeguard the interest of the Bank.

February 11, 2014
Lahore



Raheel Ijaz
Chief Compliance Officer

Statement of Compliance with the best practices of Code of Corporate Governance for the year ended December 31, 2013

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 35 of Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges, 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 CCG in the following manner:

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present all the directors on the Board are non-executive except for President & CEO.
2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank (excluding the listed subsidiaries of listed holding companies).
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year, two casual vacancies occurred on the Board, one was filled within the prescribed period while relaxation was obtained from the Securities and Exchange Commission of Pakistan for the second, as per clause xlii of CCG.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of 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 transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and non-executive directors, have been taken by the board/shareholders.
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 and the Board met at least once in every quarter. 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 Board members have the prescribed education and experience required for exemption from training programs of Directors pursuant to clause xi of CCG. However, one of the directors does not fulfill the exemption criteria; therefore, he has completed Directors Training Program during the year 2013.
10. No new appointments of CFO and Head of Internal Audit were made during the year by the Board except for Company Secretary, whose remuneration and terms & conditions of employment were approved by the Board.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the CCG 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 shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises four (4) 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 CCG. The terms of reference of the committee have been formed and advised to the Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises four (4) members, of whom three (3) are non-executive directors including the Chairman of the Committee.
18. The Board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. 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.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.



Mian Mohammad Mansha
Chairman

February 11, 2014
Lahore

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate /Commercial Banking issued by the State Bank of Pakistan, Regulation No. 35 of the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad 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's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the 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.

Regulation 35(x) of the Listing Regulations requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee.

We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not. 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 Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2013.



A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner
Imran Farooq Mian

Lahore

Dated: February 28, 2014

Report of the Audit Committee

The Audit Committee comprises only of non-executive directors including one independent Director. The Committee is playing active role in resolving Bank's financial matters and governance issues. The committee has deepened its focus on the effectiveness of internal controls, compliance, assurance and internal audit functions, and the work undertaken and the challenges provided by Board of Directors:

The Audit Committee has concluded its review of the conduct and operations of the Bank during 2013, and reports that:

- Five meetings of the Audit Committee were held during the year 2013
- The Audit Committee reviewed quarterly, half-yearly and annual financial statements of the Bank prior to their approval by the Board of Directors
- The Audit Committee has reviewed and approved all related party transactions.
- The Audit Committee has recommended to the Board that M/s A.F. Ferguson & Company, Chartered Accountants, being eligible, be appointed to act as statutory auditors of MCB Bank Limited for the financial year ending December 31, 2014.
- The Audit Committee has reviewed management letter issued by external auditors and management's response. The committee is checking status of Compliance of External Auditor's Management Letters on quarterly basis.
- The Head of Internal Audit has direct access to the Chairman of the Board Audit Committee and the Committee has ensured staffing of personnel with sufficient internal audit acumen and that the function has all necessary access to Management and the right to seek information and explanations.
- The Internal Audit function has carried out its duties under the charter defined by the Committee.

Apart from above, the Committee also reviewed and deliberated upon:

- Status of implementation by Groups, of decisions made by Board and its Sub -Committees and their validation by Internal Audit.
- An update on entire audit activity carried out by the Internal Audit Function during the year.
- Significant Internal Audit findings pertaining to Branch Audits, Management Audit and Risk Assets Reviews.
- Rectification action taken on Internal Audit Findings.
- Update on evaluation of internal control system by internal audit as well as compliance thereon by the management.
- Review of Internal Audit Policies.
- Review and recommendation of scope and fee of External Assessor for External Quality Assessment of the Audit Group.
- Compliance status of SBP Inspection Reports.
- Resolution of complaints received under Whistleblowing Program of the Bank.
- The committee has reviewed statement on internal control systems prior to endorsement by the Board of Directors and internal audit reports;

Dated: February 11, 2014
Lahore



Tariq Rafi
Chairman
Audit Committee



MCB Bank Limited

Financial Statements

For the year ended December 31, 2013

Auditors' Report To The Members

We have audited the annexed unconsolidated statement of financial position of MCB Bank Limited as at December 31, 2013 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifty branches which have been audited by us and eight branches audited by auditors abroad 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 management 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 financial statements based on our audit.

We conducted our audit in accordance with the international standards of 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 the case of loans and advances covered more than sixty percent of the total loans and advances of the bank, we report that:

- (a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purpose of our audit;
- (b) in our opinion:
 - (i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change in accounting policy referred to in note 5.6, With which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with 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, 2013 and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner
Imran Farooq Mian

Lahore
Dated: February 28, 2014

Statement of Financial Position

As at December 31, 2013

	Note	2013	2012 Restated (Rupees in '000)	2011 Restated
ASSETS				
Cash and balances with treasury banks	6	59,946,150	57,420,129	53,122,522
Balances with other banks	7	1,536,946	1,191,974	2,281,263
Lendings to financial institutions	8	1,224,638	1,551,472	955,087
Investments - net	9	449,006,019	402,068,916	316,651,613
Advances - net	10	248,242,965	239,583,320	227,580,139
Operating fixed assets	11	28,595,338	23,738,454	22,007,903
Deferred tax assets - net		-	-	-
Other assets - net	12	26,956,315	41,520,432	31,183,765
		815,508,371	767,074,697	653,782,292
LIABILITIES				
Bills payable	14	10,138,726	9,896,284	9,466,818
Borrowings	15	38,542,660	78,951,103	39,100,627
Deposits and other accounts	16	632,330,286	545,060,728	491,188,710
Sub-ordinated loan		-	-	-
Liabilities against assets subject to finance lease		-	-	-
Deferred tax liabilities - net	17	4,201,373	9,529,727	6,487,525
Other liabilities	18	20,064,345	21,166,166	18,378,373
		705,277,390	664,604,008	564,622,053
NET ASSETS				
		110,230,981	102,470,689	89,160,239
Represented by				
Share capital	19	10,118,461	9,198,601	8,362,365
Reserves	20	46,601,214	44,253,270	42,186,467
Unappropriated profit		40,552,043	35,424,921	28,723,928
		97,271,718	88,876,792	79,272,760
Surplus on revaluation of assets - net of tax	21	12,959,263	13,593,897	9,887,479
		110,230,981	102,470,689	89,160,239
Contingencies and commitments	22			

The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Profit and Loss Account

For the year ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
Mark-up / return / interest earned	24	65,064,123	68,356,191
Mark-up / return / interest expensed	25	27,195,894	27,500,019
Net mark-up / interest income		37,868,229	40,856,172
Provision / (reversal) for diminution in the value of investments - net	9.3	(6,834)	(3,044)
Provision / (reversal) against loans and advances - net	10.5.2	(2,828,783)	480,903
Bad debts written off directly	10.6.1	-	206
		(2,835,617)	478,065
Net mark-up / interest income after provisions		40,703,846	40,378,107
Non-mark-up / interest income			
Fee, commission and brokerage income		6,741,404	5,934,472
Dividend income		932,717	1,197,615
Income from dealing in foreign currencies		916,572	822,856
Gain on sale of securities - net	26	2,130,341	824,539
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	27	449,604	373,849
Total non-mark-up / interest income		11,170,638	9,153,331
		51,874,484	49,531,438
Non-mark-up / interest expenses			
Administrative expenses	28	18,709,969	17,476,862
Other provision / (reversal) - net	12.3	(52,285)	(187,305)
Other charges	29	928,595	599,974
Total non-mark-up / interest expenses		19,586,279	17,889,531
Extra ordinary / unusual item		-	-
Profit before taxation		32,288,205	31,641,907
Taxation - Current year		15,170,974	9,600,760
- Prior years		-	116,725
- Deferred		(4,378,107)	1,251,420
	30	10,792,867	10,968,905
Profit after taxation		21,495,338	20,673,002
Unappropriated profit brought forward		35,424,921	28,723,928
Transfer from surplus on revaluation of fixed assets - net of tax		35,788	35,789
		35,460,709	28,759,717
Profit available for appropriation		56,956,047	49,432,719
<hr/>			
Basic and diluted earnings - after tax	Rupees per share	33	21.24
			20.43

The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Statement of Comprehensive Income

For the year ended December 31, 2013

	2013	2012 Restated
	(Rupees in '000)	
Profit after tax for the year	21,495,338	20,673,002
Other comprehensive income		
Items that will not be reclassified to profit and loss account		
Remeasurement of defined benefit plans - net of tax	49,373	629,820
Items that may be reclassified to profit and loss account		
Effect of translation of net investment in foreign branches	198,410	(27,267)
Comprehensive income transferred to equity	21,743,121	21,275,555
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	(3,697,164)	5,193,856
Deferred tax	1,189,889	(1,451,649)
	(2,507,275)	3,742,207
Total Comprehensive income	19,235,846	25,017,762

The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Cash Flow Statement

For the year ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
Cash flows from operating activities			
Profit before taxation		32,288,205	31,641,907
Less: Dividend income		(932,717)	(1,197,615)
		31,355,488	30,444,292
Adjustments for non-cash charges			
Depreciation	11.2	1,541,314	1,378,970
Amortization	11.3	260,424	259,932
Provision / (reversal) against loans and advances - net	10.5.2	(2,828,783)	480,903
Provision / (reversal) for diminution in the value of investments - net	9.3	(6,834)	(3,044)
Other provision / (reversal) - net	12.3	(52,285)	(187,305)
Bad debts written off directly	10.6.1	-	206
Provision for Workers' Welfare Fund	29	645,764	641,075
Charge / (reversal) for defined benefit plan	28	(1,311,767)	(1,608,008)
Gain on disposal of fixed assets - net	27	(42,687)	(22,586)
		(1,794,854)	940,143
		29,560,634	31,384,435
(Increase) / decrease in operating assets			
Lendings to financial institutions		326,834	(596,385)
Advances - net		(5,830,862)	(12,888,489)
Other assets - net		(2,778,730)	(1,694,467)
		(8,282,758)	(15,179,341)
Increase / (decrease) in operating liabilities			
Bills payable		242,442	429,466
Borrowings		(40,205,492)	39,132,085
Deposits and other accounts		87,269,558	53,872,018
Other liabilities		(2,529,334)	2,055,177
		44,777,174	95,488,746
		66,055,050	111,693,840
Defined benefits paid		(706,361)	(370,756)
Receipt from pension fund		14,731,898	-
Income tax paid		(10,355,097)	(14,622,132)
Net cash flows from operating activities		69,725,490	96,700,952
Cash flows from investing activities			
Net investments in 'available for sale' securities		(51,033,235)	(81,386,276)
Net investments in 'held to maturity' securities		405,975	1,260,172
Investment in subsidiary company		-	(94,299)
Dividends received		940,745	1,198,485
Investments in operating fixed assets		(4,663,196)	(3,404,698)
Sale proceeds of property and equipment disposed off		173,089	57,831
Net cash flows from investing activities		(54,176,622)	(82,368,785)
Cash flows from financing activities			
Dividend paid		(12,673,334)	(11,814,973)
Net cash flows from financing activities		(12,673,334)	(11,814,973)
Exchange differences on translation of the net investment in foreign branches		198,410	(27,267)
Increase in cash and cash equivalents		3,073,944	2,489,927
Cash and cash equivalents at beginning of the year		57,173,579	54,727,784
Effects of exchange rate changes on cash and cash equivalents		609,601	565,469
		57,783,180	55,293,253
Cash and cash equivalents at end of the year	34	60,857,124	57,783,180

The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Statement of Changes in Equity

For the year ended December 31, 2013

	Capital Reserves				Statutory reserve	Revenue Reserves		Total
	Share capital	Reserve for issue of bonus shares	Share premium	Exchange translation reserve		General reserve	Unappropriated profit	
	(Rupees in '000)							
Balance as at December 31, 2011	8,362,365	-	9,702,528	427,049	13,456,890	18,600,000	28,366,171	78,915,003
Effect of change in accounting policy - note 5.6	-	-	-	-	-	-	357,757	357,757
Balance as at December 31, 2011 - restated	8,362,365	-	9,702,528	427,049	13,456,890	18,600,000	28,723,928	79,272,760
Profit after taxation for the year ended December 31, 2012	-	-	-	-	-	-	20,673,002	20,673,002
Remeasurement of defined benefit plans - net of tax	-	-	-	-	-	-	629,820	629,820
Exchange differences on translation of net investment in foreign branches	-	-	-	(27,267)	-	-	-	(27,267)
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	35,789	35,789
Transferred to statutory reserve	-	-	-	-	2,094,070	-	(2,094,070)	-
Transfer to reserve for issue of bonus shares	-	836,236	-	-	-	-	(836,236)	-
Issue of bonus shares - December 2011	836,236	(836,236)	-	-	-	-	-	-
Final cash dividend - December 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)
Interim cash dividend - March 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)
Interim cash dividend - June 2012	-	-	-	-	-	-	(3,679,441)	(3,679,441)
Interim cash dividend - September 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)
Balance as at December 31, 2012	9,198,601	-	9,702,528	399,782	15,550,960	18,600,000	35,424,921	88,876,792
Profit after taxation for the year ended December 31, 2013	-	-	-	-	-	-	21,495,338	21,495,338
Remeasurement of defined benefit plans - net of tax	-	-	-	-	-	-	49,373	49,373
Exchange differences on translation of net investment in foreign branches	-	-	-	198,410	-	-	-	198,410
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	35,788	35,788
Transferred to statutory reserve	-	-	-	-	2,149,534	-	(2,149,534)	-
Transfer to reserve for issue of bonus shares	-	919,860	-	-	-	-	(919,860)	-
Issue of bonus shares - December 2012	919,860	(919,860)	-	-	-	-	-	-
Final cash dividend - December 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)
Interim cash dividend - March 2013	-	-	-	-	-	-	(3,541,471)	(3,541,471)
Interim cash dividend - June 2013	-	-	-	-	-	-	(3,541,470)	(3,541,470)
Interim cash dividend - September 2013	-	-	-	-	-	-	(3,541,461)	(3,541,461)
Balance as at December 31, 2013	10,118,461	-	9,702,528	598,192	17,700,494	18,600,000	40,552,043	97,271,718

For details of dividend declaration and appropriations, please refer note 45 to these financial statements.

The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Notes to the Financial Statements

For the year ended December 31, 2013

1. STATUS AND NATURE OF BUSINESS

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2012: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB -15 Main Gulberg, Lahore. The Bank operates 1,208 branches including 27 Islamic banking branches (2012: 1,179 branches including 27 Islamic banking branches) within Pakistan and 9 branches (2012: 8 branches) outside the country (including the Karachi Export Processing Zone branch).

2. BASIS OF PRESENTATION

- 2.1 These financial statements represent separate financial statements of MCB Bank Limited. The consolidated financial statements of the Group are being issued separately.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. 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 utilized and the appropriate portion of mark-up thereon.
- 2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.
- 2.4 For the purpose of translation, rates of Rs. 105.3246 per US Dollar (2012: Rs. 97.1497) and Rs. 0.8052 per LKR (2012: Rs.0.7611) have been used.

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies

Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 Financial Instruments: Disclosures on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

- 3.2 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2013:

- IAS 1 'Financial statements presentation' has been amended effective January 1, 2013. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit and loss subsequently reclassification adjustments). The specified changes has been made in the statements of other comprehensive income for the year.
- IAS 19 Employee Benefits (revised) which became effective for annual periods beginning on or after January 01, 2013 amends accounting for employees benefits. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately

Notes to the Financial Statements

For the year ended December 31, 2013

in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.

- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2013 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2014.

	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation (Amendment)	January 01, 2014
IFRS 10 ' Consolidated Financial statements	January 01, 2014
IFRS 12 'Disclosure of interest in other entities'	January 01, 2014
IFAS 3 - Profit and Loss Sharing on Deposits	January 01, 2014

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value.
- 4.2 The financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand.
- 4.3 **Critical accounting estimates and judgments**

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are

believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

In classifying investments the Bank follows the guidance provided in SBP circulars:

- Investments classified as 'held for trading', are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Bank reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.5.3 and 10.5.5.

c) Impairment of 'available for sale' equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

Notes to the Financial Statements

For the year ended December 31, 2013

e) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the balance sheet date and the rates contracted.

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors. Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in Note 36 of these financial statements for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Bank classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity.

c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the 'held for trading' or 'held to maturity' categories. Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account, currently.

Unquoted equity securities (excluding investments in subsidiaries and associates) are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost.

Associates are all entities over which the Group has significant influence but not control. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. Investments in subsidiaries and investments in associates are carried at cost less accumulated impairment losses, if any.

Provision for impairment in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. Provisions for impairment in value of debentures, participation term certificates and term finance certificates are made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

5.2 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included

Notes to the Financial Statements

For the year ended December 31, 2013

in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.3 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against Consumer and Small Enterprise (SEs) loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Advances are written off when there is no realistic prospect of recovery.

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.4 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation

of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

5.4.1 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

5.4.2 Leases (Ijarah)

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

5.5 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.6 Staff retirement benefits

The Bank operates the following staff retirement benefits for its employees:

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;

Notes to the Financial Statements

For the year ended December 31, 2013

- an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:
- an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and
 - contributory benevolent scheme
- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:
- an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
 - an approved pension fund.
 - contributory benevolent fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.

- d) For executives and officers who joined the Bank on or after January 01, 2000, the Bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to entitled employees.

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the Projected Unit Credit Method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. The Bank recognise past service cost as an expense at the earlier of the following dates:

- (i) when the plan amendment or curtailment occurs
- (ii) and when the Bank recognises related restructuring costs or termination benefits

Employees' compensated absences

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

During the current year, the Bank has changed its accounting policy in respect of post retirement defined benefits plans as required under International

Accounting Standard (IAS) 19, 'Employee Benefits'. Previously, the net cumulative actuarial gains / losses at each balance sheet date were recognized equally over a period of three years or the expected remaining average working lives of employees, whichever was lower. According to new policy actuarial gains and losses are recognized in other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the profit and loss account.

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated. The effect of the change in accounting policy on the current and prior periods financial statements have been summarised below:

	December 31, 2013	December 31, 2012	December 31, 2011
		(Rupees in '000)	
Impact on statement of financial position			
Increase in other assets	1,631,876	1,175,705	549,069
Increase / (decrease) in other liabilities	448,405	68,192	(1,327)
Increase in deferred tax liabilities	414,215	387,629	192,638
Increase in Un-appropriated profit	769,256	719,883	357,757

	December 31, 2013	December 31, 2012
	(Rupees in '000)	
Impact on profit and loss account		
Increase in administrative expenses	394,490	411,837
Decrease in profit before tax	394,490	411,837
Decrease in profit after tax	256,419	267,694
Decrease in earning per share	Rupees 0.253	0.265

5.7 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that

Notes to the Financial Statements

For the year ended December 31, 2013

it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.8 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.9 Foreign currencies

5.9.1 Foreign currency transactions

Transactions in foreign currencies other than the results of foreign operations discussed in note 5.9.2 are translated to Rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.9.2 Foreign operations

The assets and liabilities of foreign branches are translated to Rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated to Rupees at the average rate of exchange for the year.

5.9.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Bank's net investment in foreign branches, which are taken to the capital reserve (exchange translation reserve) until the disposal of the net investment, at which time these are recognised in the profit and loss account.

5.9.4 Commitments

Commitments for outstanding forward foreign

exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the date of the statement of financial position.

5.10 Acceptances

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the date of the statement of financial position.

5.11 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of countries where the branches operate. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Ijarah income is recognized on an accrual basis as and when the rental becomes due.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.

5.12 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

Notes to the Financial Statements

For the year ended December 31, 2013

5.13 Assets acquired in satisfaction of claims

The Bank occasionally acquires assets in settlement of certain advances. These are stated at lower of the carrying value or current fair value of such assets.

5.14 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn Nostro balances) in current and deposit accounts.

5.15 Financial instruments

5.15.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.15.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and as a liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

5.15.3 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

5.16 Borrowings / deposits

Borrowings / deposits are recorded at the proceeds received. The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

5.17 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks

and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.17.1 Business segments

Corporate Finance

Corporate Finance includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

Trading and Sales

It includes fixed income, equity, foreign exchange commodities, lendings to and borrowings from financial institutions and brokerage debt.

Retail and Consumer Banking

It includes retail lending and deposits, banking services, private lending and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

Commercial Banking

It includes project finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

5.17.2 Geographical segments

The Bank operates in three geographic regions being:

- Pakistan
- South Asia
- Middle East

5.18 Dividend distribution and appropriation

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

5.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013 (Rupees in '000)	2012
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	10,189,516	10,335,258
In hand - foreign currencies		2,161,330	1,467,866
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	25,986,891	24,947,522
Foreign currency current account	6.3	142,724	366,370
Foreign currency deposit account	6.2	5,529,331	4,693,009
With other central banks in foreign currency current account	6.2	272,502	373,700
With National Bank of Pakistan in local currency current account		15,663,856	15,236,404
		<u>59,946,150</u>	<u>57,420,129</u>

6.1 This includes national prize bonds amounting to Rs. 118.737 million (2012: Rs. 116.073 million).

6.2 Deposits with SBP are maintained to comply with their requirements issued from time to time. Deposits with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

6.3 This represents US Dollar settlement account maintained with SBP.

	Note	2013 (Rupees in '000)	2012
7. BALANCES WITH OTHER BANKS			
Outside Pakistan			
- current account		1,052,532	978,930
- deposit account	7.1	484,414	213,044
		<u>1,536,946</u>	<u>1,191,974</u>

7.1 Balances with other banks outside Pakistan in deposit accounts carry interest rate 2.35% per annum (2012: 0.16% to 4.25% per annum).

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2 & 8.3	664,261	-
Repurchase agreement lendings	8.2 & 8.3	560,377	1,551,472
		<u>1,224,638</u>	<u>1,551,472</u>
8.1 Particulars of lendings			
In local currency		996,766	1,482,973
In foreign currencies		227,872	68,499
		<u>1,224,638</u>	<u>1,551,472</u>

8.2. These carry mark up rates ranging from 6.50% to 10% per annum (2012 : 7.50% to 9.15%).

8.3 Securities held as collateral against lendings to financial institutions

	2013			2012		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	560,377	-	560,377	1,551,472	-	1,551,472
	<u>560,377</u>	<u>-</u>	<u>560,377</u>	<u>1,551,472</u>	<u>-</u>	<u>1,551,472</u>

Notes to the Financial Statements

For the year ended December 31, 2013

9. INVESTMENTS - NET

9.1 Investments by types

	Note / Annexure	2013			2012		
		Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
(Rupees in '000)							
Available-for-sale securities							
- Market Treasury Bills	9.4	304,804,941	16,631,860	321,436,801	226,894,492	63,100,246	289,994,738
- Pakistan Investment Bonds	9.4	107,615,147	-	107,615,147	83,428,081	-	83,428,081
- Shares in listed companies	9.4 & Annexure I (note 1)	7,792,448	-	7,792,448	6,807,354	-	6,807,354
- Units in open ended mutual fund		-	-	-	4,050,000	-	4,050,000
- Shares in unlisted companies	9.4 & Annexure I (note 2)	142,807	-	142,807	244,217	-	244,217
- NIT units	9.4 &	5,253	-	5,253	5,253	-	5,253
- Sukuk Bonds		2,700,000	-	2,700,000	3,400,000	-	3,400,000
- Term Finance Certificates (TFCs)	9.4 & Annexure I (note 3)	958,412	-	958,412	1,912,343	-	1,912,343
		424,019,008	16,631,860	440,650,868	326,741,740	63,100,246	389,841,986
Held-to-maturity securities							
- Market Treasury Bills	9.5	1,656,039	64,836	1,720,875	771,355	67,824	839,179
- Pakistan Investment Bonds		-	-	-	1,676,918	-	1,676,918
- Provincial Government Securities		118	-	118	118	-	118
- Sukuk Bonds	Annexure I (note 4)	442,838	-	442,838	653,616	-	653,616
- Euro Bonds	Annexure I (note 4)	2,344,907	-	2,344,907	1,693,483	-	1,693,483
- Term Finance Certificates (TFCs), Debtentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 3 & 4)	2,778,015	-	2,778,015	2,831,442	-	2,831,442
		7,221,917	64,836	7,286,753	7,626,932	67,824	7,694,756
Subsidiaries							
	Annexure I (note 5)						
- MNET Services (Private) Limited		49,975	-	49,975	49,975	-	49,975
- MCB Trade Services Limited		77	-	77	77	-	77
- MCB - Arif Habib Savings & Investments Limited		320,123	-	320,123	320,123	-	320,123
- MCB Leasing Closed Joint Stock Company		178,832	-	178,832	178,832	-	178,832
- MCB Financial Services Limited		27,500	-	27,500	27,500	-	27,500
		576,507	-	576,507	576,507	-	576,507
Associates							
	Annexure I (note 6)						
- Adamjee Insurance Company Limited	9.6	943,600	-	943,600	943,600	-	943,600
- Euronet Pakistan (Private) Limited		52,521	-	52,521	52,521	-	52,521
- First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		1,059,421	-	1,059,421	1,059,421	-	1,059,421
Investments at cost							
		432,876,853	16,696,696	449,573,549	336,004,600	63,168,070	399,172,670
Less: Provision for diminution in value of investments	9.3	(2,549,959)	-	(2,549,959)	(2,783,347)	-	(2,783,347)
Investments (net of provisions)							
		430,326,894	16,696,696	447,023,590	333,221,253	63,168,070	396,389,323
Surplus / (Deficit) on revaluation of available for sale securities - net	21.2	1,995,296	(12,867)	1,982,429	5,634,413	45,180	5,679,593
Investments at revalued amounts - net of provisions							
		432,322,190	16,683,829	449,006,019	338,855,666	63,213,250	402,068,916

Notes to the Financial Statements

For the year ended December 31, 2013

	Note / Annexure	2013 (Rupees in '000)	2012
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	321,436,801	289,994,738
- Pakistan Investment Bonds	9.4	107,615,147	85,104,999
- Euro Bonds	Annexure I (note 4)	2,344,907	1,693,483
- Sukuk Bonds	Annexure I (note 3 & 4)	2,700,000	3,400,000
Overseas Government Securities			
- Market Treasury Bills - Sri Lanka		1,720,875	839,179
- Development Bonds	Annexure I (note 4)	632,791	-
Provincial Government Securities		118	118
Subsidiaries and Associated Undertakings	Annexure I (note 5 & 6)	1,635,928	1,635,928
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	7,729,163	6,744,069
- Unlisted companies / funds	Annexure I (note 2)	142,807	144,217
Units of Open Ended Mutual Funds		-	4,050,000
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	63,285	63,285
- Unlisted Companies		-	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	Annexure I (note 3)	1,267,298	2,563,200
- Unlisted Term Finance Certificates	Annexure I (note 3)	1,527,553	1,979,818
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	308,785	200,767
Other Investments:			
- Sukuk Bonds	Annexure I (note 4)	442,838	653,616
- NIT Units		5,253	5,253
Total investments at cost		449,573,549	399,172,670
Less: Provision for diminution in the value of investments	9.3	(2,549,959)	(2,783,347)
Investments (net of provisions)		447,023,590	396,389,323
Surplus on revaluation of available for sale securities - net	21.2	1,982,429	5,679,593
Investments at revalued amounts - net of provisions		449,006,019	402,068,916
9.3. Particulars of provision			
Opening balance		2,783,347	3,327,065
Charge during the year		75,299	42,637
Reversal made during the year		(82,133)	(45,681)
		(6,834)	(3,044)
Reversal on disposal of shares		(224,353)	(540,674)
Reclassification		(173)	-
Investment written off against provision		(2,028)	-
Closing balance		2,549,959	2,783,347
9.3.1 Particulars of provision in respect of Type and Segment			
Available-for-sale securities			
Listed shares / Certificates / Units		1,993,913	2,215,756
Unlisted shares		74,741	71,342
		2,068,654	2,287,098
Held-to-maturity securities			
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates		481,305	496,249
		2,549,959	2,783,347

Notes to the Financial Statements

For the year ended December 31, 2013

9.4 Quality of 'available for sale' securities

	Note	2013		2012	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	321,150,456	Unrated	290,505,477	Unrated
Pakistan Investment Bonds	9.4.1	107,720,565	Unrated	86,166,935	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		253,321	AA-	275,754	AA-
Bank Alfalah Limited		527,480	AA-	522,712	AA-
Allied Bank Limited		205,081	AA	237,013	AA
United Bank Limited		-	-	777,380	AA
NIB Bank limited		-	-	167,118	A+
Pak Arab Fertilizers Limited		-	-	30,011	AA
		985,882		2,009,988	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		25,814	Not available	19,645	Not available
Aisha Steel Mills Limited		1,345	A- & A2	1,690	A- & A2
Allied Bank Limited		794,738	AA+ & A1+	496,754	AA+ & A1+
Arif Habib Limited		3,067	Not available	2,686	Not available
Arif Habib Corporation Limited		41,188	AA & A1+	44,650	AA & A1+
Attock Cement Pakistan Limited		2,754	Not available	1,676	Not available
Attock Petroleum Limited		494,906	Not available	420,756	Not available
Attock Refinery Limited		-	-	37,270	AA & A 1+
Bank Alfalah Limited		8,112	AA & A1+	5,046	AA & A1+
Bank Al-Habib Limited		533,977	AA+ & A1+	201,959	AA+ & A1+
Archroma Pakistan Limited (Formerly Clariant Pakistan Limited)		34,410	Not available	14,524	Not available
Fauji Cement Company Limited		22,330	Not available	-	
Fauji Fertilizer Bin Qasim Company Limited		168,909	Not available	112,374	Not available
Fauji Fertilizer Company Limited		1,123,183	Not available	1,175,148	Not available
First AI - Noor Modaraba		27,766	Not available	24,990	Not available
Habib Bank Limited		111,669	AAA & A1+	317,869	AAA & A1+
Habib Metropolitan Bank Limited		2,883	AA+ & A1+	2,168	AA+ & A1+
Hub Power Company Limited		230,190	AA+ & A1+	18,096	AA+ & A1+
IGI Insurance Limited		11,507	AA	-	AA
Indus Motors Company Limited		9,000	Not available	7,297	Not available
Kohinoor Energy Limited		1,952	AA & A1+	1,238	AA & A1+
Kot Addu Power Company Limited		367,752	AA+ & A1+	145,083	AA+ & A1+
Masood Textile Mills Limited - preference shares		50,000	Not available	50,000	Not available
Meezan Bank Limited		15,627	AA & A1+	10,743	AA- & A1+
Millat Tractors Limited		29	Not available	50,582	Not available
Murree Brewery Company Limited		9,460	Not available	2,861	Not available
National Foods Limited		11,430	A+ & A1	4,941	A+ & A1
National Refinery Limited		-	-	44,236	AAA & A1+
National Bank of Pakistan		428,773	AAA & A1+	-	
Nestle Pakistan Ltd Limited		40,378	Not available	25,314	Not available
*Next Capital Limited		9,750	Not available	9,555	Not available
Oil & Gas Development Company Limited		130,783	AAA & A1+	27,377	AAA & A1+
Balance carried forward		4,713,682		3,276,528	

Notes to the Financial Statements

For the year ended December 31, 2013

Note	2013		2012	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Balance brought forward	4,713,682		3,276,528	
Pakistan Oilfields Limited	592,297	Not available	510,038	Not available
Pakistan Petroleum Limited	457,001	Not available	140,515	Not available
Pakistan State Oil Company Limited	96,410	AA+ & A1+	-	AA+ & A1+
Pakistan Telecommunication Company Limited	32,706	Not available	-	Not available
Pakistan Tobacco Company Limited	27,572	Not available	3,310	Not available
Rafhan Maize Products Limited	127,037	Not available	23,858	Not available
Rupali Polyester Limited	2,985	Not available	3,994	Not available
Samba Bank Limited	66,947	AA- & A1	75,216	AA- & A1
Searle Pakistan Limited	11,244	BBB & A-3	3,010	BBB & A-3
** Sui Northern Gas Pipelines Limited	1,174,200	AA & A1+	1,165,180	AA- & A1+
* Trust Securities & Brokerage Limited	885	Not available	1,050	Not available
Unilever Pakistan Limited	-	-	799,920	Not available
Unilever Pakistan Foods Limited	8,063	Not available	3,728	Not available
United Bank Limited	602,352	AA+ & A1+	655,173	AA+ & A1+
Zulfiqar Industries Limited	3,481	Not available	3,183	Not available
	7,916,862		6,664,703	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund—Perpetual	-	-	4,236,489	AA(f)
MCB Dynamic Stock Fund	-	-	61,506	4-STAR & STAR
	-		4,297,995	
Shares in Un-listed Companies	9.4.2			
* National Investment Trust Limited	100	AM2-	100	AM2-
* SME Bank Limited	6,527	BBB & A3	10,106	BBB & A3
First Capital Investment (Private) Limited	2,500	AM4+	2,500	AM4+
Pak Asian Fund	11,500	Not available	11,500	Not available
* Arabian Sea Country Club	2,194	Not available	3,514	Not available
* Central Depository Company of Pakistan Limited	10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited	1,526	Not available	1,526	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)	1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited - preference share	-	-	100,000	A- & A2
Islamabad Stock Exchange Limited	30,346	Not available	30,346	Not available
Lanka Clearing (Private) Limited	805	Not available	761	Not available
Lanka Financial Services Bureau Limited	805	Not available	761	Not available
Credit Information Bureau of Srilanka	25	Not available	23	Not available
	68,066		172,875	
Other Investment				
Sukuk Bonds	9.4.1	Unrated	3,412,836	Unrated
N.I.T. Units		AM2-	3,672	AM2-
	440,564,643		393,234,481	

Notes to the Financial Statements

For the year ended December 31, 2013

9.4.1 These are Government of Pakistan guaranteed securities.

9.4.2 Investments in unlisted companies are stated at carrying value. The above excludes unlisted shares of companies which are fully provided for in these financial statements.

*These are the strategic investments of the Bank.

** This includes 37.292 million shares valuing Rs. 794.309 million (2012: 33.901 million shares valuing Rs. 788.207 million) which are held as strategic investment by the Bank.

9.5 Available for sale Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan. The market value of Market Treasury Bills classified as 'held to maturity' as at December 31, 2013 amounted to Rs. 1,720.875 million (2012: Rs. 839.179 million).

9.6 Investment of the Bank in Adamjee Insurance Company Limited is carried at cost amounting to Rs. 943.600 million (2012: Rs. 943.600 million) as at December 31, 2013. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2013 amounted to Rs. 3,809.906 million (2012: Rs. 2,455.336 million).

9.7 Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2012: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2012: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

9.8 Information relating to investments in ordinary shares and preference shares of listed companies and unlisted companies required to be disclosed as part of the financial statements under BSD Circular No.04 of 2006 dated February 17, 2006, is given in Annexure I.

9.9 Certain approved / Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		230,190,144	227,859,344
Outside Pakistan		13,943,718	12,689,510
		<u>244,133,862</u>	<u>240,518,854</u>
Islamic Financing and related assets	10.2	11,303,966	9,983,417
Net investment in finance lease	10.3		
In Pakistan		1,027,911	1,004,761
Outside Pakistan		108,534	162,475
		<u>1,136,445</u>	<u>1,167,236</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,455,467	830,471
Payable outside Pakistan		10,162,518	9,892,365
		<u>11,617,985</u>	<u>10,722,836</u>
Advances - gross		<u>268,192,258</u>	<u>262,392,343</u>
Provision against advances	10.5		
Specific provision		(19,450,148)	(22,380,087)
General provision		(267,860)	(257,457)
General provision against consumer loans		(201,354)	(145,568)
General provision for potential lease losses (in Sri Lanka operations)		(29,931)	(25,911)
		<u>(19,949,293)</u>	<u>(22,809,023)</u>
Advances - net of provision		<u>248,242,965</u>	<u>239,583,320</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		222,305,289	236,920,261
In foreign currencies		45,886,969	25,472,082
		<u>268,192,258</u>	<u>262,392,343</u>
10.1.2 Short-term		202,500,963	200,621,290
Long-term		65,691,295	61,771,053
		<u>268,192,258</u>	<u>262,392,343</u>
10.2 Islamic Financing and related assets	Annexure -II		
Islamic Financing		5,468,451	5,047,652
Inventories		4,580,773	3,319,863
Advance against Murabaha		756,568	1,394,444
Advance against Future Ijara		268,721	25,779
Advance against Diminishing Musharaka		229,453	195,679
		<u>11,303,966</u>	<u>9,983,417</u>

Notes to the Financial Statements

For the year ended December 31, 2013

10.3 Net investment in finance lease

	2013			2012		
	Not later than one year	Later than one and less than five years	Total than one	Not later one and year	Later than one and less than five years	Total
	(Rupees in '000)					
Lease rentals receivable	416,588	714,053	1,130,641	324,519	858,392	1,182,911
Guaranteed residual value	37,176	64,978	102,154	68,700	83,560	152,260
Minimum lease payments	453,764	779,031	1,232,795	393,219	941,952	1,335,171
Finance charge for future periods	(36,786)	(59,564)	(96,350)	(61,722)	(106,213)	(167,935)
Present value of minimum lease payments	416,978	719,467	1,136,445	331,497	835,739	1,167,236

10.4 Advances include Rs. 23,267.733 million (2012: Rs. 25,561.774 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2013								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially										
Mentioned (OAEM)	10.4.1	35,782	-	35,782	2,660	-	2,660	2,660	-	2,660
Substandard		168,423	50,438	218,861	41,200	12,610	53,810	41,200	12,610	53,810
Doubtful		1,453,012	-	1,453,012	405,827	-	405,827	405,827	-	405,827
Loss		16,584,176	4,975,902	21,560,078	16,502,626	2,485,225	18,987,851	16,502,626	2,485,225	18,987,851
		18,241,393	5,026,340	23,267,733	16,952,313	2,497,835	19,450,148	16,952,313	2,497,835	19,450,148
(Rupees in '000)										
2012										
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially										
Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		285,883	-	285,883	36,090	-	36,090	36,090	-	36,090
Doubtful		845,875	4,024	849,899	421,841	2,012	423,853	421,841	2,012	423,853
Loss		19,829,029	4,596,963	24,425,992	19,714,184	2,205,960	21,920,144	19,714,184	2,205,960	21,920,144
		20,960,787	4,600,987	25,561,774	20,172,115	2,207,972	22,380,087	20,172,115	2,207,972	22,380,087

10.4.1 This represents non-performing portfolio of agricultural and small enterprise financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural and Small Enterprise Financing issued by the State Bank of Pakistan.

Notes to the Financial Statements

For the year ended December 31, 2013

Note	2013				Total	
	Specific	General	General provision against consumer loans	Leasing (general)		
(Rupees in '000)						
10.5	Particulars of provision against advances					
	22,380,087	257,457	145,568	25,911	22,809,023	
	129,419	-	-	1,502	130,921	
	1,619,488	10,403	55,786	2,518	1,688,195	
	(4,516,978)	-	-	-	(4,516,978)	
	(2,897,490)	10,403	55,786	2,518	(2,828,783)	
Amounts written off	10.6.1	(161,868)	-	-	(161,868)	
Closing balance		19,450,148	267,860	201,354	29,931	19,949,293

Note	2012				Total	
	Specific	General	General provision against consumer loans	Leasing (general)		
(Rupees in '000)						
	21,869,401	248,135	198,340	17,566	22,333,442	
	101,078	-	-	-	101,078	
	4,881,254	9,322	-	8,345	4,898,921	
	(4,365,246)	-	(52,772)	-	(4,418,018)	
	516,008	9,322	(52,772)	8,345	480,903	
Amounts written off	10.6.1	(106,400)	-	-	(106,400)	
Closing balance		22,380,087	257,457	145,568	25,911	22,809,023

	2013			2012		
	Specific	General (total)	total	Specific	General (total)	Total
(Rupees in '000)						
10.5.1	Particulars of provisions against advances					
In local currency	16,952,313	469,214	17,421,527	20,172,115	403,025	20,575,140
In foreign currencies	2,497,835	29,931	2,527,766	2,207,972	25,911	2,233,883
	19,450,148	499,145	19,949,293	22,380,087	428,936	22,809,023

	Note	2013		2012	
		Specific	General (total)	Specific	General (total)
(Rupees in '000)					
10.5.2	The following amounts have been charged to the profit and loss account:				
Specific provision			(2,897,490)		516,008
General provision	10.5.3		10,403		9,322
General provision against consumer & Small Enterprise loans	10.5.5		55,786		(52,772)
General provision for potential lease losses (in Sri Lanka operations)			2,518		8,345
			(2,828,783)		480,903

10.5.3 General provision against advances represents provision maintained at around 0.1% of gross advances.

10.5.4 State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009, BSD Circular No. 02 of 2010 dated June 03, 2010 and BSD Circular No.1 of 2011 dated October 21, 2011 has allowed benefit of forced sale value (FSV) of Plant & Machinery under charge, pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for five years from the date of classification. However, management has not taken the FSV benefit in calculation of specific provision.

10.5.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP. General provision against Small Enterprise Finance is maintained at rate of 1% of fully secured performing portfolio.

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013 (Rupees in '000)	2012
10.6 Particulars of write offs:			
10.6.1 Against provisions	10.5	161,868	106,400
Directly charged to the profit and loss account		-	206
		<u>161,868</u>	<u>106,606</u>
10.6.2 Write offs of Rs. 500,000 and above	10.6.3	150,079	90,372
Write offs of below Rs. 500,000		11,789	16,234
		<u>161,868</u>	<u>106,606</u>

10.6.3 Details of loan write offs of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2013 is given at Annexure-III in standalone financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

	Note	2013 (Rupees in '000)	2012
10.7 Particulars of advances to directors, executives, associated companies, etc.			
Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		3,884,019	4,179,037
Loans granted during the year		581,008	527,091
Repayments		(831,052)	(822,109)
Balance at end of the year		<u>3,633,975</u>	<u>3,884,019</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		640,465	580,774
Loans granted during the year		474,797	467,712
Repayments		(402,105)	(408,021)
Balance at end of the year		<u>713,157</u>	<u>640,465</u>
		<u>4,347,132</u>	<u>4,524,484</u>
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,888,504	1,460,403
Property and equipment	11.2	26,117,418	21,769,226
Intangible asset	11.3	589,416	508,825
		<u>28,595,338</u>	<u>23,738,454</u>
11.1 Capital work-in-progress			
Civil works		1,260,427	1,032,549
Advances to suppliers and contractors		149,642	240,852
Others		478,435	187,002
		<u>1,888,504</u>	<u>1,460,403</u>

Notes to the Financial Statements

For the year ended December 31, 2013

11.2 Property and equipment

Description	2013						2013						Net book value at December 31, 2013	Annual rate of depreciation estimated useful life
	Cost/ Revalued amount						Accumulated depreciation							
	At January 01, 2013	Additions/ (disposals) / exchange and other adjustments	Revaluation surplus	Reversal due to revaluation	Transfer in / (out)	At December 31, 2013	At January 01, 2013	Charge for the year/ (description on disposals exchange and other adjustments	Reversal due to revaluation	Transfer in / (out)	At December 31, 2013			
(Rupees in '000)														
Land - Freehold	12,057,399	809,296	1,507,217	-	-	14,373,912	-	-	-	-	-	14,373,912	-	
Land - Leasehold	120,100	-	5,532	-	-	125,632	-	-	-	-	-	125,632	-	
Buildings on freehold land	6,101,743	1,062,697 1,990	592,273	(526,948)	57,731	7,289,486	295,597	213,047 760	(526,948)	17,544	-	7,289,486	upto 70 years	
Buildings on leasehold land	538,898	1,836 809	16,465	(14,013)	(493,999)	49,996	181,563	2,007 757	(14,013)	(170,314)	-	49,996	upto 50 years	
Leasehold Improvements*	-	225,847 1,504	-	-	436,268	663,619	-	154,583 2,762	-	152,770	310,115	353,504	3 years	
Furniture and fixture	982,427	97,216 (9,533) 1,994	-	-	-	1,072,104	538,266	97,350 (6,790) (485)	-	-	628,341	443,763	10%	
Electrical, Computers and office Equipment	7,662,200	790,075 (88,094) 5,394	-	-	-	8,369,575	5,536,781	732,143 (84,727) 4,256	-	-	6,188,453	2,181,122	10% to 25%	
Vehicles	580,209	233,183 (73,053) 2,246	-	-	-	742,585	359,677	75,598 (57,648) 1,546	-	-	379,173	363,412	20%	
Ijarah Assets														
Assets held under Ijarah - Car	285,284	523,090 (58,345)	-	-	-	750,029	61,550	111,509 (28,089)	-	-	144,970	605,059	20%	
Assets held under Ijarah- Equipment	537,749	150,840 (125,220)	-	-	-	563,369	123,349	155,077 (46,589)	-	-	231,837	331,532	20%	
	28,866,009	3,894,090 (354,245) 13,937	2,121,487	(540,961)	-	34,000,307	7,096,783	1,541,314 (223,843) 9,596	(540,961)	-	7,882,889	26,117,418		

* Leasehold Improvements have been classified separately from Buildings on leasehold land.

Description	2012				2012				Net book value at December 31, 2012	Annual rate of depreciation / estimated useful life
	Cost/ Revalued amount				Accumulated depreciation					
	At January 01, 2012	Additions/ (disposals) / exchange and other adjustments	At December 31, 2012	At January 01, 2012	Charge for the year/ (description on disposals) /exchange other adjustments	At December 31, 2012				
(Rupees in '000)										
Land - Freehold	10,788,123	1,269,276	12,057,399	-	-	-	12,057,399	-	-	
Land - Leasehold	120,100	-	120,100	-	-	-	120,100	-	-	
Buildings on freehold land	5,542,637	559,106	6,101,743	133,016	162,581	295,597	5,806,146	upto 70 years		
Buildings on leasehold land	307,012	233,291 (1,405)	538,898	120,908	77,620 (16,965)	181,563	357,335	3 to 50 years		
Furniture and fixture	901,776	82,857 (2,239) 33	982,427	432,210	107,373 (1,390) 73	538,266	444,161	10%		
Electrical, Computers and office Equipment	7,150,209	562,062 (19,008) (31,063)	7,662,200	4,746,335	813,470 (9,986) (13,038)	5,536,781	2,125,419	10% to 25%		
Vehicles	562,237	59,344 (40,216) (1,156)	580,209	325,743	65,386 (30,987) (465)	359,677	220,532	20%		
Ijarah Assets										
Assets held under Ijarah - Car	105,537	206,629 (26,882)	285,284	30,031	45,172 (13,653)	61,550	223,734	20%		
Assets held under Ijarah - Equipment	318,957	222,059 (3,267)	537,749	16,332	107,368 (351)	123,349	414,400	20%		
	25,796,588	3,194,624 (91,612) (33,591)	28,866,009	5,804,575	1,378,970 (56,367) (30,395)	7,096,783	21,769,226			

Notes to the Financial Statements

For the year ended December 31, 2013

11.2.1 The land and buildings of the Bank are revalued in December 2013 by independent valuers (Arch-e-Decon & Sardar Enterprises), valuation and engineering consultants, on the basis of market value. The information relating to location of revalued assets is given in Annexure V. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	14,499,544
Total revalued amount of buildings	7,339,482

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2013 would have been as follows:

	(Rupees in '000)
Land	4,989,758
Buildings	4,603,788

11.2.2 The gross carrying amount (cost) of fully depreciated assets that are still in use are as follows:

Furniture and fixture	298,550
Electrical, computers and office equipment	3,770,909
Vehicles	358,023
Leasehold Improvements	98,600
Intangible asset	1,207,762

11.2.3 Details of disposal of operating fixed assets

The information relating to disposal of operating fixed assets required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure IV and is an integral part of these financial statements.

11.3 Intangible asset

Description	2013							
	Cost			Accumulated amortization			Net book value at December 31, 2013	Annual rate of amortization %
	At January 01, 2013	Additions / exchange adjustments	At December 31, 2013	At January 01, 2013	Amortization for the year / adjustments	At December 31, 2013		
	(Rupees in '000)							
Computer software	1,861,486	340,366 3,527	2,205,379	1,352,661	260,424 2,878	1,615,963	589,416	33.33
	1,861,486	340,366 3,527	2,205,379	1,352,661	260,424 2,878	1,615,963	589,416	

Description	2012							
	Cost			Accumulated amortization			Net book value at December 31, 2012	Annual rate of amortization %
	At January 01, 2012	Additions / adjustments	At December 31, 2012	At January 01, 2012	Amortization for the year / adjustments	At December 31, 2012		
	(Rupees in '000)							
Computer software	1,500,549	348,311 12,626	1,861,486	1,078,753	259,932 13,976	1,352,661	508,825	33.33
	1,500,549	348,311 12,626	1,861,486	1,078,753	259,932 13,976	1,352,661	508,825	

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
12. OTHER ASSETS - NET			
Income / mark-up accrued on advances and investments - local currency		8,403,945	8,019,107
Income / mark-up accrued on advances and investments - foreign currencies		192,928	84,381
Accrued income, advances, deposits, and other prepayments		1,075,992	959,630
Advance taxation (payments less provisions)		6,081,521	10,894,522
Compensation for delayed income tax refunds		44,802	44,802
Non-banking assets acquired in satisfaction of claims	12.1	1,939,184	1,398,703
Unrealised gain on derivative financial instruments	12.2	1,649,163	134,339
Stationery and stamps on hand		66,910	43,067
Prepaid exchange risk fee		257	169
Receivable from the pension fund	36.3	5,854,207	18,428,483
Others		2,729,121	2,645,206
		<u>28,038,030</u>	<u>42,652,409</u>
Less: Provision held against other assets	12.3	1,081,715	1,131,977
		<u>26,956,315</u>	<u>41,520,432</u>

12.1 The market value of non-banking assets with carrying value of Rs. 1,814.981 million (2012: Rs. 1,276.093 million) net of provision as per the valuation reports dated December 31, 2013 amounted to Rs. 1,831.591 million (2012: Based on valuation as of December 31, 2012 Rs. 1,374.399 million).

12.2 Unrealised gain on derivative financial instruments

	Contract / National Amount		Unrealised gain	
	2013	2012	2013	2012
(Rupees in '000)				
Unrealised gain on:				
FX Options	216,344	-	1,062	-
Forward exchange contracts	90,769,449	22,169,486	1,648,101	134,339
	<u>90,985,793</u>	<u>22,169,486</u>	<u>1,649,163</u>	<u>134,339</u>
		2013		2012
		(Rupees in '000)		

12.3 Provision held against other assets

Opening balance	1,131,977	1,289,687
Charge for the year	31,376	59,858
Reversal during the year	(83,661)	(247,163)
	(52,285)	(187,305)
Write off during the year	(40,091)	(12,324)
Exchange adjustments / reclassification	42,114	41,919
Closing balance	<u>1,081,715</u>	<u>1,131,977</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2013 and December 31, 2012.

	2013	2012
(Rupees in '000)		
14. BILLS PAYABLE		
In Pakistan	10,113,386	9,849,905
Outside Pakistan	25,340	46,379
	<u>10,138,726</u>	<u>9,896,284</u>

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
		(Rupees In '000)	
15. BORROWINGS			
In Pakistan		30,267,778	76,644,529
Outside Pakistan		8,274,882	2,306,574
		<u>38,542,660</u>	<u>78,951,103</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		30,267,778	76,644,529
In foreign currencies		8,274,882	2,306,574
		<u>38,542,660</u>	<u>78,951,103</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	8,939,210	8,780,720
Long term financing facility	15.4 & 15.5	3,832,857	3,448,638
Long term financing - export oriented projects scheme	15.4 & 15.5	213,965	555,277
Financing Facility for Storage of Agricultural Produce		670,858	768,806
		<u>13,656,890</u>	<u>13,553,441</u>
Repurchase agreement borrowings	15.6	16,675,724	63,158,913
		<u>30,332,614</u>	<u>76,712,354</u>
Unsecured			
Borrowings from other financial institution	15.7	2,633,818	292,605
Call borrowings	15.8	4,950,256	1,117,221
Overdrawn nostro accounts		625,972	828,923
		<u>8,210,046</u>	<u>2,238,749</u>
		<u>38,542,660</u>	<u>78,951,103</u>

15.3 The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. These carry mark-up at rate of 8.40%.

15.4 The amount is due to SBP and has been obtained for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.

15.5 Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP. These carry mark-up at rates ranging from 8.40% to 8.80% per annum.

15.6 These carry mark-up rates ranging from 7.75% to 10.25% per annum (2012: 6.50% to 12.82% per annum) and are secured against government securities of carrying value of Rs. 16,741.876 million (2012: Rs. 63,213.250 million).

15.7 These carry mark-up ranging from 1.20% to 2.20% per annum (2012: 1.50% to 3.25% per annum).

15.8 These carry mark-up ranging from 0.80% to 3% per annum (2012: 0.80% to 1.45% per annum). These are repayable by April, 2014.

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	60,524,016	80,649,846
Saving deposits	349,223,728	268,927,052
Current accounts	206,720,753	183,176,846
Margin accounts	3,937,113	3,520,404
	<u>620,405,610</u>	<u>536,274,148</u>
Financial institutions		
Remunerative deposits	8,058,094	6,090,878
Non-remunerative deposits	3,866,582	2,695,702
	<u>11,924,676</u>	<u>8,786,580</u>
	<u>632,330,286</u>	<u>545,060,728</u>
16.1 Particulars of deposits		
In local currency	596,310,639	515,607,927
In foreign currencies	36,019,647	29,452,801
	<u>632,330,286</u>	<u>545,060,728</u>

16.2 Deposits include deposits from related parties amounting to Rs. 16,547.558 million (2012: Rs. 30,811.575 million).

	Note	2013	2012 Restated
		(Rupees in '000)	
17. DEFERRED TAX LIABILITY / (ASSET) - NET			
The details of the tax effect of taxable and deductible temporary differences are as follows:			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	957,493	763,706
Accelerated tax depreciation		1,236,316	1,109,270
Receivable from pension fund		2,048,974	6,449,969
Surplus on revaluation of securities	21.2	311,153	1,501,042
		<u>4,553,936</u>	<u>9,823,987</u>
Deductible temporary differences on:			
Provision for bad debts		(19,766)	(12,632)
Provision for post retirement benefits		(332,797)	(281,628)
		<u>(352,563)</u>	<u>(294,260)</u>
		<u>4,201,373</u>	<u>9,529,727</u>

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013 (Rupees in '000)	2012
19.3	Number of shares held by the associated undertakings as at December 31, are as follows:		
	Adamjee Insurance Company Limited	29,914,034	28,641,486
	Nishat Mills Limited	73,272,629	66,611,481
	D.G. Khan Cement Company Limited	92,979,303	84,526,640
	Din Leather (Private) Limited	6,305,758	5,732,508
	Siddiqsons Limited	12,978,603	11,798,731
	Mayban International Trust (Labuan) Berhad	202,369,225	183,972,923
		417,819,552	381,283,769
20. RESERVES			
	Share premium	9,702,528	9,702,528
	Exchange translation reserve	598,192	399,782
	Statutory reserve	20.1 17,700,494	15,550,960
	General reserve	18,600,000	18,600,000
		46,601,214	44,253,270
20.1	Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.		

	Note	2013 (Rupees in '000)	2012
21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
	Surplus / (deficit) arising on revaluation (net of tax) of:		
	- fixed assets	21.1 11,287,987	9,415,346
	- available-for-sale securities	21.2 1,671,276	4,178,551
		12,959,263	13,593,897
21.1 Surplus on revaluation of fixed assets-net of tax			
	Surplus on revaluation of fixed assets as at January 01	10,179,052	10,234,112
	Surplus during the year	2,121,487	-
	Transferred to unappropriated profit in respect of incremental depreciation charged during the year		
	- net of deferred tax	(35,788)	(35,789)
	Related deferred tax liability	(19,271)	(19,271)
		(55,059)	(55,060)
	Surplus on revaluation of fixed assets as at December 31	12,245,480	10,179,052
	Less: Related deferred tax liability on:		
	Revaluation as at January 01	763,706	782,977
	Surplus during the year	213,058	-
	Incremental depreciation charged during the year transferred to profit and loss account	(19,271)	(19,271)
		957,493	763,706
		11,287,987	9,415,346

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
		(Rupees in '000)	
21.2 Surplus / (deficit) on revaluation of available for sale securities - net of tax			
Federal Government Securities			
- Market Treasury Bills		(286,345)	510,739
- Pakistan Investment Bonds		105,418	2,738,854
Listed Securities			
- Shares / Certificates / Units		2,116,420	2,071,198
- Open Ended Mutual Funds		2,156	248,321
- Term Finance Certificates		27,470	97,645
		2,146,046	2,417,164
Sukuk Bonds		17,310	12,836
		1,982,429	5,679,593
Add: Related deferred tax (liability) / asset	17	(311,153)	(1,501,042)
		1,671,276	4,178,551
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring			
Government		6,488,041	5,129,432
Banks and financial institutions		2,347,585	3,585,501
Others		16,054,851	13,956,922
		24,890,477	22,671,855
22.2 Transaction-related contingent liabilities			
Guarantees in favour of			
Banks and financial institutions		20,933	-
Others		1,500,019	686,615
Suppliers' credit / payee guarantee		2,489,432	2,600,833
		4,010,384	3,287,448
22.3 Trade-related contingent liabilities		80,638,690	69,423,741
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		3,035,863	620,416
<p>These represent certain claims by third parties against the Bank, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.</p>			
22.5 Commitments to extend credit			
<p>The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.</p>			
	Note	2013	2012
		(Rupees in '000)	
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		72,216,751	25,546,035
Sale		79,959,563	21,697,634
22.7 Commitments for the acquisition of fixed assets		243,614	555,398
22.8 Other commitments			
FX options (notional amount)	23.1 & 23.2		
Purchase		216,344	-
Sale		216,344	-

Notes to the Financial Statements

For the year ended December 31, 2013

22.9 Taxation

For assessment year 1988-89 through tax year 2012, the tax department disputed Bank's treatment on certain issues, where the Bank's appeals are pending at various appellate forums, entailing an additional tax liability of Rs.4,189 million (2012: Rs.9,639 million) which has been paid. Such issues inter alia principally include disallowance of expenses for non deduction of withholding tax and non availability of underlying records, provision for non performing loans, attribution of expenses to heads of income other than income from business and disallowance of credit for taxes paid in advance / deducted at source.

The Bank has filed appeals which are pending at various appellate forums. In addition, certain decisions made in favour of the Bank are being contested by the department at higher forums. No provision has been made in the financial statements regarding the aforesaid additional tax demand and already issued favourable decisions where the department is in appeal, as the management is of the view that the issues will be decided in the Bank's favour as and when these are taken up by the Appellate Authorities.

For tax years 2003 through 2006 and tax year 2011, aggregate liability of Rs 584 million has been adjudged under section 161 of the Income Tax Ordinance, 2001 on the grounds that Bank failed to deduct applicable withholding tax while making payments on certain accounts. Such liability has not been provided for in these financial statements as Bank's management is of the view that while departmental action for tax years 2003 through 2006 is barred by applicable limitation of time while the liability for tax year 2011 has been adjudged on an arbitrary basis.

23. DERIVATIVE INSTRUMENTS

Most corporate (counter parties) have either interest rate exposures arising from debt financing or excess liquidity or currency exposures arising out of commercial and business transactions. In the event of a shift in interest or foreign exchange (FX) rates, these corporate may incur higher borrowing costs or higher cash outflows that will adversely affect profitability.

The Bank provides solutions to this conundrum through derivatives. Through this, counterparties will be hedging exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The Bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other Objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

Risk management is performed at:

a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.

b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.

c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

FIPS & MRM Division is responsible for coordinating for risk management of derivatives.

The risk management system generates marked to market risk numbers (i.e. VaR, PVBP, duration, etc.) of Interest rate derivative portfolio. These numbers are reported to senior management on a daily basis.

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risk associated with such transactions are minimal.

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has defined notional limits both for the portfolio and the counterparty.

Notes to the Financial Statements

For the year ended December 31, 2013

23.1 Product analysis

Counter parties	2013					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	2	216,344
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	2	216,344
Total						
Hedging	-	-	-	-	2	216,344
Market Making	-	-	-	-	2	216,344

Counter parties	2012					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-

23.2 Maturity analysis

Remaining maturity	2013				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative (Rupees in '000)	Positive	Net
FX Options					
Over 1 to 3 months	4	432,688	(1,062)	1,062	-
Remaining maturity					
FX Options					
Over 1 to 3 months	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	24,990,221	29,001,920
On investments in:		
Held for trading securities	15,541	571,924
Available for sale securities	38,442,248	37,623,042
Held to maturity securities	775,352	838,773
	39,233,141	39,033,739
On deposits with financial institutions	95,220	40,446
On securities purchased under resale agreements	731,612	256,648
On money at call	13,929	23,438
	<u>65,064,123</u>	<u>68,356,191</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	23,560,817	23,042,790
Securities sold under repurchase agreements	1,705,713	2,628,154
Other short-term borrowings	1,107,629	1,153,569
Discount, commission and brokerage	533,513	511,562
Others	288,222	163,944
	<u>27,195,894</u>	<u>27,500,019</u>
26. GAIN ON SALE OF SECURITIES - NET		
Federal Government Securities		
Market Treasury Bills	37,828	37,567
Pakistan Investment Bonds	193,812	25,516
Sukuk Bonds	-	3,000
Others		
- Shares and units- Listed	1,870,758	445,383
- Unlisted shares	-	313,073
Term Finance Certificates	27,943	-
	<u>2,130,341</u>	<u>824,539</u>
27. OTHER INCOME		
Rent on property / lockers	166,055	162,819
Net profit on sale of property and equipment	42,687	22,586
Bad debts recovered	60,522	48,817
Postal, SWIFT and other charges recovered	180,340	139,627
	<u>449,604</u>	<u>373,849</u>

Notes to the Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		8,640,410	8,434,242
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(1,701,451)	(1,933,027)
- Post retirement medical benefits	36.7	187,792	187,136
- Employees' contributory benevolent scheme	36.7	55,269	40,192
- Employees' compensated absences	36.7	146,623	97,691
		(1,311,767)	(1,608,008)
Contributions to defined contribution plan - provident fund		197,721	188,417
Voluntary Separation Scheme	28.1	1,057,724	-
Non-executive directors' fees		31,674	33,431
Rent, taxes, insurance and electricity		2,555,281	2,460,324
Legal and professional charges		272,431	176,615
Communications		861,849	931,840
Repairs and maintenance		1,103,210	1,208,462
Stationery and printing		502,943	472,490
Advertisement and publicity		119,184	393,092
Cash transportation charges		481,736	461,279
Instrument clearing charges		124,667	117,439
Donations	28.2	25,000	31,162
Auditors' remuneration	28.3	32,112	20,522
Depreciation	11.2	1,541,314	1,378,970
Amortization of intangible asset	11.3	260,424	259,932
Travelling, conveyance and fuel		213,763	249,571
Subscription		19,574	18,392
Entertainment		117,750	110,114
Training Expenses		41,376	30,429
Petty Capital items		32,689	34,890
Card Related Expenses		238,147	147,490
Outsourced security guards, tea services and janitorial expenses etc		1,333,108	1,701,004
CNIC verification charges		52,716	60,276
Others		164,933	164,487
		18,709,969	17,476,862

28.1 During the year, the Bank announced a Voluntary Separation Scheme (VSS) for clerical & non-clerical employees. 571 employees of the Bank opted for retirement under this scheme. The above expense excludes the payments made under retirement funds.

28.2 None of the directors, executives or their spouses had any interest in the donee. Detail of donations made during the year is as follows:

	2013	2012
(Rupees in '000)		
Construction of houses in flood affected areas	-	12,088
Network equipment to PSWO	-	7,901
Hyderabad Relief & Rehabilitation Trust	-	3,832
Al-Shifa Trust, Fighting Against Blindness	-	1,000
Sindh Institute of Urology & Transplantation (SIUT)	-	5,000
Shoukat Khanum Memorial Trust	-	100
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation	-	1,241
Prime Minister's Earthquake Relief Fund 2013, for Baluchistan	25,000	-
	25,000	31,162

28.3 Auditors' remuneration

Annual Audit fee	12,128	11,550
Fee for audit and other certifications of overseas branches	4,477	2,316
Tax and other sundry services	14,732	5,966
Out-of-pocket expenses	775	690
	32,112	20,522

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
29. OTHER CHARGES		
Provision for Penalties of State Bank of Pakistan	-	220,000
Workers welfare fund	645,764	641,075
VAT and Crop Insurance Levy - Sri Lanka	57,611	43,643
Education cess	4,693	-
Provision against balance with banks	-	(304,744)
Impairment loss on Non-Banking assets	210,428	-
Loss on sale of Non-Banking assets	10,099	-
	928,595	599,974
30. TAXATION		
For the year		
Current	15,170,974	9,600,760
Deferred	(4,378,107)	1,251,420
	10,792,867	10,852,180
Prior years		
Current	-	116,725
Deferred	-	-
	-	116,725
	10,792,867	10,968,905
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	32,288,205	31,641,907
Tax rate	35%	35%
Tax on income	11,300,872	11,074,667
Tax effect on separate block of income (taxable at reduced rate)	(456,439)	(226,188)
Tax effect of permanent differences	-	87,907
Tax effect of prior years provisions	-	116,725
Others	(51,566)	(84,206)
Tax charge for the year	10,792,867	10,968,905
31. CREDIT RATING		
PACRA through its notification dated February 04, 2013, has upgraded bank's long term credit rating from AA+ [double A plus] to AAA [Triple A] and maintained short-term credit rating of A1+ [A one plus].		

	2013	2012
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX		
Profit before taxation	32,288,205	31,641,907
	(Number of Shares)	
Weighted average number of shares outstanding during the year	1,011,846,135	1,011,846,135
	(Rupees)	
Basic and diluted earnings per share - pre tax	31.91	31.27

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
33. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX		
Profit after taxation	21,495,338	20,673,002
	(Number of Shares)	
Weighted average number of shares outstanding during the year	1,011,846,135	1,011,846,135
	(Rupees)	
Basic and diluted earnings per share - after tax	21.24	20.43

* Weighted average number of shares outstanding for 2012 have been restated to give effect of bonus shares issued during the year.

	Note	2013	2012
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	59,946,150	57,420,129
Balances with other banks	7	1,536,946	1,191,974
Overdrawn nostro accounts	15	(625,972)	(828,923)
		60,857,124	57,783,180
	Note	2013	2012
		(Numbers)	
35. STAFF STRENGTH			
Permanent		10,372	10,612
Temporary/contractual basis		81	71
Bank's own staff strength at the end of the year		10,453	10,683
Outsourced	35.1	1,477	1,928
Total staff strength		11,930	12,611

35.1 This excludes outsourced security guards and tea services staff.

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

- Pension fund (final salary plan) - funded
- Benevolent scheme - unfunded
- Post retirement medical benefits - unfunded
- Employees compensated absence - unfunded

The plan assets and defined benefit obligations are based in Pakistan.

Notes to the Financial Statements

For the year ended December 31, 2013

36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2013. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
	%							
Valuation discount rate	13	12	13	12	13	12	13	12
Expected rate of return on plan assets	13	12	-	-	-	-	-	-
Salary increase rate	11	9	11	9	11	9	11	9
Medical cost inflation rate	-	-	-	-	13	6	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the period, for returns over the entire life of the related obligation.

36.3 (Receivable from) / payable to defined benefit plans and other benefits

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2013	2012	2013	2012	2013	2012	2013	2012	
	(Rupees in '000)								
Present value of defined benefit obligations	36.5	3,834,422	4,259,671	213,438	257,089	1,340,476	1,565,634	934,009	594,100
Fair value of plan assets	36.6	(9,688,629)	(22,688,154)	-	-	-	-	-	-
Net actuarial gains / (losses) not recognised		-	-	-	-	-	-	-	-
Net (receivable) / payable recognised as at the year-end		(5,854,207)	(18,428,483)	213,438	257,089	1,340,476	1,565,634	934,009	594,100

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medial obligation at December 31, 2013 would be Rs. 48.492 million (2012: Rs. 95.010 million) and Rs. 43.458 million (2012: Rs. 80.020 million) respectively.

36.4 Movement in balance (receivable) / payable

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2013	2012	2013	2012	2013	2012	2013	2012	
	(Rupees in '000)								
Opening balance of (receivable) / payable		(18,428,483)	(15,280,967)	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Expense recognised	36.7	(1,701,451)	(1,933,027)	55,269	40,192	187,792	187,136	146,623	97,691
Employees' contribution		-	-	7,564	8,708	-	-	-	-
Benefits paid		-	-	(101,510)	(48,953)	(234,011)	(140,422)	(370,840)	(181,381)
Other Comprehensive income		(456,171)	(1,214,489)	(4,974)	(26,335)	(178,939)	129,950	564,126	141,920
Refund / withdrawn from fund		14,731,898	-	-	-	-	-	-	-
Closing balance of (receivable) / payable		(5,854,207)	(18,428,483)	213,438	257,089	1,340,476	1,565,634	934,009	594,100

Notes to the Financial Statements

For the year ended December 31, 2013

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)								
Present value of obligation as at January 01,	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Current service cost	53,739	53,499	13,826	15,230	13,773	15,697	36,447	62,860
Interest cost	451,727	518,091	24,760	33,670	173,835	171,439	49,042	34,831
Benefits paid	(990,554)	(554,210)	(101,510)	(48,953)	(234,011)	(140,422)	(370,840)	(181,381)
Loss / (gain) on settlement	(23,251)	-	24,247	-	184	-	61,134	-
-(Gain) / loss from change in demographic assumptions	22,670	-	5,824	-	39,965	-	(6,687)	-
-(Gain) / loss from change in financial assumptions	34,000	(143,163)	12,141	(14,400)	30,238	(47,162)	(62,754)	1,599
-Experience (gains) / losses	26,420	123,033	(22,939)	(11,935)	(249,142)	177,112	633,567	140,321
	83,090	(20,130)	(4,974)	(26,335)	(178,939)	129,950	564,126	141,920
Present value of obligation as at December 31,	3,834,422	4,259,671	213,438	257,089	1,340,476	1,565,634	934,009	594,100

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)								
Net assets as at January 01,	22,688,154	19,543,388	-	-	-	-	-	-
Expected return on plan assets	2,183,666	2,504,617	-	-	-	-	-	-
Refund / withdrawn from fund	(14,731,898)	-	-	-	-	-	-	-
Benefits paid	(990,554)	(554,210)	-	-	-	-	-	-
Actuarial gain / (loss)	539,261	1,194,359	-	-	-	-	-	-
Net assets as at December 31,	36.9	9,688,629	22,688,154	-	-	-	-	-

36.7 Charge for defined benefit plans and other benefits

The following amounts have been charged to the profit and loss account in respect of defined benefit plans and other benefits:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)								
Current service cost	53,739	53,499	13,826	15,230	13,773	15,697	36,447	62,860
Interest cost	451,727	518,091	24,760	33,670	173,835	171,439	49,042	34,831
Expected return on plan assets	(2,183,666)	(2,504,617)	-	-	-	-	-	-
Contributions employees	-	-	(7,564)	(8,708)	-	-	-	-
Loss / (gain) on settlement	(23,251)	-	24,247	-	184	-	61,134	-
	(1,701,451)	(1,933,027)	55,269	40,192	187,792	187,136	146,623	97,691

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 6.129 million (2012: Rs. 13.369 million) and Rs. 5.496 million (2012: Rs. 11.207 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)								
Actual return on plan assets	2,722,927	3,698,976	-	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2013

36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2013		2012	
	Fair value (Rupees in '000)	Percentage (%)	Fair value (Rupees in '000)	Percentage (%)
Term deposit receipts	-	-	15,528,023	68.44
Listed equity shares	5,322,463	54.94	3,610,176	15.91
Open ended mutual funds units	264,434	2.73	234,619	1.03
Term Finance certificates	-	-	198,923	0.88
Cash and bank balances	4,101,732	42.33	3,116,413	13.74
Fair value of plan total assets	9,688,629	100	22,688,154	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets				
Shares of MCB	4,368,136		2,962,492	
TDRs with MCB	-		15,528,023	
Bank balance with MCB	4,101,732		3,100,321	
	8,469,868		21,590,836	

36.10 Other relevant details of above funds are as follows:

	2013	2012	2011	2010	2009
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	3,834,422	4,259,671	4,262,421	4,217,507	4,072,653
Fair value of plan assets	(9,688,629)	(22,688,154)	(19,543,388)	(19,303,801)	(18,254,967)
(Surplus) / deficit	(5,854,207)	(18,428,483)	(15,280,967)	(15,086,294)	(14,182,314)
Actuarial gain / (loss) on obligation	(83,090)	20,130	(190,661)	(191,752)	(368,717)
Actuarial gain / (loss) on assets	539,261	1,194,359	(1,529,469)	(852,657)	1,400,023
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	213,438	257,089	283,477	314,414	299,388
Fair value of plan assets	-	-	-	-	-
	213,438	257,089	283,477	314,414	299,388
Actuarial gain / (loss) on obligation	4,974	26,335	19,979	(25,282)	(53,700)
Actuarial gain / (loss) on assets	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012	2011	2010	2009
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,340,476	1,565,634	1,388,970	1,320,933	1,287,348
Fair value of plan assets	-	-	-	-	-
	1,340,476	1,565,634	1,388,970	1,320,933	1,287,348
Actuarial gain / (loss) on obligation	178,939	(129,950)	(19,198)	30,671	2,101
36.10.4 Compensated absences					
Present value of defined benefit obligation	934,009	594,100	535,870	555,792	541,116
Fair value of plan assets	-	-	-	-	-
	934,009	594,100	535,870	555,792	541,116
Actuarial gain / (loss) on obligation	(564,126)	(141,920)	(75,701)	(81,138)	(5,687)

36.11. No contribution to the pension fund is expected in the next year.

37. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 7,306 (2012: 7,919) employees where contributions are made by the Bank and employees at 8.33% per annum (2012: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 197.721 million (2012: Rs. 188.417 million) in respect of this fund.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Bank as follows:

Note	President / Chief Executive		Directors		Executives	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Fees	-	-	31,674	33,431	-	-
Managerial remuneration	23,013	29,355	-	-	1,122,733	951,978
Bonus and others	16,913	17,576	-	-	546,861	535,357
Settlement benefits	-	23,831	-	-	-	-
Retirement benefits	1,892	-	-	-	76,370	64,942
Rent and house maintenance	10,215	10,142	-	-	391,944	345,304
Utilities	2,270	2,254	-	-	86,593	77,274
Medical	-	-	-	-	23,256	18,997
Conveyance	-	-	-	-	444,493	403,588
38.1	54,303	83,158	31,674	33,431	2,692,250	2,397,440
Number of persons	1	2	12	12	887	774

38.1. Comparative figures includes remuneration of ex-president and current president from December 22, 2012.

38.2. The Chairman has been provided with free use of the Bank maintained car. In addition to the above, the Chief Executive and certain executives are provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

Notes to the Financial Statements

For the year ended December 31, 2013

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits 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 loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.3 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Inter segment elimination	Total
	(Rupees in '000)					
2013						
Total income	135,559	8,059,020	33,480,427	7,363,861	-	49,038,867
Total expenses	(30,302)	(1,194,453)	(14,452,521)	(1,073,386)	-	(16,750,662)
Income tax expense	-	-	-	-	-	(10,792,867)
Net income	105,257	6,864,567	19,027,906	6,290,475	-	21,495,338
Segment assets - (Gross of NPL's provision)	390,941	494,256,812	694,394,864	202,347,916	(562,513,535)	828,876,998
Advance taxation (payments less provisions)	-	-	-	-	-	6,081,521
Total assets	390,941	494,256,812	694,394,864	202,347,916	(562,513,535)	834,958,519
Segment non performing loans	-	-	9,600,755	13,666,978	-	23,267,733
Segment specific provision required	-	-	9,565,097	9,885,051	-	19,450,148
Segment liabilities	38,582	469,328,689	622,852,777	171,369,504	(562,513,535)	701,076,017
Deferred tax liability	-	-	-	-	-	4,201,373
Total liabilities - net	38,582	469,328,689	622,852,777	171,369,504	(562,513,535)	705,277,390
Segment return on assets (ROA) (%)	34.68%	1.63%	4.89%	3.83%	-	-
Segment cost of fund (%)	-	9.27%	5.41%	8.94%	-	-

Notes to the Financial Statements

For the year ended December 31, 2013

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Inter segment elimination	Total
	(Rupees in '000)					
2012						
Total income	102,510	3,718,178	38,678,213	7,510,602	-	50,009,503
Total expenses	(28,850)	(663,680)	(15,065,446)	(2,609,620)	-	(18,367,596)
Income tax expense	-	-	-	-	-	(10,968,905)
Net income	73,660	3,054,498	23,612,767	4,900,982	-	20,673,002
Segment assets - (Gross of NPL's provision)	241,057	432,494,769	640,489,256	202,020,003	(496,684,823)	778,560,262
Advance taxation (payments less provisions)	-	-	-	-	-	10,894,522
Total assets	241,057	432,494,769	640,489,256	202,020,003	(496,684,823)	789,454,784
Segment non performing loans	-	-	11,220,265	14,341,509	-	25,561,774
Segment specific provision required	-	-	11,264,958	11,115,129	-	22,380,087
Segment liabilities	19,401	417,671,734	557,972,080	176,095,889	(496,684,823)	655,074,281
Deferred tax liability	-	-	-	-	-	9,529,727
Total liabilities - net	19,401	417,671,734	557,972,080	176,095,889	(496,684,823)	664,604,008
Segment return on assets (ROA) (%)	42.53%	0.86%	6.15%	3.93%	-	-
Segment cost of fund (%)	-	11.36%	6.10%	10.71%	-	-

Total income = Net markup income + non-markup income

Total expenses = Non Mark up expenses + Provisions

Segment assets and liabilities include inter segment balances.

Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates.

Segment cost of funds have been computed based on the average balances.

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationship with its associates, subsidiaries, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in subsidiary companies and associates are stated in Annexure I (note 5 & 6) to these financial statements.

The Bank enters into transactions with related parties in the normal course of business. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to Chief Executive, Directors and Executives is disclosed in note 38 to these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2013

	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)										
A. Balances										
Deposits										
Opening balance	2,863,874	4,398,756	976,642	766,387	74,461	43,854	26,850,559	25,393,804	46,039	50,178
Received during the year	4,273,706	4,888,505	18,859,601	11,121,938	167,560	1,531,424	61,540,324	38,267,581	1,176,959	1,168,053
Withdrawn during the year	(6,205,915)	(6,423,387)	(18,857,835)	(10,911,683)	(217,250)	(1,500,817)	(73,903,366)	(36,810,826)	(1,097,801)	(1,172,192)
Closing balance	931,665	2,863,874	978,408	976,642	24,771	74,461	14,487,517	26,850,559	125,197	46,039
Advances (secured)										
Opening balance	2,795	-	-	-	485,749	449,729	98,056	81,302	53,865	49,743
Additions / adjustments during the year	-	3,367	-	-	40,874	36,020	406,354	415,889	27,569	12,436
Repaid during the year	(610)	(572)	-	-	-	-	(387,826)	(399,135)	(13,669)	(8,314)
Closing balance	2,185	2,795	-	-	526,623	485,749	116,584	98,056	67,765	53,865
Outstanding Balance of credit card	545	852	-	-	-	-	2	-	2,635	951
Receivable from Pension fund	-	-	-	-	-	-	5,854,207	18,428,483	-	-

B. Other transactions (including profit and loss related transactions)

	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)										
Outstanding commitments and contingent liabilities	-	-	10,805	8,365	-	-	90,171	819,873	-	-
Forward foreign exchange contracts (Notional) - outstanding	-	-	-	-	-	-	5,623,351	-	-	-
Unrealized gain on forward foreign exchange contracts - outstanding	-	-	-	-	-	-	19,424	-	-	-
Forward contracts during the year	-	-	-	-	-	-	34,665,422	-	-	-
Repo deals during the year	-	-	39,742,107	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	3,159,738	-	-	-
Trade payable	-	-	7,594	14,321	3,918	12,177	27,433	7,019	-	-
Retention money	-	-	-	-	-	-	3,612	-	-	-
Markup payable	-	504	405	12,645	156	156	1,071,287	1,045,622	80	541
Advance receivable	-	-	-	-	-	-	58,085	20,000	-	-
Markup Receivable	-	-	-	-	4,630	4,448	5,121	2,237	-	-
Receivable for other expenses	-	-	-	-	7,381	2,145	-	-	-	-
Commission Receivable	-	-	-	-	25,181	9,826	-	-	-	-
Outstanding investments in mutual funds	-	-	-	-	-	-	-	4,050,000	-	-
Divestment in Khushali Bank Limited	-	-	-	-	-	-	-	300,000	-	-
Insurance premium paid-net of refund	-	-	247,803	309,472	-	-	-	-	-	-
Insurance claim settled	-	-	95,645	39,193	-	-	-	-	-	-
Markup income on advances	-	-	-	-	23,665	25,180	7,983	7,640	6,269	2,848
Rent Income Received	-	-	2,025	2,430	-	-	-	-	-	-
Dividend Income	-	-	126,118	54,051	92,392	83,153	159,570	408,639	-	-
Capital gain / (loss)	-	-	-	-	-	-	303,215	(33,916)	-	-
Commission income	-	-	751,069	509,698	38,803	36,074	7,209	8,449	-	-
Reimbursement of expenses	-	-	-	-	12,081	13,199	-	-	-	-
Brokerage expense	-	-	-	-	-	-	-	354	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-	-	-	2,896	562
Gain / (loss) on sale of fixed assets	-	-	-	-	-	-	-	-	(2,307)	-
ATM Outsourcing Expense	-	-	161,486	131,972	-	-	-	-	-	-
Outsourcing service expenses	-	-	-	-	24,560	76,366	-	-	-	-
Switch Expense	-	-	-	-	26,925	8,313	-	-	-	-
Cash sorting expenses	-	-	-	-	-	-	49,915	42,528	-	-
Stationery Expenses	-	-	-	-	-	-	207,063	194,565	-	-
Security guard expenses	-	-	-	-	-	-	298,394	255,033	-	-
Remuneration and non-executive directors fee	85,977	116,589	-	-	-	-	-	-	311,605	324,266
Mark-up expense	103,394	321,897	71,275	55,657	1,483	2,096	2,080,760	2,983,890	2,317	3,333
Clearing expenses paid to NIFT	-	-	-	-	-	-	124,315	115,958	-	-
Contribution to provident fund	-	-	-	-	-	-	197,721	188,417	-	-
Gas Charges	-	-	-	-	-	-	10,939	12,770	-	-
Miscellaneous expenses and payments	-	-	177,089	119,432	-	-	117,738	42,628	-	-

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2013

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel-III Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The Bank manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and Capital Adequacy Ratio

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ended on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.10 billion paid up capital (net of losses) by the end of the financial year 2013. The paid up capital of the Bank for the year ended December 31, 2013 stands at Rs. 10.118 billion and is in compliance with the SBP requirement for the said year.

The capital adequacy ratio of the Bank was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its circular BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis:

Phase-in arrangement and full implementation of the minimum capital requirements:

Sr. No	Ratio	Year End						As of Dec 31
		2013	2014	2015	2016	2017	2018	31-12-2019
1	CET1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2	ADT-1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3	Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4	Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	*CCB	-	-	0.25%	0.65%	1.275%	1.90%	2.50%
6	Total Capital plus CCB	10.00%	10.00%	10.25%	10.65%	11.275%	11.90%	12.50%

*(Consisting of CET1 only)

Bank's regulatory capital is analysed into three tiers.

- Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer to note 42.3)
- Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and Share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 42.3)

Notes to the Financial Statements

For the year ended December 31, 2013

- Tier 2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), Net of tax reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % of the balance and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 42.3)

The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As the Bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

Notes to the Financial Statements

For the year ended December 31, 2013

42.3 Capital Structure

	2013	2012
	Amounts subject to Pre - Basel III treatment	
	(Rupees in '000)	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1. Fully Paid-up Capital	10,118,461	9,198,601
2. Balance in Share Premium Account	9,702,528	9,702,528
3. Reserve for issue of Bonus Shares	-	-
4. General/ Statutory Reserves	36,300,494	34,150,960
5. Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
6. Unappropriated profits	40,552,043	35,424,921
7. CET 1 before Regulatory Adjustments	96,673,526	88,477,010
Common Equity Tier 1 capital: Regulatory adjustments		
8. Goodwill (net of related deferred tax liability)	-	-
10. All other intangibles (net of any associated deferred tax liability)	836,813	626,621
11. Shortfall of provisions against classified assets	-	-
12. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
13. Defined-benefit pension fund net assets	3,805,233	-
14. Reciprocal cross holdings in CET1 capital instruments	-	10,777
15. Cash flow hedge reserve	-	-
16. Investment in own shares/ CET1 instruments	-	-
17. Securitization gain on sale	-	-
18. Capital shortfall of regulated subsidiaries	-	-
19. Deficit on account of revaluation from bank's holdings of property/ AFS	-	-
20. Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
21. Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of (amount above 10% threshold)	-	-
22. Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
23. Amount exceeding 15% threshold	-	-
24. of which: significant investments in the common stocks of financial entities	-	-
25. of which: deferred tax assets arising from temporary differences	-	-
26. National specific regulatory adjustments applied to CET1 capital	-	-
27. Investment in TFCs of other banks exceeding the prescribed limit	-	-
28. Any other deduction specified by SBP (mention details)	-	-
29. Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions*	735,066	779,211
30. Total regulatory adjustments applied to CET1	1,571,879	1,416,609
Common Equity Tier 1	(a) 95,101,647	87,060,401
Additional Tier 1 (AT 1) Capital		
31. Qualifying Additional Tier-1 instruments plus any related share premium	-	-
32. of which: Classified as equity	-	-
33. of which: Classified as liabilities	-	-
34. Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	-
35. of which: instrument issued by subsidiaries subject to phase out	-	-
36. AT1 before regulatory adjustments	-	-

Notes to the Financial Statements

For the year ended December 31, 2013

	2013	2012
	Amounts subject to Pre - Basel III treatment	
	(Rupees in '000)	
37 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-
38 Investment in own AT1 capital instruments	-	-
39 Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-
40 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
41 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
42 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital*	735,066	779,211
43 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
44 Total of Regulatory Adjustment applied to AT1 capital	735,066	779,211
45 Additional Tier 1 capital		
46 Additional Tier 1 capital recognized for capital adequacy (b)	-	-
Tier 1 Capital (GET1 + admissible AT1) (c=a+b)	95,101,647	87,060,401
Tier 2 Capital		
47 Qualifying Tier 2 capital instruments under Basel III	-	-
48 Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	-
49 Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	-
50 of which: instruments issued by subsidiaries subject to phase out	-	-
51 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	499,145	428,936
52 Revaluation Reserves	5,831,668	7,136,390
53 of which: Revaluation reserves on Property	5,079,594	4,580,573
54 of which: Unrealized Gains/Losses on AFS	752,074	2,555,817
55 Foreign Exchange Translation Reserves	598,192	399,782
56 Undisclosed/Other Reserves (if any)	-	-
57 T2 before regulatory adjustments	6,929,005	7,965,108
Tier 2 Capital: regulatory adjustments		
58 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	735,066	779,211
59 Reciprocal cross holdings in Tier 2 instruments	-	-
60 Investment in own Tier 2 capital instrument	-	-
61 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
62 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
63 Amount of Regulatory Adjustment applied to T2 capital	735,066	779,211
64 Tier 2 capital (T2)	6,193,939	7,185,897
65 Tier 2 capital recognized for capital adequacy	6,193,939	7,185,897
66 Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-
67 Total Tier 2 capital admissible for capital adequacy (d)	6,193,939	7,185,897
TOTAL CAPITAL (T1 + admissible T2) (e=c+d)	101,295,586	94,246,298

Notes to the Financial Statements

For the year ended December 31, 2013

		2013	2012
		Amounts subject to Pre - Basel III treatment	
(Rupees in '000)			
Total Risk Weighted Assets (RWA)	(i=f+g+h)	455,188,687	423,759,088
68 Total Credit Risk Weighted Assets	(f)	312,996,433	273,021,950
69 Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment			
70 of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity		-	-
71 of which: deferred tax assets		-	-
72 of which: Defined-benefit pension fund net assets		3,805,233	-
73 of which: Others		-	-
74 Total Market Risk Weighted Assets	(g)	49,590,569	60,785,173
75 Total Operational Risk Weighted Assets	(h)	92,601,685	89,951,965
Capital Ratios and buffers (in percentage of risk weighted assets)			
76 CET1 to total RWA	(a/i)	20.89%	20.54%
77 Tier-1 capital to total RWA	(c/i)	20.89%	20.54%
78 Total capital to RWA	(e/i)	22.25%	22.24%
79 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		-	-
80 of which: capital conservation buffer requirement		-	-
81 of which: countercyclical buffer requirement		-	-
82 of which: D-SIB or G-SIB buffer requirement		-	-
83 CET1 available to meet buffers (as a percentage of risk weighted assets)		-	-
National minimum capital requirements prescribed by SBP			
84 CET1 minimum ratio		5.00%	-
85 Tier 1 minimum ratio		6.50%	-
86 Total capital minimum ratio		10.00%	10.00%
Amounts below the thresholds for deduction (before risk weighting)			
87 Non-significant investments in the capital of other financial entities		-	-
88 Significant investments in the common stock of financial entities		-	-
89 Deferred tax assets arising from temporary differences (net of related tax liability)		-	-
Applicable caps on the inclusion of provisions in Tier 2			
90 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)		499,145	428,936
91 Cap on inclusion of provisions in Tier 2 under standardized approach		3,912,455	3,412,774
92 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		-	-
93 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		-	-

*As the Bank has not Tier 1 capital, deduction was made from CET1.

**2012 based on BASEL II framework.

Notes to the Financial Statements

For the year ended December 31, 2013

42.4 Capital Structure Reconciliation

Step 1

	As per published financial statements	Under regulatory scope of consolidation
	2013	2013
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	59,946,150	59,946,150
Balanced with other banks	1,536,946	1,536,946
Lending to financial institutions	1,224,638	1,224,638
Investments	449,006,019	449,006,019
Advances	248,242,965	248,242,965
Operating fixed assets	28,595,338	28,595,338
Deferred tax assets	-	-
Other assets	26,956,315	26,956,315
Total assets	815,508,371	815,508,371
Liabilities & Equity		
Bills payable	10,138,726	10,138,726
Borrowings	38,542,660	38,542,660
Deposits and other accounts	632,330,286	632,330,286
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	4,201,373	4,201,373
Other liabilities	20,064,345	20,064,345
Total liabilities	705,277,390	705,277,390
Share capital	10,118,461	10,118,461
Reserves	46,601,214	46,601,214
Unappropriated profit	40,552,043	40,552,043
Minority Interest	-	-
Surplus on revaluation of assets	12,959,263	12,959,263
Total Equity	110,230,981	110,230,981
Total liabilities & equity	815,508,371	815,508,371

Step 2

	As per published financial statements	Under regulatory scope of consolidation	Ref
	2013	2013	
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	59,946,150	59,946,150	
Balanced with other banks	1,536,946	1,536,946	
Lending to financial institutions	1,224,638	1,224,638	
Investments	449,006,019	449,006,019	
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold	-	-	a
of which: significant capital investments in financial sector entities exceeding regulatory threshold	-	102,566	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument	-	-	d
of which: others	-	-	e
Advances	248,242,965	248,242,965	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	499,145	499,145	g

Notes to the Financial Statements

For the year ended December 31, 2013

Step 2	As per published financial statements	Under regulatory scope of consolidation	Ref
	2013	2013	
	(Rupees in '000)		
Fixed Assets	28,595,338	28,595,338	
of which: Intangibles	836,813	836,813	k
of which: Goodwill	-	-	j
Deferred Tax Assets	-	-	
of which: DTAs excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	26,956,315	26,956,315	
of which: Goodwill	-	-	j
of which: Defined-benefit pension fund net assets	5,854,207	5,854,207	l
Total assets	815,508,371	815,508,371	
Liabilities & Equity			
Bills payable	10,138,726	10,138,726	
Borrowings	38,542,660	38,542,660	
Deposits and other accounts	632,330,286	632,330,286	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	4,201,373	4,201,373	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	2,048,974	2,048,974	q
of which: other deferred tax liabilities	2,152,399	2,152,399	r
Other liabilities	20,064,345	20,064,345	
Total liabilities	705,277,390	705,277,390	
Share capital	19,820,989	19,820,989	
of which: amount eligible for CET1	19,820,989	19,820,989	s
of which: amount eligible for AT1	-	-	t
Reserves	36,898,686	36,898,686	
of which: portion eligible for inclusion in CET1 (general reserve & statutory reserve)	36,300,494	36,300,494	u
of which: portion eligible for inclusion in Tier 2	598,192	598,192	v
Unappropriated profit	40,552,043	40,552,043	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus on revaluation of assets	12,959,263	12,959,263	
of which: Revaluation reserves on Property	11,287,987	11,287,987	
of which: Unrealized Gains/Losses on AFS	1,671,276	1,671,276	aa
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total Equity	110,230,981	110,230,981	
Total liabilities & Equity	815,508,371	815,508,371	

Notes to the Financial Statements

For the year ended December 31, 2013

Step 3	Component of regulatory capital reported by bank	Source based on reference number from step 2
(Rupees in '000)		
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1	Fully Paid-up Capital	(s)
2	Balance in Share Premium Account	(s)
3	Reserve for issue of Bonus Shares	-
4	General/ Statutory Reserves	(u)
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-
6	Unappropriated/unremitted profits/(losses)	(w)
8	CET 1 before Regulatory Adjustments	96,673,526
Common Equity Tier 1 capital: Regulatory adjustments		
9	Goodwill (net of related deferred tax liability)	(j) - (o)
10	All other intangibles (net of any associated deferred tax liability)	(k) - (p)
11	Shortfall of provisions against classified assets	(f)
12	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	{(h) - (r)} * 0%
13	Defined-benefit pension fund net assets	{(l) - (q)} * 0%
14	Reciprocal cross holdings in CET1 capital instruments	(d)
15	Cash flow hedge reserve	-
16	Investment in own shares/ CET1 instruments	-
17	Securitization gain on sale	-
18	Capital shortfall of regulated subsidiaries	-
19	Deficit on account of revaluation from bank's holdings of property/ AFS	(ab)
20	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(a) - (ac) - (ae)
21	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(b) - (ad) - (af)
22	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)
23	Amount exceeding 15% threshold	-
24	of which: significant investments in the common stocks of financial entities	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments applied to CET1 capital	-
27	Investment in TFCs of other banks exceeding the prescribed limit	-
28	Any other deduction specified by SBP (mention details)	-
29	Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-
		735,066
30	Total regulatory adjustments applied to CET1	1,571,879
	Common Equity Tier 1	95,101,647

Notes to the Financial Statements

For the year ended December 31, 2013

	Additional Tier 1 (AT 1) Capital		
31	Qualifying Additional Tier-1 instruments plus any related share premium	-	
32	of which: Classified as equity	-	(t)
33	of which: Classified as liabilities	-	(m)
34	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
35	of which: instrument issued by subsidiaries subject to phase out	-	
36	AT1 before regulatory adjustments	-	
	Additional Tier 1 Capital: regulatory adjustments		
37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
38	Investment in own AT1 capital instruments	-	
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	
40	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
42	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	735,066	
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
44	Total of Regulatory Adjustment applied to AT1 capital	735,066	
45	Additional Tier 1 capital	-	
46	Additional Tier 1 capital recognized for capital adequacy	-	
	Tier 1 Capital (CET1 + admissible AT1)	95,101,647	
	Tier 2 Capital		
47	Qualifying Tier 2 capital instruments under Basel III	-	
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	(n)
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	(z)
50	of which: instruments issued by subsidiaries subject to phase out	-	
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	499,145	(g)
52	Revaluation Reserves eligible for Tier 2	5,831,668	
53	of which: portion pertaining to Property	5,079,594	
54	of which: portion pertaining to AFS securities	752,074	portion of (aa)
55	Foreign Exchange Translation Reserves	598,192	(v)
56	Undisclosed/Other Reserves (if any)	-	
57	T2 before regulatory adjustments	6,929,005	
	Tier 2 Capital: regulatory adjustments		
58	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	735,066	
59	Reciprocal cross holdings in Tier 2 instruments	-	
60	Investment in own Tier 2 capital instrument	-	

Notes to the Financial Statements

For the year ended December 31, 2013

61	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
62	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
63	Amount of Regulatory Adjustment applied to T2 capital	735,066	
64	Tier 2 capital (T2)	6,193,939	
65	Tier 2 capital recognized for capital adequacy	6,193,939	
66	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	
67	Total Tier 2 capital admissible for capital adequacy	6,193,939	
	TOTAL CAPITAL (T1 + admissible T2)	101,295,586	

42.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	MCB Bank Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	MCB
3	Governing law(s) of the instrument	Capital Market Law
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/ group/ group & solo	Group & standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	95,101,647
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	1947
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Not applicable
18	coupon rate and any related index/ benchmark	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

Notes to the Financial Statements

For the year ended December 31, 2013

42.6 Capital Adequacy

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	Capital Requirements		Risk Weighted Assets	
	2013	2012	2013	(Restated) 2012
	(Rupees in '000)			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	16,798,504	14,277,047	153,993,395	128,517,980
Banks / DFIs	607,426	624,298	5,568,328	5,619,755
Public sector entities	829,582	26,590	7,604,851	239,360
Sovereigns / cash & cash equivalents	725,599	488,269	6,651,630	4,395,264
Loans secured against residential property	146,302	163,963	1,341,164	1,475,946
Retail	1,622,352	1,716,864	14,872,245	15,454,725
Past due loans	359,457	373,033	3,295,180	3,357,942
Operating fixed assets	3,028,063	2,567,491	27,758,525	23,111,833
Other assets	2,323,440	4,052,191	21,299,182	36,594,058
	26,440,724	24,289,746	242,384,500	218,766,863
Off-Balance Sheet				
Non-market related	7,269,044	5,754,998	66,635,984	51,804,884
Market related	123,285	24,609	1,130,165	221,521
	7,392,329	5,779,607	67,766,149	52,026,405
Equity Exposure Risk in the Banking Book				
Listed	168,971	201,697	1,548,974	1,815,624
Unlisted	141,464	45,887	1,296,809	413,058
	310,435	247,584	2,845,783	2,228,682
Total Credit Risk	34,143,488	30,316,937	312,996,432	273,021,950
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,655,717	2,962,205	33,196,459	37,027,567
Equity position risk	1,134,344	1,622,811	14,179,306	20,285,136
Foreign exchange risk	177,184	277,798	2,214,805	3,472,470
Total Market Risk	3,967,245	4,862,814	49,590,570	60,785,173
Operational Risk				
Capital requirement for operational risks	7,408,135	7,196,157	92,601,685	89,951,965
Total	45,518,868	42,375,908	455,188,687	423,759,088
			2013	2012
			(Rupees in '000)	
Capital Adequacy Ratio				
Total eligible regulatory capital held	(e)		101,295,586	94,246,298
Total Risk Weighted Assets	(i)		455,188,687	423,759,088
Capital Adequacy Ratio	(e) / (i)		22.25%	22.24%

* As SBP capital requirement of 10% (10% in 2012) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total

Notes to the Financial Statements

For the year ended December 31, 2013

43 RISK MANAGEMENT

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Bank's risk management structure is based on the following five guiding principles:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC), the senior management and its relevant committees, i.e. the Risk Management Committee (RMC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank. The framework combines core policies, procedures and process designs with broad oversight and is supported by an efficient monitoring mechanism across the bank to ensure that risks are kept within an acceptable level.

The Bank ensures that not only the relevant risks are identified but their implications are also considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

Notes to the Financial Statements

For the year ended December 31, 2013

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate borrowers, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It stems from Bank's both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and reviews clients' performance on an ongoing process.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-II requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems, the Bank has developed a system and all its corporate and commercial borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, following policies and procedures are in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

As a part of credit assessment Bank uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non- Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.5 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

Credit Risk stress testing is a regular exercise. Bank's all credit exposures including funded and non-funded facilities are subject to stress test. This exercise is conducted on a quarterly basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

Notes to the Financial Statements

For the year ended December 31, 2013

43.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

	2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	3,057,169	1.14	52,085,320	8.24	2,365,835	0.89
Mining and quarrying	5,000	0.00	1,233,151	0.20	2,136,618	0.80
Textile	41,120,102	15.33	2,436,221	0.39	9,611,601	3.62
Chemical, Petroleum and pharmaceuticals	36,888,331	13.75	21,103,199	3.34	31,780,773	11.97
Cement	894,170	0.33	830,008	0.13	1,596,090	0.60
Sugar	15,537,248	5.79	2,314,203	0.37	1,474,420	0.56
Footwear and leather garments	4,682,822	1.75	386,090	0.06	1,718,371	0.65
Automobile and transportation equipment	586,303	0.22	2,063,712	0.33	1,532,315	0.58
Electronics and electrical appliances	2,935,545	1.09	534,111	0.08	1,365,650	0.51
Construction	714,696	0.27	3,181,489	0.50	3,640,172	1.37
Power (electricity), gas, water, sanitary	26,224,336	9.78	37,509,966	5.93	1,651,373	0.62
Wholesale and Retail Trade	21,688,938	8.09	30,725,517	4.86	1,639,982	0.62
Exports / imports	8,644,043	3.22	1,283,752	0.20	4,035,185	1.52
Transport, storage and communication	26,260,405	9.79	2,914,036	0.46	9,164,468	3.45
Financial	1,841,644	0.69	10,307,209	1.63	143,262,515	53.97
Insurance	60,415	0.02	1,617,467	0.26	11,282	0.00
Services	6,480,676	2.42	97,366,136	15.40	19,073,590	7.19
Individuals	13,851,499	5.16	351,396,962	55.57	43,385	0.02
Others	56,718,916	21.16	13,041,737	2.06	29,324,405	11.05
	268,192,258	100	632,330,286	100	265,428,030	100

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Agriculture, forestry, hunting and fishing	2,474,463	0.94	46,722,076	8.57	1,362,196	0.95
Mining and quarrying	510,819	0.19	762,435	0.14	1,957,783	1.36
Textile	37,796,532	14.40	2,839,175	0.52	9,675,745	6.73
Chemical, Petroleum and pharmaceuticals	13,536,095	5.16	3,972,061	0.73	24,413,483	16.98
Cement	1,340,198	0.51	545,143	0.10	812,238	0.56
Sugar	11,373,856	4.33	1,246,046	0.23	1,126,804	0.78
Footwear and leather garments	3,351,288	1.28	185,094	0.03	1,211,665	0.84
Automobile and transportation equipment	350,182	0.13	1,655,254	0.30	883,112	0.61
Electronics and electrical appliances	2,581,319	0.98	1,442,975	0.26	1,133,798	0.79
Construction	512,732	0.20	2,504,747	0.46	1,718,908	1.20
Power (electricity), gas, water, sanitary	29,778,732	11.35	10,474,169	1.92	5,596,136	3.89
Wholesale and Retail Trade	16,155,626	6.16	31,693,748	5.81	1,669,454	1.16
Exports / imports	4,374,769	1.67	1,155,293	0.21	3,464,399	2.41
Transport, storage and communication	60,303,139	22.98	2,963,980	0.54	8,605,809	5.98
Financial	2,625,187	1.00	7,529,434	1.38	43,797,027	30.46
Insurance	100,145	0.04	1,933,344	0.35	9,428	0.01
Services	8,408,320	3.20	103,086,339	18.91	15,323,823	10.66
Individuals	14,525,679	5.53	304,770,547	55.90	27,556	0.01
Others	52,293,262	19.95	19,578,868	3.60	21,013,163	14.62
	262,392,343	100	545,060,728	100	143,802,527	100

Notes to the Financial Statements

For the year ended December 31, 2013

	2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	50,019,400	18.65	47,467,154	7.51	82,894,499	31.23
Private	218,172,858	81.35	584,863,132	92.49	182,533,531	68.77
	<u>268,192,258</u>	<u>100</u>	<u>632,330,286</u>	<u>100</u>	<u>265,428,030</u>	<u>100</u>

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	61,853,400	23.57	14,204,857	2.61	64,122,798	44.59
Private	200,538,943	76.43	530,855,871	97.39	79,679,729	55.41
	<u>262,392,343</u>	<u>100</u>	<u>545,060,728</u>	<u>100</u>	<u>143,802,527</u>	<u>100</u>

43.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2013		2012	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	254,545	241,739	312,154	312,154
Mining and quarrying	-	-	-	-
Textile	4,122,275	4,079,378	5,209,642	5,198,660
Chemical and pharmaceuticals	183,434	183,434	196,304	196,304
Cement	130,950	130,950	295,603	295,603
Sugar	428,224	428,224	1,035,221	1,035,221
Footwear and leather garments	85,595	85,595	103,951	103,951
Automobile and transportation equipment	26,155	25,337	54,984	47,781
Electronics and electrical appliances	374,522	374,522	451,436	451,436
Construction	118,363	118,363	127,365	127,365
Power (electricity), gas, water, sanitary	-	-	180,086	90,070
Wholesale and retail trade	3,490,188	3,401,412	4,075,703	4,075,582
Exports / imports	548,372	548,017	596,963	596,796
Transport, storage and communication	593,413	589,033	645,059	335,919
Financial	814,600	814,600	1,107,782	918,893
Services	594,830	590,498	721,978	721,978
Individuals	3,188,170	3,117,058	3,393,709	3,265,164
Others	8,314,097	4,721,988	7,053,834	4,607,210
	<u>23,267,733</u>	<u>19,450,148</u>	<u>25,561,774</u>	<u>22,380,087</u>

43.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	639,825	-	-	-
Private	22,627,908	19,450,148	25,561,774	22,380,087
	<u>23,267,733</u>	<u>19,450,148</u>	<u>25,561,774</u>	<u>22,380,087</u>

Notes to the Financial Statements

For the year ended December 31, 2013

43.1.1.5 Geographical segment analysis

	2013			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan	31,708,602	798,416,691	109,635,974	259,694,660
South Asia	327,628	11,314,474	334,864	5,188,358
Middle East	251,975	5,777,206	260,143	545,012
	<u>32,288,205</u>	<u>815,508,371</u>	<u>110,230,981</u>	<u>265,428,030</u>
	2012 (Restated)			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan	31,122,871	754,345,689	101,984,972	138,333,357
South Asia	305,084	8,500,160	286,887	5,012,636
Middle East	213,952	4,228,848	198,830	456,534
	<u>31,641,907</u>	<u>767,074,697</u>	<u>102,470,689</u>	<u>143,802,527</u>

Total assets employed include intra group items of Rs. NIL (2012: Rs. NIL).

43.1.2 Credit Risk - General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with SBP's requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company– Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	Other (S&P / Moody's / Fitch)
Corporate	Yes	Yes	-
Banks	Yes	Yes	Yes
Sovereigns	-	-	Yes
SME's	Yes	Yes	-

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumeric scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No.8 table 2.3.

Notes to the Financial Statements

For the year ended December 31, 2013

Long - Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	1
2	A+ A A-	A+ A A-	A+ A A-	A1 A2 A3	A+ A A-	2
3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	3
4	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	4
5	B+ B B-	B+ B B-	B+ B B-	B1 B2 B3	B+ B B-	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short - Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+, A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

Notes to the Financial Statements

For the year ended December 31, 2013

Credit Exposures subject to Standardized approach

Exposures	Rating	2013			2012		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	12,965,194	-	12,965,194	19,892,545	-	19,892,545
	2	16,023,019	-	16,023,019	18,297,215	-	18,297,215
	3,4	666,209	-	666,209	60,937	-	60,937
	5,6	-	-	-	61,960	-	61,960
	Unrated	142,722,637	-	142,722,637	115,236,986	-	115,236,986
Bank	1	18,704,638	-	18,704,638	17,947,964	-	17,947,964
	2,3	1,263,692	-	1,263,692	2,244,629	-	2,244,629
	4,5	527,759	-	527,759	417,248	-	417,248
	6	18,718	-	18,718	306,199	-	306,199
	Unrated	1,482,555	-	1,482,555	140,624	-	140,624
Public Sector Entities in Pakistan	1	-	-	-	218,872	-	218,872
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	47,872,322	32,662,619	15,209,703	60,212,217	59,821,046	391,171
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash		45,126,907	-	45,126,907	44,378,128	-	44,378,128
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	3,571,381	-	3,571,381	1,212,879	-	1,212,879
	6	478,848	-	478,848	2,075,915	-	2,075,915
	Unrated	2,361,976	-	2,361,976	68,513	-	68,513
Mortgage		3,831,898	-	3,831,898	4,216,989	-	4,216,989
Retail		19,829,660	-	19,829,660	20,606,300	-	20,606,300

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on balance sheet activities, bank has taken only the benefit of Sovereign guarantees.

Notes to the Financial Statements

For the year ended December 31, 2013

MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 774,815.595 million (2012: Rs. 720,858.534 million) the financial assets which are subject to credit risk amounting to Rs. 762,464.749 million (2012: Rs. 709,055.410 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 434,096.855 million (2012: Rs. 380,193.220 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 31,931.448 million (2012: Rs. 30,380.601 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. The Bank has invested in its subsidiaries and associated companies to achieve long term strategic objectives. As of December 31, 2013 the composition of equity investments, subsidiaries and associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Subsidiary and Associates
(Rupees in '000)			
Equity investments – publicly traded	-	7,797,701	1,263,723
Equity investments - others	-	142,807	372,205
Total value	-	7,940,508	1,635,928

Classification of equity investments

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments - Held for trading
- Investments - Available for sale
- Investments in subsidiaries
- Investments in Associates

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account directly.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative realized gain of Rs. 1,870.758 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 2,118.576 million was recognized in the balance sheet in respect of AFS equity securities. Further a provision for impairment in value of equity investments amounting to Rs. 5.909 million has been charged to profit and loss account.

Notes to the Financial Statements

For the year ended December 31, 2013

43.2 Market Risk Management

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign Exchange Group and the Capital Market Group. Market risk exposure also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Risk Management Committee of management, ALCO and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Market Risk Division seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency in reporting the Bank's market risk profile to the senior management, the Board of Directors and regulator. Market risk management authority, including approval of market risk limits and exposure levels is vested in the ALCO.

In line with regulatory requirements, MCB has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under Available for Sale category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfil the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. These Limits are compared with the numbers generated by the market risk management systems based on the trading activity and the outstanding positions.

Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests of both banking and trading books as per SBP guidelines is also in place. The results of the stress tests are reviewed by the Senior Management and also reported to the SBP.

The Bank is also exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVBP, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

43.2.1 Foreign Exchange Risk Management

Foreign exchange risk exposes the bank to changes in the values of current holdings and future cash flows denominated in currencies other than home currency due to the exchange rate fluctuation and volatility. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against undue losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenors in major currencies are in place to control risk. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on a daily basis.

Notes to the Financial Statements

For the year ended December 31, 2013

	2013			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	757,862,650	654,735,583	6,922,673	110,049,740
Sri Lankan Rupee	11,049,130	11,099,250	45,462	(4,658)
United States Dollar	44,685,577	31,710,628	(12,854,354)	120,595
Pound Sterling	876,537	3,495,434	2,630,109	11,212
Japanese Yen	10,881	51,448	53,717	13,150
Euro	993,614	4,185,047	3,202,393	10,960
Other currencies	29,982	-	-	29,982
	<u>815,508,371</u>	<u>705,277,390</u>	<u>-</u>	<u>110,230,981</u>
	2012 (Restated)			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	735,139,674	628,989,912	(3,931,941)	102,217,821
Sri Lankan Rupee	8,115,171	8,159,735	18,620	(25,944)
United States Dollar	22,693,261	20,998,827	(1,510,732)	183,702
Pound Sterling	481,165	2,857,211	2,383,939	7,893
Japanese Yen	42,693	70	(40,618)	2,005
Euro	548,178	3,598,253	3,080,732	30,657
Other currencies	54,555	-	-	54,555
	<u>767,074,697</u>	<u>664,604,008</u>	<u>-</u>	<u>102,470,689</u>

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the decline in market prices of scrips under certain assumptions. Additionally, historical scenario analysis on equities is also performed periodically as advised by the State Bank of Pakistan through Guideline on Stress Testing.

43.2.3 Country Risk

The world is changing rapidly and interdependencies and inter linkages of banks operating in different countries are ever increasing. Thus the banks having cross border exposures whether on-balance sheet or off-balance sheet are susceptible to the changing conditions in various countries of the world. Therefore, it becomes very important for institutions to effectively manage their cross border exposures to avoid any unfavourable situation.

MCB understands the risks involved in taking cross border exposure. The risk is managed under the umbrella of Board approved Country Risk Policy. The Policy not only envisages a centralized approach to measure, monitor and manage country risk but also strengthen overall risk management framework in the Bank.

Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns and exposures on foreign domiciled counter parties. Additionally, business product wise sub limits involving cross border exposure are also implemented. Monitoring of these limits is a regular feature of Risk Management.

Notes to the Financial Statements

For the year ended December 31, 2013

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk							Not exposed to Yield/ Interest Risk			
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years		Over 5 to 10 years	Above 10 years	
												(Rupees in '000)
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	59,946,150	4,146,998	-	-	-	-	-	-	-	-	-	55,799,152
Balances with other banks	1,536,946	484,414	-	-	-	-	-	-	-	-	-	1,052,532
Lendings to financial institutions	1,224,638	1,224,638	-	-	-	-	-	-	-	-	-	-
Investments - net	447,370,091	102,012,978	211,491,020	16,915,652	11,327,089	21,398,565	39,066,342	24,125,404	13,092,611	-	-	7,940,430
Advances - net	248,242,965	210,483,644	18,073,299	4,290,733	1,358,361	5,239,720	2,641,480	3,111,616	2,442,367	601,745	-	16,494,805
Other assets - net	16,494,805	-	-	-	-	-	-	-	-	-	-	16,494,805
	774,815,595	318,352,672	229,564,319	21,206,385	12,685,450	26,638,285	41,707,822	27,237,020	15,534,978	601,745	-	81,286,919
	10,138,726	-	-	-	-	-	-	-	-	-	-	10,138,726
Bills payable	38,542,660	19,312,995	10,005,135	4,469,605	2,396,684	2,358,641	-	-	-	-	-	-
Borrowings	632,330,286	373,718,728	19,136,275	8,714,275	15,472,801	217,157	219,838	326,664	-	-	-	214,524,448
Deposits and other accounts	16,064,197	-	-	-	-	-	-	-	-	-	-	16,064,197
Other liabilities	697,075,869	393,031,123	29,141,410	13,183,880	17,869,485	2,575,998	219,838	326,664	-	-	-	240,727,371
	77,739,726	(74,673,451)	200,422,909	8,022,505	(5,184,035)	24,062,287	41,487,884	26,910,356	15,534,978	601,745	-	(159,440,452)
On-balance sheet gap												
Off-balance sheet financial instruments												
FX options purchase	216,344	-	216,344	-	-	-	-	-	-	-	-	-
Foreign exchange contracts Purchase	72,216,751	42,583,683	23,239,215	6,393,853	-	-	-	-	-	-	-	-
	72,433,095	42,583,683	23,455,559	6,393,853	-	-	-	-	-	-	-	-
FX options sale	216,344	-	216,344	-	-	-	-	-	-	-	-	-
Foreign exchange contracts Purchase	79,959,563	44,369,336	25,266,531	9,957,417	366,279	-	-	-	-	-	-	-
	80,175,907	44,369,336	25,482,875	9,957,417	366,279	-	-	-	-	-	-	-
	(7,742,812)	(1,785,653)	(2,027,316)	(3,563,564)	(366,279)	-	-	-	-	-	-	-
Off-balance sheet gap												
Total yield / interest risk sensitivity gap		(76,464,104)	198,395,593	4,458,941	(5,550,314)	24,062,287	41,487,884	26,910,356	15,534,978	601,745	-	229,437,366
Cumulative yield / interest risk sensitivity gap		(76,464,104)	121,931,489	126,390,430	120,840,116	144,902,403	186,390,287	213,300,643	228,835,621	601,745	-	229,437,366

Notes to the Financial Statements

For the year ended December 31, 2013

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

Effective Yield/ Interest rate	Total	2012 (Restated)							Not exposed to Yield/ Interest Risk		
		Exposed to Yield/ Interest risk									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks		2,974,718	-	-	-	-	-	-	-	-	54,445,411
Balances with other banks	0%	213,044	-	-	-	-	-	-	-	-	978,930
Lending to financial institutions	0.16% to 4.25%	1,551,472	-	-	-	-	-	-	-	-	-
Investments - net	7.5% to 9.15%	70,089,697	84,030,767	86,070,863	70,079,870	10,033,783	18,130,830	39,966,823	11,041,110	-	10,989,245
Advances - net	5.60% to 14.15%	215,465,679	5,744,170	3,662,752	2,844,820	4,303,281	3,361,396	2,243,752	1,539,201	418,269	-
Other assets - net	12.68%	20,678,651	-	-	-	-	-	-	-	-	20,678,651
		720,858,554	89,774,937	89,733,615	72,924,690	14,337,064	21,492,226	42,210,575	12,580,311	418,269	87,092,237
Liabilities											
Bills payable		-	-	-	-	-	-	-	-	-	9,896,284
Borrowings	1.5% to 12.82%	64,277,738	5,510,285	4,390,360	2,386,360	2,386,360	-	-	-	-	-
Deposits and other accounts	6% to 12%	291,582,202	19,310,368	10,782,325	32,527,042	301,052	162,009	774,707	227,471	-	189,392,962
Other liabilities		-	-	-	-	-	-	-	-	-	18,343,294
		355,859,940	24,820,653	15,173,285	34,913,402	2,687,412	162,009	774,707	227,471	-	217,832,530
On-balance sheet gap		68,607,125	64,954,284	74,560,330	38,011,288	11,649,652	21,330,217	41,435,868	12,352,840	418,269	(130,540,293)
Off-balance sheet financial instruments											
Foreign exchange contracts Purchase		16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-
Cross currency swaps - long position		-	-	-	-	-	-	-	-	-	-
		16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-
Foreign exchange contracts Sale		12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-
Cross currency swaps - short position		-	-	-	-	-	-	-	-	-	-
		12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-
Off-balance sheet gap		3,696,171	358,444	(342,536)	136,322	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		(61,869,159)	65,312,728	74,217,794	38,147,610	11,649,652	21,330,217	41,435,868	12,352,840	418,269	202,995,819
Cumulative yield / interest risk sensitivity gap		(61,869,159)	3,443,569	77,661,363	115,808,973	127,458,625	148,798,842	190,224,710	202,577,550	202,995,819	-

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

Notes to the Financial Statements

For the year ended December 31, 2013

Reconciliation to total assets	2013 (Rupees in '000)	2012	Reconciliation to total liabilities	2013 (Rupees in '000)	2012
Balance as per balance sheet	815,508,371	767,074,697	Balance as per balance sheet	705,277,390	664,604,008
Less: Non financial assets			Less: Non financial liabilities		
Investments	1,635,928	1,635,928	Other liabilities	4,000,148	2,822,872
Operating fixed assets	28,595,338	23,738,454	Deferred tax liability	4,201,373	9,529,727
Other assets	10,461,510	20,841,781		8,201,521	12,352,599
	40,692,776	46,216,163			
Total financial assets	774,815,595	720,858,534	Total financial liabilities	697,075,869	652,251,409

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial, particularly during periods of adverse conditions, liquidity management is among the most important activities that the MCB conducts during both normal and stress periods. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Liquidity Management

Asset Liability Management Committee of the bank has the responsibility for the formulation of overall strategy and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation. MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions. Liquidity Strategy is also in place, to ensure that the Bank can meet its temporal liquidity needs and optimize the contribution towards the profitability of the Bank. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management. As per preliminary assessments, the Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio as per Basel III are well within the prescribed limits.

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury Policy, Investment policy, Contingency Funding Plan, Liquidity Strategy and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB Bank also conducts Liquidity Risk Analysis on regular basis. MCB liquidity Risk Policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Financial Statements

For the year ended December 31, 2013

43.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

2013

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	59,946,150	59,946,150	-	-	-	-	-	-	-	-
Balances with other banks	1,536,946	1,536,946	-	-	-	-	-	-	-	-
Lending to financial institutions	1,224,638	1,224,638	-	-	-	-	-	-	-	-
Investments - net	449,006,019	100,877,118	213,459,894	11,773,577	13,209,949	26,611,921	39,459,204	26,770,124	15,208,304	1,635,928
Advances - net	248,242,965	54,755,876	34,665,006	24,564,085	6,087,800	41,703,166	35,809,840	36,780,148	13,192,809	684,235
Operating fixed assets	28,595,338	150,145	300,290	450,435	900,869	1,801,738	1,801,738	3,603,476	9,008,690	10,577,957
Deferred tax assets	352,563	6,825	13,651	20,476	60,718	81,904	168,989	-	-	-
Other assets - net	26,956,315	7,033,468	8,838,558	1,732,474	2,653,299	-	-	6,698,516	-	-
	815,860,934	225,531,166	257,277,399	38,541,047	22,912,635	70,198,729	77,239,771	73,852,264	37,409,803	12,898,120
Liabilities										
Bills payable	10,138,726	10,138,726	-	-	-	-	-	-	-	-
Borrowings	38,542,660	19,312,395	10,005,135	4,469,605	2,396,684	2,358,841	-	-	-	-
Deposits and other accounts	632,330,286	588,243,176	19,136,275	8,714,275	15,472,801	217,157	219,938	326,664	-	-
Deferred tax liabilities	4,553,936	41,368	9,114	19,953	102,777	378,637	335,693	2,284,833	616,778	764,783
Other liabilities	20,064,345	6,083,397	2,866,485	4,722,981	2,010,004	2,670,442	677,980	271,894	761,162	-
	705,629,953	623,819,062	32,017,009	17,926,814	19,982,266	5,625,077	1,233,611	2,883,391	1,377,940	764,783
Net assets	110,230,981	(98,287,896)	225,260,390	20,614,233	2,930,369	64,573,652	76,006,160	70,968,873	36,031,863	12,133,337
Share capital	10,118,461									
Reserves	46,601,214									
Unappropriated profit	40,552,043									
Surplus on revaluation of assets - net of tax	12,959,263									
	110,230,981									

Notes to the Financial Statements

For the year ended December 31, 2013

43.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	2012 (restated)									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	57,420,129									
Balances with other banks	1,191,974	1,191,974								
Lending to financial institutions	1,551,472	1,551,472								
Investments - net	402,068,916	72,532,723	82,776,324	80,886,735	73,674,892	15,153,955	18,777,827	43,493,387	13,137,145	1,635,928
Advances - net	239,563,320	55,075,924	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405
Operating fixed assets	23,738,454	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,277,804	8,194,510	7,349,434
Deferred tax assets	294,260	4,096	8,191	12,287	37,206	49,148	49,148	98,296	35,888	
Other assets - net	41,520,432	9,876,574	10,914,951	9,608	1,014,723			19,704,576		
	767,368,957	197,789,467	117,116,779	95,692,686	81,104,554	62,581,672	59,212,365	108,759,807	35,555,860	9,555,767
Liabilities										
Bills payable	9,896,284	9,896,284								
Borrowings	78,951,103	64,277,738	5,510,285	4,390,360	2,386,360	2,386,360				
Deposits and other accounts	545,060,728	480,975,154	19,310,368	10,782,924	32,527,042	301,053	162,009	774,707	227,471	
Deferred tax liabilities	9,823,987	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328	982,493
Other liabilities	21,166,166	10,079,693	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	1,029,971	
	664,898,268	565,278,870	26,887,663	18,964,156	36,806,732	5,157,074	681,573	7,879,937	2,259,770	982,493
Net assets	102,470,689	(367,489,403)	90,229,116	76,728,530	44,297,822	57,424,598	56,530,792	100,879,870	33,296,090	8,573,274
Share capital	9,198,601									
Reserves	44,253,270									
Unappropriated profit	35,424,921									
Surplus on revaluation of assets - net of tax	13,593,897									
	102,470,689									

Notes to the Financial Statements

For the year ended December 31, 2013

43.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2012 (restated)							
		(Rupees in '000)							
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Above 10 years
Assets									
Cash and balances with treasury banks	57,420,129	57,420,129	-	-	-	-	-	-	-
Balances with other banks	1,191,974	1,191,974	-	-	-	-	-	-	-
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-
Investments - net	402,068,916	72,532,723	82,776,324	80,886,735	73,674,892	15,153,955	18,777,827	43,493,387	13,137,145
Advances - net	239,563,320	55,075,924	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317
Operating fixed assets	23,738,454	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,277,804	8,194,510
Deferred tax assets	294,260	4,096	8,191	12,287	37,206	49,148	49,148	98,296	35,888
Other assets - net	41,520,432	9,876,574	10,914,951	9,608	1,014,723	-	-	19,704,576	-
	767,368,957	197,789,467	117,116,779	95,692,686	81,104,554	62,581,672	59,212,365	108,759,807	35,555,860
Liabilities									
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-
Borrowings	78,951,103	64,277,738	5,510,285	4,390,360	2,386,360	2,386,360	-	-	-
Deposits and other accounts	545,060,728	37,848,059	36,103,026	46,614,760	32,949,491	117,300,456	117,020,596	117,914,926	39,309,414
Deferred tax liabilities	9,823,987	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328
Other liabilities	21,166,166	10,079,693	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	1,029,971
	664,898,268	122,151,775	43,680,321	54,795,992	37,229,181	122,156,477	117,540,160	125,020,156	41,341,713
Net assets	102,470,689	75,637,692	73,436,458	40,896,694	43,875,373	(59,574,805)	(58,327,795)	(16,260,349)	(6,785,853)
Share capital	9,198,601								
Reserves	44,253,270								
Unappropriated profit	35,424,921								
Surplus on revaluation of assets - net of tax	13,593,897								
	102,470,689								

Liquidity Gap Reporting

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity. Bank regularly conducts an objective and systematic behavioral study using regression analysis technique to ascertain the maturity of its non-contractual assets and liabilities. Core and non-core parts of the non-contractual assets and liabilities are segregated through the behavioral study. Non Core part is placed among the short term maturity buckets i.e. up to 1 Year based on the model results, whereas core part is distributed among the longer term buckets based on the discussion and decision by the ALCO. Following percentages are used to distribute the core assets and liabilities among longer term buckets:

Currently following percentages are being used to distribute the core assets and liabilities among longer term buckets:

Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years
30%	30%	30%	10%

Notes to the Financial Statements

For the year ended December 31, 2013

43.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank. Going forward, the Bank will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard interest of depositors.

43.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

Operational loss data pertaining to key risk events is also collected on bank-wide basis. Periodic review and analysis is prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events with root cause analysis and recommendations for further improvements.

44. GENERAL

Comparative information has been reclassified and rearranged in these financial statements for the purpose of better presentation. No significant reclassification has been made except in note 40 and as follows:

Description	Amount (Rupees in '000)	Reclassified	
		From	To
Fuel expenses - generators	495,706	Travelling, conveyance and fuel	Rent, taxes, insurance and electricity
Outsourced staff costs	743,039	Salaries and allowances	Outsourced service charges

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 11, 2014 has announced a final cash dividend in respect of the year ended December 31, 2013 of Rs. 3.50 per share (2012: Rs. 3.0 per share) and bonus shares of 10% (2012: 10%). These Financial Statements for the year ended December 31, 2013 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

These Financial Statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 11, 2014.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Annexure - I

1 Particulars of Investments in listed companies, mutual funds and modarabas-available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/certificate /unit	Total paid-up/ nominal value	Cost as at December 31, 2013
			Rupees		(Rupees in '000)
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Aisha Steel Mills Limited		168,286	10	1,683	1,683
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	<u>50,000</u>
					63,285
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		65,600	10	656	12,191
Allied Bank Limited		8,830,421	10	88,304	547,664
Arif Habib Limited		95,745	10	957	13,908
Arif Habib Corporation Limited		1,851,148	10	18,511	214,004
Attock Cement Pakistan Limited		19,308	10	193	1,329
Attock Petroleum Limited		990,426	10	9,904	387,524
Bank Alfalah Limited		300,000	10	3,000	5,404
Bank Al-Habib Limited		12,851,435	10	128,514	355,237
Archroma Pakistan Limited (Formerly Clariant Pakistan Limited)		127,550	10	1,276	28,456
Fauji Cement Company Limited		1,400,000	10	14,000	20,212
Fauji Fertilizer Bin Qasim Company Limited		3,855,500	10	38,555	151,135
Fauji Fertilizer Company Limited		10,032,000	10	100,320	738,906
Habib Bank Limited		670,163	10	6,702	101,477
Habib Metropolitan Bank Limited		115,000	10	1,150	3,195
Hub Power Company Limited		3,791,000	10	37,910	233,294
Indus Motor Company Limited		27,027	10	270	5,566
IGI Insurance Limited		70,000	10	700	10,893
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		5,955,500	10	59,555	349,779
Meezan Bank Limited		396,825	10	3,968	10,831
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		60	10	1	23
Murree Brewery Company Limited		23,650	10	237	2,818
National Foods Limited		25,875	10	259	5,811
National Bank of Pakistan		7,385,000	10	73,850	378,334
Nestle Pakistan Ltd Limited		5,348	10	53	21,613
Next Capital Limited		1,950,000	10	19,500	19,500
Oil & Gas Development Company Limited		473,235	10	4,732	113,446
Pakistan Oilfields Limited		1,190,045	10	11,900	509,427
Pakistan Petroleum Limited		2,135,918	10	21,359	432,009
Pakistan State Oil Company Limited		290,200	10	2,902	93,860
Pakistan Telecommunication Company Limited		1,150,000	10	11,500	30,129
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		15,747	10	157	53,364
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		14,183,601	10	141,836	119,551
Searle Pakistan Limited		91,000	10	910	2,903
Sui Northern Gas Pipelines Limited		55,126,789	10	551,268	2,205,253
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Food Pakistan Limited		867	10	9	1,364
United Bank Limited		4,544,340	10	45,443	445,093
Zulfqar Industries Limited		30,537	10	305	<u>3,556</u>
Total					<u>7,668,557</u>

Annexure - I

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/certificates/units held	Paid-up value per share/certificate/unit (Rupees)	Total paid-up/nominal value (Rupees in '000)	Cost as at December 31, 2013
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,532.70	60,606
Total					<u>60,606</u>
Carrying value (before revaluation and provision) Listed Shares 'available for sale'					7,792,448
Provision for diminution in value of investments					(1,992,006)
Surplus on revaluation of securities					2,116,420
Market value as at December 31, 2013					<u>7,916,862</u>
Fully Paid-up Ordinary Certificate/ Units of Mutual Funds	Name of Management Company	Number of units held	Paid-up value per unit (Rupees)	Total paid-up/nominal value (Rupees in '000)	Cost as at December 31, 2013
National Investments Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Carrying value before revaluation & provision					5,253
Provision for diminution in value of investments					(1,907)
Surplus on revaluation of securities					2,156
Market value as at December 31, 2013					<u>5,502</u>

- 1.1 These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs. 10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

Annexure - I

2 Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2013	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees in '000)						
Shareholding more than 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
Pak Asian Fund Limited	10.22%	1,150,000	11,500	19,462	June 30, 2013	Mr. Ashfaq A. Berdi
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	174,624	June 30, 2013	Mr. Mohammad Hanif Jakhura
			21,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		275,000	2,500	2,982	June 30, 2013	Mr. Shahzad Jawahar
National Institute of Facilitation Technology Private Limited		1,478,227	1,526	91,014	June 30, 2013	Mr. M.M. Khan
National Investment Trust Limited		79,200	100	178,348	June 30, 2012	Mr. Manzoor Ahmed
SME Bank Limited		1,490,619	10,106	6,527	September 30, 2013	Mr. Naseer Durrani
Arabian Sea Country Club		500,000	5,000	2,194	June 30, 2013	Mr. Arif Ali Khan Abbasi
Islamabad Stock Exchange Limited		3,034,603	30,346	32,663	September 30, 2013	Mian Ayyaz Afzal
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,941	December 31, 2012	Mr. Gottfried Leibbrandt
Credit Information Bureau of Sri Lanka		300	25	14,200	December 31, 2012	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	805	4,945	March 31, 2013	Mr. S. B. Weerasooriya
Lanka Financial Services Bureau Limited		100,000	805	802	March 31, 2013	Mr. Minindu Rajaratne
Pakistan Agro Storage and Services corporation*		2,500	2,500	-	-	-
Al-Ameen Textile Mills Limited.*		19,700	197	-	-	-
Ayaz Textile Mills Limited.*		225,250	2,252	-	-	-
Custodian Management Services*		100,000	1,000	-	-	-
Musarrat Textile Mills Limited.*		3,604,500	36,045	-	-	-
Sadiqabad Textile Mills Limited.*		2,636,100	26,362	-	-	-
			121,307			
Cost of unlisted shares/ certificates/ units			142,807			
Provision against unlisted shares			(74,741)			
Carrying value of unlisted shares/ certificates/ units			68,066			

* These are fully provided unlisted shares.

Annexure - I

3. Particulars of investments in Term Finance Certificates and Sukuk Bonds- (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2013	Name of Chief Executive
						(Rupees)	
LISTED TERM FINANCE CERTIFICATES - available for sale							
Askari Bank Limited - issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 months KIBOR +2.95% for next five years	0.32% of principal amount in the first 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,600	Syed Majeedullah Husaini
Bank Alfalah Limited - issue no. IV	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi -annual installment starting from the 84th month.	499,200	Mr. Atif Bajwa
Allied Bank Limited - issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90%	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	27,902	Mr. Tariq Mahmood
Allied Bank Limited - issue no. II	37,000	5,000	185,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	181,710	Mr. Tariq Mahmood
Carrying value before revaluation						958,412	
Surplus on revaluation of securities						27,470	
Market value of listed TFCs (revalued amount)						985,882	
SUKUK BONDS - available for sale							
	Terms of Redemption		Rate of interest	Currency			
	Principal	Interest					
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR		2,700,000	
Surplus on revaluation of securities						17,310	
Market value of sukuk bonds						2,717,310	

Annexure - I

TERM FINANCE CERTIFICATES - held to maturity

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2013	Name of Chief Executive
	(Rupees)					(Rupees in '000)	
Bank Alfalah Limited - issue no. V	100,000	5,000	500,000,000	6 months KIBOR + 1.25% p.a.	0.3% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity in the 96th month	482,114	Mr. Atif Bajwa
Bank Al Habib Limited- - issue no. IV	20,000	5,000	100,000,000	*Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a. for next 5 years*	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each	99,900	Mr. Abbas D. Habib
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	69,776	Mr. Suleman Lalani
United Bank Limited - issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	94,343	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. II	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,629	Mr. Tariq Mahmood
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	25,000	Mr. Jehangir Khan Tareen
Azgard Nine Limited	13,878	5,000	69,390,000	NIL	In 7 semi-annual installments starting from 24th month	69,390	Mr. Ahmed Shaikh
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a. from March 2012	In 10 equal semi-annual installments starting from March 2012 .	48,000	Mr. Ahsan Saleem
Pakistan Mobile Communication Limited	200,000	5,000	1,000,000,000	3 Month KIBOR +2.65% p.a.	In 17 equal quarterly installments starting from 12th month after first disbursement and subsequently every three months.	705,881	Mr. Rashid Khan
Carrying value of TFCs - HTM						1,826,033	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

Annexure - I

4. Details of Bonds, Debentures and Federal Government Securities (refer note 9) - held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount (’000)	Carrying value as at December 31, 2013 (Rupees in ’000)
	Principal	Interest				
Debentures						
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75%	LKR	250,000	201,300
Sukuk Bonds						
Sampath Bank	At maturity	Half-yearly	13.40%	LKR	64,610	52,024
NDB Bank	At maturity	Half-yearly	13.40%	LKR	62,760	50,534
Development Bonds						
Government of Sri Lanka	At maturity	Half-yearly	6 Month LIBOR + 400 BP	LKR	785,880	632,791
Sukuk Bonds						
Sukuk Bonds						
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments.	Half-yearly	6 Month KIBOR+1.70%	PKR	-	327,328
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.50%	PKR	-	53,793
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments.	Quarterly	3 Month KIBOR+1.25%	PKR	-	19,444
Sitara Energy Limited	In 8 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.15%	PKR	-	42,273
						442,838
Pakistan Euro Bonds	At maturity installments.	Half-yearly	7.125% & 6.875	US\$	22,264	2,344,907

5. Investment in subsidiaries

Details of the Bank's subsidiary companies are as follows:

Name	% of holding	Country of incorporation	Year of incorporation
MCB Financial Services Limited	* 99.99	Pakistan	1992
MNET Services (Private) Limited	* 99.95	Pakistan	2001
MCB Trade Services Limited	100	Hong Kong	2005
MCB - Arif Habib Savings & Investments Limited	51.33	Pakistan	2005
"MCB Leasing" Closed Joint Stock Company	95	Azerbaijan	2009

* Remaining shares are held by certain individuals as nominees of the Bank.

6. Summarized financial information of associates (refer note 9)

The gross amount of assets, liabilities, revenue, profit and net assets of associates are as follows:

Name of associates	Country of incorporation	Assets	Liabilities	Net assets (Rupees in ’000)	Revenue	Profit after tax	% of interest held
2013							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2013)	Pakistan	249,379	37,962	211,417	266,718	25,823	30%
First Women Bank Limited (unaudited based on September 30, 2013)	Pakistan	19,120,022	17,452,030	1,667,992	613,719 *	(157,631)	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2013)	Pakistan	27,321,610	14,457,637	12,863,973	4,099,609	1,735,188	29.13%
2012							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2012)	Pakistan	222,073	36,480	185,593	200,242	8,589	30%
First Women Bank Limited (unaudited based on September 30, 2012)	Pakistan	17,822,172	15,716,519	2,105,653	663,988 *	71,746	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2012)	Pakistan	25,372,524	13,630,640	11,741,884	4,300,489 **	841,941	29.13%

* Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

Islamic Banking Business Report of Shari'ah Advisor

ANNEXURE - II

The Shareholders of MCB Bank Limited

The year under review was 2013 of Banking Operations of MCB Islamic banking Group (MCB IB G). The fundamental objective of Islamic Banking Group is to fabricate unique Shari'ah compliant efficient products & services, rather being disciple of conventional banking products.

A lot of work is being done on existing and new Liability side products and variety of assets products catering financial needs & demand of all walk of society, are in finalization stage.

During the year MCB IBG developed and executed a number of Islamic Commercial Banking Products in consultation with the Shari'ah Advisor of the Bank. Currently the Bank is offering a number of Shari'ah Compliant Banking Products on both asset and liability sides which include:

LIABILITY SIDE:

For general deposits and treasury functions (Based on Islamic contract of Mudarabah, Wakalah & Qard):

Existing Products:

- Hifazat Saving Account (A Mudarabah based Saving Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Hifazat Plus Saving Account (A Slab based Mudarabah Saving Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Aasoodgi one year Term Deposit Receipt (TDR) for senior citizens and widows.
- Na'mat Term Deposit Account (A Mudarabah based Term Deposit Receipt (TDR) Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Hidayat Current Account (A Qard based Current Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Receiving funds from MCB Treasury based on Mudarabah.
- Receiving funds in foreign currency from foreign branches of MCB based on Wakalah.

Repackaging of Products:

- Following repackaging of existing current & saving accounts has been made keeping in view need of corporate customers:
- Hidayat Business Current Account
- Hifazat Business Saving Account.

Upcoming Products:

- FCY Deposit Product to generate foreign currency deposits.

Tailor-Made products:

- In addition to above, Islamic Banking Group also catered the specific needs of the customers and structured unique tailor made products.
- Long term deposits product specially designed for the large number of employees of a big institutions.

ASSETS SIDE:

Existing Products:

- Corporate Banking Products (Based on Islamic contracts of Murabaha, Ijarah, and Musharakah - Shirkat-ul-Milk & Shirkat-ul-Aqd)
- Maeeshat Murabaha (A Murabaha based facility for working capital finance)
- Running Finance Musharakah
- Spot Payment Murabaha facility specially designs for Ship breaking industry.
- Pre-shipment Export Financing (An Istisna based facility to finance manufacturing of export consignment)
- For Medium & Long Term Finance for Plant, Machinery & Equipment
- Rafaqat Musharakah Financing (A Musharakah based facility for tangible asset financing)
- San'at Equipment Ijarah (An Ijarah based facility for tangible assets financing)
- Salam Car Ijarah (An Ijarah based motor vehicles financing product)
- Islamic Export Refinance Scheme (IERS)
- Trade Finance facilities
- Bar'aamad Export Financing (A Musharakah based Shari'ah Compliant alternative for conventional banking Foreign Bill Purchased (FBP) Product.
- Letters of Credit (Sight & Usance) local and foreign.
- Kafalat Bank Guarantee (Non funds based facility to issue different guarantees based on Islamic contract of Kafalah)

Tailor-Made products:

- In addition to above, Islamic Banking Group has catered the specific needs by structuring Shari'ah compliant Ijarah facility customized for the employees of a big corporate entity.

ANNEXURE - II

Structuring for syndication deals

- IBG structured large syndication deal based on Services Ijarah
- IBG is in the process of development and refinement of its products to make the products competitive in the market, conforming to the preferred standard of Shari'ah Compliance.

CHARITY

The opening balance of undistributed charity was PKR 6,892,000/-. During the year under review, PKR 8,485,000/- received from customers on account of charity due to late payments of Bank dues and disbursed PKR 12,500,000/- to registered charitable institutions. The closing balance of undistributed charity is PKR 2,877,000.

SHARI'AH ADVISORY

Shari'ah Advisory services have been extended by Islamic Banking Group for Syndicated Structuring.

SHARI'AH COMPLIANCE

During the year, I visited Islamic Banking Branches and observed its general banking operational activities from Shari'ah perspective which I found satisfactory. These activities were included basic Shari'ah knowledge of staff members, display of profit sharing ratio & weightages of various deposit types for the next month, display of profit rates of previous month, timely distribution of profit to depositors, Shari'ah compliance of account opening forms etc. Relevant reports have also been issued by the undersigned from time to time. During the year, I also reviewed/verified the assignment of weightages to various depositors, calculation of profit on monthly basis and its' distribution, application of profit and loss sharing ratios to distributable profit and allocation of funds, which were found satisfactory from Shari'ah perspective. I have also reviewed the transactions executed by the bank and found that the transactions were done as per the approved/suggested mechanism. However, while carrying out the Shari'ah compliance process, the following observations are made to further improve the Shari'ah compliance of the transactions:

1. In some Murabaha cases, I advised that soon after the goods are procured by the customer as bank's agent, offer & acceptance should be executed without allowing any further period to the customer, because at this particular stage, all risk pertaining to ownership of asset remains with the bank. In case, the asset is not insured, and faces partial/full destruction within this grace period, bank shall have to bear the loss, as it may lead to expose Shari'ah/bank risks.
2. Though, the bank has started the process of making Takaful arrangement instead of conventional insurance, yet Islamic Banking Portfolio must continue the conversion of conventional insurance into Takaful arrangement.
3. Although, few training programs were arranged but I would like to suggest that Long tenure extensive

training program should be arranged for IBG and Islamic windows staff for better understanding of Islamic banking products & services.

4. I would like to refer following seven products already developed duly approved by Shari'ah Advisor namely;
 - a. Running Finance Musharakah
 - b. Musharakah Export Financing Foreign
 - c. Istisna based pre-shipment export financing
 - d. Long term deposits product for very large number of employees of a big institution.
 - e. Aasoodgi TDR product for senior citizens & widows
 - f. Wakalah based investment banking product for receiving foreign currency by MCB foreign branches.
 - g. FCY deposit product and would emphasize to take better benefits of the above products specially Running Finance Musharakah which was developed and approved ten years back and the same was ready to offer to customers.
5. It is observed that in most of the cases Invoices are being allowed in the name of agent, though the same is allowed under regulations with the approval of Shari'ah Advisor, however, it is advised that branches should start obtaining invoices in the name of MCB on best efforts basis.
6. I could not have an opportunity to jointly verify with the external auditors the distribution of profit & loss, as per SBP instructions.
7. Staff Provident Fund of Islamic Banking Group should be managed under Shari'ah guidelines & invested in Shari'ah compliant avenues.
8. It is unfortunate that though the Islamic Banking Group has developed Shari'ah Compliant Staff Financing and HR Policy & Implementation Manual, duly approved by BOD, but the same is still not available to the staff of Islamic Banking Group.

I would like to take this opportunity to offer praise to Almighty Allah and seek his guidance and Tawfeeq, and to express my wishes for further progress, development and prosperity of Islamic Banking, Alhamdulillah under the sincere efforts of senior management, and Islamic Banking industry in Pakistan as a whole.



Dr. Muhammad Zubair Usmani
Shari'ah Advisor
MCB Islamic Banking Group
21st Floor, MCB Tower,
I.I Chundrigar Road, Karachi

Dated: January 30, 2014

ANNEXURE - II

ISLAMIC BANKING BUSINESS

The Bank is operating 27 Islamic banking branches at the end of December 31, 2013 (2012: 27 branches).

Statement of Financial Position

As at December 31, 2013

	Notes	2013 (Rupees in '000)	2012 (Restated)
ASSETS			
Cash and balance with treasury banks		609,797	708,174
Balance with other banks		-	-
Due from Financial Institution		-	-
Investments - net		2,817,667	1,955,421
Islamic Financing & Related Assets	A-II.1	11,207,333	9,907,791
Operating fixed assets		1,632,910	1,303,957
Deferred Tax Assets		-	-
Other Assets		90,592	92,384
Total Assets		16,358,299	13,967,727
LIABILITIES			
Bill payable		107,938	88,464
Due to Financial Institution		682,770	581,051
Deposits and other accounts			
- Current Accounts		1,302,177	1,406,660
- Saving Accounts		2,391,100	2,634,184
- Term Deposits		2,765,346	3,061,869
- Others		96,641	3,343
Deposits from Financial Institution - Remunerative		4,609,453	2,516,102
Deposits from Financial Institution - Non Remunerative		12	21
Due to head Office		1,898,328	1,889,975
Deferred tax liability		-	-
Other liabilities		729,273	358,772
Net Assets		14,583,037	12,540,441
REPRESENTED BY		1,775,262	1,427,286
Islamic banking fund		1,500,000	1,300,000
Other reserves		-	-
Unappropriated profit		257,952	118,380
		1,757,952	1,418,380
Surplus on revaluation of assets - net of tax		17,310	8,906
		1,775,262	1,427,286
Remuneration to Shariah Advisor / Board		1,944	1,944
CHARITY FUND			
Opening balance		6,892	782
Additions during the year			
Received from customers on delayed payments		8,208	7,739
Profit on charity saving account		277	296
		8,485	8,035
Payments / utilization during the year			
Social Welfare		(1,000)	(1,300)
Health		(500)	(625)
Education		(1,000)	
Relief and disaster recovery		(10,000)	
		(12,500)	(1,925)
Closing balance		2,877	6,892

ANNEXURE - II

ISLAMIC BANKING BUSINESS

Profit and Loss Account

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
Income / return / profit earned	1,120,157	1,200,152
Income / return / profit expensed	655,873	881,654
	464,284	318,498
Provision against loans and advances - net	(129)	129
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	-
	(129)	129
Net profit / income after provisions	464,413	318,369
Other income		
Fees, commission and brokerage income	392,592	243,293
Dividend income	-	-
Income from dealing in foreign currencies	14,546	8,545
Other Income	22,295	4,186
Total other income	429,433	256,024
	893,846	574,393
Other expenses		
Administrative expenses	635,888	455,949
Other provisions / write offs	-	-
Other charges (penalty paid to SBP)	6	64
Total other expenses	635,894	456,013
Extra ordinary / unusual items	-	-
Profit before taxation	257,952	118,380
Taxation - Current	-	-
- Prior years	-	-
- Deferred	-	-
	-	-
Profit after taxation	257,952	118,380

ANNEXURE - II

ISLAMIC BANKING BUSINESS Cash Flow Statement

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
Cash flows from operating activities		
Profit before taxation	257,952	118,380
Less: Dividend income	-	-
Adjustments for non-cash charges	257,952	118,380
Depreciation on fixed assets	305,718	176,960
Depreciation on ijarah assets	-	-
Provision against loans and advances - net	(129)	129
Provision / (reversal) for diminution in the value of investments - net	-	-
Other provisions / (reversals)	-	-
Bad debts written off directly	-	-
Gain on disposal of fixed assets - net	(2,135)	(556)
	303,454	176,533
	561,406	294,913
(Increase) / decrease in operating assets		
Net investment in held for trading securities	-	-
Islamic Financing & Related Assets	(1,299,413)	(1,637,872)
	1,791	43,148
	(1,297,622)	(1,594,724)
Increase / (decrease) in operating liabilities		
Bills payable	19,474	43,167
Due to Financial Institution	101,719	(1,083,945)
Deposits and other accounts	1,542,550	2,819,201
Other liabilities	370,501	42,005
	2,034,244	1,820,428
	1,298,028	520,617
Income tax paid	-	-
Net cash flows from operating activities	1,298,028	520,617
Cash flows from investing activities		
Net investments in available-for-sale securities	(1,027,120)	400,000
Net investments in held-to-maturity securities	173,278	568,813
Due to Head office	8,353	(668,649)
Profit remitted to Head Office	(118,380)	(270,199)
Sale proceeds of operating fixed assets disposed off	111,171	16,487
Investment in operating fixed assets	(743,707)	(493,293)
Net cash flows from investing activities	(1,596,405)	(446,841)
Cash flows from financing activities		
Increase in share capital	200,000	300,000
Net cash flows from financing activities	200,000	300,000
Increase in cash and cash equivalents	(98,377)	373,776
Cash and cash equivalents at beginning of the period	708,174	334,398
Cash and cash equivalents at end of period	609,797	708,174

ANNEXURE - II

ISLAMIC BANKING BUSINESS Notes to the annexure II

For the year ended December 31, 2013

		Notes	2013 (Rupees in '000)	2012
A-II.1	Islamic Financing and Related Assets			
	Murabaha	A-II.1.1	9,500,229	8,315,902
	Ijarah	A-II.1.2	268,721	27,887
	Diminishing Musharaka	A-II.1.3	1,535,016	1,639,628
	Gross advances		11,303,966	9,983,417
	Provision held		(96,633)	(75,626)
			11,207,333	9,907,791
A-II.1.1	Murabaha			
	Financing/Investments/Receivables		4,162,888	3,601,595
	Advances		756,568	1,394,444
	Assets/Inventories		4,580,773	3,319,863
	Others		-	-
			9,500,229	8,315,902
A-II.1.2	Ijarah			
	Financing/Investments/Receivables		-	2,108
	Advances		268,721	25,779
	Assets/Inventories		-	-
	Others		-	-
			268,721	27,887
A-II.1.3	Diminishing Musharakah			
	Financing/Investments/Receivables		1,305,563	1,443,949
	Advances		229,453	195,679
	Assets/Inventories		-	-
	Others		-	-
			1,535,016	1,639,628

A-II.2 MCB Islamic Banking Division is maintaining following pools for profit declaration & distribution.

I) General Pool

II) IERS Musharaka Pool

III) AAFM Pool

Features, risks & rewards of each pool is given below:

I) General Pool

a) Priority of utilization of Funds in the general pool shall be

- Equity Funds
- Depositor Funds
- Placements/ Investments of other IBI
- Mudaraba placements of MCB (Principal Office)

b) Weightages for distribution of profit in general pool

Assignment of weight-age for profit distribution to different type of profit bearing sources of funds is as follows:

- While considering weight-ages emphasis shall be given to the quantum, type and the period of risk assessed by following factors.
- Contracted period, nature and type of deposit/ fund.
- Payment cycle of profit on such deposit/ fund, i.e. monthly, quarterly or on maturity
- Magnitude of risk
- Weight-ages for general pool shall be determined & declared on monthly basis prior to commencement of next month's business in order to provide an opportunity to the customers/ fund providers to exercise their option of either to keep or withdraw their deposits/ funds.
- Any change in profit sharing weight-age of any category of deposit/ fund providers shall be applicable from the next month.

ANNEXURE - II

c) Identification and allocation of pool related income & expenses

The allocation of income and expenses to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenses shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by MCB IBIs as Mudarib. The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities etc, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; MCB IBIs pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

d) Parameters associated with risk & rewards

Following are the consideration attached with risk & reward of general pool:

- Period, return, safety, security and liquidity of investment
- Financing proposals under process at various stages and likely to be extended in the near future.
- Expected withdrawals of deposits according to the maturities affecting the deposit base.
- Expected amount of procurement of deposit during coming days as a result of concerted marketing efforts of Islamic Banking Branches & MCB-IBD.
- Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organizations as regulated in Pakistan.
- Element of Risk attached to various types of investments.
- SBP rules & Shariah Clearance.

II) IERS Musharaka Pool

All the features and other detail of this pool are in accordance with the SBP IERS Scheme and all circulars and instructions issued from time to time in this regard.

III) AAFM Pool

a) Priority of utilization of Funds in the AAFM pool shall be

- Mudaraba placements of MCB (Principal Office)
- Equity Funds

b) Weightages for distribution of profit in AAFM pool

Assignment of weight-age for profit distribution to different type of profit bearing sources of funds is as follows:

- While considering weight-ages emphasis shall be given to the quantum, type and the period of risk assessed by following factors.
- Contracted period, nature and type of deposit/ fund.
- Payment cycle of profit on such deposit/ fund, i.e. monthly, quarterly or on maturity
- Magnitude of risk
- Weight-ages for AAFM pool shall be determined & declared on monthly basis prior to commencement of next month's business in order to provide an opportunity to the customers/ fund providers to exercise their option of either to keep or withdraw their deposits/ funds.
- Any change in profit sharing weight-age of any category of deposit/ fund providers shall be applicable from the next month.

c) Identification and allocation of pool related income & expenses

The allocation of income and expenses to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenses shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by MCB IBIs as Mudarib. The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities etc, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; MCB IBIs pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

d) Parameters associated with risk & rewards

Following are the consideration attached with risk & reward of AAFM pool:

- Period, return, safety, security and liquidity of investment
- Financing proposals under process at various stages and likely to be extended in the near future.
- Expected withdrawals of deposits according to the maturities affecting the deposit base.
- Expected amount of procurement of deposit during coming days as a result of concerted marketing efforts of Islamic Banking Branches & MCB-IBD.
- Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organizations as regulated in Pakistan.
- Element of Risk attached to various types of investments.
- SBP rules & Shariah Clearance.

ANNEXURE - II

A-II.3 Avenues/sectors of economy/business where Mudaraba based deposits have been deployed:

	2013	2012
	(Rupees '000)	
Chemical and Pharmaceuticals	304,980	639,761
Agribusiness	5,090	200,228
Textile	1,369,692	1,638,054
GOP Ijarah Sukuk	2,821,494	1,700,000
Sugar	159,159	195,738
Production and transmission of energy	-	70,450
Commerce / Trade	-	30,879
Transport, Storage and Communication	-	1,666
Services	51,034	68,750
Individuals	-	221
Ship Breaking	2,075,472	2,788,694
Food & Tobacco Except Sugar	6,430,141	3,751,546
Others	908,397	886,218
	<u>14,125,459</u>	<u>11,972,205</u>

A-II.4 Basis of Profit Allocation:

Profit was distributed between Mudarib & Rabbul Maal with below profit sharing ratio based upon Gross Income approach (Gross Income less Direct Expenses)

Rabbul Maal	50%
Mudarib	50%

Charging Expenses

The direct expenses is being charged to respective pool, while indirect expenses including the establishment cost is being borne by MCB IB as Mudarib. The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities etc, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; IBI pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

Provision

The general and specific provisions created against non-performing financings and diminution in the value of investments as under prudential regulations and other SBP directives shall be borne by the MCB IB as Mudarib. However, write-offs of financings and loss on sale of investments shall be charged to respective pool along with other direct expenses.

The losses on financings and investments due to misconduct/negligence/breach of contract by MCB IB shall not be charged to the pool; the MCB IB as Mudarib shall be responsible for absorbing such losses. The financing approved and disbursed and investment made in contravention to the prudential regulations or the MCB IB's own policies, procedures and processes as determined by internal auditor, external auditor and/or SBP inspection team will be treated as the negligence on the part of the MCB IB.

A-II.5 Mudarib Share (in amount and Percentage of Distributable income)

	2013 (Rupees in '000)	%	2012 (Rupees in '000)	%
Rabbul Maal	496,915	56%	593,356	68%
Mudarib	382,588	44%	277,821	32%
Distributable Income	<u>879,503</u>		<u>871,177</u>	

A-II.6 Amount & percentage of Mudarib share transferred to depositors through Hiba

	2013 (Rupees in '000)	2012 (Rupees in '000)
Mudarib Share	382,588	277,821
Hiba	72,238	171,526
Hiba percentage of Mudarib Share	19%	62%

A-II.7 Profit Rate Earned vs Profit rate Distributed to the depositors during the year:

	2013	2012
* Profit Rate Earned	10.77%	11.19%
Profit Rate distributed to Depositors	6.65%	8.06%

* The profit rate earned means the return on earning assets.

ANNEXURE - III
Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Int/Acc/Map	Others	Total				
		Name										
1	Al Rahim Enterprises House No. 272, Ashraf Manzil, Block No. 05, Bhalwal Distt. Sargodha	Mehar Muhammad Asraf Mehar Ehsan Ahmad	38401-3484742-5 38401-4273716-7	Mahela Khan Mehar Ghulam Hussin	13,231	6,633	174	20,038	-	-	4,970	4,970
2	Malik Muhammad Atzal H # 83, Block D, New Muslim Town Lahore	Malik Muhammad Atzal	35202-2746250-1	Malik Nazir Ahmed	-	2,387	50	2,437	-	-	2,437	2,437
3	Continental Capital Management (Pvt.) Ltd. 708, 7th Floor, Business & Finance Centre, II Chundrigar Road, Karachi	Muhammad Arif Muhammad Adnan Muhammad Farhan Arif	42301-4611735-5 42301-4611830-5 42301-1570678-7	Abdul Majeed Muhammad Arif Muhammad Arif	-	3,466	126	3,592	-	-	3,592	3,592
4	Kazmi Engg. Inds. 7-36, R.K. Square, Shahrah-e-Laqat, Karachi	Syed Rizwan Ahmed Kazmi	42201-3110338-9	Syed Mohammad Rauf Kazmi	-	1,809	-	1,809	-	-	1,809	1,809
5	ST International House # 17, Near Medina CNG, Dar Ul Salam Colony, Attock	Malik Tahir Haleem	37101-6222465-9	Malik Abdul Haleem	-	1,536	38	1,574	-	-	1,574	1,574
6	Irfanullah & Co Village Mian Hanman, Tehsil & Distt Hafizabad	Irfanullah	34301-2319008-9	Saifullah	-	963	-	963	-	-	1,024	1,024
7	Makkah Centre Shop No 12,3,4 Street no 14 Main Bazar, Makkah Colony, Gulberg Lahore	Muhammad Atzal Muhammad younes	35202-7687744-9 35201-1361492-3	Mubarak Ali Nawab Din	2,977	1,312	46	4,335	-	-	1,371	1,371
8	Johar Benquet Hall 156-A, Shahjamaal Colony, Lahore. Plot no.21 Molana Shokat Ali Road Lahore.	Saadat Anees Bhatti	35202-1984018-1	Muhammad Rafique Bhatti	-	1,179	-	1,179	-	-	1,179	1,179
9	Ahmed Shah Industries Chowk Wallia, Jhanian, Vehari	Mehmood ul Hassan Shah	36302-9267986-2	Manzoor Ahmed Shah	33,900	16,837	317	51,054	33,900	-	17,154	51,054
10	Bilal Cotton Industries Main Road Garha More, Vehari	Mansoor Ahmed Shah Mehmood ul Hassan Shah	36602-1901802-9 36302-9267986-2	Manzoor Ahmed Shah Manzoor Ahmed Shah	2,026	2,622	165	4,813	2,026	-	2,787	4,813
11	Ittefaq Cotton Industries Super Highway Jhanian	Manzoor Ahmed Shah	36302-7343536-7	Ahmed Shah	2,844	1,453	130	4,427	2,844	-	1,583	4,427
12	Ittefaq Flour Mills Super Highway Jhanian	Manzoor Ahmed Shah Mehmood ul Hassan Shah	36302-7343536-7 36302-9267986-2	Ahmed Shah Manzoor Ahmed Shah	-	1,342	130	1,472	-	-	1,472	1,472
13	Sheraz Enterprises Chowk Wallia, Jhanian	Mehmood ul Hassan Shah	36302-9267986-2	Manzoor Ahmed Shah	-	7,868	100	7,968	-	-	7,968	7,968
14	Usman Cotton Factory Alahabad Kabirwala Distt. Khanewal	Muhammad Zahid Rafiq Mst Nusrat Rafiq Mr. Muhammad Amanullah Mst Riffat Yasmeen	36103-0815893-9 36103-9720309-6 36103-1664591-1 36104-0931078-8	Ch. Muhammad Rafiq Muhammad Rafiq Muhammad Ashiq Muhammad Ashiq	100	13,027	100	13,227	-	-	13,027	13,027
15	Faisal Kaleem Fahad Kaleem Shop No. 13, Kaleem Market, Near Factory Area, Faisalabad.	Faisal Kaleem Fahad Kaleem	33100-2420515-5 33100-4200311-3	Azmat Kaleem Azmat Kaleem	-	1,831	70	1,901	-	-	1,682	1,682
16	Muhammad Farooq & Sons Chowk Regal Cinema Sheekhupura.	Hafiz Muhammad Farooq	35404-0943932-9	Haji Abdul Ghani	-	655	-	655	-	-	655	655
17	Yasir Ejaz House # 39, Street A/1/2, Phase-4, Golf Course Road-1, DHA Karachi	Yasir Ejaz	42301-1112770-5	Ejaz Hameed	-	2,098	-	2,098	-	-	2,098	2,098
18	Paramount Printing Press Onsite St. Mary's High School Foujdar Road Hyderabad	Mirza Ifkhar Ahmed	41302-1871885-5	Mirza Rafique Ahmed	-	571	-	571	-	-	571	571

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Int/Accr/Mup	Others	Total				
		Name										
19	Shafiqat Yaqoob Street 24/A, F-7 Islamabad	Shafiqat Yaqoob Khan	61101-6692601-5	M Yaqoob Khan	-	2,280	-	2,280	-	2,280	2,280	
20	Ashraf Anwar Office F-1, Plot# FL-4/11, Block-5, Gulshan-e-Iqbal, Karachi, Ashraf Anwar	Ashraf Anwar	42301-0707488-5	Muhammad Shafi Alam	-	1,399	-	1,399	-	1,399	1,399	
21	Raheem Gul & Co 38-A Fruit Market Link, Ravi Road Lahore	Raheem Gul	35202-5438054-5	Haji Sheen Gul	-	583	-	583	-	583	583	
22	Abdul Hanif Deccan Hotel, 104-Meheed Road Near Australasia Masjid, Railway Station Lahore	Abdul Hanif	35201-1245589-5	Ghulam Hussain	5,000	1,504	-	6,504	-	1,213	1,213	
23	Saleem Sanwar Jora House # 20, Block H, Model Town, Lahore	Saleem Sanwar Jora	35202-6374072-5	Ch. Muhammad Sanwar	2,105	3,241	37	5,383	-	2,795	2,795	
24	Tahir Siddique Mughal Shop No. 9-A Industrial Block, Allama Iqbal Town Lahore	Tahir Siddique Mughal	35202-3010051-3	M. Siddique Mughal	5,576	1,277	22	6,875	-	1,075	1,075	
25	Jamil Ahmed Khan Suit # 303, 3rd Floor, Crystal Court, Block-5 Clifton Karachi.	Jamil Ahmed Khan	13101-3065459-9	Mir Afzal Khan	-	4,257	-	4,257	-	4,257	4,257	
26	Naeem Ahmed and Samina Naeem 94 Q Model Town Lahore	Ch. Naeem Ahmed Samina Naeem	35202-2256748-9 35202-3322535-4	Ch. Bashir Ahmed Ch. Naeem Ahmed	5,347	2,463	-	7,810	-	2,755	2,755	
27	Sheikh Ijaz Ahmed, House No. 245, Block B, Punjab Co-Operative Housing Society Ltd., Lahore.	Sheikh Ijaz Ahmed	35201-7880372-7	Sheikh. Subhan Sadiq	2,345	477	47	2,869	-	563	563	
28	Rehan Brothers 152- C1 Faisal Town Lahore	Raghib Khan Ibrar Kahsif	35202-6571649-9 34101-2511405-1	Muhammad Asif Khan Mirza Muhammad Akram	-	1,142	80	1,222	-	1,222	1,222	
29	D.S. Textiles Limited 20K Gulberg II Lahore	Ali Pervez Ahmed Pervez Ahmed	35202-8633784-5 35202-8637832-7	Pervez Ahmed S.K. Ahmed	-	7,291	547	7,838	-	7,838	7,838	
30	Muhammad Shafique Ghulam Muhammad Park, New Bhogil Wali, Bund Road, Lahore	Muhammad Shafique	35201-5821998-3	Muhammad Latif	-	1,386	43	1,429	-	958	958	
31	Atzal Ahmed Chak # 198 EB Tehsil & Distt. Vehari	Atzal Ahmed	36603-1372821-5	Ghulam Rasool	849	1,023	100	1,972	-	978	978	
32	Abid Mehmood House # 330, Block G-III, Muhammad Ali Johar town, Lahore	Abid Mehmood	33100-8618024-7	Malik Abdul Ghafoor	-	470	48	518	-	518	518	
33	Muhammad Anjad Shah 13-A, New Officer Colony, Sadar Bazar Centt. Lahore	Muhammad Anjad Shah	35201-1965789-9	Ali Akbar Shah	-	1,282	117	1,399	-	1,399	1,399	
34	Syed Ali Raza Kazmi House # 35-C, Education Town, Wandat Road, Lahore.	Syed Ali Raza Kazmi	35202-1284153-3	Syed Sardar Ali Shah	2,102	1,517	58	3,677	-	1,099	1,099	
35	Hafiz Muhammad Imran & Munawar Sultana House # 21, Block-C, Gulistan-e-Ravi, Lahore	Hafiz Muhammad Imran Munawar Sultana	35202-9841148-5 35202-5074439-0	Ch. Muhammad Aslam Ch. Muhammad Aslam	3,355	913	-	4,268	-	749	749	
36	Shafiqat Pervez Rana & Najma Pervez Rana 35>Main Habib Park, Multan Road, Lahore	Najma Pervez Rana Shafiqat Pervez Rana	35202-2649668-0 35200-1557861-9	Shafiqat Pervez Rana Muhammad Anwar Rana	727	895	85	1,707	-	983	983	

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Int/Acc/Map	Others	Total			
		Name	Name								
37	Commercial Radio Service Katchery Bazar, Sargodha	Ch. Muhammad Aslam Ch. Tauseef Saeed	38403-5381322-3 38403-7357631-3	Ch. Laab Din Ch. Muhammad Saeed	4,984	2,544	71	7,609	-	2,579	2,579
38	Azeem Traders Ghalla Mandi District Mandi Bahauddin	M. Ashraf	34403-1946312-3	M. Azeem	-	885	28	913	-	684	684
39	Nazir Ahmed Ward # 7, Tando Colony, Kasesay road, Jalapur Bhattian	Nazir Ahmed	34302-6881836-7	Sher Muhammad	666	853	-	1,519	-	830	830
40	Karim Trading & Co Post Office Baggar Sargana, Kabriwala Khanewal.	Blal Ahmad	36102-1904859-3	Muhammad Saleem	-	466	70	536	-	536	536
41	Satdar Hussain House No. 411/A, Zafar Colony, Sargodha	Satdar Hussain	34803-5493616-3	Sultan Muhammad	-	2,890	-	2,890	-	2,890	2,890
42	Ishtiaq Ahmed House No. 45, Rose Lane No. 04, Phase II New Lazzar, Rawalpindi	Ishtiaq Ahmed	37405-4566548-7	Abdul Rasheed	2,202	762	65	3,029	-	765	765
43	Sound and Vision F-6-3, Ward-F, Klokhar Mohalla, Risala Road, Hyderabad	Syed Khalid Ali	41303-5019669-5	Syed Mukhtar Ali	3,999	1,514	25	5,538	-	1,597	1,597
44	Muhammad Ahmed Nawaz Khan House No. 372, Block GG, Phase-IV, DHA, Lahore	Muhammad Ahmed Nawaz Khan	35202-3367063-3	Saadat Nawaz Khan	316	1,720	-	2,036	-	1,392	1,392
45	Yasir Ali House No. 92, Block D, Tariq Garden Housing scheme, Lahore.	Yasir Ali	363303-1889881-7	Muhammad Mansha	-	1,284	-	1,284	-	1,284	1,284
46	Mubashar Qasim 26-C Army Flats, Sarfraz Rafiqi Road, Lahore	Mubashar Qasim	35201-5308043-7	Muhammad Qasim	4,685	908	17	5,610	-	1,013	1,013
47	Iqbal Brothers Cotton Gainers Moza Noor Shah Teal Tehsil Kot Addu Distt. Muzaffargarh	Muzaffar Iqbal Furrukh Iqbal Gohar Iqbal Sohail Iqbal	36302-1019445-1 36302-0479060-9 36302-7920537-3 36302-0464233-9	Muhammad Iqbal Muhammad Iqbal Muhammad Iqbal	2,516	7,650	160	10,326	-	7,764	7,764
48	Quality Plaste 4-Z/14, Chenab Market, Madina Town, Faisalabad.	Ali Aboullah Hamid Abdul Hamid	33100-0785190-3 33100-0785189-5	Abdul Hamid Abdul Rashid Ch	1,399	1,781	88	3,248	-	1,867	1,867
49	Qadri Traders Shah Jamal Road, Near Bypass Road, District Halizabad.	Ghulam Ghous	34301-0874882-5	Ilyas Ahmad	3,772	937	-	4,709	-	1,193	1,193
50	Qudrat Ullah & Co. Gila Sanb Singh, Shah Jamal Road, Halizabad	Qudrat Ullah	34301-1735872-5	Muhammad Shafi	1,374	653	-	2,027	-	767	767
51	Abdul Shakoor Ulfat House No.12 Sector B II Township Lahore	Abdul Shakoor Ulfat	35202-0148633-1	Shmeer Ahmed	9,538	2,154	216	11,908	-	2,202	2,202
52	Ahmed Tractor Showroom Termit Road Jatoi	Rao Ahmad Ali Qamar	32302-1690084-3	Rao Liaquat Ali	719	1,384	81	2,184	-	1,393	1,393
53	Khurshid Brothers 72-Timber Market, Ravi Road, Lahore	Talat Khurshid Malik Nata Talat	35202-2386638-5 35202-2227258-4	Khurshid Ahmed Malik Talat Khurshid Malik	-	697	103	800	-	697	697
54	Special Leather Garments Siddiqui palace, Marala Road, Murad Pur, Sialkot.	Maqsood Ahmed Saim Maqsood	34603-2286953-5 34603-2286972-5	Abdul Haq Maqsood Ahmed	12,000	2,969	-	14,969	-	3,590	3,590

(Rs. in '000)

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intt/Acc/Mup	Others				
55	Willy Foods (Pvt) Limited 233-S, Industrial Estate, Kot Lakhapat, Lahore	Ch. Naeem Ahmed Nasim Ahmed Nasir Saeed Khan	35202-2256748-9 35202-2256748-7 35202-9328041-5	Ch. Bashir Ahmed Ch. Bashir Ahmed M. Abdullah Khan	8,744	2,628	181	11,553	-	2,965	2,965
56	Shahid Brothers 12/1 - Akbar Minajoi, Lahore	Muhammad Idrees	35204-4564515-5	Muhammad Ramzan	1,230	1,988	121	3,339	-	2,060	2,060
57	Umar Rubber Works 564-Jahanzeb Block, Allama Iqbal Town, Lahore	Shamim Naeem Umar Naeem Hasham Yousaf Muhammad Naeem	35202-3696693-8 35202-4616004-9 35202-5452986-3 35202-0190634-7	Muhammad Naeem Muhammad Naeem Muhammad Naeem Muhammad Yousaf	3,208	3,125	-	6,333	-	3,465	3,465
58	Mansoor Ahmed Maqsood H. No. 120 M Block, Model Town, Lahore	Mansoor Ahmed Maqsood	35202-8889147-1	Sh Maqsood Ahmed	4,025	1,866	75	5,986	-	2,020	2,020
59	Ahmad Filling Station Chak No. 27/5 JB, Painsra, Faisalabad.	Muhammad Shafique Khan	33100-6739484-5	Mukhtar Ahmad	2,486	438	140	3,064	-	629	629
60	Farooq Traders 301- Jami Market, Jarranwala Road, Faisalabad.	Safraz Zahoor	33100-8530082-7	Zahoor Ahmad	299	513	60	872	-	576	576
61	Ali Corporation Circular Road, Sharaqpur Sharif.	Shabbir Ahmad	35401-8284427-1	Bashir Ahmad	-	685	-	685	-	685	685
62	Muhammad Younus Shop # 81 & 82, Alem Cloth Market, Rajveer Lane, New Nairam Road, Karachi.	Muhammad Younus	42201-7664047-3	Muhammad	-	1,498	-	1,498	-	1,498	1,498
63	Penvaiz Enterprises Shop # 40-41, Allah Malik Market, Chowk Mayo Hospital, Lahore	Penvaiz Iqbal	35202-2865396-9	Abdul Rasheed	690	1,314	-	2,004	-	1,342	1,342
64	Orbit Associates & Enterprises St-4, 121/11, FB Area Near Shadab Masjid Karachi	Syed Shabbir Zaman	42201-5850713-7	Syed Wasih-Uz-Zaman	-	1,007	14	1,021	-	866	866
65	SAF Enterprises Plot A-594 Block 3, Gulshan-e Iqbal Karachi	Nezar ul Islam	42201-0778608-5	Qamar-ul-Islam	1,092	1,414	186	2,692	-	1,610	1,610
66	Gulshan Sizing Industries Fermanabad, Ghulam Muhammadabad, Faisalabad.	Faqir Muhammad Muhammad Sharbaz	33100-0594155-5 33100-5820012-1	Qadir Bux Faqir Muhammad	2,490	2,118	70	4,678	-	2,101	2,101
67	Waqas & Company BCG Chowk Multan	Abdul Rauf Khan Muhammad Waqas Rauf Khan	36302-0878272-9 36302-8108872-1	Muhammad Ajmal Khan Abdul Rauf Khan	5,900	9,069	123	15,092	5,900	9,192	15,092
68	M. Yahya Khurshid 1st Floor, Al Center, Shahalam Gate Lahore	M. Yahya Khurshid	35404-4893164-3	Khurshid Ahmad	9,654	9,831	209	19,694	9,654	10,191	19,845
69	Muhammad Yousaf Javed Sh. House No 311, Block B, Valencia, Lahore.	Yousaf Javed Sh.	35202-8944897-9	Muhammad Javed Sh	2,086	893	155	3,074	-	814	814
70	Raja Muhammad Azad Khan Address: House No. 301, Sawan Road, G-10/1 Islamabad	Raja Muhammad Azad Khan	61101-1947649-1	Raja Mohammad Hayyat Khan	5,660	2,263	92	8,015	-	2,388	2,388
71	ASKB & CO H# No 538, Situated in Kamran Block, Allama Iqbal Town, Lahore,	Asghar Ali	35202-2340263-3	Muhammad Ismail	1,425	728	83	2,246	-	741	741

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year					Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Int/ Acc/ Mup	Others	Total					
		Name	Name										
72	Muhammad Jamil Ch. / Hassan Din 59, D-1, Johar town Lahore	35200-1446992-9 35202-2595326-3	Muhammad Jamil Ch Ch Hassan Din	Hassan din Ch. Lai Din	1,489	2,843	29	4,361	-	-	2,307	2,307	
73	Malik Muhammad Hanif Kamran Malik House, Bial Road Last Mint Stop, Rasid Pura, Lahore	35201-9628354-1	Malik Muhammad Hanif Kamran	Malik Muhammad Sharif	-	1,365	-	1,365	-	-	1,365	1,365	
74	Muhammad Shanzad House # 22, Street # 02, Gu Aijum Near Gawalmandi Lahore	35202-2961435-5	Muhammad Shanzad	Abdul Ghafoor	-	651	-	651	-	-	601	601	
75	New Bismillah Oil Mills Haji Sharif Chowk, Chah Nobatwala	36302-3614025-1	Syed Qasim Hasnain	Pervaz Hasnain Naqvi	999	1,248	41	2,288	-	-	885	885	
76	Rao Kazim & Co Mazhar Abad Fensil Depalpur Distt Okara.	36302-2014155-1	Rao Kazim Ali Khan	Rao Moazzam Ali Khan	-	2,118	-	2,118	-	-	1,562	1,562	
77	CD Industries Near Jimnah Isamia College, Sialkot	34603-2285120-3	Anjad Hussain	Muhammad Ramzan	1,985	2,177	-	4,162	-	-	1,105	1,105	
78	Fakhar Brothers Jalalpur Bhattian, Gujranwala	34302-1264290-5	Muhammad Zaman	Nazir Ahmed	-	1,350	-	1,350	-	-	1,350	1,350	
79	Pevez Ahmed Securities Limited 20-K, Gulberg-II, Lahore.	35202-5637832-7 35202-8633784-5 35202-5994987-0 35202-0104136-7 35202-7654937-5 35202-9651743-6 35202-2649694-3	Pevez Ahmed Ali Pevez Ahmed Mrs. Rehana Pevez Ahmed Hassan Ibrahim Ahmad Suleman Ahmed Mrs. Ayesha Ahmed, Mansoor Muhammad Khalid Khan	S.K. Ahmad Pevez Ahmed Pevez Ahmed Pevez Ahmed Pevez Ahmed Mansoor Nawaz Malik Karim Dao Khan	8,462	196	548	9,206	8,462	-	744	9,206	
80	Mudasir Suleman, Zeeshan Sh, Shehzad Suleman 312-B Valancia Town Lahore	35202-2320371-7 35202-8470710-1 35202-9539976-1	Mudasir Suleman Zeeshan Sh Shehzad Sulman Sh	Muhammad Suleman Sh Muhammad Suleman Sh Muhammad Suleman Sh	4,159	1,432	45	5,636	-	-	1,678	1,678	
81	Muhamamd Taimur Baig House # 9, Street # 6 Muhammad Nagar, Guni Baksh Town, Lahore, Post office Railway Head Quarters, Lahore	35202-2798471-7	Muhamamd Taimur Baig	Nusrat Parwez Baig	2,566	803	131	3,500	-	-	930	930	
82	Israr Ahmed 134 F Johar town Lahore	35202-4436001-9	Israr Ahmed	Muhammad Siddique	5,929	1,502	135	7,566	-	-	1,812	1,812	
83	MMS Building Material Store F-105 Nawab Plaza 48 Shadman Market Lahore	35202-1199855-1	Phinehas Salamat	Salamat Heera	-	1,102	-	1,102	-	-	1,102	1,102	
84	Naeem Steel Center, Javed Steel Market, Gondalaanwala Road, Gujranwala	34101-2310614-7	Naeem Sadiq	Aziz Ahmed	1,144	817	-	1,961	-	-	805	805	
85	Hassan Jali Rice, Chahla Mandi Wazirabad	34101-5683041-9	Hassan Jali	Abdul Jali	1,880	1,285	-	3,165	-	-	1,227	1,227	
86	Asir Traders H, No. 602, Yasin Block Nishtar Colony, Lahore	35301-1975598-1	Faqir Muhammad	Shah Muhammad	-	573	-	573	-	-	573	573	
87	SM Sulman & Co H#49 Street 4, Officer colony Westrage III, Rawalpindi	37405-6725907-9	Sheikh Khalid Rafique	Sheikh M. Rafique	-	1,219	27	1,246	-	-	1,246	1,246	
88	KM Jewelers Murree Road Rawalpindi	37405-9024698-9	Khalid Mehmood	Sher Muhammad	5,589	2,147	35	7,771	-	-	1,977	1,977	

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total	
		CNIC No.			Principal	Intt/Accr/Mup	Others					Total
		Name	Name									
89	Muhammad Rafiq & Mrs. Tahira Rafiq House # 16/401, 26th Steef, Block-3, Bahadur Yar Jang Co-operative Housing Society, Karachi	Muhammad Rafiq Tahira Rafiq	42201-0218374-1 42201-8868950-0	bdul Sattar AMuhammad Rafiq	-	3,142	87	3,229	-	3,229	3,229	
90	M.Ali Enterprises Shop # BS-02, Block 18, F.B. Area, Karachi.	Muhammad Ali Kashif	42101-1888129-1	Syed Abdul Wahab	3,914	3,453	28	7,395	-	3,170	3,170	
91	Yansaw Trading Suit # 209, Asia Pacific Trade Center, Block-19, Gulistan-e-Johar, Karachi.	Sadiq Hussain	42201-8592145-7	Khalid Hussain	4,090	3,592	31	7,713	-	3,965	3,965	
92	Maqbool Steel Re Rolling Mill Darohawala Bund Road Lahore	Moeen Maqbool Mobeen Maqbool	42301-8012048-7 42002-2525353-3	Maqbool Elahi Moeen Maqbool	10,992	7,056	3,876	21,924	-	11,740	11,740	
93	Shahbaz Enterprises 166-S DHA Lahore	Shahbaz Noor	35202-8385383-5	Noor Muhammad	1,532	1,602	156	3,290	-	1,107	1,107	
94	Bachani Sugar Mills Limited Deli, Chhachhi, Tappo Chamber, Taluka and Sub Taluka and Sub Distt: Tando Allahyar, Distt: Hyderabad, Sindh.	Abdul Sattar Bachani Abdul Shakoor Ansari Cor. (Rd.) Najmuddin Ansari Abdul Jalil Bachani Noor-ul-Amin Bachani Suleman A. Meemon Tarig Latif Ansari	454-57-081913 41301-3818514-3 42301-6082871-1 41307-0432822-3 41303-4092828-5 42301-5005172-5 42301-3291294-7	Haji Muhammad Sumar Ahmed Khan Ansari Muhammad Saeed Muhammad Soomar Muhammad Soomar Haji Abdullah Abdul Latif Ansari	2,607	19,250	24	21,881	2,028	19,322	21,349	
95	Rao Javed Yasin 97/80 Nisar Colony Lahore Cantt	Rao Javed Yasin Perveen Tawab	35201-0174669-9 35201-2637885-4	Rao Mohammad Yaseen Rao Abdul Tawab Khan	5,603	2,237	38	7,878	-	2,173	2,173	
96	Shahid Mahmood & Riffat Shahid H. No. 01, Sabri Estate Near Caltex Depot Phatki, Kot Lakripat, Lahore	Shahid Mahmood Rifat Shahid	35202-8483799-1 35202-1706193-8	Muhammad bashir Rafiqat	-	1,079	20	1,099	-	1,093	1,093	
97	Muhammad Ramzan Satiara Banglow- Jaranwala Road, 3Km, Satiara Banglow.	Muhammad Ramzan	33104-2234164-9	Shahzad Khan	1,892	1,285	88	3,245	-	925	925	
98	Hanza Trader located Baddoke Gosanyan, Ghakhar	Rana M. Ashraf	34104-5120934-7	Mehmood-ul-Hassan	2,000	581	-	2,581	-	708	708	
99	Manzoor Elahi H #109, St#25, Sect G-10/1, Islamabad	Manzoor Elahi	61101-4574483-7	Mehboob Elahi	643	1,464	84	2,191	-	1,521	1,521	
100	Syed Muhammad Abbas & Qudbosi Begum House # B-114, Gulshan e Iqbal, Block 6, KDA Scheme # 24, Karachi.	Syed Muhammad Abbas Qudbosi Begum	42201-7130077-3 42201-8853819-8	Qazi Atab Ahmed Syed Muhammad Abbas	-	1,636	130	1,766	-	1,636	1,636	
101	Khuro Bin Safdar H. No. 60, Opp. Q Block Model Town Ext Eden Villas, Lahore	Khuro Bin Safdar	35202-2700521-9	M Safdar	5,599	2,431	45	8,075	-	2,765	2,765	
102	Muhammad Awais Sh. House No: 314, Block B, Pakistan Expatriates Co-Op Housing Society Ltd (Valencia Town) Lahore	Muhammad Awais Sh	35202-1040965-7	Muhammad Hussain Sh.	1,189	743	155	2,087	-	748	748	
103	Itehad Zari Corporation Pul Thingi Distt. Vehari	Din Muhammad Shakir Abdul Sattar	36603-968059-7 36602-0980065-5	Ch. Muhammad Yousef Ch. Fateh Muhammad	3,867	1,269	94	5,230	-	1,511	1,511	
104	Frontier Ceramics Limited 29-Industrial Estate, Jamrud Road, Peshawar.	Nadeem Khalid Ameera Khalid Omer Khalid Javed Khalid Zia Khalid Shazia Khalid Nam-ud-Din	37405-0319058-5 37405-1378089-0 37405-3852551-5 61101-2546402-9 37405-9242808-5 37405-1265740-8 37405-2129937-1	Naseer Khalid Nadeem Khalid Naseer Khalid Javed Khalid Javed Khalid Aleem -ud-Din	-	2,731	-	2,731	-	2,731	2,731	

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intt/Acc/Mup	Others	Total			
105	Muhammad Khalid Shop No. 84/3, Goli Saban Wala, Mingomory Bazar, Faisalabad.	Muhammad Khalid	33100-0618721-7	Haji Basfir Ahmad	14,982	7,215	75	22,272	-	9,807	9,807
106	Warsia Commission Shop P-1055, Street No. 03, Nigehban Pura Faisalabad.	Abdul Hussain Khalid Hussain	33100-0609237-9 33100-0530486-7	Abdul Rashid Abdul Rashid	2,489	808	51	3,948	-	847	847
107	Bismillah Enterprises University Road, Sargodha	Khalid Mahmood	38403-9080271-9	Safdar Ali	2,411	2,613	57	5,081	-	2,983	2,983
108	AMZ Spinning & Weaving Mills (Pvt) Ltd. A/6 (SITE) Kori, Dadu, Sindh & Ocean Centre, 40 Talpur Road, Karachi	Munir Haji Ibrahim Pessu Mal G. Arfani Dilaram Dileepkumar Aftab Ahmed Sunya Farooq Jangda Nabeel Farooq Jangda	42301-9074093-7 41304-8382824-5 41304-7210597-1 442201-1088962-9 42201-1723070-5 42000-5084155-9	Ibrahim Karim Gangu Mal Pessu Mal G. Arfani Muhammad Younus Ali Muhammad Yousuf Farooq Jangda	84,066	112,537	-	196,603	84,066	112,537	196,603
109	Wishwas Oil Mills. Chakra Bazar Nawabshah	Pessu Mal G. Arfani Chandi Ram Prem Chand	41304-8382824-5 41304-8544737-5 41304-4579448-5	Gangu Mal Pessu Mal G. Arfani Kishan Chand	-	1,402	-	1,402	-	1,402	1,402
110	Wishwas Cotton Industries, Chakra Bazar Nawabshah	Pessu Mal G. Arfani Chandi Ram Prem Chand	41304-8382824-5 41304-8544737-5 41304-4579448-5	Gangu Mal Pessu Mal G. Arfani Kishan Chand	-	2,901	-	2,901	-	2,901	2,901
111	A.M Cotton Giners Daharki	Pessu Mal G. Arfani Chandi Ram Dewan Lekhraj Assumal	41304-8382824-5 41304-8544737-5 41305-8547516-1 45401-0605455-9	Gangu Mal Pessu Mal G. Arfani Tekomal Jeth Anand	-	1,739	-	1,739	-	1,739	1,739
112	Shalimar Cotton Ginning & Oil Mills Kumb	Sham Lal Chandi Ram Mukesh Kumar Ramesh Kumar	41305-0547514-1 41304-8544737-5 41303-7619277-9 41304-6774536-7	Chulia Mal Pessu Mal G. Arfani Dewan Lekhraj Kishan Chand	-	2,659	-	2,659	-	2,659	2,659
113	Ammar Shateed Cotton & Oil Mills Kumb	Pessu Mal G. Arfani Chandi Ram Prem Chand Dewan Lekhraj	41304-8382824-5 41304-8544737-5 41304-4579448-5 41305-8547516-1	Gangu Mal Pessu Mal G. Arfani Kishan Chand Tekomal	-	2,288	-	2,288	-	2,288	2,288
114	Pessumal Arfani. Arfani House, Devi Mandir, Thana Bula Khan, Dadu & H.N.O-A-14, Dh Society, Hyderabad.	Pessu Mal G. Arfani	41304-8382824-5	Gangu Mal	-	1,995	-	1,995	-	1,995	1,995
115	Chandi Ram H.# C-3, Arfani Cotton Factory, SITE Area, Laffabad, Hyderabad	Chandi Ram	41304-8544737-5	Pessu Mal G. Arfani	-	1,274	-	1,274	-	1,274	1,274
116	Chanda Copy House Kabir Street, Chowk Urdu Bazar, Lahore	Muhammad Mustaqeem	35202-6478519-9	Muhammad Siddiq	6,998	4,125	172	11,295	-	4,963	4,963
117	Hamid Ahmed Brothers 146 G. T Road Baghbanpura Lahore	Mian Ahmed Miraj	35201-1269346-5	Mian Miraj Din	5,022	1,970	150	7,142	-	1,565	1,565
118	Mohsin Ehsan Agro Main Sukhoke Road, Mouza Mandoki, Tensi Daska	Muhammad Gulsher Hassan Gul	33202-7066370-1 33202-6688920-7	Falak Sher Muhammad Gulsher	3,497	440	272	4,209	-	537	537

(Rs. in '000)

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Intt/Accr/Map	Others	Total				
		Name										
119	Haroon Traders Ali Abad, Tehsil & District Hafizabad.	Muhammad Afzal Ejaz Mehmood	34301-0333254-1 34301-0418077-7	Muhammad Inayat Nawab Din	4,666	1,401	125	6,192	-	-	981	981
120	Nayab Rice Mills Riake, Tehsil Phalia.	Aman Ullah Khan	34403-8365543-5	Tufail Muhammad	3,371	2,218	100	5,689	-	-	2,001	2,001
121	Malik Awais Plastic Barkat Pura, Lahore	Muhammad Awais	35200-1533519-3	Muhammad Fayyaz	2,560	1,213	75	3,848	-	-	1,212	1,212
122	Abdul Rauf H No 49-B, Milit Street No 3, Hessian Town, Multan Road, Lahore	Abdul Rauf	35202-3690724-7	Sraj Din	299	573	72	944	-	-	636	636
123	Matoob Hussain Jinnah Colony, Jhelum	Matoob Hussain	37301-2355927-5	Muhammad Moola Dad	4,100	1,821	-	5,921	-	-	1,957	1,957
124	Muhammad Sarfraz Khan H, No. 27-A, Street No. 02 Sector F-8/3, Islamabad	Muhammad Sarfraz Khan	61101-1948209-3	Gahra Khan	1,102	5,178	202	6,482	1,102	-	5,380	6,482
125	Shabana Aslam H, No. 372, Street No. 26, I-8/2, Islamabad	Shabana Aslam	61101-6607110-4	W/o Ch. Muhammad Aslam	14,945	4,412	188	19,545	-	-	5,253	5,253
126	Mass Enterprises Block No. 53, Office # 3, 1st Floor, F-6/G-6, Fazal-e-Haq Road, Islamabad	Dr. Tariq Mahmood Earmest Paul Sh. Muhammad Akram	278-5942564-8 244-9200974-4 61101-61442485-9	Abdul Hameed Khan E. Jackub Sh. Muhammad Nazir	2,150	1,850	247	4,247	-	-	2,231	2,231
127	Bismillah Petroleum Services Baitar Road, Village Behni Tehsil Fatehjang District Attock	Mohammad Nadeem	37102-1219959-3	Deen Mohammad	2,800	555	55	3,410	-	-	771	771
128	Fine Food Corporation, 90-A, Mouza Dera Izzat, Ahmedpur East Road, Bahawalpur.	Nazim Hussain	31202-9499962-1	Muhammad Sultan	279	958	23	1,260	-	-	669	669
129	Abdul Qadir & Margis Shop # 12, Star Market, Queens Court Road, Off Aboullah Haroon Road, Karachi.	Abdul Qadir	42301-0994775-7	Abdul Aziz	196	663	-	859	-	-	666	666
130	Bawaqee Foundry Darbar Ala Hazrat Sheikh Johar Purana Chinnoi Road, Tehsil Dist. Jhang	Muhammad Aslam	33202-1207811-3	Muhammad Ramzan	-	680	47	727	-	-	580	580
131	Al Kaleem Tent Service Mohallah Mohare Khel, Moch, Mianwali	Ghulam Muhammad	38302-1192346-3	Muhammad Siddique	791	1,075	39	1,905	-	-	865	865
132	Muracabad, Aslam & Muhammad Ali Muracabad, University Road, Sargodha	Muhammad Aslam Muhammad Ali	38403-8072118-7 38403-1253546-3	Ghulam Haider Muhammad Aslam	-	627	62	689	-	-	689	689
133	Anwar Masood House No. 376, Malik Muzaffar Street, Mianwali	Anwar Masood	38302-2122880-7	Sher Muhammad	936	512	86	1,534	-	-	514	514
134	Astard Petroleum Service Mohalla Sardarkhel, Moch, Mianwali	Muhammad Ameer Khan	38302-1337071-1	Muhammad Yaqoob Khan	-	1,426	-	1,426	-	-	713	713
135	Gaiser & Co. Lisani Rice Mills, Qila Baipass, Hafizabad	M. Akbar	34301-7337625-5	Zahoor Ahmed	276	1,043	-	1,319	-	-	798	798
136	Asad rice Mills Kot Mubarak, Hafizabad	M. Mansha	34301-1740599-7	Haji Ghulam Hussain	943	1,150	-	2,093	-	-	993	993

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Int/ Accr/ Mup	Others	Total			
137	Abdul Aleem Khan & Brothers Chhala Mandi East, Hafizabad	Abdul Aleem Khan	34301-4168885-3	Asghar Khan	-	1,781	-	-	-	1,382	1,382
138	Tariq Traders Badoke Gosanyan, Grahkhar	Arif Mehmood	34104-5120934-7	Mehmood-ul-Hassan	2,610	1,029	-	-	-	1,160	1,160
139	Shahzad Sarwar at Mohallah Porain Rukkan, Tehsil Malakwal, Dist Mandi Bahaudin	Shahzad Sarwar	34401-2630180-1	M. Sarwar	2,497	1,289	19	-	-	999	999
140	Measam Rice Mills Hatizabad Road, Jalalpur Bhattain, District Hatizabad	Awais Hayat Qadir Bux	34302-9882452-7 34302-1220737-7	Mian Khizar Hayar Mian Khizar Hayar	-	13,669	-	-	-	11,169	11,169
141	Shahzad Siddique Printers 59-Mehmoodabad, Shadman Road, Faisalabad.	Muhammad Siddique	33102-1775962-7	Muhammad Bukhsh	-	1,340	-	-	-	1,140	1,140
142	Naseer Ahmed House # 145/6, Sher Shah Road, Shad Bagh, Lahore	Naseer Ahmed	35202-9539742-9	Bashir Ahmad	2,017	924	-	-	-	810	810
143	Qudrat ulah 24 Kamran Block, Allama Iqbal Town, Lahore	Qudrat ulah	35202-5457987-7	Ghulam Nabi	3,032	2,659	-	-	-	1,672	1,672
144	Malik Khalid Mehmood House # 53, Block G, Gulshan-e-Pavi, Lahore	Malik Khalid mehmood	35202-2862435-3	Malik Miraj-Ul-Din	1,750	853	-	-	-	528	528
145	Saiman Asghar & M. Asghar, House # 84, Mahar Labna R Chah Miran Fazal Town, Lahore	Saiman Asghar Muhammad Asghar	35202-2764087-7 35202-9153336-3	Muhammad Asghar Labna	1	2,089	70	-	-	2,167	2,167
146	Sunilite Traders Nawab Mashuddin & Mushrif Begum B-110, Alman Arcade, Block-15, Gulistan-e-Jauher, Karachi	Nawab Mashuddin	42201-0558966-9	Muhammad Salahuddin	-	1,071	-	-	-	1,071	1,071
147	Shahid Iqbal & Muhammad Sharif 13 B/1, Khayaban-e-Badshah, Phase-VII, DHA, Karachi.	Shahid Iqbal	42301-3684817-5	Muhammad Sharif	2,113	4,416	100	-	-	4,532	4,532
148	Muhammad Nawaz, House # R-809, Sector 15A/3, Bufferzone, Karachi	Muhammad Nawaz	42101-1379405-1	Muhammad Ameer	2,292	646	-	-	-	983	983
149	Manzoor Ahmed, H, No 12 Y, L, Macrina Town, Near Govt Girls College, Faisalabad	Manzoor Ahmed	33100-9343211-9	Haji Abdul Latif	-	1,061	449	-	-	689	689
150	Sohail Anwar Pasha Khan, Mohallah Basit Pathana, Ward# 2, Kama New, Lahore	Sohail Anwar Pasha Khan	35201-3600206-9	Anwar Ur-Haq Khan	-	767	484	-	-	781	781
151	Zubaida Virani, Flat # N-17, Picnic Ahsy Khan Colony, Garden East Near Agha Khan, Gym Khana, Karachi	Zubaida Virani	42201-0282773-6	Nadir Shah Virani	1,127	-	-	-	-	6,911	6,911
152	Muhammad Ishaq Street No 5 Blal Colony Satellite Town - Quetta	Muhammad Ishaq	54400-8409149-1	Khuda Buksh	944	552	-	-	-	677	677

(Rs. in '000)

ANNEXURE - III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2013

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Interest/ Markup Written off	Other Fin. Reliefs Provided	Total
		CNIC No.			Principal	Int/Acc/Mup	Others	Total			
		Name									
153	Muhammad Idrees 12, Army Officer Housing Colony, National Park Road, Rawalpindi	Muhammad Idrees	37405-4410939-7	Muhammad Sharif	16,144	9,591	-	25,734	-	2,792	2,792
154	Muhammad Qadeer Mir	Muhammad Qadeer Mir	35202-3276590-3	Muhammad Bashir	808	360	-	1,167	-	563	563
155	Faheem Ud Din Ahmed, H No B-49 Block 14 Gulistan-E-Johar Karachi	Faheem Ud Din Ahmed	42101-1427892-9	Rateef Ud Din Ahmed	98	988	-	1,085	98	445	543
156	Muhammad Akram Victoria Park Near Nestle Office, Bedon Road, Lahore	Muhammad Akram	32304-9848285-3	Khuda Buksh	918	356	-	1,274	-	531	531
157	Muhammad Hanif Parekh A-99 Block R Bombay Town, Shatrath Noor Jehan Nazimabad Karachi	Muhammad Hanif Parekh	42101-5980163-3	Muhammad Qassim Parekh	2,899	761	-	3,660	-	1,430	1,430
158	Nasir Zafar H No 227/3, Al Azmat Khadim Hussain Road, Rawalpindi	Nasir Zafar	37405-0260844-1	Zafar Mehmood Khan	17,562	195	-	17,757	-	792	792
159	Muhammad Asim Khan House # A-332 Block 12 F B Area Karachi	Muhammad Asim Khan	42101-1632392-3	Muhammad Aslam Khan	2,013	1,105	-	3,118	-	4,038	4,038
160	Aziz Lakhani 2nd Floor Prime Centre Cs 25 F B Area Near Bhaijan Chowk Karachi	Aziz Lakhani	42101-1733748-7	Abdul Rahim Lakhani	686	388	-	1,054	-	776	776
161	Shahid Pervaiz H # 6, St# 6, New Canal Point, Harbanspura, Lahore	Shahid Pervaiz	35201-3147216-5	Nazir Ahmed	2,098	371	-	2,468	-	878	878
162	Rafat Yazdan Siddiqui, H# A-17 (S-16), KDA Kehkashan Clifton, Block 5, Karachi	Rafat Yazdan Siddiqui	42301-8385149-1	Anis Ahmed Siddiqui	191	10	-	201	-	1,219	1,219
163	Muhammad Amin, Flat# Jm-235, Ground # 01, Hira Terrace, Anil Colony, Garden East, Karachi	Muhammad Amin	42000-0411980-1	Ayub	4,023	4,826	-	8,848	-	7,924	7,924
164	M Aslam 423, Block 1, Sector C1, Township, Lahore	M Aslam	35202-5505568-1	Anayat Ali	3,745	1,798	-	5,543	-	1,069	1,069
165	Waseem Akhtar R-6 Star Shellar Block 8 Gulistan E Johar Karachi	Waseem Akhtar	42201-7765712-7	Sultan Akhtar	7,909	540	-	8,449	-	2,050	2,050
166	Muhammad Shoab 245-J2, Wapda Town, Lahore	Muhammad Shoab	35202-4490880-7	Muhammad Shafi	2,846	325	-	3,171	-	1,741	1,741
					496,963	477,816	14,098	988,898	150,079	492,712	642,791

ANNEXURE - V

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	(Rupees in '000)		
Abbottabad	22,000	19,856	41,856
Bahawalpur	78,012	24,445	102,457
Chakwal	2,000	1,920	3,920
Dera Gazi Khan	18,450	20,000	38,450
Faisalabad	812,308	223,618	1,035,926
Gawadar	1,900	9,000	10,900
Gujranwala	221,044	172,238	393,282
Gujrat	78,500	42,216	120,716
Hafizabad	27,000	14,782	41,782
Haripur	28,453	2,958	31,411
Haroonabad	20,000	5,240	25,240
Hyderabad	185,498	87,118	272,616
Islamabad	1,317,210	416,652	1,733,862
Jhelum	55,000	32,817	87,817
Jhang	124,110	30,715	154,825
Karachi	4,666,793	2,974,623	7,641,416
Kasur	16,380	2,390	18,770
Khairpur	1,442	3,183	4,625
Khanewal	13,500	2,800	16,300
Kohat	4,650	-	4,650
Khanpur	24,040	14,420	38,460
Lahore	4,972,779	2,305,651	7,278,430
Larkana	47,735	13,601	61,336
Mianwali	19,125	35,443	54,568
Mirpurkhas	11,040	3,726	14,766
Multan	139,600	332,878	472,478
Muree	15,000	991	15,991
Muridke	45,000	25,453	70,453
Muzafarabad	128,373	52,979	181,352
Nawabshah	18,270	10,339	28,609
Okara	26,275	12,524	38,799
Peshawar	114,375	16,726	131,101
Quetta	284,696	59,803	344,499
Rahim Yar Khan	9,915	5,740	15,655
Rawalpindi	448,536	168,514	617,050
Sadiqabad	26,667	4,842	31,509
Sahiwal	52,094	13,826	65,920
Sargodha	140,986	20,825	161,811
Sheikhupura	56,000	13,112	69,112
Sialkot	94,000	20,895	114,895
Sukkur	48,288	16,656	64,944
Swat	56,500	6,715	63,215
Vehari	11,000	7,330	18,330
Wazirabad	15,000	7,274	22,274
Overseas	-	82,648	82,648
Grand total	14,499,544	7,339,482	21,839,026



MCB Bank Limited

Consolidated Financial Statements
For the year ended December 31, 2013

Director's Report

On Consolidated Financial Statements

The Board of Directors present the report on the consolidated financial statements of MCB Bank Limited and its subsidiaries namely MCB-Arif Habib Savings & Investments Limited, MCB Financial Services Limited, MNET Services (Private) Limited, MCB Trade Services and MCB Leasing Closed Joint Stock Company for the year ended December 31, 2013.

The following appropriation of profit has been recommended by the Board of Directors

	(Rs. in '000)
Profit before taxation	32,932,070
Taxation	(10,981,929)
Profit after taxation	21,950,141
Profit attributable to minority interest	(75,043)
Profit attributable to ordinary shareholders	21,875,098
Un-appropriated Profit Brought Forward	37,530,955
Re-measurement of defined benefits plans - net of tax	49,373
Transfer from Surplus on Revaluation of Fixed Assets - net of tax	36,045
	37,616,373
Profit Available for Appropriation	59,491,471
Appropriations:	
Statutory Reserve	2,149,534
Final Cash Dividend - December 2012	2,759,581
Issue of Bonus Shares - December 2012	919,860
Interim Cash Dividend - March 2013	3,541,471
Interim Cash Dividend - June 2013	3,541,470
Interim Cash Dividend - September 2013	3,541,461
Total Appropriations	16,453,377
Un-appropriated Profit Carried Forward	43,038,094

Pattern of Shareholding

The pattern of shareholding as at December 31, 2013 is annexed in annual report.

Earnings per Share

The consolidated financial statements reflect Rs. 21.62 earnings per share for the year under review.

On behalf of Directors



Mian Mohammad Mansha
Chairman

February 11, 2014

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2013 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'consolidated financial statements') for the year then ended. These consolidated financial statements include unaudited certified returns from the branches except for fifty branches which have been audited by us and eight branches audited by auditors abroad. We have also expressed separate opinions on the financial statements of MCB Bank Limited and MNET Services (Private) Limited. While the subsidiary MCB - Arif Habib Savings & Investments Limited (formerly Arif Habib Investments Limited) was subject to a limited scope review by us. The financial statements of subsidiary companies MCB Financial Services Limited, MCB Trade Services Limited and MCB Leasing Closed Joint Stock Company were audited by other firms of chartered accountants, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly the financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2013 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore
Dated: February 28, 2014



A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner
Imran Farooq Mian

Consolidated Statement of Financial Position

As at December 31, 2013

	Note	2013	2012 Restated (Rupees in '000)	2011 Restated
ASSETS				
Cash and balances with treasury banks	6	59,946,218	57,420,211	53,122,620
Balances with other banks	7	1,594,660	1,236,736	2,357,418
Lendings to financial institutions	8	1,224,638	1,551,472	955,087
Investments - net	9	453,808,345	405,601,313	319,005,983
Advances - net	10	248,521,792	239,788,511	227,573,618
Operating fixed assets	11	29,005,931	24,144,242	22,418,450
Deferred tax assets - net		-	-	-
Other assets - net	12	27,176,720	41,715,761	31,440,700
		821,278,304	771,458,246	656,873,876
LIABILITIES				
Bills payable	14	10,138,726	9,896,284	9,466,818
Borrowings	15	38,660,405	79,064,351	39,100,627
Deposits and other accounts	16	632,309,094	544,988,091	491,146,798
Sub-ordinated loan		-	-	-
Liabilities against assets subject to finance lease		-	-	-
Deferred tax liabilities - net	17	4,500,293	9,768,871	6,689,736
Other liabilities	18	20,206,991	21,265,639	18,457,835
		705,815,509	664,983,236	564,861,814
NET ASSETS		115,462,795	106,475,010	92,012,062
Represented by				
Share capital	19	10,118,461	9,198,601	8,362,365
Reserves	20	47,008,936	44,620,928	42,412,588
Unappropriated profit		43,038,094	37,530,955	30,617,206
		100,165,491	91,350,484	81,392,159
Minority interest		489,671	501,256	492,497
		100,655,162	91,851,740	81,884,656
Surplus on revaluation of assets - net of tax	21	14,807,633	14,623,270	10,127,406
		115,462,795	106,475,010	92,012,062
Contingencies and commitments	22			

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



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
Mark-up / return / interest earned	24	65,186,388	68,443,744
Mark-up / return / interest expensed	25	27,219,433	27,503,496
Net mark-up / interest income		37,966,955	40,940,248
Provision / (reversal) for diminution in the value of investments - net	9.3	(6,834)	(3,044)
Provision / (reversal) against loans and advances - net	10.5.2	(2,828,783)	480,903
Bad debts written off directly	10.6.1	-	206
		(2,835,617)	478,065
Net mark-up / interest income after provisions		40,802,572	40,462,183
Non-mark-up / interest income			
Fee, commission and brokerage income		7,204,266	6,384,757
Dividend income		714,207	1,060,411
Income from dealing in foreign currencies		920,008	823,838
Gain on sale of securities - net	26	2,165,381	857,405
Unrealized gain on revaluation of investments classified as held for trading		21,787	30,285
Other income	27	450,879	384,459
Total non-mark-up / interest income		11,476,528	9,541,155
		52,279,100	50,003,338
Non-mark-up / interest expenses			
Administrative expenses	28	19,099,222	17,822,584
Other provision / (reversal) - net	12.3	(52,285)	(187,305)
Other charges	29	928,954	600,054
Total non-mark-up / interest expenses		19,975,891	18,235,333
Share of profit of associates	9.8 & 9.9	628,861	296,645
Extra ordinary / unusual item		-	-
Profit before taxation		32,932,070	32,064,650
Taxation - Current year		15,220,551	9,646,189
- Prior years		(2,137)	126,396
- Deferred		(4,318,658)	1,288,353
Share of tax of associates		82,173	36,171
	30	10,981,929	11,097,109
Profit after taxation		21,950,141	20,967,541
Profit attributable to minority interest		(75,043)	(82,050)
Profit attributable to ordinary share holders		21,875,098	20,885,491
Unappropriated profit brought forward		37,530,955	30,617,206
Transfer from surplus on revaluation of fixed assets - net of tax		36,045	36,056
Profit available for appropriation		37,567,000	30,653,262
		59,442,098	51,538,753
Basic and diluted earnings - after tax	Rupees per share	33	21.62
			20.64

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



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2013

	2013	2012 Restated
	(Rupees in '000)	
Profit after tax for the year	21,950,141	20,967,541
Other comprehensive income		
Items that will not be reclassified to profit and loss account		
Remeasurement of defined benefit plans - net of tax	49,373	629,820
Items that may be reclassified to profit and loss account		
Effect of translation of net investment in foreign branches and subsidiaries		
- Equity shareholders of the bank	211,772	(20,630)
- Minority interest	737	339
	212,509	(20,291)
Share of exchange translation reserve of associates	26,702	134,900
Comprehensive income transferred to equity	22,238,725	21,711,970
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	(3,650,355)	5,248,262
Deferred tax	1,189,889	(1,451,649)
Share of other comprehensive income of associates - net of tax	726,265	735,563
	(1,734,201)	4,532,176
Total Comprehensive income	20,504,524	26,244,146

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



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Consolidated Cash Flow Statement

For The Year Ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
Cash flows from operating activities			
Profit before taxation		32,932,070	32,064,650
Less: Dividend income and share of profit of associates		(1,343,068)	(1,357,056)
		31,589,002	30,707,594
Adjustments for non-cash charges			
Depreciation	11.2	1,557,534	1,394,788
Amortization	11.3	263,024	261,901
Provision / (reversal) against loans and advances - net	10.5.2	(2,828,783)	480,903
Provision / (reversal) for diminution in the value of investments - net	9.3	(6,834)	(3,044)
Other provision / (reversal) - net	12.3	(52,285)	(187,305)
Bad debts written off directly	10.6.1	-	206
Provision for Workers' Welfare Fund	29	646,123	641,155
Charge / (reversal) for defined benefit plan	28	(1,307,285)	(1,606,388)
Gain on disposal of fixed assets - net	27	(42,687)	(22,520)
Unrealized gain on revaluation of 'held for trading' securities	9.5	(23,400)	(30,285)
		(1,794,593)	929,411
		29,794,409	31,637,005
(Increase) / decrease in operating assets			
Lendings to financial institutions		326,834	(596,385)
Net investments in 'held for trading' securities		(1,689)	(181,078)
Advances - net		(5,904,498)	(13,100,201)
Other assets - net		(2,814,959)	(1,659,033)
		(8,394,312)	(15,536,697)
Increase / (decrease) in operating liabilities			
Bills payable		242,442	429,466
Borrowings		(40,200,995)	39,245,333
Deposits and other accounts		87,321,003	53,841,293
Other liabilities		(2,487,841)	2,073,488
		44,874,609	95,589,580
		66,274,706	111,689,888
Defined benefits paid		(706,361)	(370,756)
Receipt from pension fund		14,731,898	-
Income tax paid		(10,398,228)	(14,651,062)
Net cash flows from operating activities		69,902,015	96,668,070
Cash flows from investing activities			
Net investments in 'available for sale' securities		(51,013,745)	(81,315,947)
Net investments in 'held to maturity' securities		405,975	1,260,172
Proceeds from issue of share to minority interest		-	4,963
Dividends received		848,353	1,115,332
Investments in operating fixed assets		(4,682,052)	(3,418,725)
Sale proceeds of property and equipment disposed off		173,089	58,764
Net cash flows from investing activities		(54,268,380)	(82,295,441)
Cash flows from financing activities			
Dividend paid		(12,759,262)	(11,893,820)
Net cash flows from financing activities		(12,759,262)	(11,893,820)
Exchange differences on translation of the net investment in foreign branches and subsidiaries		212,509	(20,291)
Increase in cash and cash equivalents		3,086,882	2,458,518
Cash and cash equivalents at beginning of the year		57,218,423	54,801,543
Effects of exchange rate changes on cash and cash equivalents		609,601	567,963
		57,828,024	55,369,506
Cash and cash equivalents at end of the year	34	60,914,906	57,828,024

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



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2013

	Capital Reserves				Statutory reserve	Revenue Reserves			Minority interest	Total
	Share Capital	Reserve for issue of bonus shares	Share Premium	Exchange translation reserve		General reserve	Unappropriated profit	Sub Total		
(Rupees in '000)										
Balance as at December 31, 2011	8,362,365	-	9,924,438	431,260	13,456,890	18,600,000	30,259,449	81,034,402	492,497	81,526,899
Effect of change in accounting policy - note 5.7	-	-	-	-	-	-	357,757	357,757	-	357,757
Balance as at December 31, 2011 - restated	8,362,365	-	9,924,438	431,260	13,456,890	18,600,000	30,617,206	81,392,159	492,497	81,884,656
Profit after taxation for the year ended December 31, 2012	-	-	-	-	-	-	20,967,541	20,967,541	-	20,967,541
Profit attributable to minority interest	-	-	-	-	-	-	(82,050)	(82,050)	82,050	-
Profit after taxation for the year ended December 31, 2012 attributable to ordinary shareholders of the group	-	-	-	-	-	-	20,885,491	20,885,491	82,050	20,967,541
Remeasurement of defined benefit plans - net of tax	-	-	-	-	-	-	629,820	629,820	-	629,820
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	(20,630)	-	-	-	(20,630)	339	(20,291)
Share of exchange translation reserve of associates	-	-	-	134,900	-	-	-	134,900	-	134,900
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	36,056	36,056	254	36,310
Transferred to statutory reserve	-	-	-	-	2,094,070	-	(2,094,070)	-	-	-
Transfer to reserve for issue of bonus shares	-	836,236	-	-	-	-	(836,236)	-	-	-
Issue of bonus shares - December 2011	836,236	(836,236)	-	-	-	-	-	-	-	-
Share capital issued attributable to minority shareholders	-	-	-	-	-	-	-	-	4,963	4,963
Final cash dividend - December 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)	-	(2,508,709)
Share of dividend attributable to minority interest	-	-	-	-	-	-	-	-	(78,847)	(78,847)
Interim cash dividend - March 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)	-	(2,759,581)
Interim cash dividend - June 2012	-	-	-	-	-	-	(3,679,441)	(3,679,441)	-	(3,679,441)
Interim cash dividend - September 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)	-	(2,759,581)
Balance as at December 31, 2012	9,198,601	-	9,924,438	545,530	15,550,960	18,600,000	37,530,955	91,350,484	501,256	91,851,740
Profit after taxation for the year ended December 31, 2013	-	-	-	-	-	-	21,950,141	21,950,141	-	21,950,141
Profit attributable to minority interest	-	-	-	-	-	-	(75,043)	(75,043)	75,043	-
Profit after taxation for the year ended December 31, 2013 attributable to ordinary shareholders of the group	-	-	-	-	-	-	21,875,098	21,875,098	75,043	21,950,141
Remeasurement of defined benefit plans - net of tax	-	-	-	-	-	-	49,373	49,373	-	49,373
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	211,772	-	-	-	211,772	737	212,509
Share of exchange translation reserve of associates	-	-	-	26,702	-	-	-	26,702	-	26,702
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	36,045	36,045	243	36,288
Transferred to statutory reserve	-	-	-	-	2,149,534	-	(2,149,534)	-	-	-
Transfer to reserve for issue of bonus shares	-	919,860	-	-	-	-	(919,860)	-	-	-
Issue of bonus shares - December 2012	919,860	(919,860)	-	-	-	-	-	-	-	-
Share of dividend attributable to minority interest	-	-	-	-	-	-	-	-	(87,608)	(87,608)
Final cash dividend - December 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)	-	(2,759,581)
Interim cash dividend - March 2013	-	-	-	-	-	-	(3,541,471)	(3,541,471)	-	(3,541,471)
Interim cash dividend - June 2013	-	-	-	-	-	-	(3,541,470)	(3,541,470)	-	(3,541,470)
Interim cash dividend - September 2013	-	-	-	-	-	-	(3,541,461)	(3,541,461)	-	(3,541,461)
Balance as at December 31, 2013	10,118,461	-	9,924,438	784,004	17,700,494	18,600,000	43,038,094	100,165,491	489,671	100,655,162

For details of dividend declaration and appropriations, please refer note 45 to these consolidated financial statements.

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



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited

Subsidiary companies	Percentage holding of MCB Bank Limited
	%
- MCB Financial Services Limited	99.999
- MNET Services (Private) Limited	99.950
- MCB Trade Services Limited	100.000
- MCB - Arif Habib Savings & Investments Limited (Arif Habib Investments Limited)	51.329
- "MCB Leasing" Closed Joint Stock Company	95.000

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2012: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB -15 Main Gulberg, Lahore. The Bank operates 1,208 branches including 27 Islamic banking branches (2012: 1,179 branches including 27 Islamic banking branches) within Pakistan and 9 branches (2012: 8 branches) outside the country (including the Karachi Export Processing Zone branch).

MCB Financial Services Limited

MCB Financial Services Limited was incorporated on February 12, 1992 under the Companies Ordinance, 1984 as a private limited company. The company converted its status from Private Limited Company to Unlisted Public Limited Company on June 19, 2009. The principal objects of the company are to act as Trustee of investment trust schemes, voluntary pension schemes, real estate investment trust schemes, to provide custodian services and to act as transfer agent/share registrar of securities of listed and non listed companies and mutual funds etc. The Company's main source of income is from trusteeship services provided to mutual funds. Its registered office is located at Karachi.

MNET Services (Private) Limited

MNET Services (Private) Limited is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984 on September 7, 2001. The company's registered office and principal place of business are situated at MCB Building, F-6 / G-6, Jinnah Avenue, Islamabad and Sheikh Sultan Trust Building, Beaumont Road, Karachi respectively. The core objective of the company is to provide services in Information Technology and to develop

computer software and other data processing equipment for planning, designing, management and execution of all types of financial, personal, organizational and institutional activities. During the current year, the Board of Directors of the Company in their meeting held on August 07, 2013 resolved to voluntarily wind up the Company (subject to supervision of the court).

MCB Trade Services Limited

The company was incorporated under the laws of Hong Kong on February 25, 2005. The registered office of the company is located at 28 / F, BEA Harbour View Centre 56 Gloucester Road, Wan Chai, Hong Kong. The principal activity of the company is to provide agency services.

MCB - Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited)

MCB - Arif Habib Savings and Investments Limited (the Company) was incorporated on August 30, 2000, as an unquoted public limited company under the Companies Ordinance, 1984. During 2008, the Company was listed on the Karachi Stock Exchange by way of offer for sale of shares by a few of the existing shareholders of the Company to the general public. The registered office of the Company is situated at 8th Floor, Techno City, Corporate Tower, Molana Hasrat Mohani Road, Karachi, Pakistan.

The Company is registered as an Asset Management Company and Investment Advisor under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Pension Fund Manager under Voluntary Pension System Rules 2005. The Company also manages discretionary portfolio accounts.

"MCB Leasing" Closed Joint Stock Company

MCB Leasing was incorporated as a Closed Joint Stock Company under the laws of Azerbaijan on October 16, 2009 with 95% holding of MCB Bank Limited (a parent company). The registered office of the company is located at 49-B Tbilisi Ave. Baku AZ1065, Republic of Azerbaijan.

The Company's principal business activity is providing lease finance within the Republic of Azerbaijan. The company leases various types of industrial equipment, equipment used in medical, public transports and real estate. In addition, the Company leases cars, trucks and rail cars. The company purchases leasing assets from suppliers in the Republic of Azerbaijan and abroad.

2. BASIS OF PRESENTATION

2.1 These consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and associates.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. 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 utilized and the appropriate portion of mark-up thereon.

2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to standalone financial statements.

2.4 For the purpose of translation, rates of Rs. 105.3246 per US Dollar (2012: Rs. 97.1497), Rs. 0.8052 per LKR (2012: Rs. 0.7611) and Rs. 134.2570 per AZN (2012: Rs. 123.7576) have been used.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and IAS 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1,

2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.2 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2013:

- IAS 1 'Financial statements presentation' has been amended effective January 1, 2013. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit and loss subsequently reclassification adjustments). The specified changes has been made in the statements of other comprehensive income for the year.
- IAS 19 Employee Benefits (revised) which became effective for annual periods beginning on or after January 01, 2013 amends accounting for employees benefits. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.
- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2013 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2014.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Effective date (accounting periods beginning on or after)
- IAS 32 - Financial Instruments: Presentation (Amendment)	January 01, 2014
- IFRS 10 ' Consolidated Financial statements	January 01, 2014
- IFRS 12 'Disclosure of interest in other entities'	January 01, 2014
- IFAS 3 - Profit and Loss Sharing on Deposits	January 01, 2014

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4. BASIS OF MEASUREMENT

4.1 These consolidated financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value.

4.2 The consolidated financial statements are presented in Pak Rupees, which is the Group's functional and presentation currency. The amounts are rounded off to the nearest thousand.

4.3 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

In classifying investments the Bank follows the guidance provided in SBP circulars:

- Investments classified as 'held for trading', are securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold

such investment to maturity.

- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Bank reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.5.3 and 10.5.5.

c) Impairment of 'available for sale' equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

e) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the balance sheet date and the rates contracted.

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in Note 36 of these financial statements for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- a)** The consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of associates are accounted for under the equity basis of accounting.
- b)** Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries are disposed off. The assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the financial statements as at December 31, 2013 and the carrying value of investments held by the Bank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-group balances and transactions have been eliminated.
- c)** Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter for the post-acquisition change in the Group's share of net assets of the associate, the cumulative post-acquisition movements are adjusted in the carrying amount of the investment. Accounting policies of the associates have been changed

where necessary to ensure consistency with the policies adopted by the Group. The Group's share in associates have been accounted for on the basis of the financial statements for the year ended December 31, 2013.

- d)** Minority interest is that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the Group.

5.2 Investments

The Bank classifies its investments as follows:

- a) Held for trading**
These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.
- b) Held to maturity**
These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity.
- c) Available for sale**
These are investments, other than those in subsidiaries and associates, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account, currently.

Unquoted equity securities (excluding investments in subsidiaries and associates) are valued at the lower

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost.

Associates are all entities over which the Group has significant influence but not control. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. Investments in subsidiaries and investments in associates are carried at cost less accumulated impairment losses, if any.

Provision for impairment in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. Provisions for impairment in value of debentures, participation term certificates and term finance certificates are made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate and subsidiary at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'.

5.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against Consumer and Small Enterprise (SEs) loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Advances are written off when there is no realistic prospect of recovery.

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.5 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

reliably. All other repairs and maintenance are charged to the profit and loss account.

5.5.1 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level.

5.5.2 Leases (Ijarah)

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.7 Staff retirement benefits MCB Bank Limited

The Bank operates the following staff retirement benefits for its employees:

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in

1975, the Bank operates the following:

- an approved non-contributory
 - provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and contributory benevolent scheme

- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:
 - an approved non-contributory provident
 - fund introduced in lieu of the contributory provident fund; and
 - an approved pension fund.
 - contributory benevolent fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.

- d) For executives and officers who joined the Bank on or after January 01, 2000, the Bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to entitled employees.

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the Projected Unit Credit Method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. The Bank recognise past service cost as an expense at the earlier of the following dates:

- (i) when the plan amendment or curtailment occurs
- (ii) and when the Bank recognises related restructuring costs or termination benefits

MNET Services (Private) Limited

The company operates an unfunded gratuity scheme for its eligible employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. Accrual of charge for the year is made on the basis of actuarial valuations carried out under the projected unit credit method.

Employees' compensated absences

Liability in respect of employees' compensated absences is

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

During the current year, the Bank has changed its accounting policy in respect of post retirement defined benefits plans as required under International Accounting Standard (IAS) 19, 'Employee Benefits'. Previously, the net cumulative actuarial gains / losses at each balance sheet date were recognized equally over a period of three years or the expected remaining average working lives of employees, whichever was lower. According to new policy actuarial gains and losses are recognized in other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the profit and loss account.

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated. The effect of the change in accounting policy on the current and prior periods financial statements have been summarised below:

	December 31, 2013	December 31, 2012	December 31, 2011
(Rupees in '000)			
Impact on statement of financial position			
Increase in other assets	1,631,876	1,175,705	549,069
Increase / (decrease) in other liabilities	448,405	68,192	(1,327)
Increase in deferred tax liabilities	414,215	387,629	192,638
Increase in Un-appropriated profit	769,256	719,883	357,757

	December 31, 2013	December 31, 2012
(Rupees in '000)		
Impact on profit and loss account		
Increase in administrative expenses	394,490	757,559
Decrease in profit before tax	394,490	757,559
Decrease in profit after tax	256,419	492,413
Decrease in earning per share	Rupees 0.253	0.487

5.8 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.9 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.10 Foreign currencies

5.10.1 Foreign currency transactions

Transactions in foreign currencies other than the results of foreign operations discussed in note 5.10.2 are translated to Rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

5.10.2 Foreign operations

The assets and liabilities of foreign branches and subsidiaries are translated to Rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated to Rupees at the average rate of exchange for the year.

5.10.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Bank's net investment in foreign branches, which are taken to the capital reserve (exchange translation reserve) until the disposal of the net investment, at which time these are recognised in the profit and loss account.

5.10.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these consolidated financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the date of the statement of financial position.

5.11 Acceptances

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the date of the statement of financial position.

5.12 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of countries where the branches operate. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to

produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.

- Ijarah income is recognized on an accrual basis as and when the rental becomes due.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Group's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.
- Outsourcing revenue, payment system managed service income, subscription fee in Switch product revenue and networking services revenue is recognised on an accrual basis when the related services are rendered.
- Revenue for acting as trustee is recognized on Net Assets Value (NAV) of respective funds.
- Management / advisory fee is calculated on a daily / monthly basis by charging specified rates to the net assets value / income of the Collective Investment Schemes. Advisory fee from the discretionary portfolio is calculated in accordance with the respective agreements with the clients. Management fee from the pension funds is calculated by charging the specified rates to the average net assets value.

5.13 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

5.14 Assets acquired in satisfaction of claims

The Bank occasionally acquires assets in settlement of certain advances. These are stated at lower of the carrying value or current fair value of such assets.

5.15 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn Nostro balances) in current and deposit accounts.

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

to financial institutions, investments (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.16.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and as a liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

5.16.3 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

5.17 Borrowings / deposits

Borrowings / deposits are recorded at the proceeds received. The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.18.1 Business segments

Corporate Finance

Corporate Finance includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

Trading and Sales

It includes fixed income, equity, foreign exchange commodities, lendings to and borrowings from financial institutions and brokerage debt.

Retail and Consumer Banking

It includes retail lending and deposits, banking services, private lending and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

Commercial Banking

It includes project finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

Asset Management

It includes asset management, investment advisory, portfolio management, equity research and underwriting.

5.18.2 Geographical segments

The Bank operates in below geographic regions being:

- Pakistan
- South Asia
- Middle East
- Eurasia

5.19 Dividend distribution and appropriation

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

5.20 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	10,189,522	10,335,283
- foreign currencies		2,161,392	1,467,923
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	25,986,891	24,947,522
Foreign currency current account	6.3	142,724	366,370
Foreign currency deposit account	6.2	5,529,331	4,693,009
With other central banks in foreign currency current account	6.2	272,502	373,700
With National Bank of Pakistan in local currency current account		15,663,856	15,236,404
		<u>59,946,218</u>	<u>57,420,211</u>

6.1 This includes national prize bonds amounting to Rs. 118.737 million (2012: Rs. 116.073 million).

6.2 Deposits with SBP are maintained to comply with their requirements issued from time to time. Deposits with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

6.3 This represents US Dollar settlement account maintained with SBP.

	Note	2013	2012
(Rupees in '000)			
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- current account		16,882	2,212
- deposit account		37,922	6,094
Outside Pakistan			
- current account		1,052,532	1,015,386
- deposit account	7.1	487,324	213,044
		<u>1,594,660</u>	<u>1,236,736</u>

7.1 Balances with other banks outside Pakistan in deposit accounts carry interest rate ranging from 2.35% to 8.50% per annum (2012: 0.16% to 7.00% per annum).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2 & 8.3	664,261	-
Repurchase agreement lendings	8.2 & 8.3	560,377	1,551,472
		<u>1,224,638</u>	<u>1,551,472</u>
8.1 Particulars of lendings			
In local currency		996,766	1,482,973
In foreign currencies		227,872	68,499
		<u>1,224,638</u>	<u>1,551,472</u>

8.2. These carry mark up rates ranging from 6.50% to 10% per annum (2012 : 7.50% to 9.15%).

8.3 Securities held as collateral against lendings to financial institutions

	2013			2012		
	Held by bank	Further Given as collateral	Total	Held by bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	560,377	-	560,377	1,551,472	-	1,551,472
	<u>560,377</u>	<u>-</u>	<u>560,377</u>	<u>1,551,472</u>	<u>-</u>	<u>1,551,472</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

9. INVESTMENTS - NET

9.1 Investments by types

	Note / Annexure	2013			2012		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)							
Held for trading securities							
- Units in open ended mutual funds	9.5 & Annexure I (note 2)	575,270	-	575,270	543,296	-	543,296
Available-for-sale securities							
- Market Treasury Bills	9.4	304,804,941	16,631,860	321,436,801	226,894,492	63,100,246	289,994,738
- Pakistan Investment Bonds	9.4	107,615,147	-	107,615,147	83,428,081	-	83,428,081
- Shares in listed companies	9.4 & Annexure I (note 1)	7,792,448	-	7,792,448	6,807,354	-	6,807,354
- Units in open ended mutual fund	9.4 & Annexure I (note 1)	222,443	-	222,443	4,291,933	-	4,291,933
- Shares in unlisted companies	9.4 & Annexure I (note 3)	142,807	-	142,807	244,217	-	244,217
- NIT units	9.4 & Annexure I (note 1)	5,253	-	5,253	5,253	-	5,253
- Sukuk Bonds	9.4 & Annexure I (note 4)	2,700,000	-	2,700,000	3,400,000	-	3,400,000
- Term Finance Certificates (TFCs)	9.4 & Annexure I (note 4)	958,412	-	958,412	1,912,343	-	1,912,343
		424,241,451	16,631,860	440,873,311	326,983,673	63,100,246	390,083,919
Held-to-maturity securities							
- Market Treasury Bills	9.6	1,656,039	64,836	1,720,875	771,355	67,824	839,179
- Pakistan Investment Bonds		-	-	-	1,676,918	-	1,676,918
- Provincial Government Securities		118	-	118	118	-	118
- Sukuk Bonds	Annexure I (note 5)	442,838	-	442,838	653,616	-	653,616
- Euro Bonds	Annexure I (note 5)	2,344,907	-	2,344,907	1,693,483	-	1,693,483
- Term Finance Certificates (TFCs), Debtentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4 & 5)	2,778,015	-	2,778,015	2,831,442	-	2,831,442
		7,221,917	64,836	7,286,753	7,626,932	67,824	7,694,756
Associates							
- Adamjee Insurance Company Limited	Annexure I (note 6) 9.7	5,386,250	-	5,386,250	4,176,476	-	4,176,476
- Euronet Pakistan (Private) Limited	9.8	63,426	-	63,426	55,679	-	55,679
- First Women Bank Limited	9.10	63,300	-	63,300	63,300	-	63,300
		5,512,976	-	5,512,976	4,295,455	-	4,295,455
Investments at cost							
		437,551,614	16,696,696	454,248,310	339,449,356	63,168,070	402,617,426
Less: Provision for diminution in value of investments	9.3	(2,549,959)	-	(2,549,959)	(2,783,347)	-	(2,783,347)
Investments (net of provisions)							
		435,001,655	16,696,696	451,698,351	336,666,009	63,168,070	399,834,079
Surplus / (Deficit) on revaluation of available for sale securities - net	21.2	2,099,461	(12,867)	2,086,594	5,691,769	45,180	5,736,949
Surplus on revaluation of 'held for trading' securities - net	9.5	23,400	-	23,400	30,285	-	30,285
Investments at revalued amounts-net of provisions		437,124,516	16,683,829	453,808,345	342,388,063	63,213,250	405,601,313

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note/Annexure	2013	2012
(Rupees in '000)			
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	321,436,801	289,994,738
- Pakistan Investment Bonds	9.4	107,615,147	85,104,999
- Euro Bonds	Annexure I (note 5)	2,344,907	1,693,483
- Sukuk Bonds	Annexure I (note 4 & 5)	2,700,000	3,400,000
Overseas Government Securities			
- Market Treasury Bills - Sri Lanka		1,720,875	839,179
- Development Bonds	Annexure I (note 5)	632,791	-
Provincial Government Securities		118	118
Associated Undertakings	9.8, 9.9, 9.10, Annexure I (note 6)	5,512,976	4,295,455
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	7,729,163	6,744,069
- Unlisted companies / funds	Annexure I (note 3)	142,807	144,217
Units of Open Ended Mutual Funds		797,713	4,835,229
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	63,285	63,285
- Unlisted Companies		-	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	Annexure I (note 4)	1,267,298	2,563,200
- Unlisted Term Finance Certificates	Annexure I (note 4)	1,527,553	1,979,818
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 5)	308,785	200,767
Other Investments:			
- Sukuk Bonds	Annexure I (note 5)	442,838	653,616
- NIT Units		5,253	5,253
Total investments at cost		454,248,310	402,617,426
Less: Provision for diminution in the value of investments	9.3	(2,549,959)	(2,783,347)
Investments (net of provisions)		451,698,351	399,834,079
Surplus on revaluation of available for sale securities - net	21.2	2,086,594	5,736,949
Surplus on revaluation of held for trading securities - net	9.5	23,400	30,285
Investments at revalued amounts - net of provisions		453,808,345	405,601,313
9.3 Particulars of provision			
Opening balance		2,783,347	3,327,065
Charge during the year		75,299	42,637
Reversal made during the year		(82,133)	(45,681)
		(6,834)	(3,044)
Reversal on disposal of shares		(224,353)	(540,674)
Reclassification		(173)	-
Investment written off against provision		(2,028)	-
Closing balance		2,549,959	2,783,347
9.3.1 Particulars of provision in respect of Type and Segment			
Available-for-sale securities			
Listed shares / Certificates / Units		1,993,913	2,215,756
Unlisted shares		74,741	71,342
		2,068,654	2,287,098
Held-to-maturity securities			
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates		481,305	496,249
		2,549,959	2,783,347

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

9.4 Quality of 'available for sale' securities

Note	2013		2012		
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating	
Market Treasury Bills	9.4.1	321,150,456	Unrated	290,505,477	Unrated
Pakistan Investment Bonds	9.4.1	107,720,565	Unrated	86,166,935	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		253,321	AA-	275,754	AA-
Bank Alfalah Limited		527,480	AA-	522,712	AA-
Allied Bank Limited		205,081	AA	237,013	AA
United Bank Limited		-	-	777,380	AA
NIB Bank limited		-	-	167,118	A+
Pak Arab Fertilizers Limited		-	-	30,011	AA
		985,882		2,009,988	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		25,814	Not available	19,645	Not available
Aisha Steel Mills Limited		1,345	A- & A2	1,690	A- & A2
Allied Bank Limited		794,738	AA+ & A1+	496,754	AA+ & A1+
Arif Habib Limited		3,067	Not available	2,686	Not available
Arif Habib Corporation Limited		41,188	AA & A1+	44,650	AA & A1+
Attock Cement Pakistan Limited		2,754	Not available	1,676	Not available
Attock Petroleum Limited		494,906	Not available	420,756	Not available
Attock Refinery Limited		-	-	37,270	AA & A 1+
Bank Alfalah Limited		8,112	AA & A1+	5,046	AA & A1+
Bank Al-Habib Limited		533,977	AA+ & A1+	201,959	AA+ & A1+
Archroma Pakistan Limited (Formerly Clariant Pakistan Limited)		34,410	Not available	14,524	Not available
Fauji Cement Company Limited		22,330	Not available	-	
Fauji Fertilizer Bin Qasim Company Limited		168,909	Not available	112,374	Not available
Fauji Fertilizer Company Limited		1,123,183	Not available	1,175,148	Not available
First AI - Noor Modaraba		27,766	Not available	24,990	Not available
Habib Bank Limited		111,669	AAA & A1+	317,869	AAA & A1+
Habib Metropolitan Bank Limited		2,883	AA+ & A1+	2,168	AA+ & A1+
Hub Power Company Limited		230,190	AA+ & A1+	18,096	AA+ & A1+
IGI Insurance Limited		11,507	AA	-	AA
Indus Motors Company Limited		9,000	Not available	7,297	Not available
Kohinoor Energy Limited		1,952	AA & A1+	1,238	AA & A1+
Kot Addu Power Company Limited		367,752	AA+ & A1+	145,083	AA+ & A1+
Masood Textile Mills Limited - preference shares		50,000	Not available	50,000	Not available
Meezan Bank Limited		15,627	AA & A1+	10,743	AA- & A1+
Millat Tractors Limited		29	Not available	50,582	Not available
Murree Brewery Company Limited		9,460	Not available	2,861	Not available
National Foods Limited		11,430	A+ & A1	4,941	A+ & A1
National Refinery Limited		-	-	44,236	AAA & A1+
National Bank of Pakistan		428,773	AAA & A1+	-	
Nestle Pakistan Ltd Limited		40,378	Not available	25,314	Not available
* Next Capital Limited		9,750	Not available	9,555	Not available
Oil & Gas Development Company Limited		130,783	AAA & A1+	27,377	AAA & A1+
Balance carried forward		4,713,682		3,276,528	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Note	2013		2012	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
	4,713,682		3,276,528	
Balance brought forward				
Pakistan Oil Fields Limited	592,297	Not available	510,038	Not available
Pakistan Petroleum Limited	457,001	Not available	140,515	Not available
Pakistan State Oil Company Limited	96,410	AA+ & A1+	-	AA+ & A1+
Pakistan Telecommunication Company Limited	32,706	Not available	-	Not available
Pakistan Tobacco Company Limited	27,572	Not available	3,310	Not available
Rafhan Maize Products Limited	127,037	Not available	23,858	Not available
Rupali Polyester Limited	2,985	Not available	3,994	Not available
Samba Bank Limited	66,947	AA- & A1	75,216	AA- & A1
Searle Pakistan Limited	11,244	BBB & A-3	3,010	BBB & A-3
** Sui Northern Gas Pipelines Limited	1,174,200	AA & A1+	1,165,180	AA- & A1+
* Trust Securities & Brokerage Limited	885	Not available	1,050	Not available
Unilever Pakistan Limited	-	-	799,920	Not available
Unilever Pakistan Foods Limited	8,063	Not available	3,728	Not available
United Bank Limited	602,352	AA+ & A1+	655,173	AA+ & A1+
Zulfiqar Industries Limited	3,481	Not available	3,183	Not available
	7,916,862		6,664,703	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	-	-	4,236,489	AA(f)
MCB Dynamic Stock Fund	-	-	61,506	4-STAR & 4-STAR
Pakistan Pension Fund	162,546	Not Applicable	140,646	Not Applicable
Pakistan Islamic Pension Fund	164,062	Not Applicable	137,952	Not Applicable
AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF)	-	-	20,691	Not Applicable
	326,608		4,597,284	
Shares in Un-listed Companies	9.4.2			
* National Investment Trust Limited	100	AM2-	100	AM2-
* SME Bank Limited	6,527	BBB & A3	10,106	BBB & A3
First Capital Investment (Private) Limited	2,500	AM4+	2,500	AM4+
Pak Asian Fund	11,500	Not available	11,500	Not available
* Arabian Sea Country Club	2,194	Not available	3,514	Not available
* Central Depository Company of Pakistan Limited	10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited	1,526	Not available	1,526	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)	1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited - preference share	-	-	100,000	A- & A2
Islamabad Stock Exchange Limited	30,346	Not available	30,346	Not available
Lanka Clearing (Private) Limited	805	Not available	761	Not available
Lanka Financial Services Bureau Limited	805	Not available	761	Not available
Credit Information Bureau of Sri Lanka	25	Not available	23	Not available
	68,066		172,875	
Other Investment				
Sukuk Bonds	9.4.1			
	2,717,310	Unrated	3,412,836	Unrated
N.I.T. Units				
	5,502	AM2-	3,672	AM2-
	440,891,251		393,533,770	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

9.4.1 These are Government of Pakistan guaranteed securities.

9.4.2 Investments in unlisted companies are stated at carrying value. The above excludes unlisted shares of companies which are fully provided for in these financial statements.

*These are the strategic investments of the Bank.

**This includes 37.292 million shares valuing Rs. 794.309 million (2012: 33.901 million shares valuing Rs. 788.207 million) which are held as strategic investment by the Bank.

9.5 Unrealized gain on revaluation of investments classified as 'held for trading'

Note	Unrealized gain		Cost	
	2013	2012	2013	2012
	(Rupees in '000)			
Investee Company				
MCB Dynamic Cash Fund	12,921	22,774	358,985	462,749
MCB Dynamic Allocation Fund	6,053	-	173,348	-
Metro Bank-Pakistan Sovereign Fund	488	-	15,937	-
MCB Dynamic Allocation Fund	-	5,897	-	53,547
Pakistan Cash Management Fund	9.5.1	3,938	1,614	27,000
		<u>23,400</u>	<u>30,285</u>	<u>543,296</u>

	2013	2012
	(Rupees in '000)	
9.5.1 At fair value through profit or loss		
Cost of investment	27,000	27,000
Unrealized gain	3,938	1,614
Fair value of investments	<u>30,938</u>	<u>28,614</u>
Fair value of investment		
Opening balance	28,614	-
Purchased during the year	-	27,000
Gain on fair value of remeasurement recognized in Profit & Loss	<u>2,324</u>	<u>1,614</u>
Closing balance	<u>30,938</u>	<u>28,614</u>

9.6 "Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan. The market value of Market Treasury Bills classified as 'held to maturity' as at December 31, 2013 amounted to Rs. 1,720.875 million (2012: Rs. 839.179 million).

9.7 Investment of the Group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2013 amounted to Rs. 3,809.906 million (2012: Rs. 2,455.336 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Investment in Adamjee Insurance Company Limited under equity method - holding 29.13%

	2013	2012
	(Rupees in '000)	
Opening Balance	4,176,476	3,101,352
Share of profit for the year before tax	622,902	293,349
Dividend from associate	(126,118)	(54,051)
Share of tax	(83,961)	(34,637)
	412,823	204,661
Share of other comprehensive income	796,951	870,463
Closing Balance	5,386,250	4,176,476

- 9.8** Investment of the Group in Euronet Pakistan Private Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'.

Investment in Euronet Pakistan Private Limited under equity method - holding 30%

	2013	2012
	(Rupees in '000)	
Opening Balance	55,679	53,917
Share of profit for the year before tax	5,959	3,296
Share of tax	1,788	(1,534)
Closing Balance	7,747	1,762
	63,426	55,679

- 9.9** The Group's investment in First Women Bank Limited is being carried at cost and have not been accounted for under equity method as the group does not have significant influence over the entity.
- 9.10** Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2012: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2012: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.
- 9.11** Information relating to investments in ordinary shares and preference shares of listed companies and unlisted companies required to be disclosed as part of the financial statements under BSD Circular No. 04 of 2006 dated February 17, 2006, is given in Annexure "I".
- 9.12** Certain approved / Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		230,190,144	227,859,344
Outside Pakistan		13,419,914	12,176,644
		<u>243,610,058</u>	<u>240,035,988</u>
Islamic Financing and related assets	10.2	11,303,966	9,983,417
Net investment in finance lease	10.3		
In Pakistan		1,027,911	1,004,761
Outside Pakistan		911,165	850,532
		<u>1,939,076</u>	<u>1,855,293</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,455,467	830,471
Payable outside Pakistan		10,162,518	9,892,365
		<u>11,617,985</u>	<u>10,722,836</u>
Advances - gross		<u>268,471,085</u>	<u>262,597,534</u>
Provision against advances	10.5		
Specific provision	10.4	(19,450,148)	(22,380,087)
General provision	10.5.3	(267,860)	(257,457)
General provision against consumer loans	10.5.5	(201,354)	(145,568)
General provision for potential lease losses (in Sri Lanka operations)		(29,931)	(25,911)
		<u>(19,949,293)</u>	<u>(22,809,023)</u>
Advances - net of provision		<u>248,521,792</u>	<u>239,788,511</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		222,305,289	237,125,452
In foreign currencies		46,165,796	25,472,082
		<u>268,471,085</u>	<u>262,597,534</u>
10.1.2 Short-term		202,403,592	200,826,481
Long-term		66,067,493	61,771,053
		<u>268,471,085</u>	<u>262,597,534</u>
10.2 Islamic Financing and related assets	Annexure -II		
Islamic Financing		5,468,451	5,047,652
Inventories		4,580,773	3,319,863
Advance against Murabaha		756,568	1,394,444
Advance against Future Ijara		268,721	25,779
Advance against Diminishing Musharaka		229,453	195,679
		<u>11,303,966</u>	<u>9,983,417</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

10.3 Net investment in finance lease

	2013			2012		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
(Rupees in '000)						
Lease rentals receivable	956,830	1,148,581	2,105,411	802,286	1,218,681	2,020,967
Guaranteed residual value	37,176	64,978	102,154	68,700	83,560	152,260
Minimum lease payments	994,006	1,213,559	2,207,565	870,986	1,302,241	2,173,227
Finance charge for future periods	(150,595)	(117,894)	(268,489)	(163,028)	(154,906)	(317,934)
Present value of minimum lease payments	843,411	1,095,665	1,939,076	707,958	1,147,335	1,855,293

10.4 Advances include Rs. 23,267.733 million (2012: Rs. 25,561.774 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2013								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially										
Mentioned (OAEM)	10.4.1	35,782	-	35,782	2,660	-	2,660	2,660	-	2,660
Substandard		168,423	50,438	218,861	41,200	12,610	53,810	41,200	12,610	53,810
Doubtful		1,453,012	-	1,453,012	405,827	-	405,827	405,827	-	405,827
Loss		16,584,176	4,975,902	21,560,078	16,502,626	2,485,225	18,987,851	16,502,626	2,485,225	18,987,851
		18,241,393	5,026,340	23,267,733	16,952,313	2,497,835	19,450,148	16,952,313	2,497,835	19,450,148
(Rupees in '000)										
2012										
Category of Classification	Note	Class Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially										
Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		285,883	-	285,883	36,090	-	36,090	36,090	-	36,090
Doubtful		845,875	4,024	849,899	421,841	2,012	423,853	421,841	2,012	423,853
Loss		19,829,029	4,596,963	24,425,992	19,714,184	2,205,960	21,920,144	19,714,184	2,205,960	21,920,144
		20,960,787	4,600,987	25,561,774	20,172,115	2,207,972	22,380,087	20,172,115	2,207,972	22,380,087

10.4.1 This represents non-performing portfolio of agricultural and small enterprise financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural and Small Enterprise Financing issued by the State Bank of Pakistan.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Note	2013				Total
	Specific	General	General provision against consumer & SMEs loans	Leasing (general)	
(Rupees in '000)					
10.5 Particulars of provision against advances					
Opening balance	22,380,087	257,457	145,568	25,911	22,809,023
Exchange adjustments	129,419	-	-	1,502	130,921
Provision made during the year	1,619,488	10,403	55,786	2,518	1,688,195
Reversals	(4,516,978)	-	-	-	(4,516,978)
	(2,897,490)	10,403	55,786	2,518	(2,828,783)
Amounts written off	(161,868)	-	-	-	(161,868)
Closing balance	19,450,148	267,860	201,354	29,931	19,949,293

Note	2012				Total
	Specific	General	General provision against consumer & SMEs loans	Leasing (general)	
(Rupees in '000)					
Opening balance	21,869,401	248,135	198,340	17,566	22,333,442
Exchange adjustments	101,078	-	-	-	101,078
Provision made during the year	4,881,254	9,322	-	8,345	4,898,921
Reversals	(4,365,246)	-	(52,772)	-	(4,418,018)
	516,008	9,322	(52,772)	8,345	480,903
Amounts written off	(106,400)	-	-	-	(106,400)
Closing balance	22,380,087	257,457	145,568	25,911	22,809,023

10.5.1 Particulars of provisions against advances

	2013			2012		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
In local currency	16,952,313	469,214	17,421,527	20,172,115	403,025	20,575,140
In foreign currencies	2,497,835	29,931	2,527,766	2,207,972	25,911	2,233,883
	19,450,148	499,145	19,949,293	22,380,087	428,936	22,809,023

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

10.5.2 The following amounts have been charged to the profit and loss account:

	Note	2013	2012
(Rupees in '000)			
Specific provision		(2,897,490)	516,008
General provision	10.5.3	10,403	9,322
General provision against consumer & Small Enterprise loans	10.5.5	55,786	(52,772)
General provision for potential lease losses (in Sri Lanka operations)		2,518	8,345
		<u>(2,828,783)</u>	<u>480,903</u>

10.5.3 General provision against advances represents provision maintained at around 0.1% of gross advances.

10.5.4 State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009, BSD Circular No. 02 of 2010 dated June 03, 2010 and BSD Circular No.1 of 2011 dated October 21, 2011 has allowed benefit of forced sale value (FSV) of Plant & Machinery under charge, pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for five years from the date of classification. However, management has not taken the FSV benefit in calculation of specific provision.

10.5.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP. General provision against Small Enterprise Finance is maintained at rate of 1% of fully secured performing portfolio.

	Note	2013	2012
(Rupees in '000)			
10.6 Particulars of write offs:			
10.6.1 Against provisions	10.5	161,868	106,400
Directly charged to the profit and loss account		-	206
		<u>161,868</u>	<u>106,606</u>
10.6.2 Write offs of Rs. 500,000 and above	10.6.3	150,079	90,372
Write offs of below Rs. 500,000		11,789	16,234
		<u>161,868</u>	<u>106,606</u>

10.6.3 Details of loan write offs of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2013 is given at Annexure- III in standalone financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012	
		(Rupees in '000)		
10.7	Particulars of advances to directors, executives, associated companies, etc.			
	Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
	Balance at beginning of the year	3,884,919	4,179,054	
	Loans granted during the year	583,827	530,074	
	Repayments	(831,052)	(824,209)	
	Balance at end of the year	<u>3,637,694</u>	<u>3,884,919</u>	
	Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
	Balance at beginning of the year	156,696	131,903	
	Loans granted during the year	445,085	435,357	
	Repayments	(402,105)	(410,564)	
	Balance at end of the year	<u>199,676</u>	<u>156,696</u>	
		<u>3,837,370</u>	<u>4,041,615</u>	
11.	OPERATING FIXED ASSETS			
	Capital work-in-progress	11.1	1,900,221	1,470,141
	Property and equipment	11.2	26,234,684	21,885,408
	Intangible asset	11.3	871,026	788,693
			<u>29,005,931</u>	<u>24,144,242</u>
11.1	Capital work-in-progress			
	Civil works	1,260,427	1,032,549	
	Advances to suppliers and contractors	161,359	240,852	
	Others	478,435	196,740	
		<u>1,900,221</u>	<u>1,470,141</u>	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

11.2 Property and equipment

Description	2013											Net book value at December 31, 2013	Annual rate of depreciation/ estimated useful life
	Cost/ Revalued amount					Accumulated depreciation							
	At January 01, 2013	Additions/ (disposals) / exchange and other adjustments	Revaluation surplus	Reversal due to revaluation	Transfer in / (out)	At December 31, 2013	At January 01, 2013	Charge for the year/ (description on disposals) /exchange and other adjustments	Reversal due to revaluation	Transfer in / (out)	At December 31, 2013		
(Rupees in '000)													
Land - Freehold	12,057,399	809,296	1,507,217	-	-	14,373,912	-	-	-	-	14,373,912	-	
Land - Leasehold	120,100	-	5,532	-	-	125,632	-	-	-	-	125,632	-	
Buildings on freehold land	6,191,206	1,062,697	595,968	(538,745)	64,609	7,377,725	319,280	216,702	(538,745)	17,544	15,541	7,362,184	upto 70 years
		1,990	-	-	-	-	-	760	-	-	-	-	
Buildings on leasehold land	538,898	1,836	16,465	(14,013)	(493,999)	49,996	181,563	2,007	(14,013)	(170,314)	-	49,996	upto 50 years
		809	-	-	-	-	-	757	-	-	-	-	
Leasehold Improvements*	-	225,847	-	-	436,268	663,619	-	154,583	-	152,770	308,206	355,413	3 years
		1,504	-	-	-	-	-	853	-	-	-	-	
Furniture and fixture	1,001,163	100,656	-	-	(6,878)	1,088,171	544,725	99,097	-	-	639,179	448,992	10%
		(9,533)	-	-	-	-	-	(6,790)	-	-	-	-	
		2,763	-	-	-	-	-	2,147	-	-	-	-	
Electrical, Computers and office Equipment	7,722,797	799,170	-	-	-	8,440,072	5,557,447	740,918	-	-	6,217,053	2,223,019	10% to 25%
		(88,094)	-	-	-	-	-	(84,727)	-	-	-	-	
		6,199	-	-	-	-	-	3,415	-	-	-	-	
Vehicles	585,513	233,183	-	-	-	748,307	366,787	77,641	-	-	389,362	358,945	20%
		(73,053)	-	-	-	-	-	(57,648)	-	-	-	-	
		2,664	-	-	-	-	-	2,582	-	-	-	-	
Ijarah Assets													
Assets held under Ijarah - Car	285,284	523,090	-	-	-	750,029	61,550	111,509	-	-	144,970	605,059	20%
		(58,345)	-	-	-	-	-	(28,089)	-	-	-	-	
Assets held under Ijarah - Equipment	537,749	150,840	-	-	-	563,369	123,349	155,077	-	-	231,837	331,532	20%
		(125,220)	-	-	-	-	-	(46,589)	-	-	-	-	
		15,929	-	-	-	-	-	10,514	-	-	-	-	
	29,040,109	3,906,615	2,125,182	(552,758)	-	34,180,832	7,154,701	1,557,534	(552,758)	-	7,946,148	26,234,684	
		(354,245)	-	-	-	-	-	(223,843)	-	-	-	-	
		15,929	-	-	-	-	-	10,514	-	-	-	-	

* Leasehold Improvements have been classified separately from Buildings on leasehold land.

Description	2012								Net book value at December 31, 2012	Annual rate of depreciation / estimated useful life
	Cost/ Revalued amount			Accumulated depreciation						
	At January 01, 2012	Additions/ (disposals) / exchange and other adjustments	At December 31, 2012	At January 01, 2012	Charge for the year/ (description on disposals) /exchange and other adjustments	At December 31, 2012				
(Rupees in '000)										
Land - Freehold	10,788,123	1,269,276	12,057,399	-	-	-	-	12,057,399	-	
Land - Leasehold	120,100	-	120,100	-	-	-	-	120,100	-	
Buildings on freehold land	5,632,100	559,106	6,191,206	146,330	166,405	319,280	5,871,926	upto 70 years		
		-	-	-	6,545	-	-	-		
Buildings on leasehold land	307,012	233,291	538,898	127,453	77,620	181,563	357,335	3 to 50 years		
		(1,405)	-	-	-	-	-	-		
					(23,510)	-	-	-		
Furniture and fixture	918,961	83,854	1,001,163	436,368	109,553	544,725	456,438	10%		
		(2,374)	-	-	(1,407)	-	-	-		
		722	-	-	211	-	-	-		
Electrical, Computers and office Equipment	7,205,306	567,874	7,722,797	4,760,614	820,438	5,557,447	2,165,350	10% to 25%		
		(20,032)	-	-	(10,845)	-	-	-		
		(30,351)	-	-	(12,760)	-	-	-		
Vehicles	568,394	59,344	585,513	330,076	68,232	366,787	218,726	20%		
		(41,170)	-	-	(31,225)	-	-	-		
		(1,055)	-	-	(296)	-	-	-		
Ijarah Assets										
Assets held under Ijarah - Car	105,537	206,629	285,284	30,031	45,172	61,550	223,734	20%		
		(26,882)	-	-	(13,653)	-	-	-		
Assets held under Ijarah - Equipment	318,957	222,059	537,749	16,332	107,368	123,349	414,400	20%		
		(3,267)	-	-	(351)	-	-	-		
	25,964,490	3,201,433	29,040,109	5,847,204	1,394,788	7,154,701	21,885,408			
		(93,725)	-	-	(57,481)	-	-	-		
		(32,089)	-	-	(29,810)	-	-	-		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

11.2.1 The land and buildings of the Bank are revalued in December 2013 by independent valuers (Arch-e-Decon & Sardar Enterprises), valuation and engineering consultants, on the basis of market value. The information relating to location of revalued assets is given in Annexure III. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	14,499,544
Total revalued amount of buildings	7,412,180

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2013 would have been as follows:

	(Rupees in '000)
Land	4,989,758
Buildings	4,658,522

11.2.2 The gross carrying amount (cost) of fully depreciated assets that are still in use are as follows:

Furniture and fixture	298,550
Electrical, computers and office equipment	3,770,909
Vehicles	358,023
Leasehold Improvements	98,600
Intangible asset	1,207,762

11.2.3 Details of disposal of operating fixed assets

The information relating to disposal of operating fixed assets required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure III and is an integral part of these consolidated financial statements.

11.3 Intangible asset

Description	2013							
	Cost			Accumulated amortization			Net Book value at December 31, 2013	Annual rate of amortization %
	At January 01 2013	Additions/ exchange adjustments	At December 31, 2013	At January 01, 2013	Amortization for the year/ adjustments	At December 31, 2013		
	(Rupees in '000)							
Computer software	1,876,612	344,708 3,527	2,224,847	1,362,046	263,024 2,878	1,627,948	596,899	33.33
Goodwill	82,127	-	82,127	-	-	-	82,127	
Management rights	192,000	-	192,000	-	-	-	192,000	
	2,150,739	344,708 3,527	2,498,974	1,362,046	263,024 2,878	1,627,948	871,026	
Description	2012							
	Cost			Accumulated amortization			Net Book value at December 31, 2012	Annual rate of amortization %
	At January 01 2012	Additions/ adjustments	At December 31, 2012	At January 01, 2012	Amortization for the year/ adjustments	At December 31, 2012		
	(Rupees in '000)							
Computer software	1,513,604	350,382 12,626	1,876,612	1,086,169	261,901 13,976	1,362,046	514,566	33.33
Goodwill	82,127	-	82,127	-	-	-	82,127	
Management rights	192,000	-	192,000	-	-	-	192,000	
	1,787,731	350,382 12,626	2,150,739	1,086,169	261,901 13,976	1,362,046	788,693	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012 Restated
(Rupees in '000)			
12. OTHER ASSETS - NET			
Income / mark-up accrued on advances and investments - local currency		8,403,945	8,019,107
Income / mark-up accrued on advances and investments - foreign currencies		188,298	98,249
Accrued income, advances, deposits, and other prepayments		1,065,013	975,662
Advance taxation (payments less provisions)		6,145,527	10,969,681
Compensation for delayed income tax refunds		44,802	44,802
Non-banking assets acquired in satisfaction of claims	12.1	1,939,184	1,398,703
Unrealised gain on derivative financial instruments	12.2	1,649,163	134,339
Stationery and stamps on hand		66,910	43,067
Prepaid exchange risk fee		257	169
Receivable from the pension fund	36.3	5,854,207	18,428,483
Others		2,901,129	2,735,476
		<u>28,258,435</u>	<u>42,847,738</u>
Less: Provision held against other assets	12.3	1,081,715	1,131,977
		<u>27,176,720</u>	<u>41,715,761</u>

12.1 The market value of non-banking assets with carrying value of Rs. 1,814.981 million (2012: Rs. 1,276.093 million) net of provision as per the valuation reports dated December 31, 2013 amounted to Rs. 1,831.591 million (2012: Based on valuation as of December 31, 2012 Rs. 1,374.399 million).

12.2 Unrealised gain on derivative financial instruments

	Contract / Notional amount		Unrealised gain	
	2013	2012	2013	2012
(Rupees in '000)				
Unrealised gain on:				
FX Options	216,344	-	1,062	-
Forward exchange contracts	90,769,449	22,169,486	1,648,101	134,339
	<u>90,985,793</u>	<u>22,169,486</u>	<u>1,649,163</u>	<u>134,339</u>

12.3 Provision held against other assets

	2013	2012
(Rupees in '000)		
Opening balance	1,131,977	1,289,687
Charge for the year	31,376	59,858
Reversal during the year	(83,661)	(247,163)
	(52,285)	(187,305)
Write off during the year	(40,091)	(12,324)
Exchange adjustments / reclassification	42,114	41,919
Closing balance	<u>1,081,715</u>	<u>1,131,977</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Group as at December 31, 2013 and December 31, 2012.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
14. BILLS PAYABLE		
In Pakistan	10,113,386	9,849,905
Outside Pakistan	25,340	46,379
	10,138,726	9,896,284

	2013	2012	
	(Rupees in '000)		
15. BORROWINGS			
In Pakistan	30,267,778	76,644,529	
Outside Pakistan	8,392,627	2,419,822	
	38,660,405	79,064,351	
15.1 Particulars of borrowings with respect to currencies			
In local currency	30,267,778	76,644,529	
In foreign currencies	8,392,627	2,419,822	
	38,660,405	79,064,351	
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	8,939,210	8,780,720
Long term financing facility	15.4 & 15.5	3,832,857	3,448,638
Long term financing - export oriented projects scheme	15.4 & 15.5	213,965	555,277
Financing Facility for Storage of Agricultural Produce		670,858	768,806
		13,656,890	13,553,441
Repurchase agreement borrowings	15.6	16,675,724	63,158,913
		30,332,614	76,712,354
Unsecured			
Borrowings from other financial institution	15.7	2,751,563	405,853
Call borrowings	15.8	4,950,256	1,117,221
Overdrawn nostro accounts		625,972	828,923
		8,327,791	2,351,997
		38,660,405	79,064,351

15.3 The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. These carry mark-up at rate of 8.40%.

15.4 The amount is due to SBP and has been obtained for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.

15.5 Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP. These carry mark-up at rates ranging from 8.40% to 8.80% per annum.

15.6 These carry mark-up rates ranging from 7.75% to 10.25% per annum (2012: 6.50% to 12.82% per annum) and are secured against government securities of carrying value of Rs. 16,741.876 million (2012: Rs. 63,213.250 million).

15.7 These carry mark-up ranging from 1.20% to 11.50% per annum (2012: 1.50% to 11.50% per annum).

15.8 These carry mark-up ranging from 0.80% to 3% per annum (2012: 0.80% to 1.45% per annum). These are repayable by April, 2014.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

16. DEPOSITS AND OTHER ACCOUNTS

	2013	2012
	(Rupees in '000)	
Customers		
Fixed deposits	60,524,016	80,649,846
Saving deposits	349,209,809	268,923,547
Current accounts	206,713,480	183,107,714
Margin accounts	3,937,113	3,520,404
	<u>620,384,418</u>	<u>536,201,511</u>
Financial institutions		
Remunerative deposits	8,058,094	6,090,878
Non-remunerative deposits	3,866,582	2,695,702
	<u>11,924,676</u>	<u>8,786,580</u>
	<u>632,309,094</u>	<u>544,988,091</u>
16.1 Particulars of deposits		
In local currency	596,295,535	515,529,011
In foreign currencies	36,013,559	29,459,080
	<u>632,309,094</u>	<u>544,988,091</u>

16.2 Deposits include deposits from related parties amounting to Rs. 16,525.673 million (2012: Rs. 30,737.114 million).

17. DEFERRED TAX LIABILITY / (ASSET) - NET

The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	2013	2012
		(Rupees in '000)	
			Restated
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	963,433	768,800
Accelerated tax depreciation		1,276,877	1,142,867
Receivable from pension fund		2,048,974	6,449,969
Investments in associates		254,886	213,604
Surplus on revaluation of securities	21.2	311,153	1,501,042
		<u>4,855,323</u>	<u>10,076,282</u>
Deductible temporary differences on:			
Provision for bad debts		(19,766)	(12,632)
Provision for gratuity		-	(1,519)
Taxable losses		(2,467)	(11,632)
Provision for post retirement benefits		(332,797)	(281,628)
		<u>(355,030)</u>	<u>(307,411)</u>
		<u>4,500,293</u>	<u>9,768,871</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

18. OTHER LIABILITIES

	Note	2013	2012 Restated
(Rupees in '000)			
Mark-up / return / interest payable in local currency		1,982,285	7,699,278
Mark-up / return / interest payable in foreign currencies		93,932	65,112
Accrued expenses		7,217,767	5,812,141
Unclaimed dividend		1,232,896	520,567
Staff welfare fund		18,846	27,942
Unrealised loss on derivative financial instruments	18.1	1,005,305	107,194
Provision for employees' compensated absences	36.3	934,009	594,100
Provision for post retirement medical benefits	36.3	1,340,476	1,565,634
Provision for employees' contributory benevolent scheme	36.3	213,438	257,089
Provision for gratuity		976	4,340
Security deposits		322,371	288,471
Branch adjustment account		193,597	19,023
Retention money		25,004	31,634
Insurance payable against consumer assets		216,959	169,517
Unclaimed balances		993,264	901,578
Duties and taxes payable		897,003	305,738
Others		3,518,863	2,896,281
		<u>20,206,991</u>	<u>21,265,639</u>

18.1 Unrealised loss on derivative financial instruments

	Contract / Notional amount		Unrealised loss	
	2013	2012	2013	2012
(Rupees in '000)				
Unrealised loss on:	216,344	-	1,062	-
FX Options	61,406,865	25,074,183	1,004,243	107,194
Forward exchange contracts	61,623,209	25,074,183	1,005,305	107,194

19. SHARE CAPITAL

19.1 Authorised Capital

2013 (Number of shares)	2012 (Number of shares)		2013 (Rupees in '000)	2012 (Rupees in '000)
1,500,000,000	1,000,000,000	Ordinary shares of Rs 10 each	15,000,000	10,000,000

19.2 Issued, subscribed and paid-up capital

2013			2012			2013	2012	
Issued for cash	issued as bonus share	Total	issued for cash	issued as bonus share	Total	(Rupees in '000)		
(Number of shares)								
197,253,795	722,606,328	919,860,123	197,253,795	638,982,681	836,236,476	Opening balance	9,198,601	8,362,365
-	91,986,012	91,986,012	-	83,623,647	83,623,647	Shares issued during the year	919,860	836,236
197,253,795	814,592,340	1,011,846,135	197,253,795	722,606,328	919,860,123	Closing balance	10,118,461	9,198,601

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

19.3 Number of shares held by the associated undertakings as at December 31, are as follows:

	2013	2012
	(Number of shares)	
Adamjee Insurance Company Limited	29,914,034	28,641,486
Nishat Mills Limited	73,272,629	66,611,481
D.G. Khan Cement Company Limited	92,979,303	84,526,640
Din Leather (Private) Limited	6,305,758	5,732,508
Siddiqsons Limited	12,978,603	11,798,731
Mayban International Trust (Labuan) Berhad	202,369,225	183,972,923
	417,819,552	381,283,769

20. RESERVES

	Note	2013	2012
		(Rupees in '000)	
Share premium		9,924,438	9,924,438
Exchange translation reserve		784,004	545,530
Statutory reserve	20.1	17,700,494	15,550,960
General reserve		18,600,000	18,600,000
		47,008,936	44,620,928

20.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	Note	2013	2012
		(Rupees in '000)	
21. SURPLUS ON REVALUATION OF ASSETS- NET OF TAX			
Surplus / (deficit) arising on revaluation (net of tax) of:			
- fixed assets	21.1	11,300,011	9,425,431
- available-for-sale securities	21.2	1,775,441	4,235,907
Surplus / (deficit) arising on revaluation of assets of associated undertaking (net of tax)		1,732,181	961,932
		14,807,633	14,623,270
21.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 01		10,194,231	10,250,095
Surplus during the year		2,125,182	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(36,288)	(36,312)
Related deferred tax liability		(19,681)	(19,552)
		(55,969)	(55,864)
Surplus on revaluation of fixed assets as at December 31		12,263,444	10,194,231
Less: Related deferred tax liability on:			
Revaluation as at January 01		768,800	788,352
Surplus during the year		214,314	-
Incremental depreciation charged during the year transferred to profit and loss account		(19,681)	(19,552)
		963,433	768,800
		11,300,011	9,425,431

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
21.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax			
Federal Government Securities			
- Market Treasury Bills		(286,345)	510,739
- Pakistan Investment Bonds		105,418	2,738,854
Listed Securities			
- Shares / Certificates / Units		2,116,420	2,071,198
- Open Ended Mutual Funds		106,321	305,677
- Term Finance Certificates		27,470	97,645
		2,250,211	2,474,520
Sukuk Bonds		17,310	12,836
		2,086,594	5,736,949
Add: Related deferred tax (liability) / asset	17	(311,153)	(1,501,042)
		1,775,441	4,235,907
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring			
Government		6,488,041	5,129,432
Banks and financial institutions		2,347,585	3,585,501
Others		16,054,851	13,956,922
		24,890,477	22,671,855
22.2 Transaction-related contingent liabilities			
Guarantees in favour of			
Banks and financial institutions		20,933	-
Others		1,500,019	686,615
Suppliers' credit / payee guarantee		2,489,432	2,600,833
		4,010,384	3,287,448
22.3 Trade-related contingent liabilities		80,638,690	69,500,795
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		3,035,863	620,416
<p>These represent certain claims by third parties against the Bank, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.</p>			
22.5 Commitments to extend credit			
<p>The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.</p>			
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		72,216,751	25,546,035
Sale		79,959,563	21,697,634
22.7 Commitments for the acquisition of fixed assets		243,614	555,398
22.8 Other commitments			
FX options (notional amount)	23.1 & 23.2		
Purchase		216,344	-
Sale		216,344	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

22.9 Taxation

For assessment year 1988-89 through tax year 2012, the tax department disputed Bank's treatment on certain issues, where the Bank's appeals are pending at various appellate forums, entailing an additional tax liability of Rs.4,189 million (2012: Rs.9,639 million) which has been paid. Such issues inter alia principally include disallowance of expenses for non deduction of withholding tax and non availability of underlying records, provision for non performing loans, attribution of expenses to heads of income other than income from business and disallowance of credit for taxes paid in advance / deducted at source.

The Bank has filed appeals which are pending at various appellate forums. In addition, certain decisions made in favour of the Bank are being contested by the department at higher forums. No provision has been made in the financial statements regarding the aforesaid additional tax demand and already issued favourable decisions where the department is in appeal, as the management is of the view that the issues will be decided in the Bank's favour as and when these are taken up by the Appellate Authorities.

For tax years 2003 through 2006 and tax year 2011, aggregate liability of Rs 584 million has been adjudged under section 161 of the Income Tax Ordinance, 2001 on the grounds that Bank failed to deduct applicable withholding tax while making payments on certain accounts. Such liability has not been provided for in these financial statements as Bank's management is of the view that while departmental action for tax years 2003 through 2006 is barred by applicable limitation of time while the liability for tax year 2011 has been adjudged on an arbitrary basis.

23. DERIVATIVE INSTRUMENTS

Most corporate (counter parties) have either interest rate exposures arising from debt financing or excess liquidity or currency exposures arising out of commercial and business transactions. In the event of a shift in interest or foreign exchange (FX) rates, these corporate may incur higher borrowing costs or higher cash outflows that will adversely affect profitability

The Bank provided solutions to this conundrum through derivatives. Through this, counterparties will be hedging exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The Bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other Objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

Risk management is performed at:

- a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.
- b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

FIPS & MRM Division is responsible for coordinating for risk management of derivatives.

The risk management system generates marked to market risk numbers (i.e. VaR, PVBP, duration, etc.) of Interest rate derivative portfolio. These numbers are reported to senior management on a daily basis.

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risk associated with such transactions are minimal.

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has defined notional limits both for the portfolio and the counterparty.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

23.1 Product analysis

Counter parties	2013					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	2	216,344
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	2	216,344
Total						
Hedging	-	-	-	-	2	216,344
Market Making	-	-	-	-	2	216,344

Counter parties	2012					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-

23.2 Maturity analysis

Remaining maturity	2013				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative (Rupees in '000)	Positive	Net
FX Options					
Over 1 to 3 months	4	432,688	(1,062)	1,062	-
Remaining maturity					
FX Options					
Over 1 to 3 months	-	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	25,107,486	29,086,322
On investments in:		
Held for trading securities	15,541	571,924
Available for sale securities	38,442,248	37,623,042
Held to maturity securities	775,352	838,773
	39,233,141	39,033,739
On deposits with financial institutions	100,220	43,597
On securities purchased under resale agreements	731,612	256,648
On money at call	13,929	23,438
	<u>65,186,388</u>	<u>68,443,744</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	23,560,817	23,040,670
Securities sold under repurchase agreements	1,705,713	2,628,154
Other short-term borrowings	1,123,626	1,159,156
Discount, commission and brokerage	541,052	511,562
Others	288,225	163,954
	<u>27,219,433</u>	<u>27,503,496</u>
26. GAIN ON SALE OF SECURITIES - NET		
Federal Government Securities		
Market Treasury Bills	37,828	37,567
Pakistan Investment Bonds	193,812	25,516
Sukuk Bonds	-	3,000
Others		
- Shares and units- Listed	1,905,798	478,249
- Unlisted shares	-	313,073
Term Finance Certificates	27,943	-
	<u>2,165,381</u>	<u>857,405</u>
27. OTHER INCOME		
Rent on property / lockers	163,786	162,819
Net profit on sale of property and equipment	42,687	22,520
Bad debts recovered	60,522	48,817
Postal, SWIFT and other charges recovered	180,340	139,627
Switch and outsourcing revenue	3,544	10,676
	<u>450,879</u>	<u>384,459</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Note	2013	2012
(Rupees in '000)			
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		8,885,794	8,652,025
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(1,701,451)	(1,933,027)
- Post retirement medical benefits	36.7	187,792	187,136
- Employees' contributory benevolent scheme	36.7	55,269	40,192
- Employees' compensated absences	36.7	146,623	97,691
- Gratuity scheme		4,482	1,620
		(1,307,285)	(1,606,388)
Contributions to defined contribution plan - provident fund		198,213	188,417
Voluntary Separation Scheme	28.1	1,057,724	-
Non-executive directors' fees		31,674	33,431
Rent, taxes, insurance and electricity		2,598,334	2,490,503
Legal and professional charges		286,936	198,392
Communications		886,322	933,010
Repairs and maintenance		1,132,519	1,236,604
Stationery and printing		508,395	410,758
Advertisement and publicity		124,552	395,292
Cash transportation charges		481,736	461,504
Instrument clearing charges		124,667	187,471
Donations	28.2	25,000	31,162
Auditors' remuneration	28.3	36,494	22,941
Depreciation	11.2	1,557,534	1,394,788
Amortization of intangible asset	11.3	263,024	261,901
Travelling, conveyance and fuel		217,581	253,604
Subscription		27,886	27,316
Entertainment		119,944	112,379
Training Expenses		41,376	30,429
Petty Capital items		34,112	34,890
Card Related Expenses		238,147	147,490
Outsourced security guards, tea services and janitorial expenses etc		1,308,558	1,701,004
CNIC verification charges		52,716	60,276
Others		167,269	163,385
		<u>19,099,222</u>	<u>17,822,584</u>

28.1 During the year, the Bank announced a Voluntary Separation Scheme (VSS) for clerical & non-clerical employees. 571 employees of the Bank opted for retirement under this scheme. The above expense excludes the payments made under retirement funds.

28.2 None of the directors, executives or their spouses had any interest in the donee. Detail of donations made during the year is as follows:

	2013	2012
(Rupees in '000)		
Construction of houses in flood affected areas	-	12,088
Network equipment to PSWO	-	7,901
Hyderabad Relief & Rehabilitation Trust	-	3,832
Al-Shifa Trust, "Fighting Against Blindness"	-	1,000
Sindh Institute of Urology & Transplantation (SIUT)	-	5,000
Shoukat Khanum Memorial Trust	-	100
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation	-	1,241
Prime Minister's Earthquake Relief Fund 2013, for Baluchistan	25,000	
	<u>25,000</u>	<u>31,162</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
28.3 Auditors' remuneration		
Annual Audit fee	12,128	11,550
Fee for audit and other certifications of overseas branches	4,477	2,316
Fee for the audit of subsidiaries	2,428	1,390
Fee for the audit of overseas subsidiary	1,836	993
Tax and other sundry services	14,736	6,002
Out-of-pocket expenses	889	690
	36,494	22,941
29. OTHER CHARGES		
Provision for Penalties of State Bank of Pakistan	-	220,000
Workers welfare fund	646,123	641,155
VAT and Crop Insurance Levy - Sri Lanka	57,611	43,643
Education cess	4,693	-
Provision against balance with banks	-	(304,744)
Impairment loss on Non-Banking assets	210,428	-
Loss on sale of Non-Banking assets	10,099	-
	928,954	600,054
30. TAXATION		
For the year		
Current	15,220,551	9,646,189
Deferred	(4,318,658)	1,288,353
	10,901,893	10,934,542
Prior years		
Current	(2,137)	126,396
Deferred	-	-
	(2,137)	126,396
Share of tax of associates	82,173	36,171
	10,981,929	11,097,109
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	32,932,070	32,064,650
Tax rate	35%	35%
Tax on income	11,526,225	11,222,628
Tax effect on separate block of income (taxable at reduced rate)	(456,439)	(226,188)
Tax effect of permanent differences	-	87,907
Tax effect of prior years provisions	(2,137)	126,396
Others	(85,720)	(113,634)
Tax charge for the year	10,981,929	11,097,109
31. CREDIT RATING		
PACRA through its notification dated February 04, 2013, has upgraded bank's long term credit rating from AA+ [double A plus] to AAA [Triple A] and maintained short-term credit rating of A1+ [A one plus].		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013	2012
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX		
Profit before taxation	32,932,070	32,064,650
	(Number of shares)	
Weighted average number of shares outstanding during the year	1,011,846,135	1,011,846,135
	(Rupees)	
Basic and diluted earnings per share - pre tax	32.55	31.69
	(Number of shares)	
33. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX		
Profit after taxation attributable to ordinary shareholders	21,875,098	20,885,491
	(Number of shares)	
Weighted average number of shares outstanding during the year	1,011,846,135	1,011,846,135
	(Rupees)	
Basic and diluted earnings per share - after tax	21.62	20.64

Weighted average number of shares outstanding for 2012 have been restated to give effect of bonus shares issued during the year.

	Note	2013	2012
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	59,946,218	57,420,211
Balances with other banks	7	1,594,660	1,236,736
Overdrawn nostro accounts	15	(625,972)	(828,923)
		<u>60,914,906</u>	<u>57,828,024</u>
	Note	2013	2012
		(Numbers)	
35. STAFF STRENGTH			
Permanent		10,479	10,867
Temporary/contractual basis		81	71
Bank's own staff strength at the end of the year		<u>10,560</u>	<u>10,938</u>
Outsourced	35.1	1,549	1,996
Total staff strength		<u>12,109</u>	<u>12,934</u>

35.1 This excludes outsourced security guards and tea services staff.

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

- Pension fund (final salary plan) - funded
- Benevolent scheme - unfunded
- Post retirement medical benefits - unfunded
- Employees compensated absence - unfunded

The plan assets and defined benefit obligations are based in Pakistan.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2013.

The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012	2013	2012	2013	2012	2013	2012
	(%)							
Valuation discount rate	13	12	13	12	13	12	13	12
Expected rate of return on plan assets	13	12	-	-	-	-	-	-
Salary increase rate	11	9	11	9	11	9	11	9
Medical cost inflation rate	-	-	-	-	13	6	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the period, for returns over the entire life of the related obligation.

36.3 (Receivable from) / payable to defined benefit plans and other benefits

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2013	2012	2013	2012	2013	2012	2013	2012
		Restated		Restated		Restated		Restated	
		(Rupees in '000)							
Present value of defined benefit obligations	36.5	3,834,422	4,259,671	213,438	257,089	1,340,476	1,565,634	934,009	594,100
Fair value of plan assets	36.6	(9,688,629)	(22,688,154)	-	-	-	-	-	-
Net (receivable) / payable recognised as at the year-end		(5,854,207)	(18,428,483)	213,438	257,089	1,340,476	1,565,634	934,009	594,100

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medial obligation at December 31, 2013 would be Rs. 48.492 million (2012: Rs. 95.010 million) and Rs. 43.458 million (2012: Rs. 80.020 million) respectively.

36.4 Movement in balance (receivable) / payable

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2013	2012	2013	2012	2013	2012	2013	2012
		Restated		Restated		Restated		Restated	
		(Rupees in '000)							
Opening balance of (receivable) / payable		(18,428,483)	(15,280,967)	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Expense recognised	36.7	(1,701,451)	(1,933,027)	55,269	40,192	187,792	187,136	146,623	97,691
Employees' contribution		-	-	7,564	8,708	-	-	-	-
Benefits paid		-	-	(101,510)	(48,953)	(234,011)	(140,422)	(370,840)	(181,381)
Other Comprehensive income		(456,171)	(1,214,489)	(4,974)	(26,335)	(178,939)	129,950	564,126	141,920
Refund / withdrawn from fund		14,731,898	-	-	-	-	-	-	-
Closing balance of (receivable) / payable		(5,854,207)	(18,428,483)	213,438	257,089	1,340,476	1,565,634	934,009	594,100

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
(Rupees in '000)								
Present value of obligation as at January 01,	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Current service cost	53,739	53,499	13,826	15,230	13,773	15,697	36,447	62,860
Interest cost	451,727	518,091	24,760	33,670	173,835	171,439	49,042	34,831
Benefits paid	(990,554)	(554,210)	(101,510)	(48,953)	(234,011)	(140,422)	(370,840)	(181,381)
Loss / (gain) on settlement	(23,251)	-	24,247	-	184	-	61,134	-
-(Gain) / loss from change in demographic assumptions	22,670	-	5,824	-	39,965	-	(6,687)	-
-(Gain) / loss from change in financial assumptions	34,000	(143,163)	12,141	(14,400)	30,238	(47,162)	(62,754)	1,599
-Experience (gains) / losses	26,420	123,033	(22,939)	(11,935)	(249,142)	177,112	633,567	140,321
	83,090	(20,130)	(4,974)	(26,335)	(178,939)	129,950	564,126	141,920
Present value of obligation as at December 31,	3,834,422	4,259,671	213,438	257,089	1,340,476	1,565,634	934,009	594,100

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
(Rupees in '000)								
Net assets as at January 01,	22,688,154	19,543,388	-	-	-	-	-	-
Expected return on plan assets	2,183,666	2,504,617	-	-	-	-	-	-
Refund / withdrawn from fund	(14,731,898)	-	-	-	-	-	-	-
Benefits paid	(990,554)	(554,210)	-	-	-	-	-	-
Actuarial gain / (loss)	539,261	1,194,359	-	-	-	-	-	-
Net assets as at December 31,	9,688,629	22,688,154	-	-	-	-	-	-

36.7 Charge for defined benefit plans and other benefits

The following amounts have been charged to the profit and loss account in respect of defined benefit plans and other benefits:

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
(Rupees in '000)								
Current service cost	53,739	53,499	13,826	15,230	13,773	15,697	36,447	62,860
Interest cost	451,727	518,091	24,760	33,670	173,835	171,439	49,042	34,831
Expected return on plan assets	(2,183,666)	(2,504,617)	-	-	-	-	-	-
Contributions employees	-	-	(7,564)	(8,708)	-	-	-	-
Loss / (gain) on settlement	(23,251)	-	24,247	-	184	-	61,134	-
	(1,701,451)	(1,933,027)	55,269	40,192	187,792	187,136	146,623	97,691

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 6.129 million (2012: Rs. 13.369 million) and Rs. 5.496 million (2012: Rs. 11.207 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
(Rupees in '000)								
Actual return on plan assets	2,722,927	3,698,976	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2013		2012	
	Fair value (Rupees in '000)	Percentage (%)	Fair value (Rupees in '000)	Percentage (%)
Term deposit receipts	-	-	15,528,023	68.44
Listed equity shares	5,322,463	54.94	3,610,176	15.91
Open ended mutual funds units	264,434	2.73	234,619	1.03
Term Finance certificates	-	-	198,923	0.88
Cash and bank balances	4,101,732	42.33	3,116,413	13.74
Fair value of plan total assets	9,688,629	100	22,688,154	100

36.9.1 Fair value of the Bank's financial instruments included in plan assets:

Shares of MCB	4,368,136	2,962,492
TDRs with MCB	-	15,528,023
Bank balance with MCB	4,101,732	3,100,321
	8,469,868	21,590,836

36.10 Other relevant details of above funds are as follows:

36.10.1 Pension Fund

	2013	2012	2011	2010	2009
	(Rupees in '000)				
Present value of defined benefit obligation	3,834,422	4,259,671	4,262,421	4,217,507	4,072,653
Fair value of plan assets	(9,688,629)	(22,688,154)	(19,543,388)	(19,303,801)	(18,254,967)
(Surplus) / deficit	(5,854,207)	(18,428,483)	(15,280,967)	(15,086,294)	(14,182,314)
Actuarial gain / (loss) on obligation	(83,090)	20,130	(190,661)	(191,752)	(368,717)
Actuarial gain / (loss) on assets	539,261	1,194,359	(1,529,469)	(852,657)	1,400,023
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	213,438	257,089	283,477	314,414	299,388
Fair value of plan assets	-	-	-	-	-
	213,438	257,089	283,477	314,414	299,388
Actuarial gain / (loss) on obligation	4,974	26,335	19,979	(25,282)	(53,700)
Actuarial gain / (loss) on assets	-	-	-	-	-
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,340,476	1,565,634	1,388,970	1,320,933	1,287,348
Fair value of plan assets	-	-	-	-	-
	1,340,476	1,565,634	1,388,970	1,320,933	1,287,348
Actuarial gain / (loss) on obligation	178,939	(129,950)	(19,198)	30,671	2,101

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013	2012	2011	2010	2009
	(Rupees in '000)				
36.10.4 Compensated absences					
Present value of defined benefit obligation	934,009	594,100	535,870	555,792	541,116
Fair value of plan assets	-	-	-	-	-
	<u>934,009</u>	<u>594,100</u>	<u>535,870</u>	<u>555,792</u>	<u>541,116</u>
Actuarial gain / (loss) on obligation	(564,126)	(141,920)	(75,701)	(81,138)	(5,687)

36.11 No contribution to the pension fund is expected in the next year.

37. DEFINED CONTRIBUTION PLAN

37.1 MCB Bank Limited(Holding company)

The Bank operates an approved contributory provident fund for 7,306 (2012: 7,919) employees where contributions are made by the Bank and employees at 8.33% per annum (2012: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 197.721 million (2012: Rs. 188.417 million) in respect of this fund.

37.2. MCB Financial Services Limited

The company operates the provident fund scheme covering all permanent employees. Contribution at the rate of 8.33% per annum are made both by the Company and employees to the fund.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Bank as follows:

Note	President / Chief Executive		Directors		Executives	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Fees	-	-	31,674	33,431	-	-
Managerial remuneration	23,013	29,355	-	-	1,189,283	1,027,331
Bonus and others	16,913	17,576	-	-	562,447	552,921
Settlement benefits	-	23,831	-	-	-	-
Retirement benefits	1,892	-	-	-	79,375	67,863
Rent and house maintenance	10,215	10,142	-	-	407,956	362,302
Utilities	2,270	2,254	-	-	90,150	81,118
Medical	-	-	-	-	26,506	22,488
Conveyance	-	-	-	-	455,633	414,912
38.1	<u>54,303</u>	<u>83,158</u>	<u>31,674</u>	<u>33,431</u>	<u>2,811,350</u>	<u>2,528,935</u>
Number of persons	1	2	12	12	918	821

38.1. Comparative figures includes remuneration of ex-president and current president from December 22, 2012.

38.2. The Chairman has been provided with free use of the Bank maintained car. In addition to the above, the Chief Executive and certain executives are provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits 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 loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to these consolidated financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Inter segment/ group elimination	Total
(Rupees in '000)							
2013							
Total income	171,289	7,970,392	33,999,672	7,530,014	455,614	(54,637)	50,072,344
Total expenses	(54,381)	(1,192,313)	(14,584,308)	(1,109,566)	(254,343)	54,637	(17,140,274)
Income tax expense	-	-	-	-	-	-	(10,981,929)
Net income	116,908	6,778,079	19,415,364	6,420,448	201,271	-	21,950,141
Segment assets - (Gross of NPL's provision)	483,485	494,892,926	697,975,826	203,531,529	1,504,746	(563,805,587)	834,582,925
Advance taxation (payments less provisions)	-	-	-	-	-	-	6,145,527
Total assets	483,485	494,892,926	697,975,826	203,531,529	1,504,746	(563,805,587)	840,728,452
Segment non performing loans	-	-	9,600,755	13,666,978	-	-	23,267,733
Segment specific provision required	-	-	9,565,097	9,885,051	-	-	19,450,148
Segment liabilities	49,592	469,547,401	623,681,467	171,643,706	198,637	(563,805,587)	701,315,216
Provision for taxation	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	4,500,293
Total liabilities - net	49,592	469,547,401	623,681,467	171,643,706	198,637	(563,805,587)	705,815,509
Segment return on assets (ROA) (%)	35.43%	1.61%	4.94%	3.89%	30.28%	-	-
Segment cost of fund (%)	-	9.27%	5.41%	8.94%	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Inter segment/ group elimination	Total
(Rupees in '000)							
2012							
Total income	130,022	3,574,615	38,830,448	7,541,138	484,968	(79,788)	50,481,403
Total expenses	(50,448)	(655,746)	(15,196,367)	(2,635,887)	(254,738)	79,788	(18,713,398)
Income tax expense	-	-	-	-	-	-	(11,097,109)
Net income	79,574	2,918,869	23,634,081	4,905,251	230,230	-	20,670,896
Segment assets - (Gross of NPL's provision)	303,924	432,586,260	643,766,247	202,698,772	1,415,967	(497,902,518)	782,868,652
Advance taxation (payments less provisions)	-	-	-	-	-	-	10,969,681
Total assets	303,924	432,586,260	643,766,247	202,698,772	1,415,967	(497,902,518)	793,838,333
Segment non performing loans	-	-	11,220,265	14,341,509	-	-	25,561,774
Segment specific provision required	-	-	11,264,958	11,115,129	-	-	22,380,087
Segment liabilities	26,424	417,756,714	558,905,159	176,299,347	129,239	(497,902,518)	655,214,365
Deferred tax liability	-	-	-	-	-	-	9,768,871
Total liabilities - net	26,424	417,756,714	558,905,159	176,299,347	129,239	(497,902,518)	664,983,236
Segment return on assets (ROA) (%)	42.78%	0.83%	6.14%	3.94%	34.25%	-	-
Segment cost of fund (%)	-	11.36%	6.10%	10.71%	-	-	-

Total income = Net markup income + non-markup income

Total expenses = Non Mark up expenses + Provisions

Segment assets and liabilities include inter segment balances.

Transactions between reportable segments are based on an appropriate transfer pricing mechanism using agreed rates.

Segment cost of funds have been computed based on the average balances.

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Group has related party relationship with its associates, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in associates are stated in Annexure I (note 5 & 6) to these consolidated financial statements.

The Group enters into transactions with related parties in the normal course of business. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to Chief Executive, Directors and Executives is disclosed in note 38 to these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	Directors		Associates		Other related parties		Key management	
	2013	2012	2013	2012	2013	2012	2013	2012
(Rupees in '000)								
A. Balances								
Deposits								
Opening balance	2,863,874	4,398,756	976,642	766,387	26,850,559	25,393,804	46,039	50,178
Received during the year	4,273,706	4,888,505	18,859,601	11,121,938	61,543,210	38,267,581	1,176,959	1,168,053
Withdrawn during the year	(6,205,915)	(6,423,387)	(18,857,835)	(10,911,683)	(73,903,366)	(36,810,826)	(1,097,801)	(1,172,192)
Closing balance	931,665	2,863,874	978,408	976,642	14,490,403	26,850,559	125,197	46,039
Advances (secured)								
Opening balance	2,795	-	-	-	98,056	81,302	53,865	49,743
Additions / adjustments during the year	-	3,367	-	-	406,354	415,889	38,731	12,436
Repaid during the year	(610)	(572)	-	-	(387,826)	(399,135)	(13,669)	(8,314)
Closing balance	2,185	2,795	-	-	116,584	98,056	78,927	53,865
Outstanding Balance of credit card	545	852	-	-	2	-	2,635	951
Receivable from Pension fund	-	-	-	-	5,854,207	18,428,483	-	-
B. Other transactions (including profit and loss related transactions)								
Outstanding commitments and contingent liabilities	-	-	10,805	8,365	90,171	819,873	-	-
Forward foreign exchange contracts (Notional) - outstanding	-	-	-	-	5,623,351	-	-	-
Unrealized gain on forward foreign exchange contracts - outstanding	-	-	-	-	19,424	-	-	-
Forward contracts during the year	-	-	-	-	34,665,422	-	-	-
Repo deals during the year	-	-	39,742,107	-	-	-	-	-
Borrowings	-	-	-	-	3,159,738	-	-	-
Trade payable	-	-	7,594	14,321	27,498	7,574	-	-
Investments in units	-	-	-	-	297,000	608,248	-	-
Redemption of units	-	-	-	-	347,268	488,615	-	-
Retention money	-	-	-	-	3,612	-	-	-
Markup payable	-	504	405	12,645	1,071,287	1,045,622	80	541
Other receivable	-	-	-	-	210,076	88,871	2,819	1,980
Markup Receivable	-	-	-	-	5,121	2,237	-	-
Receivable for other expenses	-	-	-	-	-	-	-	-
Trade Debts	-	-	280	314	1,345	-	-	-
Outstanding Investments in mutual funds	-	-	-	-	877,915	4,994,256	-	-
Divestment in Khushali Bank Limited	-	-	-	-	-	300,000	-	-
Insurance premium paid-net of refund	-	-	247,803	309,472	4,124	1,471	-	-
Insurance claim settled	-	-	95,645	39,193	-	-	-	-
Markup income	-	-	-	-	8,216	7,780	7,475	4,153
Rent Income Received	-	-	2,025	2,430	-	-	-	-
Dividend Income	-	-	126,118	54,061	159,570	408,639	-	-
Capital gain / (loss)	-	-	-	-	303,215	(33,916)	-	-
Commission income	-	-	751,069	509,698	14,410	10,204	-	-
Management fee	-	-	-	-	503,526	585,668	-	-
Reimbursement of expenses	-	-	-	-	1,571	929	-	-
Brokerage expense	-	-	-	-	-	354	-	-
Proceeds from sale of fixed assets	-	-	-	-	57,970	-	2,896	562
Gain / (loss) on sale of fixed assets	-	-	-	-	-	-	(2,307)	-
ATM Outsourcing Expense	-	-	161,486	131,972	-	-	-	-
Service fee and IBFT	-	-	43,843	-	-	-	-	-
Switch Expense	-	-	-	-	-	-	-	-
Cash sorting expenses	-	-	-	-	49,915	42,528	-	-
Stationery Expenses	-	-	-	-	207,063	194,565	-	-
Security guard expenses	-	-	-	-	298,394	255,033	-	-
Remuneration and non-executive directors fee	85,977	116,589	-	-	-	-	377,743	373,430
Mark-up expense	103,394	321,897	71,275	55,657	2,080,760	2,983,890	2,317	3,333
Clearing expenses paid to NIFT	-	-	-	-	124,315	115,958	-	-
Contribution to provident fund	-	-	-	-	202,355	188,257	-	-
Gas Charges	-	-	-	-	10,939	12,770	-	-
Miscellaneous expenses and payments	-	-	177,089	119,432	124,196	45,181	-	-

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel-III Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates) and also on a stand alone basis. Consolidation for capital adequacy is based on consolidated financial statements of MCB Bank Limited and its subsidiaries and associates. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The Bank manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and Capital Adequacy Ratio

The State Bank of Pakistan through its BSD Circular No. 07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ended on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.10 billion paid up capital (net of losses) by the end of the financial year 2013. The paid up capital of the Bank for the year ended December 31, 2013 stands at Rs. 10.118 billion and is in compliance with the SBP requirement for the said year.

The capital adequacy ratio of the Bank was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its circular BPRD Circular No. 06 of 2013 dated August 15, 2013. These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019. Under Basel III guidelines banks are required to maintain the following ratios on an ongoing basis:

Phase-in arrangement and full implementation of the minimum capital requirements:

Sr. No	Ratio	Year End						As of Dec 31
		2013	2014	2015	2016	2017	2018	31-12-2019
1	CET1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2	ADT-1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3	Tier 1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4	Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	*CCB Total Capital	-	-	0.25%	0.65%	1.275%	1.90%	2.50%
6	plus CCB	10.00%	10.00%	10.25%	10.65%	11.275%	11.90%	12.50%

- *(Consisting of CET1 only)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Bank's regulatory capital is analysed into three tiers.

- Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements, minority interest and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer to note 42.3)
- Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and Share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer to note 42.3)
- Tier 2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), Net of tax reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % of the balance and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer to note 42.3)

The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

Basel-III Framework enables a more risk-sensitive regulatory capital calculation to promote long term viability of the Bank. As the Bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank remained compliant with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

42.3 Capital Structure

	2013	2012
	Amounts subject to Pre - Basel III treatment	
	(Rupees in '000)	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1. Fully Paid-up Capital	10,118,461	9,198,601
2. Balance in Share Premium Account	9,924,438	9,924,438
3. Reserve for issue of Bonus Shares	-	-
4. General/ Statutory Reserves	36,300,494	34,150,960
5. Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
6. Unappropriated profits	43,038,094	37,530,955
7. Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	489,671	501,256
8. CET 1 before Regulatory Adjustments	99,871,158	91,306,210
Common Equity Tier 1 capital: Regulatory adjustments		
9. Goodwill (net of related deferred tax liability)	82,127	82,127
10. All other intangibles (net of any associated deferred tax liability)	1,048,023	824,362
11. Shortfall of provisions against classified assets	-	-
12. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
13. Defined-benefit pension fund net assets	3,805,233	-
14. Reciprocal cross holdings in CET1 capital instruments	-	10,777
15. Cash flow hedge reserve	-	-
16. Investment in own shares/ CET1 instruments	-	-
17. Securitization gain on sale	-	-
18. Capital shortfall of regulated subsidiaries	-	-
19. Deficit on account of revaluation from bank's holdings of property/ AFS	-	-
20. Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
21. Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of (amount above 10% threshold)	-	-
22. Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
23. Amount exceeding 15% threshold	-	-
24. of which: significant investments in the common stocks of financial entities	-	-
25. of which: deferred tax assets arising from temporary differences	-	-
26. National specific regulatory adjustments applied to CET1 capital	-	-
27. Investment in TFCs of other banks exceeding the prescribed limit	-	-
28. Any other deduction specified by SBP (mention details)	-	-
29. Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions*	2,780,942	2,132,383
30. Total regulatory adjustments applied to CET1	3,911,092	3,049,649
Common Equity Tier 1	95,960,066	88,256,561
Additional Tier 1 (AT 1) Capital		
31. Qualifying Additional Tier-1 instruments plus any related share premium	-	-
32. of which: Classified as equity	-	-
33. of which: Classified as liabilities	-	-
34. Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	-
35. of which: instrument issued by subsidiaries subject to phase out	-	-
36. AT1 before regulatory adjustments	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

		2013	2012
		Amounts subject to Pre - Basel III treatment	
(Rupees in '000)			
Additional Tier 1 Capital: regulatory adjustments			
37	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	87,817	-
38	Investment in own AT1 capital instruments	-	-
39	Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-
40	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
41	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
42	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital*	2,693,125	2,132,383
43	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
44	Total of Regulatory Adjustment applied to AT1 capital	2,780,942	2,132,383
45	Additional Tier 1 capital		
46	Additional Tier 1 capital recognized for capital adequacy (b)	-	-
	Tier 1 Capital (CET1 + admissible AT1) (c=a+b)	95,960,066	88,256,561
Tier 2 Capital			
47	Qualifying Tier 2 capital instruments under Basel III	-	-
48	Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	-
49	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	-
50	of which: instruments issued by subsidiaries subject to phase out	-	-
51	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	499,145	428,936
52	Revaluation Reserves	6,663,435	7,834,984
53	of which: Revaluation reserves on Property	5,128,943	4,624,551
54	of which: Unrealized Gains/Losses on AFS	1,534,492	3,210,433
55	Foreign Exchange Translation Reserves	784,004	545,530
56	Undisclosed/Other Reserves (if any)	-	-
57	T2 before regulatory adjustments	7,946,584	8,809,450
Tier 2 Capital: regulatory adjustments			
58	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	2,693,125	2,132,383
59	Reciprocal cross holdings in Tier 2 instruments	-	-
60	Investment in own Tier 2 capital instrument	-	-
61	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
62	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
63	Amount of Regulatory Adjustment applied to T2 capital	2,693,125	2,132,383
64	Tier 2 capital (T2)	5,253,459	6,677,067
65	Tier 2 capital recognized for capital adequacy	5,253,459	6,677,067
66	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-
67	Total Tier 2 capital admissible for capital adequacy (d)	5,253,459	6,677,067
	TOTAL CAPITAL (T1 + admissible T2) (e=c+d)	101,213,525	94,933,628

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

		2013	2012
		Amounts subject to Pre - Basel III treatment	
(Rupees in '000)			
	Total Risk Weighted Assets (RWA)	(i=f+g+h) 456,836,518	426,333,702
68	Total Credit Risk Weighted Assets	(f) 313,106,728	273,349,110
69	Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment		
70	of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-
71	of which: deferred tax assets	-	-
72	of which: Defined-benefit pension fund net assets	3,805,233	-
73	of which: Others	-	-
74	Total Market Risk Weighted Assets	(g) 50,464,006	62,530,913
75	Total Operational Risk Weighted Assets	(h) 93,265,784	90,453,679
Capital Ratios and buffers (in percentage of risk weighted assets)			
76	CET1 to total RWA	(a/i) 21.01%	20.70%
77	Tier-1 capital to total RWA	(c/i) 21.01%	20.70%
78	Total capital to RWA	(e/i) 22.16%	22.27%
79	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-
80	of which: capital conservation buffer requirement	-	-
81	of which: countercyclical buffer requirement	-	-
82	of which: D-SIB or G-SIB buffer requirement	-	-
83	CET1 available to meet buffers (as a percentage of risk weighted assets)	-	-
National minimum capital requirements prescribed by SBP			
84	CET1 minimum ratio	5.00%	-
85	Tier 1 minimum ratio	6.50%	-
86	Total capital minimum ratio	10.00%	10.00%
Amounts below the thresholds for deduction (before risk weighting)			
87	Non-significant investments in the capital of other financial entities	-	-
88	Significant investments in the common stock of financial entities	-	-
89	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
90	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	499,145	428,936
91	Cap on inclusion of provisions in Tier 2 under standardized approach	3,913,834	3,416,864
92	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
93	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

*As the Bank has not Tier 1 capital, deduction was made from CET1.

**2012 based on BASEL II framework.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

42.4 Capital Structure Reconciliation

Step 1

	As per published financial statements	Under regulatory scope of consolidation
	2013	2013
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	59,946,218	59,946,218
Balanced with other banks	1,594,660	1,594,660
Lending to financial institutions	1,224,638	1,224,638
Investments	453,808,345	453,808,345
Advances	248,521,792	248,521,792
Operating fixed assets	29,005,931	29,005,931
Deferred tax assets	-	-
Other assets	27,176,720	27,176,720
Total assets	821,278,304	821,278,304
Liabilities & Equity		
Bills payable	10,138,726	10,138,726
Borrowings	38,660,405	38,660,405
Deposits and other accounts	632,309,094	632,309,094
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	4,500,293	4,500,293
Other liabilities	20,206,991	20,206,991
Total liabilities	705,815,509	705,815,509
Share capital	10,118,461	10,118,461
Reserves	47,008,936	47,008,936
Unappropriated profit	43,038,094	43,038,094
Minority Interest	489,671	489,671
Surplus on revaluation of assets	14,807,633	14,807,633
Total Equity	115,462,795	115,462,795
Total liabilities & equity	821,278,304	821,278,304

Step 2

	As per published financial statements	Under regulatory scope of consolidation	Ref
	2013	2013	
	(Rupees in '000)		
Assets			
Cash and balances with treasury banks	59,946,218	59,946,218	
Balanced with other banks	1,594,660	1,594,660	
Lending to financial institutions	1,224,638	1,224,638	
Investments	453,808,345	453,808,345	
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold	-	-	a
of which: significant capital investments in financial sector entities exceeding regulatory threshold	-	102,566	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument	-	-	d
of which: others	-	-	e
Advances	248,521,792	248,521,792	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	499,145	499,145	g

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Step 2	As per published	Under	Ref
	financial	regulatory	
	statements	scope of	
	2013	2013	
	(Rupees in '000)		
Fixed Assets	29,005,931	29,005,931	
of which: Intangibles	1,048,023	1,048,023	k
of which: Goodwill	82,127	82,127	j
Deferred Tax Assets	-	-	
of which: DTAs excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	27,176,720	27,176,720	
of which: Defined-benefit pension fund net assets	5,854,207	5,854,207	l
Total assets	821,278,304	821,278,304	
Liabilities & Equity			
Bills payable	10,138,726	10,138,726	
Borrowings	38,660,405	38,660,405	
Deposits and other accounts	632,309,094	632,309,094	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	4,500,293	4,500,293	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	2,048,974	2,048,974	q
of which: other deferred tax liabilities	2,451,319	2,451,319	r
Other liabilities	20,206,991	20,206,991	
Total liabilities	705,815,509	705,815,509	
Share capital	20,042,899	20,042,899	
of which: amount eligible for CET1	20,042,899	20,042,899	s
of which: amount eligible for AT1	-	-	t
Reserves	37,084,498	37,084,498	
of which: portion eligible for inclusion in CET1 (general reserve & statutory reserve)	36,300,494	36,300,494	u
of which: portion eligible for inclusion in Tier 2	784,004	784,004	v
Unappropriated profit	43,038,094	43,038,094	w
Minority Interest	489,671	489,671	
of which: portion eligible for inclusion in CET1	489,671	489,671	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Surplus on revaluation of assets	14,807,633	14,807,633	
of which: Revaluation reserves on Property	11,397,651	11,397,651	
of which: Unrealized Gains/Losses on AFS	3,409,982	3,409,982	aa
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total Equity	115,462,795	115,462,795	
Total liabilities & Equity	821,278,304	821,278,304	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Step 3

Component of
regulatory
capital reported
by bank
2013
(Rupees in '000)

Source based
on reference
number from
step 2
2013

	Component of regulatory capital reported by bank 2013 (Rupees in '000)	Source based on reference number from step 2 2013
Common Equity Tier 1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital	10,118,461	(s)
2 Balance in Share Premium Account	9,924,438	
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	36,300,494	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/(losses)	43,038,094	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	489,671	(x)
8 CET 1 before Regulatory Adjustments	99,871,158	
Common Equity Tier 1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	82,127	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	1,048,023	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r)} * 0%
13 Defined-benefit pension fund net assets	-	{(l) - (q)} * 0%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of property/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 Investment in TFCs of other banks exceeding the prescribed limit	-	
28 Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	2,780,942	
30 Total regulatory adjustments applied to CET1	3,911,092	
Common Equity Tier 1	95,960,066	
Additional Tier 1 (AT 1) Capital		
31 Qualifying Additional Tier-1 instruments plus any related share premium	-	
32 of which: Classified as equity	-	(t)
33 of which: Classified as liabilities	-	(m)
34 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	(y)
35 of which: instrument issued by subsidiaries subject to phase out	-	
36 AT1 before regulatory adjustments	-	
Additional Tier 1 Capital: regulatory adjustments		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Step 3	Component of regulatory capital reported by bank 2013 (Rupees in '000)	Source based on reference number from step 2 2013
37	87,817	
38	-	
39	-	
40		
41	-	(ac)
42		
43	-	(ad)
44	2,693,125	
45	2,780,942	
46	-	
47	95,960,066	
Tier 2 Capital		
48	-	
49	-	(n)
50	-	(z)
51	-	
52	499,145	(g)
53	6,663,435	
54	5,128,943	portion of (aa)
55	1,534,492	(v)
56	784,004	
57	-	
58	7,946,584	
59		
60	2,693,125	
61	-	
62	-	(ae)
63	-	(af)
64	2,693,125	
65	5,253,459	
66	5,253,459	
67	-	
68	5,253,459	
TOTAL CAPITAL (T1 + admissible T2)		
	101,213,525	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

42.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	MCB Bank Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	MCB
3	Governing law(s) of the instrument	Law applicable in Pakistan
	Regulatory treatment	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo/ group/ group & solo	Group & standalone
7	Instrument type	Common Shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)	95,960,066
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	1947
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/ coupon	Not applicable
18	coupon rate and any related index/ benchmark	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

42.6 Capital Adequacy

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

	Capital Requirements		Risk Weighted Assets	
	2013	2012	2013	2012
	(Rupees in '000)			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	16,788,315	14,250,470	153,766,068	128,103,672
Banks / DFIs	609,648	626,863	5,583,831	5,635,142
Public sector entities	830,304	26,627	7,604,851	239,360
Sovereigns / cash & cash equivalents	726,231	488,937	6,651,630	4,395,264
Loans secured against residential property	146,856	164,671	1,345,071	1,480,301
Retail	1,664,298	1,769,857	15,243,489	15,910,016
Past due loans	359,771	373,543	3,295,180	3,357,942
Operating fixed assets	3,043,503	2,585,007	27,875,789	23,237,753
Other assets	2,349,527	4,079,297	21,519,586	36,789,388
	26,518,453	24,365,272	242,885,495	219,148,838
Off-Balance Sheet				
Non-market related	7,275,375	5,764,578	66,635,984	51,820,295
Market related	123,392	24,642	1,130,165	221,521
	7,398,768	5,789,220	67,766,149	52,041,816
Equity Exposure Risk in the Banking Book				
Listed	169,118	201,973	1,548,975	1,815,624
Unlisted	98,930	38,137	906,109	342,832
	268,048	240,110	2,455,084	2,158,456
Total Credit Risk	34,185,269	30,394,602	313,106,728	273,349,110
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,655,717	2,962,205	33,196,459	37,027,567
Equity position risk	1,204,219	1,762,470	15,052,742	22,030,876
Foreign exchange risk	177,184	277,798	2,214,805	3,472,470
Total Market Risk	4,037,120	5,002,473	50,464,006	62,530,913
Operational Risk				
Capital requirement for operational risks	7,461,263	7,236,294	93,265,784	90,453,679
Total	45,683,652	42,633,369	456,836,518	426,333,702
			2013	2012
			(Rupees in '000)	
Capital Adequacy Ratio				
Total eligible regulatory capital held	(e)		101,213,525	94,933,628
Total Risk Weighted Assets	(i)		456,836,518	426,333,702
Capital Adequacy Ratio	(e) / (i)		22.16%	22.27%

* As SBP capital requirement of 10% (10% in 2012) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43. RISK MANAGEMENT

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Bank's risk management structure is based on the following five guiding principles:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC), the senior management and its relevant committees, i.e. the Risk Management Committee (RMC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank.. The framework combines core policies, procedures and process designs with broad oversight and is supported by an efficient monitoring mechanism across the bank to ensure that risks are kept within an acceptable level.

The Bank ensures that not only the relevant risks are identified but their implications are also considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate borrowers, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It stems from Bank's both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and reviews clients' performance on an ongoing process.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-II requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems, the Bank has developed a system and all its corporate and commercial borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

In order to manage bank's credit risk, following policies and procedures are in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

As a part of credit assessment Bank uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non-Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.5 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non-performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

Credit Risk stress testing is a regular exercise. Bank's all credit exposures including funded and non-funded facilities are subject to stress test. This exercise is conducted on a quarterly basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

	2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	3,057,169	1.14	52,085,320	8.24	2,365,835	0.89
Mining and quarrying	5,000	0.00	1,233,151	0.20	2,136,618	0.80
Textile	41,120,102	15.32	2,436,221	0.39	9,611,601	3.62
Chemical, Petroleum and pharmaceuticals	36,888,331	13.74	21,103,199	3.34	31,780,773	11.97
Cement	894,170	0.33	830,008	0.13	1,596,090	0.60
Sugar	15,537,248	5.79	2,314,203	0.37	1,474,420	0.56
Footwear and leather garments	4,682,822	1.74	386,090	0.06	1,718,371	0.65
Automobile and transportation equipment	586,303	0.22	2,063,712	0.33	1,532,315	0.58
Electronics and electrical appliances	2,935,545	1.09	534,111	0.08	1,365,650	0.51
Construction	714,696	0.27	3,181,489	0.50	3,640,172	1.37
Power (electricity), gas, water, sanitary	26,224,336	9.77	37,509,966	5.93	1,651,373	0.62
Wholesale and Retail Trade	21,688,938	8.08	29,441,765	4.66	1,639,982	0.62
Exports / imports	8,644,043	3.22	1,283,752	0.20	4,035,185	1.52
Transport, storage and communication	26,260,405	9.78	2,914,036	0.46	9,164,468	3.45
Financial	2,120,471	0.79	10,286,017	1.63	143,262,515	53.97
Insurance	60,415	0.02	1,617,467	0.26	11,282	0.00
Services	6,480,676	2.41	97,366,136	15.40	19,073,590	7.19
Individuals	13,851,499	5.16	351,396,962	55.57	43,385	0.02
Others	56,718,916	21.13	14,325,489	2.25	29,324,405	11.06
	<u>268,471,085</u>	<u>100</u>	<u>632,309,094</u>	<u>100</u>	<u>265,428,030</u>	<u>100</u>

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Agriculture, forestry, hunting and fishing	2,474,463	0.94	46,722,076	8.57	1,362,196	0.95
Mining and quarrying	510,819	0.19	762,435	0.14	1,957,783	1.36
Textile	37,796,532	14.39	2,839,175	0.52	9,675,745	6.72
Chemical, Petroleum and pharmaceuticals	13,536,095	5.15	3,972,062	0.73	24,413,483	16.97
Cement	1,340,198	0.51	545,143	0.10	812,238	0.56
Sugar	11,373,856	4.33	1,246,046	0.23	1,126,804	0.78
Footwear and leather garments	3,351,288	1.28	185,094	0.03	1,211,665	0.84
Automobile and transportation equipment	350,182	0.13	1,655,254	0.30	883,112	0.61
Electronics and electrical appliances	2,581,319	0.98	1,442,975	0.26	1,133,798	0.79
Construction	512,732	0.20	2,504,747	0.46	1,718,908	1.19
Power (electricity), gas, water, sanitary	29,778,732	11.34	10,474,169	1.92	5,596,136	3.89
Wholesale and Retail Trade	16,155,626	6.15	31,693,748	5.82	1,669,454	1.16
Exports / imports	4,374,769	1.67	1,155,293	0.21	3,464,399	2.41
Transport, storage and communication	60,303,139	22.96	2,963,980	0.54	8,605,809	5.98
Financial	2,830,378	1.08	7,456,797	1.37	43,797,027	30.44
Insurance	100,145	0.04	1,933,344	0.35	9,428	0.01
Services	8,408,320	3.20	103,086,339	18.92	15,323,823	10.65
Individuals	14,525,679	5.52	304,770,547	55.91	27,556	0.01
Others	52,293,262	19.95	19,578,867	3.62	21,090,217	14.68
	<u>262,597,534</u>	<u>100</u>	<u>544,988,091</u>	<u>100</u>	<u>143,879,581</u>	<u>100</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

	2013					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	50,019,400	18.63	47,467,154	7.51	82,894,499	31.23
Private	218,451,685	81.37	584,841,940	92.49	182,533,531	68.77
	<u>268,471,085</u>	<u>100</u>	<u>632,309,094</u>	<u>100</u>	<u>265,428,030</u>	<u>100</u>

	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	61,853,400	23.55	14,204,857	2.61	64,122,798	44.57
Private	200,744,134	76.45	530,783,234	97.39	79,756,783	55.43
	<u>262,597,534</u>	<u>100</u>	<u>544,988,091</u>	<u>100</u>	<u>143,879,581</u>	<u>100</u>

43.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2013		2012	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	254,545	241,739	312,154	312,154
Mining and quarrying	-	-	-	-
Textile	4,122,275	4,079,378	5,209,642	5,198,660
Chemical and pharmaceuticals	183,434	183,434	196,304	196,304
Cement	130,950	130,950	295,603	295,603
Sugar	428,224	428,224	1,035,221	1,035,221
Footwear and leather garments	85,595	85,595	103,951	103,951
Automobile and transportation equipment	26,155	25,337	54,984	47,781
Electronics and electrical appliances	374,522	374,522	451,436	451,436
Construction	118,363	118,363	127,365	127,365
Power (electricity), gas, water, sanitary	-	-	180,086	90,070
Wholesale and retail trade	3,490,188	3,401,412	4,075,703	4,075,582
Exports / imports	548,372	548,017	596,963	596,796
Transport, storage and communication	593,413	589,033	645,059	335,919
Financial	814,600	814,600	1,107,782	918,893
Services	594,830	590,498	721,978	721,978
Individuals	3,188,170	3,117,058	3,393,709	3,265,164
Others	8,314,097	4,721,988	7,053,834	4,607,210
	<u>23,267,733</u>	<u>19,450,148</u>	<u>25,561,774</u>	<u>22,380,087</u>

43.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	639,825	-	-	-
Private	22,627,908	19,450,148	25,561,774	22,380,087
	<u>23,267,733</u>	<u>19,450,148</u>	<u>25,561,774</u>	<u>22,380,087</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.1.1.5 Geographical segment analysis

	2013			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees in '000)			
Pakistan	32,302,923	803,308,163	114,654,666	259,694,660
South Asia	327,628	11,314,474	334,864	5,188,358
Middle East	251,975	5,777,206	260,143	545,012
Eurasia(Azerbaijan)	49,544	878,461	213,122	-
	<u>32,932,070</u>	<u>821,278,304</u>	<u>115,462,795</u>	<u>265,428,030</u>
	2012 (restated)			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees in '000)			
Pakistan	31,532,582	757,964,681	105,830,630	138,410,411
South Asia	305,084	8,500,160	286,887	5,012,636
Middle East	213,952	4,228,848	198,830	456,534
Eurasia(Azerbaijan)	13,032	764,557	158,663	-
	<u>32,064,650</u>	<u>771,458,246</u>	<u>106,475,010</u>	<u>143,879,581</u>

Total assets employed include intra group items of Rs. NIL (2012: Rs. NIL).

43.1.2 Credit Risk - General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with SBP's requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company- Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	Other (S&P / Moody's / Fitch)
Corporate	Yes	Yes	-
Banks	Yes	Yes	Yes
Sovereigns	-	-	Yes
SME's	Yes	Yes	-

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumeric scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No. 8 table 2.3.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Long - Term Ratings Grades Mapping

"SBP Rating Grade"	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	1
2	A+ A A-	A+ A A-	A+ A A-	A1 A2 A3	A+ A A-	2
3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	3
4	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	4
5	B+ B B-	B+ B B-	B+ B B-	B1 B2 B3	B+ B B-	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short - Term Ratings Grades Mapping

SBP	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+, A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Credit Exposures subject to Standardized approach

Exposures	Rating	2013			2012		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	12,965,194	-	12,965,194	19,892,545	-	19,892,545
	2	16,023,019	-	16,023,019	18,297,215	-	18,297,215
	3,4	666,209	-	666,209	60,937	-	60,937
	5,6	-	-	-	61,960	-	61,960
	Unrated	142,495,310	-	142,495,310	114,822,679	-	114,822,679
Bank	1	18,745,447	-	18,745,447	17,955,785	-	17,955,785
	2,3	1,263,692	-	1,263,692	2,245,114	-	2,245,114
	4,5	540,960	-	540,960	438,213	-	438,213
	6	18,718	-	18,718	306,199	-	306,199
	Unrated	1,486,260	-	1,486,260	156,116	-	156,116
Public Sector Entities in Pakistan	1	-	-	-	218,872	-	218,872
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	47,872,322	32,662,619	15,209,703	60,212,217	59,821,046	391,171
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash	1	45,126,975	-	45,126,975	44,378,210	-	44,378,210
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	3,571,381	-	3,571,381	1,212,879	-	1,212,879
	6	478,848	-	478,848	2,075,915	-	2,075,915
Unrated	2,361,976	-	2,361,976	68,513	-	68,513	
Mortgage		3,843,059	-	3,843,059	4,229,432	-	4,229,432
Retail		20,324,653	-	20,324,653	21,213,354	-	21,213,354

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on balance sheet activities, bank has taken only the benefit of Sovereign guarantees.

MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 776,290.225 million (2012: Rs. 722,160.736 million) the financial assets which are subject to credit risk amounting to Rs. 763,939.311 million (2012: Rs. 710,357.530 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 434,096.855 million (2012: Rs. 380,193.220 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 31,931.448 million (2012: Rs. 30,380.601 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. The Bank has invested in its subsidiaries and associated companies to achieve long term strategic objectives. As of December 31, 2013 the composition of equity investments and associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Associates
(Rupees in '000)			
Equity investments – publicly traded	575,270	7,797,701	5,386,250
Equity investments - others	-	365,250	126,726
Total value	575,270	8,162,951	5,512,976

Classification of equity investments

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments - Held for trading
- Investments - Available for sale
- Investments in Associates

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account directly.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative realized gain of Rs. 1,905.798 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 2,222.741 million was recognized in the balance sheet in respect of "AFS" equity securities. Further a provision for impairment in value of equity investments amounting to Rs. 5.909 million has been charged to profit and loss account.

43.2 Market Risk Management

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign Exchange Group and the Capital Market Group. Market risk exposure also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Risk Management Committee of management, ALCO and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Market Risk Division seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency in reporting the Bank's market risk profile to the senior management, the Board of Directors and regulator. Market risk management authority, including approval of market risk limits and exposure levels is vested in the ALCO.

In line with regulatory requirements, MCB has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Bank as established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. These Limits are compared with the numbers generated by the market risk management systems based on the trading activity and the outstanding positions.

Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests of both banking and trading books as per SBP guidelines is also in place. The results of the stress tests are reviewed by the Senior Management and also reported to the SBP.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

The Bank is also exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVBP, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

43.2.1 Foreign Exchange Risk Management

Foreign exchange risk exposes the bank to changes in the values of current holdings and future cash flows denominated in currencies other than home currency due to the exchange rate fluctuation and volatility. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against undue losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenors in major currencies are in place to control risk. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on a daily basis.

	2013			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	762,751,477	654,607,438	6,922,673	115,066,712
Sri Lankan Rupee	11,049,130	11,099,250	45,462	(4,658)
United States Dollar	44,688,222	31,711,553	(12,854,354)	122,315
Pound Sterling	876,537	3,495,434	2,630,109	11,212
Japanese Yen	10,881	51,448	53,717	13,150
Euro	993,614	4,185,047	3,202,393	10,960
Other currencies	908,443	665,339	-	243,104
	<u>821,278,304</u>	<u>705,815,509</u>	<u>-</u>	<u>115,462,795</u>
	2012 (Restated)			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	739,523,223	629,369,140	(3,931,941)	106,222,142
Sri Lankan Rupee	8,115,171	8,159,735	18,620	(25,944)
United States Dollar	22,693,261	20,998,827	(1,510,732)	183,702
Pound Sterling	481,165	2,857,211	2,383,939	7,893
Japanese Yen	42,693	70	(40,618)	2,005
Euro	548,178	3,598,253	3,080,732	30,657
Other currencies	54,555	-	-	54,555
	<u>771,458,246</u>	<u>664,983,236</u>	<u>-</u>	<u>106,475,010</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the decline in market prices of scrips under certain assumptions. Additionally, historical scenario analysis on equities is also performed periodically as advised by the State Bank of Pakistan through Guideline on Stress Testing.

43.2.3 Country Risk

The world is changing rapidly and interdependencies and inter linkages of banks operating in different countries are ever increasing. Thus the banks having cross border exposures whether on-balance sheet or off-balance sheet are susceptible to the changing conditions in various countries of the world. Therefore, it becomes very important for institutions to effectively manage their cross border exposures to avoid any unfavorable situation.

MCB understands the risks involved in taking cross border exposure. The risk is managed under the umbrella of Board approved Country Risk Policy. The Policy not only envisages a centralized approach to measure, monitor and manage country risk but also strengthen overall risk management framework in the Bank.

Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns and exposures on foreign domiciled counter parties. Additionally, business product wise sub limits involving cross border exposure are also implemented. Monitoring of these limits is a regular feature of Risk Management.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

	Effective Yield/ Interest rate	Total	2012 (Restated)							Not exposed to Yield/ Interest Risk		
			Exposed to Yield/ Interest risk									
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0%	57,420,211	2,974,718	-	-	-	-	-	-	-	-	54,445,493
Balances with other banks	0.16% to 4.25%	1,236,736	219,138	-	-	-	-	-	-	-	-	1,017,598
Lendings to financial institutions	7.5% to 9.15%	1,551,472	1,551,472	-	-	-	-	-	-	-	-	-
Investments - net	5.60% to 14.15%	401,305,858	78,985,239	82,864,148	79,214,299	70,060,381	10,033,782	18,130,830	39,966,824	11,041,110	-	10,989,245
Advances - net	12.68%	239,788,511	215,670,870	5,744,170	3,662,752	2,844,820	4,303,281	3,361,396	2,243,752	1,539,201	418,269	-
Other assets - net		20,857,948	-	-	-	-	-	-	-	-	-	20,857,948
		722,160,736	299,401,437	88,608,318	82,877,051	72,925,201	14,337,063	21,492,226	42,210,576	12,580,311	418,269	87,310,284
Liabilities												
Bills payable		9,896,284	-	-	-	-	-	-	-	-	-	9,896,284
Borrowings	1.5% to 12.82%	79,064,351	64,277,738	5,511,015	4,391,090	2,498,148	2,386,360	162,009	-	-	-	-
Deposits and other accounts	6% to 12%	544,988,091	291,578,697	19,310,368	10,782,925	32,527,042	301,052	774,707	-	227,471	-	189,323,820
Other liabilities		18,438,427	-	-	-	-	-	-	-	-	-	18,438,427
		652,387,153	355,856,435	24,821,383	15,174,015	35,025,190	2,687,412	162,009	774,707	227,471	-	217,688,531
On-balance sheet gap		68,773,583	(56,454,998)	63,786,935	67,703,036	37,900,011	11,649,651	21,330,217	41,435,869	12,352,840	418,269	(130,348,247)
Off-balance sheet financial instruments												
Foreign exchange contracts Purchase		25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-
Cross currency swaps - long position		25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-
Foreign exchange contracts Sale		21,697,634	12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-
Cross currency swaps - long position		3,848,401	3,696,171	358,444	(842,536)	136,822	-	-	-	-	-	-
Off-balance sheet gap			(52,753,827)	64,145,379	67,360,500	38,036,333	11,649,651	21,330,217	41,435,869	12,352,840	418,269	
Total yield / interest risk sensitivity gap			(52,753,827)	11,386,552	78,747,052	116,783,385	128,433,036	149,763,253	191,199,122	203,551,962	203,970,231	
Cumulative yield / interest risk sensitivity gap												

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

Reconciliation to total assets	2013 (Rupees in '000)	2012	Reconciliation to total liabilities	2013 (Rupees in '000)	2012
Balance as per balance sheet	821,278,304	771,458,246	Balance as per balance sheet	705,815,509	664,983,236
Less: Non financial assets			Less: Non financial liabilities		
Investments	5,512,976	4,295,455	Other liabilities	4,001,124	2,827,212
Operating fixed assets	29,005,931	24,144,242	Deferred tax liability	4,500,293	9,768,871
Other assets	10,469,172	20,857,813		8,501,417	12,596,083
	44,988,079	49,297,510			
Total financial assets	776,290,225	722,160,736	Total financial liabilities	697,314,092	652,387,153

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial, particularly during periods of adverse conditions, liquidity management is among the most important activities that the MCB conducts during both normal and stress periods. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Liquidity Management

Asset Liability Management Committee of the bank has the responsibility for the formulation of overall strategy and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation. MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation on its liquidity positions. Liquidity Strategy is also in place, to ensure that the Bank can meet its temporal liquidity needs and optimize the contribution towards the profitability of the Bank. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management. As per preliminary assessments, the Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio as per Basel III are well within the prescribed limits.

MCB's liquidity risk management framework is designed to identify, measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury Policy, Investment policy, Contingency Funding Plan, Liquidity Strategy and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB Bank also conducts Liquidity Risk Analysis on regular basis. MCB liquidity Risk Policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying, quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

2013

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	59,946,218	-	-	-	-	-	-	-	-	-
Balances with other banks	1,594,660	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,224,638	-	-	-	-	-	-	-	-	-
Investments - net	453,808,345	101,475,786	213,459,894	11,773,577	13,209,949	26,938,529	39,459,204	26,770,124	15,208,304	5,512,978
Advances - net	248,521,792	54,755,876	34,665,006	24,564,085	6,514,233	42,079,364	35,286,036	36,780,148	13,192,809	684,235
Operating fixed assets	29,005,931	151,713	303,427	455,140	919,689	1,820,568	1,820,568	3,641,116	9,102,790	10,790,940
Deferred tax assets	355,030	6,825	13,651	20,476	63,185	81,904	168,989	-	-	-
Other assets - net	27,176,720	7,253,873	8,838,568	1,732,474	2,653,299	-	-	6,698,516	-	-
	821,633,334	226,409,589	257,280,536	38,545,752	23,360,355	70,920,355	76,734,787	73,889,904	37,503,903	16,988,153
Liabilities										
Bills payable	10,138,726	-	-	-	-	-	-	-	-	-
Borrowings	38,660,405	19,312,395	10,005,135	4,469,605	2,472,149	2,401,121	-	-	-	-
Deposits and other accounts	632,309,094	588,221,984	19,136,275	8,714,275	15,472,801	217,157	219,938	326,664	-	-
Deferred tax liabilities	4,855,323	41,368	9,114	19,953	102,777	378,637	335,693	2,284,833	616,778	1,066,170
Other liabilities	20,206,991	6,226,043	2,866,485	4,722,981	2,010,004	2,670,442	677,980	271,894	761,162	-
	706,170,539	623,940,516	32,017,009	17,926,814	20,057,731	5,667,357	1,233,611	2,883,391	1,377,940	1,066,170
Net assets	115,462,795	(397,530,927)	225,263,527	20,618,938	3,302,624	65,252,998	75,501,176	71,006,513	36,125,963	15,921,983
Share capital	10,118,461									
Reserves	47,008,936									
Unappropriated profit	43,038,094									
Minority interest	489,671									
Surplus on revaluation of assets - net of tax	14,807,633									
	115,462,795									

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

		2012 (Restated)								
		(Rupees in '000)								
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	57,420,211	-	-	-	-	-	-	-	-	-
Balances with other banks	1,236,736	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-
Investments - net	405,601,313	73,127,015	82,924,144	80,853,810	73,501,106	15,156,954	18,368,469	42,701,819	14,672,541	4,295,455
Advances - net	239,788,511	55,281,115	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405
Operating fixed assets	24,144,242	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,602,792	8,194,510	7,430,234
Deferred tax assets	307,411	17,247	8,191	12,287	37,206	49,148	49,148	98,296	35,888	-
Other assets - net	41,715,761	10,071,903	10,914,951	9,608	1,014,723	-	-	19,704,576	-	-
	771,765,657	198,842,274	117,264,599	95,659,761	80,930,768	62,584,671	58,803,007	108,293,227	37,091,256	12,296,094
Liabilities										
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-	-
Borrowings	79,064,351	64,277,738	5,511,015	4,391,090	2,498,148	2,386,360	-	-	-	-
Deposits and other accounts	544,988,091	480,902,517	19,310,368	10,782,924	32,527,042	301,053	162,009	774,707	227,471	-
Deferred tax liabilities	10,076,282	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328	1,234,788
Other liabilities	21,265,639	10,179,166	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	1,029,971	-
	665,290,647	565,305,706	26,888,393	18,964,886	36,916,520	5,157,074	681,573	7,879,937	2,259,770	1,234,788
Net assets	106,475,010	(366,463,432)	90,376,206	76,694,875	44,012,248	57,427,597	58,121,434	100,413,290	34,831,486	11,061,306
Share capital	9,198,601	-	-	-	-	-	-	-	-	-
Reserves	44,620,928	-	-	-	-	-	-	-	-	-
Unappropriated profit	37,530,955	-	-	-	-	-	-	-	-	-
Minority interest	501,256	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net of tax	14,623,270	-	-	-	-	-	-	-	-	-
	106,475,010	-	-	-	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2013								
		(Rupees in '000)								
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	59,946,218	-	-	-	-	-	-	-	-	-
Balances with other banks	1,594,660	1,594,660	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,224,638	1,224,638	-	-	-	-	-	-	-	-
Investments - net	453,808,345	101,475,786	213,459,894	11,773,577	13,209,949	26,938,529	39,459,204	26,770,124	15,208,304	5,512,978
Advances - net	248,521,792	54,755,876	34,665,006	24,564,085	6,514,233	42,079,364	35,286,036	36,780,148	13,192,809	684,235
Operating fixed assets	29,005,931	151,713	303,427	455,140	919,689	1,820,558	1,820,558	3,641,116	9,102,790	10,790,940
Deferred tax assets	355,030	6,825	13,651	20,476	63,185	81,904	168,989	-	-	-
Other assets - net	27,176,720	7,253,873	8,838,568	1,732,474	2,653,299	-	6,698,516	-	-	-
	821,633,334	226,409,589	257,280,536	38,545,752	23,360,355	70,920,355	76,734,787	73,889,904	37,503,903	16,988,153
Liabilities										
Bills payable	10,138,726	10,138,726	-	4,469,605	-	-	-	-	-	-
Borrowings	38,660,405	19,312,395	10,005,135	4,469,605	2,472,149	2,401,121	-	-	-	-
Deposits and other accounts	632,309,094	49,155,727	55,423,957	33,753,512	15,945,255	143,369,662	143,214,959	143,636,655	47,809,367	-
Deferred tax liabilities	4,855,323	41,368	9,114	19,953	102,777	378,637	335,693	2,284,833	616,778	1,066,170
Other liabilities	20,206,991	6,226,043	2,866,485	4,722,981	2,010,004	2,670,442	677,980	271,894	761,162	-
	706,170,539	84,874,259	66,304,691	42,966,051	20,530,185	148,819,862	144,228,632	146,193,392	49,187,304	1,066,170
Net assets	115,462,795	141,535,330	188,975,845	(4,420,299)	2,830,170	(77,899,507)	(67,493,845)	(72,303,476)	(11,683,404)	15,921,983
Share capital	10,118,461									
Reserves	47,008,936									
Unappropriated profit	43,038,094									
Minority interest	489,671									
Surplus on revaluation of assets - net of tax	14,807,633									
	115,462,795									

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2012 (Restated)							
		(Rupees in '000)							
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Above 10 years
Assets									
Cash and balances with treasury banks	57,420,211	-	-	-	-	-	-	-	-
Balances with other banks	1,236,736	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-
Investments - net	405,601,313	73,127,015	82,924,144	80,853,810	73,501,106	15,156,954	18,368,469	42,701,819	4,295,455
Advances - net	239,788,511	55,281,115	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317
Operating fixed assets	24,144,242	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,602,792	8,194,510
Deferred tax assets	307,411	17,247	8,191	12,287	37,206	49,148	49,148	98,296	35,888
Other assets - net	41,715,761	10,071,903	10,914,951	9,608	1,014,723	-	-	19,704,576	-
	771,765,657	198,842,274	117,264,599	95,659,761	80,930,768	62,584,671	58,803,007	108,293,227	12,296,094
Liabilities									
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-
Borrowings	79,064,351	64,277,738	5,511,015	4,391,090	2,498,148	2,386,360	-	-	-
Deposits and other accounts	544,988,091	37,775,422	36,103,026	46,614,760	32,949,491	117,300,456	117,020,596	117,914,926	39,309,414
Deferred tax liabilities	10,076,282	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328
Other liabilities	21,265,639	10,179,166	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	1,029,971
	665,290,647	122,178,611	43,681,051	54,796,722	37,940,969	122,156,477	117,540,160	125,020,156	41,341,713
Net assets	106,475,010	76,663,663	73,583,548	40,863,039	43,589,799	(59,571,806)	(58,737,153)	(16,726,929)	(4,250,457)
Share capital	9,198,601								
Reserves	44,620,928								
Unappropriated profit	37,530,955								
Minority interest	501,256								
Surplus on revaluation of assets - net of tax	14,623,270								
	106,475,010								

Liquidity Gap Reporting

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity. Bank regularly conducts an objective and systematic behavioral study using regression analysis technique to ascertain the maturity of its non-contractual assets and liabilities. Core and non-core parts of the non-contractual assets and liabilities are segregated through the behavioral study. Non Core part is placed among the short term maturity buckets i.e. up to 1 Year based on the model results, whereas core part is distributed among the longer term buckets based on the discussion and decision by the ALCO. Following percentages are used to distribute the core assets and liabilities among longer term buckets:

Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years
30%	30%	30%	10%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2013

43.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank. Going forward, the Bank will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard interest of depositors.

43.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

Operational loss data pertaining to key risk events is also collected on bank-wide basis. Periodic review and analysis is prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events with root cause analysis and recommendations for further improvements.

44. GENERAL

"Comparative information has been reclassified and rearranged in these financial statements for the purpose of better presentation. No significant reclassification has been made except in note 40 and as follows:

Description	Amount (Rupees in '000)	Reclassified	
		From	To
Fuel expenses - generators	495,706	Travelling, conveyance and fuel	Rent, taxes, insurance and electricity
Outsourced staff costs	743,039	Salaries and allowances	Outsourced service charges

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 11, 2014 has announced a final cash dividend in respect of the year ended December 31, 2013 of Rs. 3.50 per share (2012: Rs. 3.0 per share) and bonus shares of 10% (2012: 10%). These consolidated financial statements for the year ended December 31, 2013 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 11, 2014.



Imran Maqbool
President and Chief Executive



Tariq Rafi
Director



Mian Umer Mansha
Director



Muhammad Ali Zeb
Director

Annexure - I

1. Particulars of Investments in listed companies, mutual funds and modarabas-available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates /units held	Paid-up value per share/certificate /unit Rupees	Total paid- up/ nominal value (Rupees in '000)	Cost as at December 31, 2013
1 Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Aisha Steel Mills Limited		168,286	10	1,683	1,683
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					63,285
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		65,600	10	656	12,191
Allied Bank Limited		8,830,421	10	88,304	547,664
Arif Habib Limited		95,745	10	957	13,908
Arif Habib Corporation Limited		1,851,148	10	18,511	214,004
Attock Cement Pakistan Limited		19,308	10	193	1,329
Attock Petroleum Limited		990,426	10	9,904	387,524
Bank Alfalah Limited		300,000	10	3,000	5,404
Bank Al-Habib Limited		12,851,435	10	128,514	355,237
Archroma Pakistan Limited (Formerly Clariant Pakistan Limited)		127,550	10	1,276	28,456
Fauji Cement Company Limited		1,400,000	10	14,000	20,212
Fauji Fertilizer Bin Qasim Company Limited		3,855,500	10	38,555	151,135
Fauji Fertilizer Company Limited		10,032,000	10	100,320	738,906
Habib Bank Limited		670,163	10	6,702	101,477
Habib Metropolitan Bank Limited		115,000	10	1,150	3,195
Hub Power Company Limited		3,791,000	10	37,910	233,294
Indus Motor Company Limited		27,027	10	270	5,566
IGI Insurance Limited		70,000	10	700	10,893
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		5,955,500	10	59,555	349,779
Meezan Bank Limited		396,825	10	3,968	10,831
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		60	10	1	23
Murree Brewery Company Limited		23,650	10	237	2,818
National Foods Limited		25,875	10	259	5,811
National Bank of Pakistan		7,385,000	10	73,850	378,334
Nestle Pakistan Limited		5,348	10	53	21,613
Next Capital Limited		1,950,000	10	19,500	19,500
Oil & Gas Development Company Limited		473,235	10	4,732	113,446
Pakistan Oilfields Limited		1,190,045	10	11,900	509,427
Pakistan Petroleum Limited		2,135,918	10	21,359	432,009
Pakistan State Oil Company Limited		290,200	10	2,902	93,860
Pakistan Telecommunication Company Limited		1,150,000	10	11,500	30,129
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		15,747	10	157	53,364
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		14,183,601	10	141,836	119,551
Searle Pakistan Limited		91,000	10	910	2,903
Sui Northern Gas Pipelines Limited		55,126,789	10	551,268	2,205,253
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Food Pakistan Limited		867	10	9	1,364
United Bank Limited		4,544,340	10	45,443	445,093
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					7,668,557

Annexure - I

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/certificates/units held	Paid-up value per share/certificate/unit (Rupees)	Total paid-up/nominal value (Rupees in '000)	Cost as at December 31, 2013
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,532.70	60,606
Total					60,606
Carrying value (before revaluation and provision) Listed Shares 'available for sale'					7,792,448
Provision for diminution in value of investments					(1,992,006)
Surplus on revaluation of securities					2,116,420
Market value as at December 31, 2013					7,916,862

Fully Paid-up Ordinary Certificate/ Units of Mutual Funds	Name of Management Company	Number of Units held	Paid-up value per unit (Rupees)	Total paid-up/nominal value (Rupees in '000)	Cost as at December 31, 2013
National Investments Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Pakistan Pension Fund	MCB Arif Habib Savings & Investments Limited	866,858	100	86,686	109,909
Pakistan Islamic Pension Fund	MCB Arif Habib Savings & Investments Limited	905,160	50	45,258	112,534
Carrying value before revaluation & provision					227,696
Provision for diminution in value of investments					(1,907)
Surplus on revaluation of securities					106,321
Market value as at December 31, 2013					332,110

1.1 These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs. 10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

2. Particulars of Investments in mutual funds - held for trading

	Number of units held	Paid-up/ per number of unit (Rupees)	Total paid up/ nominal value (Rupees in '000)	Cost as at December 31, 2013
MCB Dynamic Cash Fund	3,679,536	100	367,954	358,985
MCB Dynamic Allocation Fund	2,412,161	100	241,216	173,348
Metro Bank-Pakistan Sovereign Fund	328,311	50	16,416	15,937
Pakistan Cash Management Fund	618,459	50	30,923	27,000
			656,509	575,270

Annexure - I

3. Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2013	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
--------------	---------------------------	--------------------------------------	------------------------------	-------------------------------------	---	-------------------------

(Rupees in '000)

Shareholding more than 10%

Fully paid up Ordinary Shares/ Certificates/ Units

Pak Asian Fund Limited	10.22%	1,150,000	11,500	19,462	June 30, 2013	Mr. Ashfaq A. Berdi
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	174,624	June 30, 2013	Mr. Mohammad Hanif Jakhura
			21,500			

Shareholding upto 10%

Fully paid up Ordinary Shares/ Certificates/ Units

First Capital Investment Limited		275,000	2,500	2,982	June 30, 2013	Mr. Shahzad Jawahar
National Institute of Facilitation Technology Private Limited		1,478,227	1,526	91,014	June 30, 2013	Mr. M.M. Khan
National Investment Trust Limited		79,200	100	178,348	June 30, 2012	Mr. Manzoor Ahmed
SME Bank Limited		1,490,619	10,106	6,527	September 30, 2013	Mr. Naseer Durrani
Arabian Sea Country Club		500,000	5,000	2,194	June 30, 2013	Mr. Arif Ali Khan Abbasi
Islamabad Stock Exchange Limited		3,034,603	30,346	32,663	September 30, 2013	Mian Ayyaz Afzal
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,941	December 31, 2012	Mr. Gottfried Leibbrandt
Credit Information Bureau of Srilanka		300	25	14,200	December 31, 2012	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	805	4,945	March 31, 2013	Mr. S. B. Weerasooriya
Lanka Financial Services Bureau Limited		100,000	805	802	March 31, 2013	Mr. Minindu Rajaratne
Pakistan Agro Storage and Services corporation*		2,500	2,500	-	-	-
Al-Ameen Textile Mills Limited.*		19,700	197	-	-	-
Ayaz Textile Mills Limited.*		225,250	2,252	-	-	-
Custodian Management Services*		100,000	1,000	-	-	-
Musarrat Textile Mills Limited.*		3,604,500	36,045	-	-	-
Sadiqabad Textile Mills Limited.*		2,636,100	26,362	-	-	-
			121,307			

Cost of unlisted shares/ certificates/ units **142,807**

Provision against unlisted shares **(74,741)**

Carrying value of unlisted shares/ certificates/ units **68,066**

* These are fully provided unlisted shares.

Annexure - I

4. Particulars of investments in Term Finance Certificates and Sukuk Bonds- (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2013	Name of Chief Executive
						(Rupees)	
LISTED TERM FINANCE CERTIFICATES - available for sale							
Askari Bank Limited - issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 month KIBOR +2.95% for next five years	0.32% of principal amount in the 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,600	Syed Majeedullah Husaini
Bank Alfalah Limited - issue no. IV	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the installment first 78 months and remaining principal in three semi -annual starting from the 84th month.	499,200	Mr. Atif Bajwa
Allied Bank Limited - issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90%	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	27,902	Mr. Tariq Mahmood
Allied Bank Limited - issue no. II	37,000	5,000	185,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	181,710	Mr. Tariq Mahmood
Carrying value before revaluation						958,412	
Surplus on revaluation of securities						27,470	
Market value of listed TFCs (revalued amount)						985,882	
SUKUK BONDS - available for sale							
	Terms of Redemption			Rate of Interest	Currency		
	Principal	Interest					
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly		6-Month MTB Auction Weighted Average Yield.	PKR	2,700,000	
Surplus on revaluation of securities						17,310	
Market value of Sukuk bonds						2,717,310	

Annexure - I

TERM FINANCE CERTIFICATES - held to maturity

Investee	Number of certificates held	Paid up value Value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2013	Name of Chief Executive
						(Rupees in '000)	
Bank Alfalah Limited - issue no. V	100,000	5,000	500,000,000	6 months KIBOR + 1.25% p.a.	0.3% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity first maturity in the 96th month	482,114	Mr. Atif Bajwa
Bank Al Habib Limited- - issue no. IV	20,000	5,000	100,000,000	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a. for next 5 years	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each	99,900	Mr. Abbas D. Habib
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	69,776	Mr. Suleman Lalani
United Bank Limited - issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	94,343	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. II	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,629	Mr. Tariq Mahmood
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	25,000	Mr. Jehangir Khan Tareen
Azgard Nine Limited	13,878	5,000	69,390,000	NIL	In 7 semi-annual installments starting from 24th month	69,390	Mr. Ahmed Shaikh
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a. from March 2012	In 10 equal semi-annual installments starting from March 2012 .	48,000	Mr. Ahsan Saleem
Pakistan Mobile Communication Limited	200,000	5,000	1,000,000,000	3 Month KIBOR +2.65% p.a.	In 17 equal quarterly installments starting from 12th month after first disbursement and subsequently every three months.	705,881	Mr. Rashid Khan
Carrying value of TFCs - HTM						1,826,033	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

Annexure - I

5. Details of Bonds, Debentures and Federal Government Securities (refer note 9) – held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount (‘000)	Carrying value as at December 31, 2013 (Rupees in ‘000)
	Principal	Interest				
Debentures						
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75 %	LKR	250,000	201,300
Sampath Bank	At maturity	Half-yearly	13.40%	LKR	64,610	52,024
NDB Bank	At maturity	Half-yearly	13.40%	LKR	62,760	50,534
Development Bonds						
Government of Sri Lanka	At maturity	Half-yearly	6 Month LIBOR+400 BP	LKR	785,880	632,791
Sukuk Bonds						
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments.	Half-yearly	6 Month KIBOR+1.70%	PKR	-	327,328
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.50%	PKR	-	53,793
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments.	Quarterly	3 Month KIBOR+1.25%	PKR	-	19,444
Sitara Energy Limited	In 8 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.15%	PKR	-	42,273
					-	442,838
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875%	US\$	22,264	2,344,907

6. Summarized financial information of associates (refer note 9)

The gross amount of assets, liabilities, revenue, profit and net assets of associates are as follows:

Name of associates	Country of incorporation	Assets	Liabilities	Net assets	Revenue	Profit / (loss) after tax	% of interest held
		(Rupees in ‘000)					
2013							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2013)	Pakistan	249,379	37,962	211,417	266,718	25,823	30.00%
First Women Bank Limited (unaudited based on September 30, 2013)	Pakistan	19,120,022	17,452,030	1,667,992	613,719*	(157,631)	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2013)	Pakistan	27,321,610	14,457,637	12,863,973	4,099,609**	1,735,188	29.13%
2012							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2012)	Pakistan	222,073	36,480	185,593	200,242	8,589	30.00%
First Women Bank Limited (unaudited based on September 30, 2012)	Pakistan	17,822,172	15,716,519	2,105,653	663,988*	71,746	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2012)	Pakistan	25,372,524	13,630,640	11,741,884	4,300,489**	841,941	29.13%

* Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

Annexure - III

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	(Rupees in '000)		
Abbottabad	22,000	19,856	41,856
Bahawalpur	78,012	24,445	102,457
Chakwal	2,000	1,920	3,920
Dera Gazi Khan	18,450	20,000	38,450
Faisalabad	812,308	223,618	1,035,926
Gawadar	1,900	9,000	10,900
Gujranwala	221,044	172,238	393,282
Gujrat	78,500	42,216	120,716
Hafizabad	27,000	14,782	41,782
Haripur	28,453	2,958	31,411
Haroonabad	20,000	5,240	25,240
Hyderabad	185,498	87,118	272,616
Islamabad	1,317,210	416,652	1,733,862
Jehlum	55,000	32,817	87,817
Jhang	124,110	30,715	154,825
Karachi	4,666,793	2,974,623	7,641,416
Kasur	16,380	2,390	18,770
Khairpur	1,442	3,183	4,625
Khanewal	13,500	2,800	16,300
Kohat	4,650	-	4,650
Khanpur	24,040	14,420	38,460
Lahore	4,972,779	2,305,651	7,278,430
Larkana	47,735	13,601	61,336
Mianwali	19,125	35,443	54,568
Mirpurkhas	11,040	3,726	14,766
Multan	139,600	332,878	472,478
Muree	15,000	991	15,991
Muridke	45,000	25,453	70,453
Muzafarabad	128,373	52,979	181,352
Nawabshah	18,270	10,339	28,609
Okara	26,275	12,524	38,799
Peshawar	114,375	16,726	131,101
Quetta	284,696	59,803	344,499
Rahim Yar Khan	9,915	5,740	15,655
Rawalpindi	448,536	168,514	617,050
Sadiqabad	26,667	4,842	31,509
Sahiwal	52,094	13,826	65,920
Sargodha	140,986	20,825	161,811
Sheikhupura	56,000	13,112	69,112
Sialkot	94,000	20,895	114,895
Sukkur	48,288	16,656	64,944
Swat	56,500	6,715	63,215
Vehari	11,000	7,330	18,330
Wazirabad	15,000	7,274	22,274
Overseas	-	82,648	82,648
MCB Arif Habib Savings & Investments Limited (subsidiary company)	-	72,698	72,698
Grand total	14,499,544	7,412,180	21,911,724

Branch Network

As on December 31, 2013

RETAIL BANKING GROUP - SOUTH

Circle / No. of Branches	Region	No. of Branches	No. of Sub Branches
Retail Banking Group – South			
1. KARACHI CITY 45	01. Karachi City	21	-
	02. Karachi North	24	-
2. KARACHI EAST 41	03. Karachi East	21	-
	04. Karachi South	20	-
3. KARACHI WEST 42	05. Karachi Central	21	-
	06. Karachi West	21	-
4. HYDERABAD 65	07. Hyderabad	36	-
	08. Nawabshah	29	1
5. QUETTA 41	09. Makran	10	-
	10. Quetta Circle	31	-
TOTAL RBG - SOUTH		234	01

Retail Banking Group – East

1. BAHAWALPUR 90	01. Bahawalpur	33	-
	02. Rahim Yar Khan	29	-
	03. Vehari	28	-
2. MULTAN 102	04. Dera Ghazi Khan	32	-
	05. Multan	33	-
	06. Sahiwal	37	-
3. SUKKUR 67	07. Larkana	34	-
	08. Sukkur	33	-
TOTAL RBG - EAST		259	-

Retail Banking Group – Central

1. LAHORE 97	01. Lahore Central	24	-
	02. Lahore City	23	-
	03. Lahore East	26	-
	04. Lahore West	24	-
2. FAISALABAD 101	05. Faisalabad	36	-
	06. Faisalabad City	37	-
	07. Sheikhpura	28	-
3. GUJRANWALA 94	08. Gujranwala	27	1
	09. Gujrat	35	1
	10. Sialkot	32	-
4. SARGODHA 92	11. Jhang	30	1
	12. Mianwali	29	-
	13. Sargodha	33	-
TOTAL RBG - CENTRAL		384	03

Retail Banking Group – North

1. ISLAMABAD 83	01. Chakwal	25	-
	02. Islamabad	29	-
	03. Rawalpindi	29	-
2. JHELUM 55	04. Jhelum	24	-
	05. Muzaffarabad A.K.	31	-
3. PESHAWAR 73	06. Kohat	22	-
	07. Mardan	25	1
	08. Peshawar	26	1
4. ABBOTTABAD 73	09. Abbottabad	27	-
	10. Attock	28	3
	11. Swat	18	-
TOTAL RBG - NORTH		284	05

Branch Network

As on December 31, 2013

	No. of Branches
Wholesale Banking Branches	10
Islamic Banking	27
Privilege Banking	10

OVERSEAS OPERATION

Circle / No. of Branches	No. of Branches
1. Colombo	1
2. EPZ	1
3. Kandy	1
4. Maradana	1
5. Offshore Banking Unit (OBU) - Bahrain	1
6. Pettah	1
7. Wellawatte	1
8. Batticaloa	1
9. Galle	1
TOTAL	9
Dubai (Rep. Office)	1

SUMMARY

Group	Circles	Regions	No. of Branches	No. of Sub Branches
RBG-South	5	10	234	1
RBG-East	3	8	259	-
RBG-Central	4	13	384	3
RBG-North	4	11	284	5
Privilege Banking	-	-	10	-
Wholesale Banking	4	6	10	-
Islamic Banking	-	-	27	-
Total	20	48	1,208	9
Overseas	-	-	8	-
EPZ	-	-	1	-
Grand Total	20	48	1,217	9

PROVINCE-WISE

Province / Territory/AJK	Branches	Sub-Branches	Total
Azad Jammu & Kashmir	26	-	26
Balochistan	43	-	43
Federal Capital Territory	28	-	28
Federally Administered Tribal Areas (FATA)	6	-	6
Gilgit-Baltistan	4	-	4
Khyber Pakhtunkhwa	115	2	117
Punjab	713	6	719
Sindh	273	1	274
Domestic Total	1,208	9	1,217
Overseas	8	-	8
EPZ	1	-	1
Grand Total	1,217	9	1,226

Pattern of Shareholding

As of December 31, 2013

Shareholders	Having Shares		No. of Shares	Percentage
	From	To		
15,024	1	100	606,021	0.0599%
12,541	101	500	3,164,450	0.3127%
5,597	501	1,000	4,161,621	0.4113%
7,575	1,001	5,000	12,324,088	1.2180%
267	5,001	10,000	1,920,083	0.1898%
224	10,001	50,000	4,532,307	0.4479%
56	50,001	100,000	4,044,172	0.3997%
64	100,001	500,000	17,126,117	1.6926%
27	500,001	1,000,000	21,559,774	2.1307%
56	1,000,001	5,000,000	131,792,218	13.0249%
4	5,000,001	10,000,000	24,621,402	2.4333%
4	10,000,001	15,000,000	51,172,334	5.0573%
3	15,000,001	25,000,000	50,120,295	4.9534%
12	25,000,001	Above	684,701,253	67.6685%
41,454			1,011,846,135	100.0000%

Categories of shareholders

	No of Shareholders	Shares held	Percentage
Directors, CEO & Children	15	108,819,891	10.7546%
Associated Companies	5	215,450,327	21.2928%
NIT & ICP	2	104,236	0.0103%
Banks, DFI & NBFI	24	3,671,303	0.3628%
Insurance Companies	10	65,372,303	6.4607%
Modarabas & Mutual Funds	37	3,741,979	0.3698%
Public Sector Companies & Corporations	11	29,739,906	2.9392%
General Public (Local)	37,712	144,813,015	14.3118%
General Public (Foreign)	3,374	2,370,518	0.2343%
Foreign Companies	103	374,275,601	36.9894%
Others	161	63,487,056	6.2744%
Company Total	41,454	1,011,846,135	100.0000%

Pattern of Shareholding under Code of Corporate Governance

As of December 31, 2013

Associated Companies, Undertakings and Related Parties

Maybank International Trust (Labuan) Berhad	202,369,225
D. G. Khan Cement Company Limited	92,979,303
Nishat Mills Limited	73,272,629
Trustee - MCB Provident Fund Pak Staff	30,896,146
Adamjee Insurance Company Limited	29,914,034
Trustee - MCB Employees Pension Fund	15,535,568
Siddiqsons Limited	12,978,603
Din Leather (Pvt) Ltd	6,305,758
Trustees Nishat Mills Ltd. Emp. Prov. Fund	3,789,206
Nishat Mills Ltd. Employees Provident Fund Trust	3,742,059
Trustees D. G. Khan Cement Co.Ltd. Emp. P.F	242,000
Trustees of Adamjee Insurance Company Ltd. Emp. Prov. Fund	80,525
CDC - Trustee Pak Strategic Alloc. Fund	30,100
CDC - Trustee Pakistan Stock Market Fund	21,000
CDC - Trustee MCB Dynamic Stock Fund	15,000
CDC - Trustee Pakistan Premier Fund	10,000
Trustee, Nishat (Chunian) Limited Employees Provident Fund	8,052

Mutual Funds:

MC FSL - Trustee JS Growth Fund	1,115,900
CDC - Trustee HBL - Stock Fund	700,000
CDC - Trustee NIT-Equity Market Opportunity Fund	458,160
MCBFSL - Trustee JS Value Fund	418,400
CDC - Trustee UBL Stock Advantage Fund	264,000
CDC - Trustee Unit Trust Of Pakistan	195,000
CDC - Trustee HBL Multi - Asset Fund	100,000
CDC - Trustee AKD Index Tracker Fund	99,880
CDC - Trustee AKD Aggressive Income Fund - MT	57,600
CDC - Trustee NAFA Savings Plus Fund - MT	53,800
CDC - Trustee First Habib Stock Fund	42,200
CDC - Trustee Pak Strategic Alloc. Fund	30,100
CDC - Trustee Lakson Equity Fund	22,000
CDC - Trustee Pakistan Stock Market Fund	21,000
CDC - Trustee PICIC Income Fund - MT	21,000
CDC - Trustee KASB Asset Allocation Fund	20,600
MC FSL - Trustee JS KSE-30 Index Fund	18,532
CDC - Trustee First Capital Mutual Fund	17,500
MCBFSL - Trustee URSF-Equity Sub Fund	17,355
CDC - Trustee MCB Dynamic Stock Fund	15,000
CDC - Trustee HBL PF Equity Sub Fund	14,000
CDC - Trustee Pakistan Premier Fund	10,000
CDC - Trustee JS Pension Savings Fund - Equity Account	8,100
CDC - Trustee Crosby Dragon Fund	7,000
CDC - Trustee Atlas Stock Market Fund	5,000
MCBFSL - Trustee Pak Oman Advantage Asset Allocation Fund	3,000
Safeway Fund (Pvt) Ltd.	1,501
Tri. Star Mutual Fund Ltd.	686
Growth Mutual Fund Limited	276
Prudential Stock Fund Ltd.	163
Pak Asian Fund Limited	148
CDC - Trustee NAFA Multi Asset Fund	22

Pattern of Shareholding under Code of Corporate Governance As of December 31, 2013

Directors, spouse(s) and minor children:

MIAN MOHAMMAD MANSHA	7,122
NAZ MANSHA	5,840,052
S. M. MUNEEER	1,872
SAEEDA PARVEEN	2,207,260
TARIQ RAFI	29,098,968
NIGHAT TARIQ	5,195,540
SHAHZAD SALEEM	820
SARMAD AMIN	2,592
MIAN RAZA MANSHA	11,510,624
AMMIL RAZA	25,873,969
MIAN UMER MANSHA	29,078,526
AFTAB AHMAD KHAN	832
AHMAD ALMAN ASLAM	605
DATO' SERI ISMAIL SHAHUDIN	609
MUHAMMAD ALI ZEB	500

Executives 15,269

Public Sector Companies and Corporations: 29,739,906

**Banks, Development Finance Institutions, Non-Banking
Finance Companies, Insurance Companies, Takaful,
Modarabas and Pension funds:** 124,184,362

Shareholders holding Five percent (5%) or more:

MAYBANK INTERNATIONAL TRUST (LABUAN) BERHAD	202,369,225
D. G. KHAN CEMENT COMPANY LIMITED	92,979,303
NISHAT MILLS LIMITED	73,272,629

All trades in shares carried out by Directors, Executives and their spouses and minor children is reported as under:

Name	No. of Shares	Purchase / Sale / Transfer
Muhammad Ali Zeb	500	Purchased

Notice of 66th Annual General Meeting

Notice is hereby given that 66th Annual General Meeting of the members of MCB Bank Limited will be held at Pearl-Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore, on Thursday, March 27, 2014, at 11:00 AM to transact the following business:

Ordinary Business:

1. To confirm the minutes of 65th Annual General Meeting held on March 27, 2013.
2. To receive, consider and adopt the Annual Audited Financial Statements of MCB Bank Limited & consolidated accounts of MCB Bank Limited and its subsidiaries for the year ended December 31, 2013 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors for the year ending December 31, 2014 till the conclusion of next Annual General Meeting and fix their remuneration. The retiring Auditors, M/s A.F. Ferguson & Company, Chartered Accountants, being eligible, have offered themselves for re-appointment.
4. To approve, as recommended by the Directors, payment of Final Cash Dividend @ 35% i.e., PKR 3.50 per share for the financial year 2013, in addition to 105% (35% for 1st, 2nd and 3rd quarter each) Interim Cash Dividends already paid.

Special Business:

5. To approve the issue of Bonus Shares in the ratio of 10 shares for every 100 shares held (i.e. 10%) as declared and recommended by the Board of Directors, and if thought fit, pass the following resolutions as Ordinary Resolutions:

"Resolved that a sum of PKR 1,011,846,130/- (Rupees One billion eleven million eight hundred forty six thousand one hundred and thirty only) out of reserves of the Bank available for appropriation as at December 31, 2013, be capitalized and applied for issue of 101,184,613 Ordinary Shares of PKR 10/- each allotted as fully paid bonus shares to the members of the Company whose names appear on the register of members as at close of business on March 17, 2014 in the proportion of ten shares for every hundred shares held (i.e. 10%) and that such shares shall rank pari-passu in every respect with the existing ordinary shares of the Bank."

"Further Resolved that the bonus shares so allotted shall not be entitled for final cash dividend for the year 2013."

"Further Resolved that fractional entitlement of the members shall be consolidated into whole shares and sold on the Karachi Stock Exchange and the Company Secretary is authorized to pay the proceeds of sale when realized, to any recognized charitable institution(s)."

"Further Resolved that the Company Secretary be and is hereby authorized and empowered to give effect to this ordinary resolution and to do or cause to do all acts, deeds and things that may be necessary or required for issue, allotment and distribution of bonus shares."

6. To consider and pass the following Ordinary Resolutions as recommended by the Board of Directors of the Bank:

- a. "Resolved that post facto approval be and is hereby accorded for donation of PKR 25 million (Rupees Twenty Five Million only) to 'Prime Minister's Earthquake Relief Fund, 2013 for Baluchistan' as Bank's Corporate Social Responsibility."

- b. "Resolved that the post fact approval be and is hereby granted for the replacement of Vehicle (Toyota Land Cruiser AXG-4 Door SUV-4.6LIT with Armor Conversion) which was in the use of the Chairman with (BMW x5 x Drive 501 HRD with Armor Conversion) fully maintained by the Bank."

"Further Resolved that the approval be and is hereby accorded for purchasing an appropriate armor vehicle, fully maintained by the Bank, for the Chairman's security as a replacement from time to time."

7. To consider and if deemed fit, pass the following resolutions as 'Special Resolutions' with or without modification and to approve alteration in the Articles of Association of the Bank in accordance with the provisions of Section 28 of the Companies Ordinance, 1984:

- a. Substitution of Para 4 of Article 94 of the Articles of Association:

"Resolved that the approval be and is hereby granted to increase the limit of six chartered plane round trips (domestic and/or international) by the Chairman for Bank's business in a calendar year to twelve chartered plane round trips (domestic and/or international) starting January, 2014 and any additional such trips

Notice of 66th Annual General Meeting

may be paid by the Chairman out of his annual compensation/pocket.”

“Further Resolved that the Para 4 of Article 94 of the Articles of Association of the Bank be and is hereby substituted as follows:

The chartered plane round trips (domestic and/or international) by the Chairman for Bank business will be limited to twelve in a calendar year starting January, 2014 and any additional trips may be paid by the Chairman out of his annual compensation/pocket. The details of the twelve chartered plane round trips (domestic and/or international) by the Chairman, allowed by the Board on annual basis and approved by the shareholders, shall be placed before the Board for its information and record.”

b) Addition of Article 119 (a) after Article 119 of the Articles Association:

“Resolved that a sum of PKR 10,000/- for providing electronic copy and PKR 20/- per page or fractional part thereof (subject to minimum fee of five thousands rupees) of the register of members, register of debenture-holders along with Indexes thereof and annual list of members of the Bank and also inspection of the said registers and Indexes thereof, a fee of PKR 200/- for electronic inspection and PKR 500/- for physical inspection should be charged as per applicable laws, rules and regulations as amended from time to time, be and is hereby **APPROVED.**”

“Further Resolved that a new Article 119(a) after Article 119 of the Articles of Association of the Bank be and is hereby inserted as follows:

Inspection and copying fee:

The sum of PKR 10,000/- for providing electronic copy and PKR 20/- per page or fractional part thereof (subject to minimum fee of five thousands rupees) of the list/register of members, debenture-holders along with Indexes thereof and annual list of members of the Bank and also inspection of the said registers and Indexes thereof, a fee of PKR 200/- for electronic inspection and PKR 500/- for physical inspection should be charged as per applicable laws, rules and regulations as amended from time to time.”

“Further Resolved that the Company Secretary be and is hereby authorized to take all steps necessary, ancillary and incidental for registering and altering the Articles of Association of the Bank as mentioned at (a) and (b) above,

but not limited to filing of all requisite documents/statutory forms as may be required to be filed with the Registrar of Companies and complying with all other regulatory requirements so as to effectuate the alterations in the Articles of Association.”

8. To transact any other business with the permission of the Chair.

A Statement under Section 160(1)(b) of the Companies Ordinance, 1984 setting forth all material facts pertaining to the Special Business referred to above is annexed to this Notice being sent to the members.

By Order of the Board,

SYED MUDASSAR HUSSAIN NAQVI
Company Secretary

March 05, 2014
Lahore.

Notice of 66th Annual General Meeting

Notes:

1. The Shares Transfer Books of MCB Bank Limited will remain closed from March 18, 2014 to March 27, 2014 (both days inclusive). Share Transfers received at the Bank's Share Registrar and Transfer Agent at the below mentioned address, at the close of business hours on March 17, 2014 will be treated as being in time for the purpose of the entitlement of cash dividend and bonus shares.
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or not.
3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarized certified copy of the power of attorney or authority in order to be effective must be deposited at the Share Registrar and Transfer Agent Office of the Bank not less than 48 hours before the time for holding the meeting, and must be duly stamped, signed and witnessed.
4. Members are requested to immediately notify the change, if any, in their registered addresses to the Share Registrar and Transfer Agent of the Bank.
5. CDC Accountholders will further have to follow the under mentioned guidelines as laid down by Circular No. 1, dated January 26, 2000, issued by Securities and Exchange Commission of Pakistan.

For Attending of Meeting:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For Appointing of Proxies:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall submit the proxy form as per above requirements.
 - ii. The proxy form shall be witnessed by the two persons whose name, addresses and CNIC numbers shall be mentioned on the form.
 - iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.
 - v. In case of entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted along with proxy form of the Bank.
6. **Payment of Cash Dividend Electronically (e-Dividend mechanism):**

The Securities & Exchange Commission of Pakistan (SECP) vide its Notification No. 8(4)SM/CDC 2008, dated April 05, 2013 has advised that the shareholders who have provided bank mandate should be paid dividend by transferring directly to their respective bank accounts (e-dividend mechanism); therefore, the registered shareholders of MCB Bank Ltd, who have not provided us dividend mandate, are requested to provide the details of their bank account including Title of Account, Account Number, Bank name, Branch name & Code and Address, in order to credit their cash dividends, as and when declared, directly to their respective bank accounts. This information is to be provided to: (i) in case of book-entry securities in Central Depository System (CDS), to CDS Participants; and (ii) In case of physical securities to our Share Registrar at the below mentioned address.

M/s THK Associates (Pvt) Limited, Share Registrar, Second Floor, State Life Building-3, Dr. Ziauddin Ahmed Road, Karachi-75530. UAN +92(21) 111-000-322. Email: secretariat@thk.com.pk

Notice of 66th Annual General Meeting

Statement under Section 160 (1)(b) of the Companies Ordinance, 1984 pertaining to Special Business:

This Statement sets out the material facts pertaining to the Special Business to be transacted at the 66th Annual General Meeting of the Bank.

Agenda No. 5 – Issue of Bonus Shares:

The Directors are of the view that the reserves/profits are adequate for capitalization of a sum of PKR 1,011,846,130/- for issue of the proposed 10% bonus shares; and in this regard compliance has been made under Rule 6 of the Companies (Issue of Capital) Rules, 1996. External Auditors' certificate in respect of adequacy of reserves has also been obtained. The Directors are interested in this business to the extent of their entitlement to the bonus shares as shareholders.

Agenda No. 6 – Donations to Prime Minister's Earthquake Relief Fund/Replacement of Chairman's Armor Conversion Vehicle:

- a. The Board, to support the deprived people of affected area of Awaraan (Baluchistan) on account of earthquake, approved a donation for 'Prime Minister's Earthquake Relief Fund 2013, for Baluchistan' considering Bank's philanthropic and Corporate Social Responsibility.
- b. The Bank, on the basis of specific security warnings received from Ministry of Defence, as well as Ministry of Interior, Government of Pakistan, provided a vehicle (Toyota Land Cruiser AXG-4 Door SUV-4.6LIT with Armor Conversion), to the Chairman of the Bank, which was approved by the Bank's shareholders in their meeting held on March 31, 2011. As the said vehicle was more than three years old and was causing trouble; therefore, the Chairman surrendered the vehicle to the Bank for its use. The Board, on the basis of specific security warnings, provided the Chairman with an appropriate Bank's maintained Vehicle (BMW x5 x Drive 501 HRD with Armor Conversion) in lieu of surrendered vehicle. The shareholders' post facto approval is solicited for the replacement of Vehicle (Toyota Land Cruiser AXG-4 Door SUV-4.6LIT with Armour Conversion) which was in the use of the Chairman with (BMW x5 x Drive 501 HRD with Armor Conversion) fully maintained by the Bank. The shareholders are also requested to approve the purchase of an appropriate armour vehicle, fully maintained by the Bank, for the Chairman's security as a replacement from time to time.

Agenda No. 7:

Chairman's Travel on Official Visits on Chartered Flights:

During the year 2013, the Chairman visited many national/ international business forums out of which expenses of six (6) trips were charged to the Bank as approved by the Board of Directors and the shareholders; however, expenses pertaining to other visits were borne by the Chairman from his annual compensation/pocket. Further, the Bank as part of its long term strategy is going for overseas expansions and the Chairman has to hold meetings with the Chairmen and/or Board of Governors of Central Banks of such countries; therefore, the number of trips already approved are insufficient to meet the requirements of his visits. As the Bank's business under the dynamic leadership of the Chairman has made unparallel progress; therefore, the shareholders are requested to increase the limit of chartered plane trips (domestic and/or International) to twelve (12) in a calendar year starting January, 2014.

Fixation of Fee for provision of copies and inspection of Bank's Members' Register etc:

The management often receives the requests from different quarters to provide copy of the members' register of the Bank or its inspection either electronically or in printed form. In order to determine the seriousness of a request, the management has proposed inspection as well as copying fee for the register of members, register of debenture-holders along with Indexes thereof and annual list of members of the Bank.

The Directors have no direct or indirect interest in above mentioned Agenda Item No. 6 and 7.

Glossary of Terms

Important terms and formulae used for calculation in Financial Statements are briefly described here;

Breakup Value per share

Represents the total worth (equity) of the business per share, calculated as shareholders' equity or Net Assets excluding the impact of revaluation on fixed assets, divided by the total number of share outstanding at year end.

BSD

Banking Surveillance Department

Capital Adequacy Ratio (CAR)

The relationship between capital and risk weighted assets as defined in the framework developed by the State Bank of Pakistan.

Cash Reserve Ratio (CRR)

Cash Reserve Ratio is the amount of funds that the banks have to keep with SBP.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cost to Income Ratio

The proportion of total operating costs excluding total provisions and write-offs, to total income, represented as combination of net interest income and non interest income.

Credit Risk Spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Dividend Payout Ratio

Dividends (cash dividend plus bonus shares) paid per share as a fraction of earnings per share (EPS).

Dividend Yield Ratio

Dividend per share divided by the market value of share.

Forced Sale Value (FSV)

Forced Sale Value means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged / pledged assets in a forced / distressed sale conditions.

Government Securities

Government Securities shall include such types of Pak. Rupee obligations of the Federal Government or a

Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

Impairment allowances

A provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

Foreign Exchange Options(FX Options)

Contracts that give the buyer the right, but not the obligation, to buy or sell one currency against the other, at a predetermined price and on or before a predetermined date. The buyer of a call/put FX option has the right to buy/sell a currency against another at a specified rate.

Forward Purchase Contract

Forward purchase contract is one in which the exporter enters into the forward booking contract to protect himself from the exchange rate fluctuation at the time of receiving payment.

Forward Sale Contract

In a forward sale contract the importer enters into a transaction to buy foreign currency from the Bank at the predetermined rate to protect himself from the exchange fluctuation at the date the payment.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

IFRIC

International Financial Reporting Interpretation Committee

Loan losses and provisions

Amount set aside against identified and possible losses on loans, advances and other credit facilities as a result of their becoming party or wholly uncollectible.

Liquid Assets

The assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs / NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the

Glossary of Terms

approved panel of State Bank of Pakistan and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks / DFIs with perfected lien.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of share as at the year end.

Net Interest Income (NII)

Net interest income is the difference between the interest earned on assets and interest expensed on liabilities.

NPLs to Gross Advances/Loans

Represents the infected portfolio of the bank and is calculated by dividing the total non-performing loans by gross advances.

Non Performing Loan-Substandard Category

Where markup/interest or principal is overdue by 90 days or more from the due date.

Non Performing Loan-Doubtful Category

Where markup/interest or principal is overdue by 180 days or more from the due date.

Non Performing Loan-Loss Category

Where mark-up/interest or principal is overdue by one year or more from the due date and Trade Bill (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.

Repo / Reverse Repo

A repurchase agreement, or repo, is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Return on Equity (ROE)

Represents the ratio of the current year's profit available for distribution to the weighted average shareholders equity over the period under review, calculated by dividing the net profit (profit after tax) to the average equity (before surplus) for the period.

Return on Assets (ROA)

Indicator of profitability of the business relative to the value of its assets, calculated by dividing the net profit (profit after

tax) to the average total assets for the period.

Basel III

Basel III (or the Third Basel Accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk.

Strategic Investment

Strategic Investment is an investment which a bank / DFI makes with the intention to hold it for a period of minimum 5 years.

The following must be noted further in respect of strategic investment:

- The bank should mark strategic investment as such at the time of investment
- If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.
- The banks / DFIs will report their investment in strategic portfolio to the Banking Policy Department, within 2 working days from the date of such investment.

SRO

Statutory Regulatory Order

KIBOR

Karachi Interbank Offer Rate

VaR

Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Weighted Average Cost of Deposits

Percentage of the total interest expense on average deposit of the bank for the period.

Form of Proxy

66th Annual General Meeting

I/We _____
of _____
being a member (s) of MCB Bank Limited, and holder of _____
ordinary shares, do hereby appoint _____
of _____ vide Folio/CDC Account No. _____
or failing him / her _____ of _____ who is also a member
of the Bank, video Folio / CDC Account No. _____
as my / our proxy in my / our absence to attend, speak and vote for me / us and on my / our behalf at the 66th Annual General Meeting of the Bank to be held on **Thursday, March 27, 2014 at 11:00 AM** at Pearl-Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore, and at any adjournment thereof.

As witness my / our hand/Seal this _____ day of _____ 2014

Signed by _____

In the presence of _____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five-Rupees
Revenue Stamp

The signature should agree with the specimen registered with the Bank.

Important:

1. This Proxy Form, duly completed and signed, must be deposited in the office of M/s THK Associates (Pvt) Limited, the Share Registrar and Transfer Agent, situated at Second Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi, not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instrument of proxies are deposited by a member with the Share Registrar, all such instruments of proxy shall be rendered invalid.
3. **For CDC Account Holders / Corporate Entities**

In addition to the above the following requirements have to be met:

- Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- The proxy shall produce his original CNIC or passport at the time of the meeting.
- In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Company.