



Knowing you makes the difference

annual report 2005

PHILOSOPHY

For us, you are not just a set of numbers; you are a valued customer whom we know by name. This helps us serve you exactly the way you want us to - that's the difference!

We offer effective solutions derived from our personal knowledge of all your banking requirements which are met when we meet you ... by name.



MISSION

" To become the preferred provider of quality financial services in the country with profitability & responsibility and to be the best place to work."



Corporate Information

Board of Directors

Mian Mohammad Mansha
Chairman

S.M. Muneer
Vice Chairman

Tariq Rafi
Mohammad Arshad
Shahzad Saleem
Sarmad Amin
Mian Umer Mansha
Aftab Ahmad Khan
Atif Yaseen

Mohammad Aftab Manzoor
President & Chief Executive

Advisor

Raza Mansha

Audit Committee

Mian Mohammad Mansha - Chairman
Mian Umer Mansha - Member
Aftab Ahmad Khan - Member

Chief Financial Officer

Ali Munir

Secretary

Tahir Hassan Qureshi

Auditors

A.F. Ferguson & Co.
Chartered Accountants

Riaz Ahmad & Co.
Chartered Accountants

Legal Advisors

Mandviwalla & Zafar
Advocates & Legal Consultants

Registered Office

MCB Building, F-6/G-6,
Jinnah Avenue, Islamabad.

Principal Office

MCB Tower,
I.I. Chundrigar Road, Karachi.

Registrar's and Share Registration Office

THK Associates (Pvt.) Ltd.,
Shares Department, Ground Floor, Modern Motors House,
Beaumont Road, Karachi.

Management Committee



(sitting left to right)

Sadia P. Saeed, Aamer Hassan Zaidi, Mohammad Aftab Manzoor, Salman Ahmed Usmani

(standing left to right)

Shahid Sattar, Saleem Rafik, Ali Munir, Agha Saeed Khan, Ali Muhammad Mahoon

Board of Directors



Mian Mohammad Mansha



S.M. Muneer



Atif Yaseen



Mian Umer Mansha



Shahzad Saleem



Mohammad Arshad



Tariq Rafi



Sarmad Amin



Aftab Ahmad Khan



Mohammad Aftab Manzoor



Core Values

Customer Focus

Over the years MCB has developed strong relationships with its customers by understanding their needs and treating them with respect, dignity and importance. The driving force behind its commitment and services is its focus on customers, ensuring that it not only meets, but exceeds their expectations.

Quest for Quality

We strive to achieve excellence by ensuring that every moment of our time is spent in adding value, making sure that we do things right, first time, every time. With this quest for quality, MCB has always taken initiatives in bringing banking into a new arena; from cash to the convenience of plastic; from branch banking to internet banking and from face-to-face customer interaction to online accessibility.

Employees Respect and Dignity

We encourage diversity and treat each of our employees with fairness. We give constructive feedback for their continuous development and seek suggestions from all employees for further improvement. We ensure that quality performance is acknowledged and rewarded and exercise utmost responsibility in decision-making with regards to our employees. Integrity of our employees is the strength of our performance.

Team Based Approach

We believe in achieving our Mission and Vision by working together as a combined group. We treat our colleagues as our internal customers and ensure that the requirements of internal customer focus are always met. Equipped with in-depth product knowledge, and recognizing the strengths in each individual, we strive for optimum-results from our co-workers and bringing out peak performances by working towards common goals and objectives in today's dynamic banking environment.

Good Corporate Citizenship

We seek to continuously improve the quality of life in our communities, where we live and work. We realize that we have a responsibility to the society in which we operate and we seek ways of playing a positive role for the betterment of the community at large for a progressive environment, better living and a brighter future.





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Products and Services

Online

The largest network of over 315 on-line branches in the country and growing. Providing customers with 24 x 7 real time online transaction facilities.



Enjoy the convenience of extended banking hours from 9 to 5, even on Saturdays, for satisfying your banking needs at all MCB Full Day Banking branches across the country where you are now served with a wide range of services throughout the day.



A deposit account for customers with substantial balances, offering profit on a daily product basis with the facility of unlimited withdrawals.

MCB Special Rupee Term deposits

MCB's Special Rupee Term deposits offer a very attractive long term investment option with ease and convenience. Tenor's options available are of 3 months, 6 months, 1 year, 3 years and 5 years. You can also avail a credit facility up to 75% of your total deposit.



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



Remit Express

International remittances with a two-way messaging facility delivered at your doorstep within 24 to 72 hours.



MCB Islamic Banking provides Riba Free and Shariah Compliant solutions to various customer segments in a growing number of cities. With the help of Shariah specialists, lawyers and professional commercial bankers, we have the best solutions to cater to your needs - the Islamic way.



CARDS

A local Point of Sale acquiring network facilitating acceptance of all major card brands.



MCB SmartCard and ATM card holders can avail cash withdrawal facility at over 900,000 ATMs worldwide.



MCB SmartCard and ATM card holders enjoy the convenience of shopping at over 5 million POS locations globally.



MCB provides the convenience of banking on the internet. Whether at office, home or travelling, log on to www.mcb.com.pk and enjoy 24-hour access to all your accounts at MCB for the largest array of services.



Call now for answers to your queries about banking services, ATM services, mobile banking services, RTC services, tele-banking services and MCB product information.



Banking at your fingertips. Dial in anytime to get information regarding balance and mini statements.



The nation's largest network of over 210 ATMs and growing. Get 24-hour convenience of cash withdrawal, mini-statement, bill payment and funds transfer services.



MNET is an electronic hub for ATM sharing plus other touch points. Members include 12 local financial institutions enjoying ATM sharing and bureau services. Pakistan's largest operating switch with the highest transaction volume.



MCB SmartCard - a secure instrument of payment, offering Cash Free convenience. It provides 24-hour direct access to your bank account and unmatched functionalities.



MCB Easy Bill Pay is an easy solution to pay your Utility and Mobile Phone bills. MCB ATM Card or MCB SmartCard holders can easily pay their bills through MCB ATMs, MCB Virtual-Internet Banking and MCB Call Centre with security and peace of mind.

Corporate Financing

Providing access to diversified financing options, including working capital loans, term loans, trade finance services and investment banking.

Instant Financing

Get a loan instantly at any MCB branch. Offering same day financing facility against liquid collateral at competitive pricing.



The most widely accepted way to pay cash for travel-related purposes. A safe and secure way to make payments nationwide.



MCB Business Sarmaya is a Running Finance facility against your residential property. It offers Running Finance up to 20 million with low mark-up and BTF facility at competitive rates.



MCB Pyara Ghar is an ideal Home Finance product that lets you purchase, renovate or construct your home the way you have always wanted. Financing available is upto 20 years for amount upto Rs. 20 million.



MCB CAR4U Auto Finance is your power move that gets you not only a car of your own choice but leads you to the best in life. It is affordable with competitive mark-up, flexible conditions, easy processing and above all, no hidden costs.



Directors' Report to Members

I am pleased to place before you, on behalf of the Board of Directors, the 58th annual report of your Bank for the year ending December 31, 2005.

Economy

During the year, Pakistan's economy continued to grow. GDP growth was 8.42% in FY05, making it the fastest growing economy in the world after China. Record growth was witnessed in both agriculture and large-scale manufacturing, but more importantly, the growth was broad-based, with all major sectors performing well. Moreover, despite the humanitarian disaster that struck the northern parts of Pakistan and Azad Kashmir in the form of the October 2005 earthquake, the economy has continued to flourish. The Government of Pakistan raised USD 6 billion in reconstruction and rehabilitation aid. This should minimize the fiscal stress on account of earthquake rebuilding.

Pakistan's impressive growth momentum has caught the attention of the international financial world. The World Bank and Asian Development Bank have also endorsed Pakistan's impressive growth momentum. Total foreign investment for the first half of fiscal year 2005-06 was USD 1.462 billion, a rise of 190% over the previous year.

The culmination of this impressive growth momentum can be seen in the local bourses. All three domestic stock markets have continued to flourish on account of strong corporate performance and a feel good factor. On the way, the KSE-100 index has broken previous records and currently stands at an all time high.

However, there are some concerns on the macro-economic radar, which need to be addressed. On the domestic front, inflation is an issue but the tight monetary policy of the State Bank of Pakistan is now showing positive results. CPI inflation has come down from a high of 11.1% in April 2005 to 8.5% in December 2005. This is primarily on account of food inflation, which has fallen drastically due to aggressive commodity import operations taken up by the government. However, the State Bank needs to continue with a tight monetary policy to help achieve the 8% target for the fiscal year 2005-06.

The banking sector has benefited enormously from the recent growth momentum. Balance sheets have grown enormously, from a healthy growth in both deposits and advances. What is even more remarkable is that growth in credit off-take has taken place despite significant increases in interest rates during 2005. Meanwhile, credit disbursement has been broad-based, with manufacturing sector availing majority of the credit. Consumer, SME and agriculture have also been recipients of substantial amount of bank loans.

Bank's Performance Review

Our shareholders will be extremely happy with the returns MCB has generated for the year ended December 2005. Profitability has more than tripled in 2005. Advances have grown by more than 30% and

Capital Adequacy Ratio has shown significant improvement. Cash Dividends of more than PKR 1.288 billion were distributed to shareholders, as well as right shares were issued successfully in 2005.

The Bank's return and profitability is reflective of its proactive approach to growth and profitability with focus on the following key strategic drivers.

Customer Service: Increasing the share of wallet from existing customers has become the order of the day. Throughout the year targeted technology investments and high quality services have been emphasized.

Investing in Technology: To stay ahead of competition, MCB has renewed its commitment to investing in new technology strategically to reduce costs, improve efficiencies, strengthen revenue-generating initiatives, and stronger MIS.

Instilling a Bank-wide Selling Culture: A clear vision of service excellence has been communicated throughout the organization. A service culture is being infused within the bank through training and development, performance guidelines and leading by example.

Risk Management: In view of increasing complexities and Basel II, the Bank is re-evaluating its approach to assessing, predicting and mitigating risk.

SBP's risk management guidelines have to be implemented quickly as a first step in the process of equipping the bank to implement the best practices in risk management. Efforts are already underway for Basel II implementation.

Clear Strategic Direction: Our strategic direction dictates that we quickly adapt to changing market conditions and changing customer requirements to maintain our leadership position. Regular meetings have been held amongst the top management to reinforce this strategic direction, which has been regularly communicated throughout the bank at all levels.

Through constantly working on our core competencies, consolidation measures, introduction of new products, broadening of client base and new initiatives, the Bank has shown improvement in all areas. The Corporate Banking Group has been consolidated with the Financial Institutions Group and the Islamic Banking Division under the banner of the Wholesale Banking Group. The Consumer Banking Group has been consolidated with the Commercial Banking Group under the banner of Retail Banking Group. Together these two Groups have registered an impressive performance in terms of credit expansion and bank profitability despite considerable organizational restructuring. The Investment Banking Group, Cash Management Services and the SME Financing Division have also shown impressive results. The Asset Management Company is also gearing up to become a major market player in 2006.

The Treasury & FX Group has also been working diligently with a clear vision to become the premier treasury in Pakistan. In the process it has delivered consistent and superior returns through growing and



Syed Babar Ali
Advisor, Packages Ltd.

Knowing Syed Babar Ali has been a pleasure.

Being an insightful corporate leader and a multifaceted personality, he has appreciated our versatile role in offering Packages Ltd. banking solutions that appeal to their keen business sense and progressive attitude.

A. Razak Diwan
Chief Executive, Novatex Ltd.



Ever since 2003 we have been able to meet Mr. A. Razak Diwan's banking needs successfully. We've worked hard to gain his trust and satisfaction. This has been possible because we know him.

Though an extremely busy man, we know Mr. Diwan takes the time he spends with his family seriously. No wonder his favorite leisure activity is spending some quality time with his grandchildren. Thus, our prime aim regarding Mr. Diwan is to provide him with the kind of banking services and products that would enable him to partake his favorite pastime as much as possible.

diversifying revenues while maintaining a high quality risk profile. It has also been exemplary in its traditional role in efficiently strengthening the Bank's funding and liquidity position and effectively managing gaps created due to balance sheet growth. Moreover, it has maintained its competitive edge through an acute focus on increasing trade volumes, increasing client coverage and widening product offering across the entire capital market spectrum (From plain vanilla to structured products). Through its efforts MCB's name was prominently featured in some of the biggest deals of the year. The Structured Products desk has flourished through an active product pipeline for satisfying the ever-growing customer needs. The Research department has also been set-up and has already received many informal accolades from various sectors. Additionally, the Sri Lankan Treasury has been automated and efforts are underway to make it a fully functional active unit through training and support. The Bahrain OBU will also see substantial activity in the year to come.

You will also be pleased to know that your Bank has remained a distinguished PD (Primary Dealer) and its activity in debt, equity and FX markets has contributed significantly to profit growth.

This has also been an eventful year for MCB Consumer Assets Division. It started with the launch of MCB Business Sarmaya in February, a novel product with only a few competitors in the market. With innovations and introduction of more flexible options in the existing products and new products, like credit cards infused with state-of-the-art chip technology and personal loans in the pipeline, the division is set to achieve new heights in times to come.

MCB has also been playing an active role in satisfying agricultural financing needs of the country and contributing towards making the country self-sufficient in agriculture produce. The Bank has introduced two attractive agriculture-financing schemes with the brand names of *Shadabi Plan* and *Khushali Plan*. The department has completed a successful year beating expectations and targets and leading the competition. More innovative products are in the pipeline for 2006.

The Islamic Banking Division has been very active and has registered impressive results as well. Their focus has been on introduction of new Sharia-compliant products, enhancing customer and asset base, training their staff and educating the community about this form of alternative investment.

As always, technology continued to play an important role in improving and expanding product offerings. MCB Virtual Internet Banking, with its wide-ranging solutions for individual and corporate clients, remained the preferred Internet banking solution in the country. The Call Center was also further enhanced. Your Bank has the largest ATM network in the country facilitating clients everywhere. The implementation of SYMBOLS -- MCB's state-of-the-art new banking system that will gradually replace the existing systems throughout the country -- is also progressing smoothly with 35 branches live at the end of 2005.

MCB's Operations continue to be streamlined with focus on rationalization of expenses, realignment of back-end processing to increase productivity, enhancement of customer service standards, process efficiency and controls. The innovative concept of centralizing Trade Services in the country by providing centralized foreign trade

services to branches has been implemented resulting in improved efficiency, enhanced expertise and reduced delivery cost.

Other wide-ranging strategic initiatives continued unabated. These will be important for the Bank in the years to come. In February 2005, our 100% owned subsidiary MCB Trade Services Ltd. was established in Hong Kong; it commenced its operations in July 2005. In March 2005, MCB also applied for issuance of license for opening of a Representative Office with Central Bank of UAE. Furthermore, feasibility is being carried out for entering other international markets as well, while process for entering into the Afghanistan market is in its final stages. World-class consultants have been engaged and exercises have been carried out to create more structured processes and key job descriptions.

Again, this has been another year of milestones and international recognition. Your Bank has again been declared the best bank in Pakistan by two of the most prestigious international publications. The esteemed Euromoney Award for Excellence 2005 for "The Best Bank in Pakistan" and the Asia Money Award 2005 for the "Best Domestic Commercial Bank in Pakistan" are the latest international recognitions of the Bank and its staff for their consistent performance. It is even more gratifying to note that MCB is the only Bank to receive the Euromoney Award for Excellence five times in the last six years and the Asia Money Award twice in a row.

The consistency with which the Bank has been receiving international accolades makes MCB truly the Best Bank in Pakistan. On the local front the achievements have been remarkable as well; PACRA also maintained long term ratings "AA" and short term "A1+", due to sustained performance, despite an increasingly competitive environment.

Future Outlook

Your bank is set to continue benefiting from the strengthening of the underlying economy and continued business optimism in 2006. The State Bank's tight monetary policy means that banking sector spreads shall continue to remain strong in 2006, although competition for deposits would raise the cost of funds. Meanwhile, the focus on exports is set to continue in 2006, as Pakistan looks to seek concessions for its textile exports to the European Union. The government is also actively looking to forge Free Trade Agreements (FTAs) with various countries, which shall enhance our trade volumes. Furthermore, as relations with India are improving considerably, we can expect India-Pakistan trade to increase substantially in the coming year. Thus, the Bank is expected to grow on the back of continued economic revival, and is well supported by reforms in the financial sector.

Additionally, continued cost discipline will remain a clear priority, focus on fee-based income will be intensified and adoption of new technologies and infrastructure platforms will be encouraged to maintain our leadership position. In times to come, our efforts to increase efficiency and optimize our product and service range will see increased determination. Our comprehensive portfolio of business initiatives aimed at capturing additional profit growth potential will continue. As always, the Bank's promise to its shareholders of its commitment to excellence and growth will be maintained.



In conclusion, we applaud the successful efforts of the Government of Pakistan, State Bank of Pakistan and Ministry of Finance in engineering the country's economic revival. Most importantly, we thank our valued shareholders, management and employees for their relentless support. We shall continue repaying that trust. For your Bank, sky is the limit.

Asset Management Company

In order to provide financial sector services to the Bank's clientele and to maximize synergies between group companies, an Asset Management Company has been incorporated with the name and style of MCB Asset Management Company Ltd. The AMC has been established as a result of conducive operating environment, rationalization of regulations and to enhance financial services base.

Financials

The bank has registered a remarkable growth in its operating results due to significant increase in loans and the lending rates thereon. Further, during the current year the Bank has changed its accounting policy in respect of recognition of net actuarial gains/losses at each balance sheet date. The change has been made as the management is of the view that the new policy, of faster recognition of actuarial gains/losses in financial statements, results in a more realistic presentation of the financial statements and financial results therein. The profit before and after taxation, available for appropriation together with recommended appropriation is as under:

	Rs. in '000
Profit before taxation	13,018,487
Taxation	4,096,072
Profit after taxation	8,922,415
Un-appropriated profit brought forward	165,208
Transfer from surplus on revaluation of fixed assets (net of tax)	83,749
	248,957
Profit available for appropriation	9,171,372
Appropriations	
Statutory Reserve	892,241
General Reserve	5,500,000
Interim dividend – first 17.5%	649,072
Interim dividend – second 15%	639,799
Final dividend – cash 10%	426,533
– bonus 20%	853,065
Total appropriations	8,960,710
Un-appropriated profit carried forward	210,662

Change of Name

The name of your bank has been changed from Muslim Commercial Bank Ltd. to MCB Bank Ltd. The need to change was felt due to the reason that bank was mainly known and popular as "MCB". The public at large including customers of the Bank prefer to call the bank "MCB" and not Muslim Commercial Bank Ltd. It was, therefore, proposed to change the name to MCB Bank Ltd. being more popular

and possessing better brand recall from among our customers. The change would also be beneficial in dealing with banks and other institutions in foreign countries as a short name shall be in line with recent trends.

Right shares

In order to cater for anticipated growth the equity of the Bank has been increased through an issue of right shares at 15 percent at a premium of Rs. 15 per share in proportion of 15 shares for every 100 shares. The increased equity would also help to meet capital requirement under Basel Accord II. We would like to thank the shareholders for the trust they have posed in their bank by subscribing to the right issue.

Earning per share

During the year under review pre-tax and after tax basic earning per share was Rs. 31.17 and Rs. 21.36 respectively. In note 32 & 33 to the financial statements, its computation has been reported.

Pattern of shareholding

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

Corporate and Financial Reporting Framework

The Directors are pleased to give following statement in respect of Code of Corporate Governance.

- The financial statements, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, result of its operations, cash flow and change in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied, except for the change as stated in Note 5.7 to the financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statement and any departure having material impact there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data is available in the annual report.



Khalid Mehmood Khan
Businessman

Forty years ago, an energetic and determined young man became an MCB customer. This was Khalid Mehmood Khan, who today is one of the country's leading businessmen. He has continued to find us extremely adaptable to his ever evolving banking needs. This is due to the smooth rapport we have with him and the way we understand him.

Whenever we visit Mr. Mehmood we make sure we know the history and current trends making the rounds in his much loved sport, cricket. We play the role of a supportive partner who is always ready to pad-up, go out and bat with him whenever required.



- All the statutory liabilities, if any, have been adequately disclosed in the financial statements.
- The number of board meetings held during 2005 were 4 and attended by directors as under:

S.No.	Name	Meetings Attended
1	Mian Mohammad Mansha	04
2	S. M. Muneer	01
3	Sheikh Mukhtar Ahmad*	01
4	Sheikh Muhammad Yaseen**	NIL
5	Tariq Rafi	03
6	Mohammad Arshad	04
7	Shahzad Saleem	03
8	Sarmad Amin	03
9	Aftab Ahmed Khan	04
10	Mian Umer Mansha	04
11	Atif Yaseen**	02
12	Mohammad Aftab Manzoor, CEO	03

* Resigned

** Due to death of Sheikh Muhammad Yaseen, Atif Yaseen was appointed to fill casual vacancy

- Value of investment including accrued income of provident and pension fund as at 30.06.2005 on the basis of audited accounts is:

Provident Fund Pak Staff	Rs. 5,228 million
Pension Fund Pak Staff	Rs. 7,422 million

- The aggregate shares held by followings are:

a) Associated Companies, undertakings & related parties

	No. of shares
1 Siddiqsons Denim Mills	21,604,630
2 Din Leather (Pvt) Ltd.	2,837,234
3 Adamjee Insurance Co. Ltd.	4,043,200
4 MCB Employees Pension Fund	37,471,092
5 MCB Provident Fund Pakistan Staff	19,277,026
6 Pak Asian Fund Ltd.	68
7 BSJS Balanced Fund Ltd.	186,400

b) NIT	25,000
c) ICP	376,222

d) Directors	Self	Spouse & Children	Total
1 Mian Mohammad Mansha	3,206	19,127,693	19,130,899
2 S. M. Muneer	522,120	27,106	549,226
3 Tariq Rafi	1,790,134	48,142	1,838,276
4 Mohammad Arshad	1,934,053	1,074,978	3,009,031
5 Shahzad Saleem	1,168	-	1,168
6 Sarmad Amin	1,168	-	1,168

7 Aftab Ahmed Khan	6,391	-	6,391
8 Mian Umer Mansha	67,500	-	67,500
9 Atif Yaseen	51,000	-	51,000
10 Mohammad Aftab Manzoor	50,000	-	50,000
11 Other Executives			110,698

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

Name	Purchases / transfers	Sales / transfers
S. M. Muneer	10,000	
Tariq Rafi	50,000	
Mohammad Arshad		400,090
Mrs. Mohammad Arshad	216,013	472,257
Aftab Ahmed Khan	5,000	
Mian Umer Mansha	63,500	
Atif Yaseen	51,000	
Mohammad Aftab Manzoor, CEO	50,000	
Ali Munir, CFO	17,400	
Tahir Hassan Qureshi, Secretary	5,000	

Statement on Internal Controls:

In terms of State Bank of Pakistan Circular No. BSD 7 dated May 27, 2004 "Guidelines on Internal Control" and subsequent clarification under BSD circular letter No.3 dated January 26, 2005, the Board of Directors is pleased to endorse the following evaluation of management.

The Management is responsible for establishing and maintaining a system of adequate internal controls and procedures for implementing strategies 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 therefrom; developing processes that identify measures, 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 to review of internal controls, the internal auditors reporting significant findings directly to the 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.

However, 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 the Board of Directors in the internal controls and the policies and procedures which are continually being reviewed and updated not only to conform to and achieve full compliance with State Bank of Pakistan's Guidelines on Internal Controls in letter and spirit both, but also to conform, wherever feasible and practicable, with international best practices and good corporate governance models. This is and will continue to be an ongoing process to which the Board of Directors and the Management remain fully committed and supportive.

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 mis-statement or loss.

Risk Management

The cornerstone of our risk management approach is the strong risk culture that is propagated and supported by a partnership between risk management and businesses. This culture is based on a fundamental and philosophical core that guides the overall approach to risk, which entails an understanding of what risks to take, the desired risk appetite in exchange for an appropriate return and policy guidelines that support and govern the risks of the enterprise.

The Board and the Risk Management Committee provide oversight to risk management processes across the entire organization, which is supported by the Risk Management Group in line with the Risk Management Guidelines issued by the State Bank of Pakistan. The focus is on all the activities that affect our risk profile to ensure that:

- The organization's Risk exposure is within the limits established by the Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors.
- Expected payoffs compensate for the risks taken.
- Bank holds sufficient capital as a buffer for risk exposures.

While at the strategic and macro levels, we have restructured our risk management organization in line with the framework provided by the Risk Management Guidelines of the State Bank of Pakistan, the implementation of a framework for risk identification, measurement, monitoring and controlling at the micro level is more time intensive. We are, however, on course and for enterprise-wide implementation of Risk Management Guidelines and Basel II Capital Accord for which we have engaged the advisory services of a consultant of international repute.

Auditors

The Audit Committee has suggested names of M/s Riaz Ahmad & Company, Chartered Accountants and M/s KPMG Taseer Hadi & Company, Chartered Accountants as statutory auditors for the next

term in place of retiring auditors M/s Riaz Ahmad & Company, Chartered Accountants and M/s A. F. Ferguson & Company, Chartered Accountants. M/s A. F. Ferguson & Company Chartered Accountants are being retired in compliance with Code of Corporate Governance. The Board of Directors, on the suggestion of Audit Committee recommended the names of M/s Riaz Ahmad & Company, Chartered Accountants and M/s KPMG Taseer Hadi & Company, Chartered Accountants as statutory auditors for next term. Both firms being eligible offer themselves for appointment till the conclusion of next AGM.

Directors

This year in AGM, shareholders shall elect directors on completion of three years term. The board has fixed number of elected directors as 9.

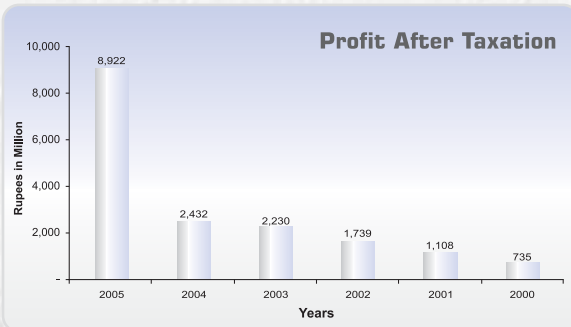
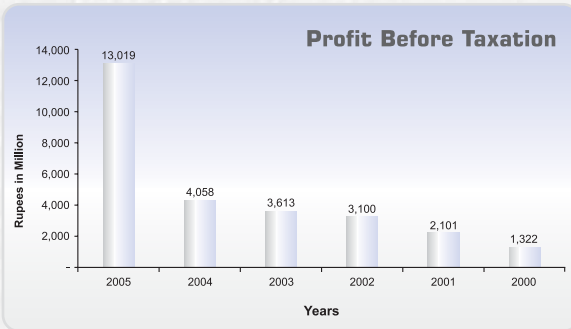
On behalf of Directors

February 24, 2006

Mian Mohammad Mansha
Chairman



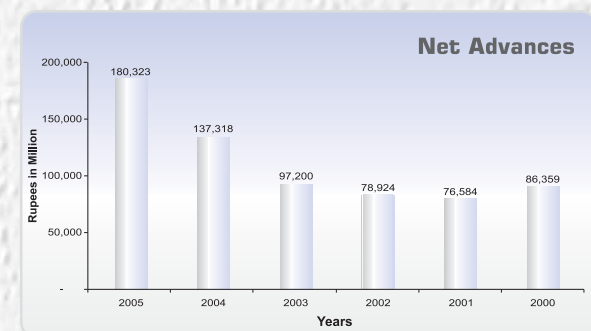
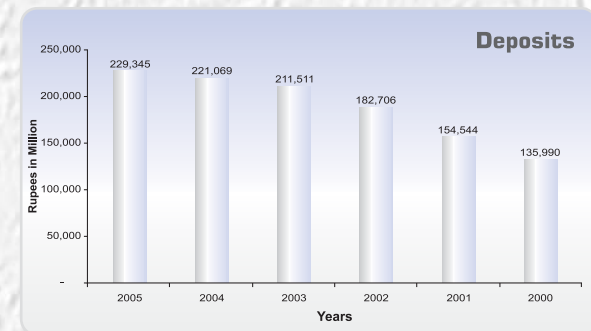
Six Years Progress



	2005	2004	2003	2002	2001	2000
(Rupees in Million)						
OPERATING RESULTS						
Mark-up / return earned	17,756	9,084	10,370	15,386	17,033	14,124
Mark-up / return expensed	2,781	2,058	2,933	6,075	7,545	7,239
Fee, commission, brokerage & FX income	4,065	3,061	2,118	1,909	1,944	2,393
Fund based Income	14,975	7,026	7,437	9,311	9,488	6,885
Dividend and Capital gains	1,348	1,172	2,414	681	257	371
Total Income	20,388	11,259	11,969	11,901	11,689	9,649
Provisions / Write-off	1,072	429	831	722	2,256	1,162
Operating expenses	6,638	7,286	7,525	8,079	7,332	7,165
Exceptional item	341	514	-	-	-	-
Operating Profit before tax and Provision	14,091	4,487	4,444	3,822	4,357	2,484
Profit before taxation	13,019	4,058	3,613	3,100	2,101	1,322
Profit After Tax	8,922	2,432	2,230	1,739	1,108	735
Dividends	1,715	843	843	666	606	165
Bonus Shares	853	337	307	400	-	421
BALANCE SHEET						
Authorised Share Capital	6,500	6,500	3,500	3,500	3,500	3,500
Paid-up Capital	4,265	3,372	3,065	2,665	2,423	2,203
Shareholders' equity	17,884	9,199	7,726	6,314	4,986	4,484
Total Assets	298,777	259,174	272,324	235,139	187,054	174,715
Revaluation Reserves	5,424	5,354	3,383	5,385	1,901	1,109
Deposits	229,345	221,069	211,511	182,706	154,544	135,990
Borrowings from financial institutions	27,378	7,591	32,628	21,988	8,947	16,891
Advances - net of provisions	180,323	137,318	97,200	78,924	76,584	86,359
Investments - net of provisions	69,481	67,195	128,277	89,577	55,432	43,111

Six Years Progress

	2005	2004	2003	2002	2001	2000
FINANCIAL RATIOS						
Gross Spread ratio (Net Markup Income / Gross Markup Income)	84.34%	77.35%	71.72%	60.52%	55.70%	48.75%
Income / Expense ratio	3.07:1	1.55:1	1.59:1	1.47:1	1.59:1	1.35:1
Return on Average Equity (ROE)	65.89%	28.73%	31.77%	30.77%	23.40%	17.50%
Return on Average Assets (ROA)	3.20%	0.91%	0.88%	0.82%	0.61%	0.44%
Loan / Deposits Ratio	78.63%	62.12%	45.96%	43.20%	49.55%	63.50%
Total Assets Turnover Ratio / Fixed Assets Turnover Ratio (Total Assets / Fixed Assets)	36.51	32.40	59.42	61.47	51.11	48.47
Price Earning Ratio	7.86	8.14	7.06	5.11	4.11	9.71
Earning per Share (EPS) (After Tax)	21.36	7.21	7.28	6.52	4.57	3.34
Market Value per Share	167.80	58.70	51.40	33.35	18.80	32.40
Book Value per share	41.93	27.28	25.21	23.69	20.58	20.35
Book Value per share including Surplus/(Deficit) on revaluation	54.64	43.16	36.24	43.89	28.42	25.39
Number of Branches	952	946	986	1,045	1,061	1,210
Number of Employees	9,377	9,889	10,164	10,926	11,614	12,133
Number of Accounts	4,248,399	4,122,338	4,433,539	4,463,530	4,392,164	5,062,364
OTHERS						
Imports	138,047	89,653	64,453	48,842	53,008	66,910
Exports	54,794	37,796	28,609	28,284	34,968	33,575





Statement of Compliance with the Code of Corporate Governance for year ended December 31, 2005

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation no. 37 chapter XIII and XI of listing regulations of Karachi, Lahore and Islamabad Stock Exchange (Guarantee) Limited respectively, for the purpose of establishing a framework of good governance, whereby a listed company is in compliance with the best practices of corporate governance.

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 the President.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFIs or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. During the year Sheikh Mukhtar Ahmed, Director tendered his resignation and Sheikh Muhammad Yaseen was appointed to fill the casual vacancy. However, due to sad demise of Sheikh Muhammad Yaseen, Mr. Atif Yaseen was appointed as Director to fill casual vacancy.
5. The Bank in the year 2002 has prepared a Statement of Ethics and Business Practices for directors & employees. It has been signed by the directors and by employees of the Bank. During the year, it has been circulated as required under the Code.
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 alongwith the dates on which these were approved or amended has been maintained. Some of the significant policies are under compilation.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met atleast once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated atleast seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated. The Company Secretary and Chief Financial Officer (CFO) attend the meetings of the Board of Directors.
9. The orientation courses for directors have been arranged in the past and appropriate arrangements shall be made in future as and when required.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
12. 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.
13. The Bank has complied with all the corporate and financial reporting requirements.
14. The Board has formed an audit committee. It comprises of 3 members, all are non-executive directors including the Chairman of the Committee.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The board has set up an internal audit function.
17. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied with.

On behalf of Directors

Mian Mohammad Mansha
Chairman

Dated: February 24, 2006



Auditors' 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, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of 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 personnel and review of various documents prepared by the Bank to comply with the Code.

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

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

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Riaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 24, 2006



Auditors' Report to the Members

We have audited the annexed balance sheet of **MCB Bank Limited** as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixty-one branches which have been audited by us and four 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 Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of accounts have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in note 5.7 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2005 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Riaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 24, 2006

Balance Sheet as at December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
ASSETS			
Cash and balances with treasury banks	6	23,665,549	23,833,253
Balances with other banks	7	1,469,333	5,708,323
Lendings to financial institutions	8	9,998,828	10,965,297
Investments - net	9	69,481,487	67,194,971
Advances - net	10	180,322,753	137,317,773
Other assets - net	11	5,464,426	6,154,370
Operating fixed assets	12	8,182,454	7,999,821
Deferred tax assets - net	19	191,967	-
		298,776,797	259,173,808
LIABILITIES			
Bills payable	14	8,536,674	7,566,684
Borrowings from financial institutions	15	27,377,502	7,590,864
Deposits and other accounts	16	229,345,178	221,069,158
Sub-ordinated loan	17	1,598,080	1,598,720
Liabilities against assets subject to finance lease		-	-
Other liabilities	18	8,611,600	6,525,999
Deferred tax liabilities - net	19	-	269,499
		275,469,034	244,620,924
NET ASSETS		23,307,763	14,552,884
REPRESENTED BY:			
Share capital	20	4,265,327	3,371,800
Reserves	21	13,408,005	5,661,553
Unappropriated profit		210,662	165,208
		17,883,994	9,198,561
Surplus on revaluation of assets - net of tax	22	5,423,769	5,354,323
		23,307,763	14,552,884
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 49 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director



Profit and Loss Account for the year ended December 31, 2005

	Note	2005	2004 Restated (Rupees '000)
Mark-up / return / interest earned	24	17,756,232	9,083,863
Mark-up / return / interest expensed	25	2,781,468	2,057,640
Net mark-up / interest income		14,974,764	7,026,223
Reversal of provision for diminution in the value of investments	9.3	(98,982)	(172,876)
Provision against loans and advances	10.4.1	1,242,153	442,595
Provision for potential lease losses	10.4.1	-	1,200
Bad debts written off directly	10.5.1	1,184	8,771
		1,144,355	279,690
Net mark-up / interest income after provisions		13,830,409	6,746,533
NON-MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		2,448,950	1,992,356
Dividend income		480,344	378,908
Income from dealing in foreign currencies		531,455	492,738
Gain on investments		866,895	804,419
Gain / (loss) on trading in government securities		851	(11,440)
Other income	26	1,084,576	576,007
Total non-mark-up / interest income		5,413,071	4,232,988
		19,243,480	10,979,521
NON-MARK-UP / INTEREST EXPENSES			
Administrative expenses	27	6,459,490	7,244,200
(Reversal) / other provisions	11.2	(72,740)	149,593
Other charges	28	178,841	41,864
Total non-mark-up / interest expenses		6,565,591	7,435,657
Exceptional item			
Compensation on delayed tax refunds	29	340,598	513,852
PROFIT BEFORE TAXATION		13,018,487	4,057,716
Taxation - Current year	30	4,611,359	1,555,764
- Prior years	30	(149,763)	-
- Deferred	30	(365,524)	70,420
		4,096,072	1,626,184
PROFIT AFTER TAXATION		8,922,415	2,431,532
Unappropriated profit brought forward		165,208	195,966
Transfer from surplus on revaluation of fixed assets - net of tax		83,749	25,839
		248,957	221,805
Profit available for appropriation		9,171,372	2,653,337
APPROPRIATIONS			
Transfer to:			
Statutory reserve		892,241	507,999
General reserve		5,500,000	800,000
Capital reserve		-	-
Proposed cash dividend Re 1 per share (2004: Rs Nil per share)		426,533	-
Reserve for issue of bonus shares-Final @ 20 % (2004: 10%)		853,065	337,180
Interim cash dividend Rs 1.75 (2004:Re 1.00) per share		649,072	337,180
Interim cash dividend Rs 1.50 (2004:Rs 1.50) per share		639,799	505,770
		8,960,710	2,488,129
Unappropriated profit carried forward		210,662	165,208
		9,171,372	2,653,337
Basic and diluted earnings per share - after tax	33	21.36	5.99

The annexed notes 1 to 49 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director

Cash Flow Statement for the year ended December 31, 2005

	Note	2005	2004 Restated
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		13,018,487	4,057,716
Less: Dividend income		(480,344)	(378,908)
		<u>12,538,143</u>	<u>3,678,808</u>
Adjustments for non-cash charges			
Depreciation		575,538	598,928
Amortisation		60,113	-
Provision against loans and advances		1,242,153	442,595
Reversal of provision for diminution in the value of investments (Reversal) / Provision for diminution in the value of other assets		(98,982)	(172,876)
Bad debts written off directly		(72,740)	149,593
Provision for potential lease losses		1,184	8,771
Gain on disposal of non-banking asset		-	1,200
Loss on disposal of fixed assets		(24,664)	-
Surplus on revaluation of 'held for trading' securities		22,114	(39,324)
		(1,634)	-
		<u>1,703,082</u>	<u>988,887</u>
		<u>14,241,225</u>	<u>4,667,695</u>
(Increase)/decrease in operating assets			
Lendings to financial institutions		966,469	(534,847)
Advances - net		(44,248,317)	(40,570,160)
Other assets - net		(2,264,032)	(317,180)
		<u>(45,545,880)</u>	<u>(41,422,187)</u>
Increase/(decrease) in operating liabilities			
Bills payable		969,990	(829,636)
Borrowings from financial institutions		19,786,638	(25,037,087)
Deposits and other accounts		8,276,020	9,557,765
Other liabilities		982,933	26,142
		<u>30,015,581</u>	<u>(16,282,816)</u>
		<u>(1,289,074)</u>	<u>(53,037,308)</u>
		<u>(1,152,343)</u>	<u>(683,995)</u>
		<u>-</u>	<u>370,208</u>
		<u>(2,441,417)</u>	<u>(53,351,095)</u>
Income tax paid			
Income tax refund			
Net cash used in operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in 'available for sale' securities		(20,301,953)	105,292,873
Net investments in 'held to maturity' securities		18,278,483	(45,878,054)
Net investments in 'held for trading' securities		(66,056)	-
Dividends received		588,153	181,258
Investments in operating fixed assets		(1,029,307)	(1,265,675)
Investments in subsidiary companies and associated undertakings		(77)	-
Sale proceeds of non-banking asset		589,676	-
Sale proceeds of property and equipment disposed off		127,254	81,308
Net cash (used in) / from investing activities		<u>(1,813,827)</u>	<u>58,411,710</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of subordinated loan		(640)	(640)
Proceeds from issue of right shares		1,390,868	-
Dividend paid		(1,545,483)	(818,306)
Net cash outflow on financing activities		<u>(155,255)</u>	<u>(818,946)</u>
Exchange differences on translation of cash and cash equivalents in foreign branches		3,805	(56,354)
(Decrease) / increase in cash and cash equivalents		<u>(4,406,694)</u>	<u>4,185,315</u>
Cash and cash equivalents at beginning of the year		29,547,922	25,500,460
Effects of exchange rate changes on cash and cash equivalents		(6,346)	(144,199)
Cash and cash equivalents at end of the year	34	<u>29,541,576</u>	<u>25,356,261</u>
		<u>25,134,882</u>	<u>29,541,576</u>

The annexed notes 1 to 49 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director



Statement of Changes in Equity for the year ended December 31, 2005

	CAPITAL RESERVES				REVENUE RESERVES			Total
	Share capital	Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve	Unappropriated profit	
	(Rupees '000)							
Balance as at December 31, 2003 - as reported earlier	3,065,273	473,673	306,527	-	2,599,055	1,000,000	281,636	7,726,164
Effect of change in accounting policy in respect of recognition of cumulative unrecognised actuarial gains / (losses) - note 5.7	-	-	-	-	-	-	(85,670)	(85,670)
Balance as at December 31, 2003 - restated	3,065,273	473,673	306,527	-	2,599,055	1,000,000	195,966	7,640,494
Profit after taxation for the year ended December 31, 2004 - restated	-	-	-	-	-	-	2,431,532	2,431,532
Transferred from surplus on revaluation of fixed assets to un appropriated profit - net of tax	-	-	-	-	-	-	25,839	25,839
Exchange differences on translation of net investment in foreign branches	-	-	-	(56,354)	-	-	-	(56,354)
Issue of bonus shares	306,527	-	(306,527)	-	-	-	-	-
Transferred to general reserve	-	-	-	-	-	800,000	(800,000)	-
Transferred to statutory reserve	-	-	-	-	507,999	-	(507,999)	-
Interim cash dividend - March 2004	-	-	-	-	-	-	(337,180)	(337,180)
Interim cash dividend - September 2004	-	-	-	-	-	-	(505,770)	(505,770)
Transferred to reserve for issue of bonus shares - final	-	-	337,180	-	-	-	(337,180)	-
Balance as at December 31, 2004	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	165,208	9,198,561
Profit after taxation for the year ended December 31, 2005	-	-	-	-	-	-	8,922,415	8,922,415
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	83,749	83,749
Exchange differences on translation of net investment in foreign branches	-	-	-	3,805	-	-	-	3,805
Transferred to statutory reserve	-	-	-	-	892,241	-	(892,241)	-
Interim cash dividend - March 2005	-	-	-	-	-	-	(649,072)	(649,072)
Interim cash dividend - September 2005	-	-	-	-	-	-	(639,799)	(639,799)
Transferred to general reserve	-	-	-	-	-	5,500,000	(5,500,000)	-
Issue of bonus shares	337,180	-	(337,180)	-	-	-	-	-
Issue of right shares	556,347	834,521	-	-	-	-	-	1,390,868
Transferred to reserve for issue of bonus shares - final	-	-	853,065	-	-	-	(853,065)	-
Proposed cash dividend - Final	-	-	-	-	-	-	(426,533)	(426,533)
Balance as at December 31, 2005	4,265,327	1,308,194	853,065	(52,549)	3,999,295	7,300,000	210,662	17,883,994

The annexed notes 1 to 49 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director

Notes to the Financial Statements for the year ended December 31, 2005

1. STATUS AND NATURE OF BUSINESS

MCB Bank Limited (formerly Muslim Commercial Bank Limited) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all the stock exchanges in Pakistan. The bank's registered office and principal office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB Tower, I.I. Chundrigar Road, Karachi respectively. The bank operates 947 branches including 5 Islamic banking branches (2004: 941 branches including 3 Islamic banking branches) inside Pakistan and 5 (2004: 5) branches outside the country (including the Karachi Export Processing Zone Branch).

Subsequent to the year end, the bank has established MCB Asset Management Company Limited. The company has not commenced its operations and will be engaged in providing investment advisory services.

2. BASIS OF PRESENTATION

2.1 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 utilised and the appropriate portion of mark-up thereof.

2.2 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 note 35 to these financial statements.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

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

The following IAS, which have been published, have been revised and the amendments are applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2006 or later periods:

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

Adoption of the above amendments would result in an impact on the extent of disclosures presented in the future financial statements of the bank.

3.3 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. 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.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that certain fixed assets are stated at revalued amounts, certain investments, commitments in respect of certain forward exchange contracts and derivative financial instruments have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

The preparation of financial statements in conformity with International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 43.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The bank classifies its investments as follows:



Notes to the Financial Statements for the year ended December 31, 2005

(a) Held for trading

These are securities, which are either acquired for generating a 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 recognised at cost which includes 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 recognised 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 SBP, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under IAS 28), 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.

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. Investments classified as 'held to maturity' are carried at amortised cost. Investments in subsidiaries and investments in associates (which qualify for accounting under IAS 28) are carried at cost.

Provision for diminution in the values of securities (except debentures, participation term certificates and term finance certificates) is made after considering permanent impairment, if any, in their value. Provisions for diminution 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 from financial institutions. Securities purchased under an agreement to resell (reverse repo) are not recognised 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 recognised as mark-up income / expense on 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 Prudential Regulations and other directives issued by SBP and charged to the profit and loss account. Provisions comprise of provisions against identified losses and provisions against 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. These provisions are maintained on a consistent basis. 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 the ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

5.4 Fixed assets and depreciation

Property and equipment, other than land which is not depreciated, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Depreciation on all property and equipment is charged using the diminishing balance method except for vehicles, computers, carpets and buildings which are depreciated using the straight line method in accordance with the rates specified in note 12.1 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.

Notes to the Financial Statements for the year ended December 31, 2005

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 property and equipment 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 property and equipment (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 property and equipment (net of deferred taxation) is transferred directly to unappropriated profit.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalised.

5.5 Intangible assets

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

The intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any are taken to the profit and loss account.

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 amount. 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

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



Notes to the Financial Statements for the year ended December 31, 2005

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 1,2000) the bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to its 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 completion of qualifying period of service.

During the current year, the bank has changed its accounting policy in respect of recognition of net cumulative actuarial gains and losses at each balance sheet date. The change has been made as the management is of the view that the new policy, which results in faster recognition of actuarial gains and losses in the financial statements, provides more relevant and realistic presentation of the financial statements and financial results therein. According to the new policy, the net cumulative actuarial gains / losses at each balance sheet date are recognized equally over a period of three years or the expected remaining average working lives of employees, whichever is lower. Previously, net cumulative actuarial gains / losses, in excess of the higher of the following corridor limits, were recognized over the expected remaining average working lives of employees on a straight-line basis.

(i) 10 percent of the present value of the defined benefit obligation (before deducting plan assets); or

(ii) 10 percent of the fair value of plan assets.

In accordance with the requirements of IAS 8; "Accounting Policies, Changes in Accounting estimates and errors", the effect of the change in accounting policy, amounting to Rs 85.67 million (net of tax), has been adjusted in the opening balance of unappropriated profit as at January 1, 2004 and the comparative information has been restated.

The effect of the change in accounting policy for 2005 and 2004 is tabulated below:

	2005 (Rupees '000)	2004
- Profit before taxation would have been (lower) / higher by	(1,505,088)	145,727
- Other assets would have been (lower) / higher by	(1,534,722)	95,469
- Other liabilities would have been lower by	273,021	127,760
- Deferred tax income would have been lower by	43,786	16,742
- Current tax charge would have been (lower) / higher by	(593,719)	20,523
	————— (Rupees) —————	
- Basic and diluted earnings per share - after taxation would have been (lower) / higher by	(2.29)	0.27

5.8 Employees' compensated absences

Liability in respect of employees' compensated absences are accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains or losses if any, are recognised immediately.

5.9 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, if any. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and

Notes to the Financial Statements for the year ended December 31, 2005

liabilities for financial reporting purposes and amounts used for taxation purposes. The bank records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A 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 fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard 12, 'Income Taxes'.

5.10 Provisions

Provisions are recognised 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.

5.11 Dividend distribution

Dividend distribution (including stock dividend) is accounted for in the year to which they relate.

5.12 Foreign currencies

5.12.1 Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling 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.

5.12.2 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 rupee at the average rate of exchange for the year.

5.12.3 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 operations, which are taken to the capital reserve (Exchange Translation Reserve).

5.12.4 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 ruling on the balance sheet date.

5.13 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by SBP.
- 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.
- Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of SBP or overseas regulatory authorities of the country where the foreign operations of the bank operate. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.



Notes to the Financial Statements for the year ended December 31, 2005

- Commission income is recognised on a time proportion basis.
- Dividend income is recognised when the bank's right to receive dividend is established.
- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.
- Profit / loss on sale of investments is credited / charged to profit and loss account currently.

5.14 Operating leases

Operating lease rentals are recorded on a time proportion basis over the term of the lease arrangement.

5.15 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with banks in current and deposit accounts.

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings from financial institutions, deposits and other payables. 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 recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

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 realise the assets and settle the liabilities, simultaneously.

	Note	2005 (Rupees '000)	2004
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	4,943,189	5,492,045
- foreign currencies		530,781	301,749
In transit - local currency		575,694	482,006
- foreign currencies		14,028	96,429
With State Bank of Pakistan in:	6.2		
Local currency current account		12,958,433	12,986,121
Local currency deposit account		460	460
Foreign currency deposit account		1,901,621	1,734,196
With other central banks in foreign currency current account	6.2	193,088	115,419
With National Bank of Pakistan in local currency current account		2,548,255	2,624,828
		<u>23,665,549</u>	<u>23,833,253</u>

Notes to the Financial Statements for the year ended December 31, 2005

- 6.1 This includes national prize bonds amounting to Rs 47.799 million (2004: Rs 36.161 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.

	Note	2005 (Rupees '000)	2004
7. BALANCES WITH OTHER BANKS			
Inside Pakistan in current account		3,288	6,847
Outside Pakistan			
- current account		917,900	1,729,354
- deposit account		548,145	3,972,122
		<u>1,469,333</u>	<u>5,708,323</u>

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		8,650,000	7,200,000
Repurchase agreement lendings	8.1	1,348,828	3,765,297
		<u>9,998,828</u>	<u>10,965,297</u>

8.1 Securities held as collateral against lendings to financial institutions

	2005			2004		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees '000)					
Market Treasury Bills	848,828	-	848,828	495,297	-	495,297
Pakistan Investment Bonds	500,000	-	500,000	3,270,000	-	3,270,000
	<u>1,348,828</u>	<u>-</u>	<u>1,348,828</u>	<u>3,765,297</u>	<u>-</u>	<u>3,765,297</u>

9. INVESTMENTS - NET

9.1 Investments by types

Note	2005			2004		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	(Rupees '000)					
Held for trading securities						
- Shares in listed companies	66,056	-	66,056	-	-	-
Available-for-sale securities						
- Market Treasury Bills	19,605,074	4,824,186	24,429,260	3,186,553	-	3,186,553
- Pakistan Investment Bonds	2,039,818	-	2,039,818	4,721,435	-	4,721,435
- Shares in listed companies	5,034,777	-	5,034,777	3,833,352	-	3,833,352
- Shares in unlisted companies	443,369	-	443,369	461,100	-	461,100
- NIT units	83	-	83	9,557	-	9,557
- Listed Term Finance Certificates	1,173,320	-	1,173,320	608,862	-	608,862
	<u>28,296,441</u>	<u>4,824,186</u>	<u>33,120,627</u>	<u>12,820,859</u>	<u>-</u>	<u>12,820,859</u>



Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005			2004		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees '000)							
Held-to-maturity securities							
- Market Treasury Bills	9.4	7,872,469	14,698,045	22,570,514	38,888,686	499,363	39,388,049
- Federal Investment Bonds		-	-	-	480,500	-	480,500
- Pakistan Investment Bonds	9.4	2,467,983	-	2,467,983	2,532,406	-	2,532,406
- Federal Government Securities		992,861	-	992,861	1,097,199	-	1,097,199
- Provincial Government Securities		118	-	118	118	-	118
- Government Compensation Bonds		870,771	-	870,771	870,771	-	870,771
- Sukuk Bonds		759,767	-	759,767	-	-	-
- Euro Bonds		2,971,758	-	2,971,758	3,286,190	-	3,286,190
- TFCs, Debentures, Bonds and PTCs		1,876,119	-	1,876,119	3,580,526	-	3,580,526
- Certificates of Investment		1,500,000	-	1,500,000	1,100,000	-	1,100,000
		19,311,846	14,698,045	34,009,891	51,836,396	499,363	52,335,759
Subsidiaries	9.15						
MNET Services (Private) Limited		49,975	-	49,975	49,975	-	49,975
MCB Trade Services Limited		77	-	77	-	-	-
Muslim Commercial Financial Services (Private) Limited		7,500	-	7,500	7,500	-	7,500
		57,552	-	57,552	57,475	-	57,475
Associates	9.14						
Adamjee Insurance Company Limited	9.6	943,600	-	943,600	943,600	-	943,600
First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		1,006,900	-	1,006,900	1,006,900	-	1,006,900
		48,738,795	19,522,231	68,261,026	65,721,630	499,363	66,220,993
Less: Provision for diminution in the value of investments	9.3	(547,424)	-	(547,424)	(695,976)	-	(695,976)
Surplus / (deficit) on revaluation of available for sale investments - net	22.2	1,770,015	(3,764)	1,766,251	1,669,954	-	1,669,954
Surplus on revaluation of 'held for trading' investments - net		1,634	-	1,634	-	-	-
Investments at revalued amounts - net of provisions		<u>49,963,020</u>	<u>19,518,467</u>	<u>69,481,487</u>	<u>66,695,608</u>	<u>499,363</u>	<u>67,194,971</u>

	Note	2005	2004
(Rupees '000)			
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	46,999,774	42,574,602
- Federal Investment Bonds		-	480,500
- Pakistan Investment Bonds	9.4	4,507,801	7,253,841
- Others			
- Federal Government Securities		992,861	1,097,199
- Government Compensation Bonds		870,771	870,771
- Euro Bonds		2,971,758	3,286,190
- Sukuk Bonds		759,767	-
Provincial Government Securities		118	118

Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005 (Rupees '000)	2004
Subsidiaries and Associated Undertakings	9.6, 9.14 and 9.15	1,064,452	1,064,375
Fully Paid-up Ordinary Shares:			
- Listed Companies	9.10	5,035,363	3,817,882
- Unlisted Companies	9.5 and 9.12	443,369	461,100
Fully Paid Preference Shares:			
- Listed Companies		65,470	15,470
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates		1,173,320	608,862
- Unlisted Term Finance Certificates		1,271,631	728,517
- Debentures, Bonds and Participation Term Certificates		604,488	2,852,009
- Certificates of Investment		1,500,000	1,100,000
Other Investments:			
- NIT Units		83	9,557
Less: Provision for diminution in the value of investments	9.3	68,261,026 (547,424)	66,220,993 (695,976)
Add: Surplus on revaluation of available for sale investments - net	22.2	1,766,251	1,669,954
Surplus on revaluation of held for trading investments - net		1,634	-
Investments at revalued amounts (net of provisions)		<u>69,481,487</u>	<u>67,194,971</u>
9.3 Particulars of provision for diminution in the value of investments			
Opening balance		695,976	868,852
Investment written off against provision		(49,570)	-
Reversal during the year		(98,982)	(172,876)
Closing balance		<u>547,424</u>	<u>695,976</u>
9.4 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting.			
9.5 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 300 million (2004: Rs 300 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the bank cannot sell or transfer their investment before a period of five years due on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to the prior approval of the SBP. In addition, profit, if any, and other income of Khushhali Bank, shall not be used to pay any dividend to the members, and shall be utilised to promote the objectives of Khushhali Bank.			
9.6 Investment of the bank in Adamjee Insurance Company Limited has been carried at cost amounting to Rs 943.600 million as at December 31, 2005 (December 31, 2004 Rs 943.600 million) 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, 2005 amounting to Rs. 3,296.847 million (2004: Rs 1,578.636 million).			
9.7 Market value of quoted investments was Rs 62,426.106 million (2004: Rs 57,468.087 million) and book value of unquoted investments was Rs 8,968.826 million (2004:10,032.797 million).			
9.8 Investments include Pakistan Investment Bonds amounting to Rs 232.60 million (2004: Pakistan Investment Bonds and Federal Investment Bonds amounting to Rs 232.55 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 (2004: Rs 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.			
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, 2005

9.10 Particulars of investments held in listed companies and modarabas

Investee	Number of ordinary and preference shares /certificates held	Paid-up value per share/ certificate	Total paid-up /nominal value
		(Rupees)	
Listed Shares / Certificates			
Abamco Composite Fund	3,250,000	10	32,500,000
Al-Ghazi Tractors Limited	67,200	5	336,000
Allied Bank Limited	341,000	10	3,410,000
Al-Meezan Islamic Fund Limited	1,000,000	50	50,000,000
Al-Meezan Mutual Fund Limited	1,512,026	10	15,120,260
Askari Commercial Bank Limited	90,000	10	900,000
Atlas Income Fund	109,744	500	54,872,000
Atlas Stock Market Fund	22,499	500	11,249,500
Azgard Nine Limited	1,546,989	10	15,469,890
Baig Spinning Mills Limited	390,230	10	3,902,300
Bank Al-Habib Limited	246,201	10	2,462,010
Bank Alfalah Limited	125,000	10	1,250,000
The Bank of Punjab	325,000	10	3,250,000
BSJS Balanced Fund Limited	558,245	10	5,582,450
Century Paper and Board Mills Limited	199,300	10	1,993,000
E.F.U. General Insurance Limited	444,801	10	4,448,010
Engro Chemical Pakistan Limited	584,589	10	5,845,890
Fauji Fertilizer Company Limited	6,360,084	10	63,600,840
GlaxoSmithKline Pakistan Limited	100,655	10	1,006,550
Honda Atlas Cars (Pakistan) Limited	111,500	10	1,115,000
The Hub Power Company Limited	26,769,500	10	267,695,000
Indus Motors Company Limited	249,300	10	2,493,000
International General Insurance Company Pakistan Limited	7,187	10	71,870
Kot Addu Power Company Limited	2,949,400	10	29,494,000
Kohinoor Energy Limited	55,500	10	555,000
Lucky Cement Limited	131,000	10	1,310,000
Maple Leaf Cement Company Limited	75,000	10	750,000
Masood Textile Mills Limited - preference shares	5,000,000	10	50,000,000
Meezan Balanced Fund	1,000,000	10	10,000,000
Mehr Dastgir Textile Mills Limited	1,617,412	10	16,174,120
Millat Tractors Limited	661,003	10	6,610,030
National Bank of Pakistan	208,500	10	2,085,000
Oil and Gas Development Corporation Limited	175,062	10	1,750,620
Orix Leasing Pakistan Limited	220,800	10	2,208,000
P. I. C. I. C. Growth Fund	62,250	10	622,500
Pakistan Industrial Credit and Investment Corporation Limited	600,000	10	6,000,000
Pakistan Reinsurance Company Limited	25,000	10	250,000
Packages Limited	319,448	10	3,194,480
Pakistan Petroleum Limited	20,000	10	200,000
Pakistan Oilfields Limited	520,860	10	5,208,600
Pakistan State Oil Company Limited	570,020	10	5,700,200
Pakistan Telecommunication Company Limited	1,642,656	10	16,426,560
Redco Textile Limited	500,000	10	5,000,000
Rupali Polyester Limited	658,545	10	6,585,450
Sui Northern Gas Pipelines Limited	44,351,839	10	443,518,390
Thal Jute Mills Limited	250,000	5	1,250,000
Trust Securities and Brokerage Limited	300,000	10	3,000,000
Unilever Pakistan Limited	22,800	50	1,140,000
Union Bank Limited	33,000	10	330,000
United Bank Limited	893,300	10	8,933,000
Unit Trust of Pakistan	10,000	5,000	50,000,000
Modaraba Certificates			
	Name of the Management Company		
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,583,270	10
Standard Chartered Modaraba	Standard Chartered Services of Pakistan (Private) Limited	215,250	10

Notes to the Financial Statements for the year ended December 31, 2005

9.11 Particulars of investments in Term Finance Certificates

Investee	Number of certificates held	Paid-up value per certificate	Total Paid-up value	Name of Chief Executive
Aruj Textile Mills Limited	1	295,900	295,900	Mr. Sheikh Mohammed Tahir
Rai Textile Mills Limited	1	382,500	382,500	Mr. Jawed A. Kiyani
Al-Abbas Sugar Mills Limited	10,000	2,895	28,947,360	Mr. Shunaid Qureshi
	10,000	2,895	28,947,360	
	20,000		57,894,720	
Dawood Investment Bank Limited	5,650	5,000	28,250,000	Mr. Rafique Dawood
	30	100,000	3,000,000	
	5,680		31,250,000	
Jahangir Siddiqui & Company Limited	39,968	4,999	199,800,000	Mr. Munaf Ibrahim
	56	4,997,000	279,832,000	
	40,024		479,632,000	
Pakistan Services Limited	20,000	640	12,793,748	Mr. Murtaza Hashwani
SPV Securetel Limited	3,185	417	1,327,054	Mr. Nusrat Yar Ahmed
Pak Kuwait Investment Company (Private) Limited	100,000	5,000	500,000,000	Mr. Istaqbal Mehdi
Sui Southern Gas Company Limited	13,500	2,494	33,662,913	Mr. Munawar Baseer Ahmed
	2,000	16,654	33,308,000	
	15,500		66,970,913	
Reliance Export (Private) Limited	25	10,000,000	250,000,000	Mr. Mian Fawad Ahmed
Reliance Weaving Mills Limited	6,000	2,143	12,857,144	Mr. Fazal Ahmed Sheikh
Hira Textile Mills Limited	9,988	4,999	49,930,012	Mr. Nadeem Aslam Butt
Azgard Nine Limited	20,000	5,000	100,000,000	Mr. Ahmed H. Shaikh
Bank Al Habib Limited	20,000	4,998	99,960,000	Mr. Abbas D. Habib
Bank Al-Falah Limited	10,000	4,998	49,980,800	Mr. Mohammad Saleem Akhtar
	39,720	5,000	198,600,000	
	49,720		248,580,800	
Askari Commercial Bank Limited	20,000	4,999	99,980,000	Mr. Kalim- ur -Rehman
	19,980	5,000	99,900,000	
	39,980		199,880,000	
Soneri Bank Limited	30,000	4,999	149,970,000	Mr. Safar Ali K Lakhani

The above excludes Term Finance Certificates of companies which are fully provided for in these financial statements.



Notes to the Financial Statements for the year ended December 31, 2005

9.12 Particulars of investments held in unlisted companies

Company Name	Percentage of Holding	Number of shares held	Break-up value of investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees '000)					
Shareholding more than 10%					
Pak Asian Fund Limited	10.22%	1,150,000	16,595	30-Jun-05	Mr. Ashfaq A Berdi
Khushhali Bank Limited	17.60%	300	306,037	31-Dec-04	Mr. Ghalib Nishtar
First Women Bank Limited	26.78%	7,596,000	152,224	31-Dec-04	Ms. Zarine Aziz
MNET Services (Private) Limited	99.95%	4,997,500	54,823	31-Dec-04	Mr. Saulat Mujtaba
Muslim Commercial Financial Services (Private) Limited	99.99%	750,000	11,610	31-Dec-04	Mr. Agha Ahmed Shah
Central Depository Company of Pakistan Limited	13%	1,300,000	75,205	30-Jun-05	Mr. Muhammad Hanif Jakhura
MCB Trade Services Limited	100%	10,000	2,347	31-Dec-05	Mr. Aftab Manzoor
Shareholding upto 10%					
Abamco Limited		1,988,646	28,577	30-Jun-05	Mr. Muhammad Najam Ali
Equity Participation Fund		15,000	6,992	30-Jun-04	Mr. Jamil Nasim
National Institution for Facilitation of Technology (Private) Limited		472,744	16,669	30-Jun-05	Mr. Muzaffar Mahmood Khan
National Investment Trust Limited		52,800	75,997	30-Jun-05	Mr. Tariq Iqbal Khan
SME Bank Limited		1,117,992	16,535	31-Dec-04	Mr. Mansur Khan
Pakistan Agricultural Storage and Services Corporation		2,500	(97,690)	31-Mar-05	Mr. Maj. General Mohammad Iqbal Khan
Lanka Clearing (Private) Limited		100,000	569	31-Dec-05	Mr. Sarath De Silva
Credit Information Bureau of Sri Lanka		300	17	31-Dec-05	Mr. N.P.H. Amarasena

The above excludes shares of companies which are fully provided for in these financial statements.

9.13 Details of Bonds and Debentures

Bonds and Debentures	Terms of redemption		Rate of Interest	Currency	Foreign Currency (Amount '000)	Amount (Rupees '000)
	Principal	Interest				
Local Currency						
Rice Export Corporation of Pakistan	Yearly	Half-yearly	15%			465,756
Heavy Mechanical Complex	At Maturity	Yearly	6%			27,224
Public Sector Enterprises Bonds	At Maturity	Yearly	9%			286,557
Public Sector Enterprises Bonds	At Maturity	Yearly	6%			556,990
Pakistan Engineering Company	Half-yearly	Half-yearly	6 months weighted average treasury bill Rate			1,403
Foreign Currency						
Government of Pakistan	Yearly	Yearly	3 months LIBOR + 1 %	US \$	10,184	608,127
Euro Bonds-OBU Bahrain	At Maturity	Half-yearly	6.75%	US \$	48,256	2,881,560
Government Sukuk Bonds	At Maturity	Half-yearly	LIBOR + 2.2 %	US \$	12,723	759,767
Sri Lanka Development Bonds	At Maturity	Half-yearly	6.55%	SLRs	255,550	149,446
Euro Bonds-Sri Lanka	At Maturity	Half-yearly	6.75%	US \$	1,510	90,198
Government of Sri Lanka Treasury Bonds	At Maturity	Half-yearly	11.75%	SLRs	377,894	220,992

The above excludes bonds and debentures which are fully provided for in these financial statements.

Notes to the Financial Statements for the year ended December 31, 2005

9.14 Summarised financial information of associated undertakings

The gross amount of assets, liabilities, revenue, profit and net assets of associated undertakings are as follows:

Name of associated undertakings	Country of incorporation	Assets	Liabilities	Net assets		Revenues	Profit	% interest held
				(Rupees '000)				
September 2005 (un-audited)								
First Women Bank Limited	Pakistan	8,845,375	8,159,374	686,001		325,305 *	101,735	26.78%
Adamjee Insurance Company Limited	Pakistan	8,790,924	6,755,756	2,035,168		2,931,438 **	772,245	29.13%
		<u>17,636,299</u>	<u>14,915,130</u>	<u>2,721,169</u>		<u>3,256,743</u>	<u>873,980</u>	
December 2004								
First Women Bank Limited	Pakistan	9,646,542	9,056,352	590,190		347,763 *	124,324	26.78%
Adamjee Insurance Company Limited	Pakistan	8,004,620	6,617,776	1,386,844		3,678,368 **	327,461	29.13%
		<u>17,651,162</u>	<u>15,674,128</u>	<u>1,977,034</u>		<u>4,026,131</u>	<u>451,785</u>	

* Represents net mark-up / interest income

** Represents net premium revenue

9.15 Investment in subsidiaries

Details of the Bank's subsidiary companies are as follows:

Name	Country of incorporation	Year of incorporation
Muslim Commercial Financial Services (Private) Limited	Pakistan	1992
MNET Services (Private) Limited	Pakistan	2001
MCB Trade Services Limited	Hong Kong	2005
MCB Asset Management Company Limited	Pakistan	2005

10. ADVANCES - NET

	Note	2005 (Rupees '000)	2004 (Rupees '000)
Loans, cash credits, running finances, etc.			
In Pakistan		174,625,232	131,832,570
Outside Pakistan		3,755,036	3,457,410
		<u>178,380,268</u>	<u>135,289,980</u>
Net investment in finance lease	10.2		
In Pakistan		3,897,184	1,322,440
Outside Pakistan		93,330	100,211
		<u>3,990,514</u>	<u>1,422,651</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		2,386,952	3,692,473
Payable outside Pakistan		3,381,943	3,605,067
		<u>5,768,895</u>	<u>7,297,540</u>
		<u>188,139,677</u>	<u>144,010,171</u>
Provision against loans and advances	10.4		
Specific provision		(5,534,376)	(5,754,709)
General provision		(2,098,053)	(827,455)
General provision against consumer loans		(180,554)	(106,401)
Provision for potential lease losses		(3,941)	(3,833)
		<u>(7,816,924)</u>	<u>(6,692,398)</u>
		<u>180,322,753</u>	<u>137,317,773</u>



Notes to the Financial Statements for the year ended December 31, 2005

		2005	2004
		(Rupees '000)	
10.1	Particulars of advances		
10.1.1	In local currency - net	169,829,904	130,425,036
	In foreign currencies - net	10,492,849	6,892,737
		<u>180,322,753</u>	<u>137,317,773</u>
10.1.2	Short-term - net	127,588,823	98,820,673
	Long-term - net	52,733,930	38,497,100
		<u>180,322,753</u>	<u>137,317,773</u>

10.2	Net Investment in Finance Lease	2005				2004			
		Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
(Rupees '000)									
	Lease rentals receivable	1,120,527	2,793,440	19,852	3,933,819	347,600	933,335	-	1,280,935
	Guaranteed residual value	56,664	733,127	15,135	804,926	39,403	232,457	-	271,860
	Minimum lease payments	1,177,191	3,526,567	34,987	4,738,745	387,003	1,165,792	-	1,552,795
	Finance charge for future periods	(274,238)	(471,975)	(2,018)	(748,231)	(60,043)	(70,101)	-	(130,144)
	Present value of minimum lease payments	<u>902,953</u>	<u>3,054,592</u>	<u>32,969</u>	<u>3,990,514</u>	<u>326,960</u>	<u>1,095,691</u>	<u>-</u>	<u>1,422,651</u>

10.3 Advances include Rs 8,395.989 million (2004: Rs 8,837.712 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	Domestic	Overseas	Total	Provision required	Provision held
(Rupees '000)						
Other Assets Especially Mentioned (OAEM)	10.3.1	52,005	-	52,005	-	-
Substandard		318,976	-	318,976	76,968	76,968
Doubtful		276,214	-	276,214	124,660	124,660
Loss		5,070,235	2,678,559	7,748,794	5,332,748	5,332,748
		<u>5,717,430</u>	<u>2,678,559</u>	<u>8,395,989</u>	<u>5,534,376</u>	<u>5,534,376</u>

10.3.1 This represents non-performing portfolio of agricultural financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural Financing issued by the SBP.

10.4 Particulars of provision against loans and advances

Note	Specific	General	2005		Total
			Consumer loans	Leasing	
(Rupees '000)					
Opening balance	5,754,709	827,455	106,401	3,833	6,692,398
Exchange adjustments	4,215	-	-	108	4,323
Provision made during the year	1,878	1,166,122	74,153	-	1,242,153
Transfer	(104,476)	104,476	-	-	-
	(102,598)	1,270,598	74,153	-	1,242,153
Amounts written off	10.5	(121,950)	-	-	(121,950)
Closing balance	<u>5,534,376</u>	<u>2,098,053</u>	<u>180,554</u>	<u>3,941</u>	<u>7,816,924</u>

Notes to the Financial Statements for the year ended December 31, 2005

	Note	2004				Total
		Specific	General	Consumer loans (Rupees '000)	Leasing	
Opening balance		6,145,859	662,298	-	2,760	6,810,917
Exchange adjustments		30,250	-	-	(127)	30,123
Provision made during the year	10.4.1	171,037	165,157	106,401	1,200	443,795
Transfer		-	-	-	-	-
Amounts written off	10.5	171,037 (592,437)	165,157 -	106,401 -	1,200 -	443,795 (592,437)
Closing balance		5,754,709	827,455	106,401	3,833	6,692,398

	Note	2005 (Rupees '000)	2004 (Rupees '000)
10.4.1 The following amounts have been charged to the profit and loss account:			
Specific provision		1,878	171,037
General provision		1,166,122	165,157
General provision against consumer loans	10.4.6	74,153	106,401
Provision for potential lease losses		1,242,153	442,595
		-	1,200
		1,242,153	443,795

10.4.2 The Prudential Regulations for Corporate / Commercial Banking and Small and Medium Enterprises (SME), issued by SBP, require banks to apply a prescribed adjustment factor to the Forced Sales Value (FSV) of assets held as collateral against non-performing advances while determining the provision requirement against these loans and advances. The adjustment factor applicable for the current year is 80 percent in respect of FSVs conducted for the first time during the year and 70 percent in respect of FSVs which were carried out in previous years and remain valid for the current year. Under the Prudential Regulations, the adjustment factor is to be reduced to 50 percent from the year 2006 in respect of FSVs which have been carried out in previous years and remain valid for that year. In addition, benefits can be availed in respect of revaluation of FSVs after expiry of the three year validity period, specified in the Prudential Regulations, only to the extent of the revised value or 50 percent of the previous value, whichever is lower. Accordingly, in view of this requirement of the Prudential Regulations and as a matter of prudence, the bank has applied an adjustment factor of 50 percent on all FSVs of collateral considered in determining the provisioning requirement against the non-performing loans and advances portfolio. Had the FSVs been discounted strictly in accordance with the requirements of the Prudential Regulations, the specific provision against non-performing advances as at December 31, 2005 would have been lower and consequently the profit before taxation for the current year and advances (net of provision) as at December 31, 2005 would have been higher by Rs.126.686 million.

10.4.3 During the year, the State Bank of Pakistan has revised the basis of classification of non-performing corporate and SME loans and advances vide BSD Circular 7 dated November 1, 2005. Under the revised guidelines the category of Other Assets Especially Mentioned (OAEM) has been dispensed with while the categories of substandard, doubtful and loss have been retained. In addition, the basis of classification of loans and advances under these three categories has been redefined whereby all advances overdue by 90, 180 and 365 days are now required to be classified as substandard, doubtful and loss respectively. Previously, short-term and long-term advances were required to be separately assessed and were classified as OAEM, substandard, doubtful or loss based on different prescribed ageing criteria. The revised guidelines specify that provision should be made in the financial statements equal to 25 percent, 50 percent and 100 percent, in respect of overdue advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. In addition, the revised guidelines have withdrawn the benefit relating to FSVs conducted in respect of non-performing loans and advances where the outstanding principal amount is Rs. 5 million or less.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirement of the State Bank of Pakistan, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2005 would have been higher by Rs. 594.92 million.

10.4.4 The State Bank of Pakistan has issued Prudential Regulations for Agriculture Finance during the current year vide BPD Circular No. 27 dated October 22, 2005. These regulations require agricultural advances overdue by 90 days, one year, one and a half years and two years to be classified as OAEM, substandard, doubtful and loss respectively. In addition, these regulations specify that provision should be made in the financial statements



Notes to the Financial Statements for the year ended December 31, 2005

equal to 20 percent, 50 percent and 100 percent, in respect of overdue agricultural advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. No provision is required to be made against the outstanding balance of principal relating to overdue agriculture advances classified as OAEM. Previously, provision was determined in respect of non-performing agriculture advances in accordance with the guidelines given in the Prudential Regulations for Corporate / Commercial banking.

Had the provision against agriculture advances been determined in accordance with the Prudential Regulations for Corporate / Commercial banking, the specific provision against non performing agriculture advances would have been lower, and consequently the profit before taxation and advances (net of provision) would have been higher by Rs 38.115 million.

10.4.5 During the current year, the management has revised the estimate relating to provision against unidentified losses and accordingly the general provision against loans and advances is being maintained at around one percent of gross loans and advances. Had the estimate not been revised, the profit before taxation for the year would have been higher by Rs 1,017.038 million. In addition, the general provision against loans and advances would have been lower by the same amount.

10.4.6 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.

	Note	2005 (Rupees '000)	2004
10.5 Particulars of write offs:			
10.5.1 Against provisions Directly charged to the profit and loss account	10.4	121,950 1,184	592,437 8,771
		<u>123,134</u>	<u>601,208</u>
10.5.2 Write offs of Rs 500,000 and above Write offs of below Rs 500,000		122,656 478	595,727 5,481
		<u>123,134</u>	<u>601,208</u>

10.5.3 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, 2005 is given at Annexure- I. However, this write off does not affect the bank's right to recover the debts from these customers.

	Balance as at December 31, 2005	Maximum total amount of advances including temporary advances granted during the year ** (Rupees '000)
10.6 Particulars of Loans and Advances to Directors, Associated Companies, etc.		
Debts due by directors, executives or other employees of the bank or any of them either severally or jointly with any other persons*	3,083,682	3,222,999
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	1,297,320	1,297,320

* (These include loans given by the bank to its executives and other employees as per the terms of their employment)

** (Maximum amount has been arrived at by reference to month end balance)

Notes to the Financial Statements for the year ended December 31, 2005

11. OTHER ASSETS - NET	Note	2005	2004 Restated
		(Rupees '000)	
Income / mark-up accrued on advances and investments - local currency		2,357,277	1,209,404
Income / mark-up accrued on advances and investments - foreign currencies		166,523	97,810
Other advances, deposits, advance rent and prepayments		158,397	110,813
Taxation (payments less provisions)		-	2,376,505
Compensation for delayed refunds		62,048	513,852
Unrealised gain on derivative financial instruments - net	11.3	45,211	-
Non-banking assets acquired in satisfaction of claims	11.1	122,610	665,012
Stationery and stamps on hand		42,700	38,406
Prepaid exchange risk fee		235	245
Other income receivable		145,565	89,743
Receivable from pension fund	37	1,973,998	732,720
Receivable from provident fund		-	80,000
Others		894,141	816,879
		<u>5,968,705</u>	<u>6,731,389</u>
Less: Provision held against other assets	11.2	504,279	577,019
		<u>5,464,426</u>	<u>6,154,370</u>

11.1 The market value of non-banking assets as per the latest valuation dated December 15, 2004 amounted to Rs 131.76 million.

11.2 Provision against other assets	Note	2005	2004
		(Rupees '000)	
Opening balance		577,019	427,426
Charge for the year		27,529	149,593
Reversal during the year		(100,269)	-
		<u>(72,740)</u>	<u>149,593</u>
Closing balance		<u>504,279</u>	<u>577,019</u>

11.3 Derivative financial instruments	Contract/ Notional amount	Fair value
	(Rupees '000)	
Unrealised gain on:		
Interest rate swaps	2,812,078	7,822
Forward exchange contracts	3,020,497	37,389
	<u>5,832,575</u>	<u>45,211</u>

12. OPERATING FIXED ASSETS		2005	2004
		(Rupees '000)	
Property and equipment	12.1	7,363,157	7,497,662
Intangible asset	12.2	249,038	-
Capital work-in-progress	12.3	570,259	502,159
		<u>8,182,454</u>	<u>7,999,821</u>



Notes to the Financial Statements for the year ended December 31, 2005

12.1 Property and equipment

Description	2005											
	At Jan 1, 2005	Additions/ (deletions)	Cost/ Revalued amount Adjustment	Revaluation surplus	Transfer in/ (transfer out)	At Dec 31, 2005	At Jan 1, 2005	Charge for the year/ (depreciation on deletions)	Accumulated Depreciation Adjustment	At Dec 31, 2005	Net book value at Dec 31, 2005	Annual rate of depreciation
(Rupees' 000)												
Land - Freehold	3,871,070	79,855 (49,294)	(42,835)	-	-	3,858,796	-	-	-	-	3,858,796	-
Land - Leasehold	37,565	20,000	(135)	-	-	57,430	-	-	-	-	57,430	-
Buildings	2,211,257	56,570 (54,921)	3,925	-	(22,610)	2,194,221	15,382	82,592 (1,036)	-	96,938	2,097,283	2.5% to 5%
Furniture, office equipment and computers	3,291,039	382,996 (50,786)	-	-	-	3,623,249	2,122,362	403,292 (40,323)	-	2,485,331	1,137,918	10% to 33%
Vehicles	517,089	112,635 (115,951)	-	-	-	513,773	292,614	89,654 (80,225)	-	302,043	211,730	20%
	9,928,020	652,056 (270,952)	(39,045)	-	(22,610)	10,247,469	2,430,358	575,538 (121,584)	-	2,884,312	7,363,157	

Description	2004											
	At Jan 1, 2004	Additions/ (deletions)	Cost/ Revalued amount Reversal due to revaluation	Revaluation surplus	Transfer in/ (transfer out)	At Dec 31, 2004	At Jan 1, 2004	Charge for the year/ (depreciation on deletions)	Accumulated Depreciation Reversal due to revaluation	At Dec 31, 2004	Net book value at Dec 31, 2004	Annual rate of depreciation
(Rupees' 000)												
Land - Freehold	-	-	-	-	3,871,070	3,871,070	-	-	-	-	3,871,070	-
Land - Leasehold	-	-	-	-	37,565	37,565	-	-	-	-	37,565	-
Buildings	3,126,676	831,306 (21,644)	(608,681)*	3,084,735	(292,500) (3,908,635)	2,211,257	488,664	141,894 (6,495)	(608,681)*	15,382	2,195,875	5%
Furniture, office equipment and computers	2,655,598	666,684 (31,243)	-	-	-	3,291,039	1,781,750	367,056 (26,444)	-	2,122,362	1,168,677	10% to 33%
Vehicles	452,748	156,382 (92,041)	-	-	-	517,089	272,641	89,978 (70,005)	-	292,614	224,475	20%
	6,235,022	1,654,372 (144,928)	(608,681)	3,084,735	3,908,635 (4,201,135)	9,928,020	2,543,055	598,928 (102,944)	(608,681)	2,430,358	7,497,662	

* This represents adjustment of cost and accumulated depreciation made consequent to the revaluation of bank's property as per IAS-16 property, plant and equipment.

Notes to the Financial Statements for the year ended December 31, 2005

12.1.1 The domestic properties of the bank were last revalued on December 15, 2004 by Iqbal Nanjee & Co., Valuation and Engineering Consultants, an independent valuer on the basis of market value. This valuation was incorporated at December 31, 2004 and resulted in a surplus of Rs 4,039.160 million over the written down value of Rs 2,020.074 million of these assets.

	(Rupees '000)
Total revalued amount of land	3,865,665
Total revalued amount of buildings	2,154,524

Had the land and buildings not been revalued their carrying amounts as at December 31, 2005, would have been as follows:

	(Rupees '000)
Land	703,267
Buildings	1,402,387

12.1.2 International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005 and requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, based on a review of the above, the management has revised the following:

- rate of depreciation on certain buildings has been reduced from 5 percent to 2.5 percent
- estimate in respect of residual value of vehicles has been revised to 20 percent of cost
- Depreciation on additions is now 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. Previously, depreciation for the entire year was charged on assets in the year of addition while no depreciation was charged in the year the assets were disposed off.

In addition to the above, the management has also decided to revise the depreciation method used to allocate the depreciable amount of buildings from the diminishing balance method to straight-line method. The management believes that the depreciation charge computed on the straight-line method reflects a more systematic allocation of the depreciable amount of these assets over their estimated useful lives.

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of these changes in accounting estimates has been recognised prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been lower by Rs 19.477 million.

12.1.3 During the current year the management has initiated a detailed exercise to centralise records relating to fixed assets of the bank. This exercise is expected to be completed in 2006. Therefore, pending completion of this exercise, the gross carrying amount of fully depreciated assets that are still in use of the bank have not been disclosed in these financial statements.

12.2 Intangible asset

Description	Cost			Accumulated amortisation			Net book value at Dec 31, 2005	Annual rate of amortisation%
	At Jan 1, 2005	Additions	At Dec 31, 2005	At Jan 1, 2005	Amortisation for the year	At Dec 31, 2005		
Computer software	-	309,151	309,151	-	60,113	60,113	249,038	33.33
2005	-	309,151	309,151	-	60,113	60,113	249,038	



Notes to the Financial Statements for the year ended December 31, 2005

12.3 Capital work-in-progress	2005 (Rupees '000)	2004 (Rupees '000)
Civil works	281,546	175,675
Equipment	78,396	21,232
Advances to suppliers	157,380	103,826
Others	52,937	201,426
	570,259	502,159

12.4 Disposal of fixed assets

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
	(Rupees '000)						
Furniture, office equipment and computers							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000							
	50,786	40,323	10,463	3,936			
Vehicles							
Honda Civic	1,245	1,079	166	194	Retirement benefit	* Mr. Malik Abdul Waheed, Ex-employee	Karachi
Toyota Corolla	1,189	872	317	700	Negotiation	* Mr. Ali Munir, Employee	Karachi
Honda Civic	955	684	271	303	Retirement benefit	* Mr. Tameezul Haq, Ex-employee	Karachi
Toyota Corolla	1,169	779	390	416	Retirement benefit	* Mr. Malik Abdul Waheed, Ex-employee	Karachi
Toyota Corolla	939	689	250	251	Retirement benefit	* Mr. Ahmed Karim, Ex-employee	Karachi
Toyota Corolla	939	673	266	260	Retirement benefit	Mr. Mohammad Qasim, Ex-employee	Karachi
Honda Accord	3,400	2,097	1,303	1,400	Tender	M/s Vanguard Books Pvt. Ltd	Karachi
Honda Civic	955	700	255	255	Retirement benefit	* Mr. Ahmed Karim, Ex-employee	Karachi
Honda Civic	1,245	892	353	365	Retirement benefit	* Mr. Mohd. Shoaib Qureshi, Ex-employee	Karachi
Toyota Corolla	1,169	838	331	343	Retirement benefit	* Mr. Mohd. Shoaib Qureshi, Ex-employee	Karachi
Mercedes Benz	6,801	3,060	3,741	4,275	Tender	M/s. Ashary's	Karachi
Toyota Corolla	939	391	548	556	Retirement benefit	Mr. Nazir Ahmed Memon, Ex-employee	Karachi
Honda Civic	955	653	302	329	Retirement benefit	Mr. Mohammad Hanif Khan, Ex-employee	Karachi
Suzuki Cultus	609	315	294	292	Retirement benefit	Mr. Sami Ahmed Siddiqui, Ex-employee	Karachi
Balance carried forward	22,509	13,722	8,787	9,939			

Notes to the Financial Statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
Balance brought forward	22,509	13,722	8,787	9,939			
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Manzar Hussain, Ex-employee	Karachi
Suzuki Cultus	609	315	294	301	Retirement benefit	Mr. Saleem Akhtar, Ex-employee	Karachi
Suzuki Cultus	609	284	325	584	Tender	Mr. M. Ejaz Khan	Karachi
Suzuki Cultus	609	315	294	309	Retirement benefit	Mr. Abdul Rauf Khulsai, Ex-employee	Karachi
Honda Civic	1,280	618	662	684	Bank Policy	* Mr. Musaddiq Ejaz, Employee	Karachi
Honda Civic	955	573	382	382	Retirement benefit	Mr. Mudassar Anjum, Ex-employee	Karachi
Suzuki Cultus	609	183	426	427	Retirement benefit	Mr. Hassan Ali Wadia, Ex-employee	Karachi
Honda Civic	955	589	366	382	Retirement benefit	Mr. Rao Sajid Ali Khan, Ex-employee	Karachi
Toyota Corolla	939	579	360	376	Retirement benefit	Mr. Rao Sajid Ali Khan, Ex-employee	Karachi
Toyota Corolla	939	282	657	900	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	1,169	351	818	858	Bank Policy	* Mr. Ali Munir, Employee	Karachi
Suzuki Cultus	609	183	426	453	Retirement benefit	Mr. Mohammad Iqbal, Ex-employee	Karachi
Toyota Corolla	939	297	642	643	Retirement benefit	Mr. Haroon Khalid, Ex-employee	Karachi
Honda Civic	1,288	365	923	945	Bank Policy	* Mr. Khalid Ateeq Ghazi, Employee	Karachi
Toyota Corolla	939	297	642	900	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	297	642	667	Retirement benefit	Mr. Ghulam Rasool Khan, Ex-employee	Karachi
Toyota Corolla	1,029	1,012	17	112	Retirement benefit	Mr. Aarij Ali, Ex-employee	Karachi
Honda Civic	945	662	283	292	Retirement benefit	Mr. Zafar Ibrar Naqvi, Ex-employee	Karachi
Suzuki Cultus	609	223	386	394	Retirement benefit	Mr. Ather Kamal, Ex-employee	Karachi
Toyota Corolla	939	721	218	219	Retirement benefit	Mr. M.Nasimur Riaz, Ex-employee	Karachi
Honda Civic	955	732	223	223	Retirement benefit	Mr. M.Nasimur Riaz, Ex-employee	Karachi
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Pervaiz Iqbal Siddiqui, Ex-employee	Karachi
Suzuki Cultus	604	336	268	329	Retirement benefit	Mr. Nazir Mehmood Bhatti, Ex-employee	Gujrat
Toyota Corolla	939	626	313	805	Insurance Claim	M/s. Adamjee Insurance	Karachi
Toyota Corolla	939	563	376	376	Retirement benefit	Mr. Muddasar Anjum, Ex-employee	Karachi
Suzuki Cultus	609	162	447	487	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	319	620	699	Retirement benefit	Mr. Durvesh Alam Lodhi, Ex-employee	Faisalabad
Balance carried forward	45,621	25,216	20,405	23,348			



Notes to the Financial Statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
Balance brought forward	45,621	25,216	20,405	23,348			
Honda Civic	955	706	249	329	Retirement benefit	Mr. Durvesh Alam Lodhi, Ex-employee	Faisalabad
Suzuki Cultus	609	132	477	609	Insurance Claim	M/s. Adamjee Insurance Co.	Hyderabad
Suzuki Cultus	620	176	444	496	Retirement benefit	Mr. Amjad Ali Khan, Ex-employee	Lahore
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Jehan Khesro Khan, Ex-employee	Peshawar
Honda Civic	955	707	248	328	Retirement benefit	Mr. Amir Ali Shah, Ex-employee	Sarghoda
Toyota Corolla	939	319	620	698	Retirement benefit	Mr. Amir Ali Shah, Ex-employee	Sarghoda
Suzuki Cultus	609	329	280	331	Retirement benefit	Mr. Ismail Abdul Majid, Ex-employee	Sarghoda
Toyota Corolla	939	454	485	563	Retirement benefit	Mr. M. Rafiq Dosani, Ex-employee	Sukkur
Toyota Corolla	939	641	298	345	Retirement benefit	Mr. M. Gulzar, Ex-employee	Abbottabad
Mitsubishi Jeep	1,760	1,760	-	910	Tender	Mr. Asif Ali	Abbottabad
Pajero Jeep	1,282	1,282	-	705	Tender	M/S United Mineral	Abbottabad
Toyota Corolla	939	188	751	939	Insurance Claim	M/s. Adamjee Insurance Co.	Abbottabad
Toyota Corolla	939	679	260	323	Retirement benefit	Mr. Ch. Mohammad Nawaz, Ex-employee	Bahawalpur
Suzuki Cultus	609	325	284	288	Retirement benefit	Mr. Khawaja Shaheen Saeed, Ex-employee	Lahore
Honda Civic	939	721	218	296	Retirement benefit	Mr. Hira Lal, Ex-employee	Karachi
Suzuki Cultus	604	393	211	282	Retirement benefit	Mr. Zafar Ali, Ex-employee	Karachi
Toyota Corolla	939	563	376	376	Retirement benefit	Mr. Tahawar Raza, Ex-employee	Multan
Toyota Corolla	939	203	736	751	Insurance Claim	M/s Adamjee Insurance Co.	Karachi
Toyota Corolla	1,169	925	244	361	Retirement benefit	Mr. Aarij Ali, Ex-employee	Lahore
Toyota Corolla	939	663	276	323	Retirement benefit	Mr. Khalid Rashid, Ex-employee	Lahore
Honda Civic	955	483	472	520	Retirement benefit	Mr. Khalid Rashid, Ex-employee	Lahore
Toyota Corolla	939	595	344	376	Retirement benefit	Mr. Tariq Bin Nisar, Ex-employee	Lahore
Honda Civic	1,285	684	601	687	Bank policy	* Mr. Shahid Sattar, Employee	Lahore
Honda Civic	1,285	535	750	750	Retirement benefit	* Mr. Aneek Khawar, Ex-employee	Lahore
Toyota Corolla	1,169	487	682	682	Retirement benefit	* Mr. Aneek Khawar, Ex-employee	Lahore
Balance carried forward	69,486	39,471	30,015	35,947			

Notes to the Financial Statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
	(Rupees '000)						
Balance brought forward	69,486	39,471	30,015	35,947			
Toyota Corolla	939	689	250	313	Bank policy	* Mr. Salman Usmani	Karachi
Toyota Corolla	939	266	673	751	Retirement benefit	Mr. Abbas Qureshi, Ex-employee	Karachi
Toyota Corolla	939	297	642	751	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	627	312	313	Retirement benefit	Mr. Mukhtar ullah Jan, Ex-employee	Peshawar
	73,242	41,350	31,892	38,075			
Other vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	42,709	38,875	3,834	21,138			
Land and buildings							
Textile Plaza, 6th floor	29,540	246	29,294	24,500	Tender	Mr. Anwar Ahmed Tata	Karachi
Textile Plaza, 20th, 21st & 22nd floors	900	19	881	1,231	Tender	Mr. Sheikh Muhammad Shafi	Karachi
Textile Plaza, 7th floor, office no.9	675	11	664	900	Tender	M/S Gatron Industry	Karachi
Banglow 59 A Abdali Road, Multan	2,680	56	2,624	3,474	Tender	Mr. Shahid Yousuf Gillani	Multan
Property no. 137-P, Gulberg II, Lahore	70,420	704	69,716	34,000	Tender	Mr. Asim Tiwana	Lahore
	104,215	1,036	103,179	64,105			
2005	270,952	121,584	149,368	127,254			
2004	144,928	102,944	41,984	82,743			

* key management personnel of the bank



Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005 (Rupees '000)	2004 (Rupees '000)
13. CONTINGENT ASSETS		-	-
There were no contingent assets of the bank as at December 31, 2005.			
14. BILLS PAYABLE			
In Pakistan		8,510,322	7,560,165
Outside Pakistan		26,352	6,519
		8,536,674	7,566,684
15. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		24,693,569	6,095,476
Outside Pakistan		2,683,933	1,495,388
		27,377,502	7,590,864
15.1 Particulars of borrowings from financial institutions			
In local currency		24,693,569	6,095,476
In foreign currencies		2,683,933	1,495,388
		27,377,502	7,590,864
15.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance	15.3	4,980,519	4,487,738
Locally Manufactured Machinery	15.4	-	5,735
Others		1,970,562	1,782,900
		6,951,081	6,276,373
Repurchase agreement borrowings		19,473,049	498,901
Unsecured			
Agent balances		494,007	685,202
Call borrowings		459,365	130,388
		953,372	815,590
		27,377,502	7,590,864
15.3	The bank has entered into agreements for financing with the SBP for extending export finance to customers. As per the agreement, 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.		
15.4	According to agreements with the SBP, these loans were obtained for providing finance to customers against locally manufactured machinery.		
15.5	Borrowing from SBP under the export and locally manufactured machinery refinance scheme is secured by the bank's cash and security balances held by the SBP.		

Notes to the Financial Statements for the year ended December 31, 2005

16. DEPOSITS AND OTHER ACCOUNTS	Note	2005 (Rupees '000)	2004
Customers			
Fixed deposits		13,296,121	14,081,390
Savings deposits		137,067,311	133,538,585
Current accounts - non remunerative		74,331,042	69,722,193
Margin accounts		2,568,306	2,011,324
Others		41,396	121,994
		227,304,176	219,475,486
Financial Institutions			
Remunerative deposits		183,338	442,983
Non-remunerative deposits		1,857,664	1,150,689
		2,041,002	1,593,672
		<u>229,345,178</u>	<u>221,069,158</u>
16.1 Particulars of deposits			
In local currency		217,017,086	209,328,090
In foreign currencies		12,328,092	11,741,068
		<u>229,345,178</u>	<u>221,069,158</u>

17. SUB-ORDINATED LOAN -UNSECURED (NON-PARTICIPATORY)

	Mark-up payable	Mark-up payment period	Mark-up not yet due		
Listed Term Finance Certificates	Semi-annually	2003-2008	Rs 291.482 million	<u>1,598,080</u>	<u>1,598,720</u>

17.1 Liability against Term Finance Certificates is stated at nominal amount. The liability is subordinated as to payment of principal and profit to all other indebtedness of the bank (including deposits) and is not redeemable before maturity without prior approval of the SBP. Rate of mark up on the liability is based on the cut-off yield of 5 year Pakistan Investment Bonds auctioned on the last working day before the beginning of each semi-annual redemption period plus 1.5 % subject to floor and cap of 11.75% and 15.75% per annum respectively. The major redemption will commence from 54th month of the issue in the following manner:

Month	Redemptions
February, 2007	40% of the issue amount
August, 2007	30% of the issue amount
February, 2008	30% of the issue amount



Notes to the Financial Statements for the year ended December 31, 2005

18. OTHER LIABILITIES

	Note	2005	2004 Restated
(Rupees '000)			
Mark-up / return / interest payable in local currency		1,383,427	1,711,849
Mark-up / return / interest payable in foreign currencies		78,853	60,634
Accrued expenses		654,952	290,936
Unclaimed dividends		66,239	322,851
Proposed dividend		426,533	-
Staff welfare fund		101,024	103,599
Unrealised loss on forward foreign exchange contracts - net		-	24,392
Provision for employees' compensated absences	37	856,213	603,624
Provision for post retirement medical benefits	37	1,300,336	713,630
Provision for employees' contributory benevolent scheme	37	307,216	344,151
Security deposits received in respect of finance lease		789,173	221,709
Taxation (provision less payments)		932,747	-
Branch adjustment account		102,810	357,930
Others		1,612,077	1,770,694
		8,611,600	6,525,999

19. DEFERRED TAX (ASSETS) / LIABILITIES

Taxable temporary differences on:			
Surplus on revaluation of fixed assets	22.1	238,881	261,088
Accelerated tax depreciation		212,730	164,478
Surplus on revaluation of securities	22.2	-	93,703
		451,611	519,269
Deductible temporary differences on:			
Surplus on revaluation of securities	22.2	(3,620)	-
Provision for contributory benevolent scheme		(107,526)	-
Provision for employee's compensated absences		(77,315)	-
Provision for post retirement medical benefits		(455,117)	(249,770)
		(643,578)	(249,770)
		(191,967)	269,499

20. SHARE CAPITAL

20.1 Authorised Capital

2005	2004		2005	2004
			(Rupees '000)	
650,000,000	650,000,000	Ordinary shares of Rs. 10 each	6,500,000	6,500,000

20.2 Issued, subscribed and paid-up capital

2005			2004				2005	2004
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		(Rupees '000)	(Rupees '000)
----- Number of shares -----								
107,130,690	230,049,344	337,180,034	107,130,690	199,396,614	306,527,304	Opening balance	3,371,800	3,065,273
55,634,705	33,718,003	89,352,708	-	30,652,730	30,652,730	Shares issued during the year	893,527	306,527
162,765,395	263,767,347	426,532,742	107,130,690	230,049,344	337,180,034	Closing balance	4,265,327	3,371,800

Related parties of the bank namely, Siddiqsons Denim Mills Limited, Din Leather (Private) Limited, Adamjee Insurance Company Limited, Muslim Commercial Bank Limited Pension Fund and Muslim Commercial Bank Limited Provident Fund (Pakistan Staff) hold 21,604,630 (2004: 17,078,760), 2,837,234 (2004: 2,242,875), 4,043,200 (2004: 3,188,910), 37,471,092 (2004: 33,390,113), 19,277,026 (2004: 16,817,863) shares of Rs. 10 each of the bank at December 31, 2005 respectively.

Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
21. RESERVES			
Share Premium		1,308,194	473,673
Reserve for issue of bonus shares		853,065	337,180
Exchange translation reserve		(52,549)	(56,354)
Statutory reserve	21.1	3,999,295	3,107,054
General Reserve		7,300,000	1,800,000
		13,408,005	5,661,553

21.1 Statutory reserves represent amount set aside as per the requirements of section 21 of the Banking Companies Ordinance 1962.

	Note	2005	2004
(Rupees '000)			
22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus arising on revaluation (net of tax) of:			
- fixed assets	22.1	3,653,898	3,778,072
- securities	22.2	1,769,871	1,576,251
Surplus on revaluation of assets - net of tax		5,423,769	5,354,323

22.1 Surplus on revaluation of fixed assets-net of tax

Surplus on revaluation of fixed assets as at January 1		4,039,160	725,707
Reversal of revaluation surplus during the year		(39,045)	-
Surplus arising on revaluation during the year		-	3,084,735
Reversal of revaluation loss on property classified as non-banking assets		-	272,512
Surplus realised on disposal of revalued properties - net of deferred tax		(64,564)	(847)
Related deferred tax liability		(11,829)	(588)
		(76,393)	(1,435)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(19,185)	(24,992)
Related deferred tax liability		(11,758)	(17,367)
		(30,943)	(42,359)
Surplus on revaluation of fixed assets as at December 31		3,892,779	4,039,160
Less: Related deferred tax liability on:			
Revaluation as at January 1		261,088	300,774
Reversal of deferred tax liability		1,380	(21,731)
Disposal of revalued properties during the year transferred to profit and loss account		(11,829)	(588)
Incremental depreciation charged during the year transferred to profit and loss account		(11,758)	(17,367)
		238,881	261,088
		3,653,898	3,778,072



Notes to the Financial Statements for the year ended December 31, 2005

	2005 (Rupees '000)	2004 (Rupees '000)
22.2 Surplus / (deficit) on revaluation of securities - net of tax		
Market Treasury Bills	(22,814)	(6,467)
Pakistan Investment Bonds	16,627	342,214
Listed Securities	1,772,438	1,334,207
	1,766,251	1,669,954
Add: Related deferred tax asset / (liability)	3,620	(93,703)
	1,769,871	1,576,251

23. CONTINGENCIES AND COMMITMENTS

23.1 Transaction-related contingent liabilities / commitments

Guarantees in favour of:		
Government	3,864,070	3,268,760
Banks and financial institutions	37,673	47,813
Others	1,901,102	1,461,807
Suppliers' credit / payee guarantee	1,428,642	1,624,464
	7,231,487	6,402,844

23.2 Trade-related contingent liabilities

	39,189,177	32,738,625
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23.3 Other contingencies

	492,420	542,425
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23.4 Commitments to extend credit

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.

	2005 (Rupees '000)	2004 (Rupees '000)
23.5 Commitments in respect of forward foreign exchange contracts		
Purchase	13,646,165	8,708,435
Sale	16,263,722	12,192,336
	29,909,887	20,900,771
23.6 Commitments in respect of operating leases		
Not later than one year	-	573
23.7 Commitments in respect of:		
Forward lending	-	-
Forward borrowing (repo borrowing)	-	-
23.8 Commitments for the acquisition of fixed assets	587,242	368,696
23.9 Other commitments		
Outright purchase - Government Securities	-	-
Outright sale - Government Securities	-	-
Others	-	-
	-	-

Notes to the Financial Statements for the year ended December 31, 2005

23.10 Taxation

The income tax assessments of the bank have been finalised upto and including the Tax Year 2005. Assessments for the Tax Years 2003 and 2004 were amended by the Taxation Officer, resulting in an additional tax liability amounting to Rs 1,185 million. The Commissioner of Income Tax Appeals through its order dated September 8, 2005 has decided the matter in favour of the bank due to which the above additional tax liability has been deleted. The department has filed an appeal before the ITAT, which is pending to date.

Total disallowance for the assessment years 1994-95 to 1997-98 on account of interest in suspense amounted to Rs. 722.682 million against which the tax liability would amount to approximately Rs 428.808 million. Out of this an amount of Rs 317.289 million has been allowed in the assessment years 1998-1999 to 2000-2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of the bank as allowed in assessment years 1992-1993 and 1993-1994.

Subsequent to the favourable order of the Honourable Sindh High Court the management considers that provision is not necessary for the remaining tax liability for interest in suspense of Rs 244.781 million as the bank has been subjected to taxes far exceeding its normal tax liability and is hopeful of favourable decisions in appeals. Accordingly, no provision has been made in these financial statements for the above amount.

	2005 (Rupees '000)	2004
24. MARK-UP / RETURN / INTEREST EARNED		
On Loans and advances to:		
Customers	12,086,305	4,927,838
Financial Institutions	284,972	185,386
	12,371,277	5,113,224
On Investments in:		
Available for sale securities	4,337,124	3,162,828
Held to maturity securities	643,328	543,167
	4,980,452	3,705,995
On securities purchased under resale agreements	261,478	190,172
Others	143,025	74,472
	<u>17,756,232</u>	<u>9,083,863</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	1,566,920	1,409,522
Securities sold under repurchase agreements	463,498	187,639
Other short-term borrowings	337,784	109,283
Sub-ordinated loan	188,158	187,519
Others	225,108	163,677
	<u>2,781,468</u>	<u>2,057,640</u>
26. OTHER INCOME		
Rent on property / lockers	42,886	41,751
Net profit on sale of fixed assets	-	39,324
Gain on Sale of non-banking assets	24,664	-
Exchange income on import/export bills purchased/negotiated	55,477	65,341
Bad debts recovered	54,906	60,053
Liability no longer required written back	495,234	-
Others	411,409	369,538
	<u>1,084,576</u>	<u>576,007</u>



Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
27. ADMINISTRATIVE EXPENSES			
Salaries and allowances		4,613,594	3,986,334
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	37	(2,069,467)	189,356
- Post retirement medical benefits	37	703,755	317,257
- Employees' contributory benevolent scheme	37	72,873	28,968
- Employees' compensated absences	37	255,007	133,992
		(1,037,832)	669,573
Contributions to defined contribution plan - provident fund		102,128	91,210
Non-executive directors' fees		112	16
Rent, taxes, insurance, electricity		603,449	549,591
Legal and professional charges		106,622	92,939
Communications		21,366	1,651
Repairs and maintenance		188,938	147,714
Rentals of operating leases		10	4,630
Stationery and printing		173,308	158,586
Advertisement and publicity		210,250	124,304
Cash transportation charges		125,137	107,352
Instrument clearing charges		74,270	56,073
Donations	27.1	30,059	1,449
Auditors' remuneration	27.2	10,348	10,563
Depreciation	12.1	575,538	598,928
Amortization of intangible asset	12.2	60,113	-
Staff welfare fund		12,513	14,000
Traveling, conveyance and fuel		256,619	204,500
Subscription		19,388	19,198
Entertainment		39,938	31,534
Restructuring expenses		-	150,100
Others		273,622	223,955
		<u>6,459,490</u>	<u>7,244,200</u>

27.1 This represents donation given to President Earthquake Relief Fund amounting to Rs 30.059 million. Donations were not made to any donee in which the bank or a director or his spouse had any interest.

27.2 Auditors' remuneration

	2005			2004		
	A. F. Ferguson & Co.	Riaz Ahmad & Co.	Total	A. F. Ferguson & Co.	Riaz Ahmad & Co.	Total
(Rupees '000)						
Audit fee	1,500	1,500	3,000	1,500	1,500	3,000
Fee for audit of EPZ branch	50	-	50	-	-	-
Fee for audit of foreign branches	-	-	878	-	-	874
Special certifications and sundry advisory services	2,615	2,505	5,120	2,765	2,655	5,420
Out-of-pocket expenses	650	650	1,300	615	654	1,269
	<u>4,815</u>	<u>4,655</u>	<u>10,348</u>	<u>4,880</u>	<u>4,809</u>	<u>10,563</u>

Notes to the Financial Statements for the year ended December 31, 2005

	2005 (Rupees '000)	2004
28. OTHER CHARGES		
Provision against fraud and forgeries	119,412	27,265
Net loss on disposal of fixed assets	22,114	-
Penalties imposed by State Bank of Pakistan	24,815	14,599
Others	12,500	-
	178,841	41,864

29. EXCEPTIONAL ITEM

This represents claim of the bank in respect of compensation of delayed tax refunds under section 171 of the Income Tax Ordinance, 2001 (parallel to section 102 of the repealed Income Tax Ordinance, 1979) for the assessment years 1992-93 to 2002-03 and tax year 2004. This compensation has been calculated at the rate of 6-15 percent per annum on the amount of the refund for the period commencing at the end of three months of refund becoming due to the bank and ending on the date of payment / adjustment by the income tax authorities.

	2005 (Rupees '000)	2004 Restated (Rupees '000)
30. TAXATION		
For the year		
Current	4,611,359	1,555,764
Deferred	(166,910)	70,420
	4,444,449	1,626,184
Prior years		
Current	(149,763)	-
Deferred	(198,614)	-
	(348,377)	-
	4,096,072	1,626,184

30.1 Relationship between tax expense and accounting profit

Accounting profit for the year	13,018,487	4,057,716
Tax rate	38%	41%

	(Rupees '000)	
Tax on income	4,947,025	1,663,664
Tax effect on separate block of income	(153,123)	(138,021)
Tax effect of permanent differences	(272,587)	(271,502)
Tax effect of prior year reversals on provisions	(149,763)	-
Tax effect of computation adjustments	(275,480)	372,043
Tax charge for the current year	4,096,072	1,626,184

31. CREDIT RATING

PACRA has assigned long term credit rating of AA (double A) and short-term credit rating of A1+ (A one plus) to the bank.



Notes to the Financial Statements for the year ended December 31, 2005

	Note	2005	2004 Restated
32. BASIC EARNINGS PER SHARE - PRE TAX			
		(Rupees '000)	
Profit before taxation		13,018,487	4,057,716
		Number of Shares	
Weighted average number of shares outstanding during the year		417,706,926	406,144,478
		(Rupees)	
Earnings per share - pre tax		31.17	9.99
33. BASIC / DILUTED EARNINGS PER SHARE - AFTER TAX			
		(Rupees '000)	
Profit after taxation		8,922,415	2,431,532
		Number of Shares	
Weighted average number of shares outstanding during the year		417,706,926	406,144,478
		(Rupees)	
Basic / diluted earnings per share		21.36	5.99
34. CASH AND CASH EQUIVALENTS			
		(Rupees '000)	
Cash and balances with treasury banks	6	23,665,549	23,833,253
Balances with other banks	7	1,469,333	5,708,323
		25,134,882	29,541,576
35. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES			
		(Rupees '000)	
Islamic Banking Fund		230,000	165,000
Deposits		443,501	356,149
Borrowings from head office		1,600,000	1,000,000
Ijarah financing		725,038	492,967
Murabaha financing		1,562,522	1,072,025
Profit before taxation		17,462	2,311
Letters of credit		520,998	139,183
36. STAFF STRENGTH			
		(Numbers)	
Total number of permanent employees as at the end of the year		9,377	9,889

Notes to the Financial Statements for the year ended December 31, 2005

37. DEFINED BENEFIT PLANS AND OTHER BENEFITS

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 as at December 31, 2005. The results of the actuarial valuations are as follows:

	2005			
	Approved Pension Fund	Employee's Contributory Benevolent Scheme	Post Retirement Medical Benefits	Employee's Compensated Absences
	(Rupees' 000)			
Reconciliation of (receivable) / payable from / to defined benefit plan and other benefits				
Present value of defined benefit obligation	5,503,819	407,569	1,456,392	856,213
Fair value of plan assets	(10,554,024)	(18,976)	-	-
Net actuarial gains / (losses) not recognised	3,076,207	(81,377)	(91,259)	-
Unrecognised transitional liability	-	-	(160,575)	-
Unrecognised negative past service cost	-	-	187,047	-
Unrecognised past service cost	-	-	(91,269)	-
Net (receivable) / payable	<u>(1,973,998)</u>	<u>307,216</u>	<u>1,300,336</u>	<u>856,213</u>
Movement in balance of (receivable) / payable recognised				
Opening balance of (receivable) / payable	(732,720)	344,151	713,630	603,624
Amount recognised	(2,069,467)	72,873	703,755	255,007
Refunds / (Contributions) during the year	828,189	(109,808)	-	-
Benefits paid	-	-	(117,049)	(2,418)
Closing balance of (receivable) / payable	<u>(1,973,998)</u>	<u>307,216</u>	<u>1,300,336</u>	<u>856,213</u>
The following amounts have been charged to profit and loss account in respect of defined benefit plans / other employee benefits:				
	(Rupees' 000)			
Current service cost	57,655	8,106	36,619	255,007
Interest cost	170,690	25,347	78,508	-
Expected return on plan assets	(562,734)	(1,269)	-	-
Recognised past service cost	-	-	525,063	-
Recognised negative past service cost	-	-	(142,641)	-
Amortisation of transitional liability	-	-	160,577	-
Interest on borrowing from MCB main branch	116,759	-	-	-
Net actuarial (gain) / loss recognised	(1,585,796)	40,689	45,629	-
Curtailement gain	(266,041)	-	-	-
	<u>(2,069,467)</u>	<u>72,873</u>	<u>703,755</u>	<u>255,007</u>
Actual return on plan assets	<u>5,576,412</u>	<u>850</u>	<u>-</u>	<u>-</u>
Actuarial assumption				
- valuation discount rate	9.00%	9.00%	9.00%	
- medical cost inflation rate	-	-	5.00%	
- exposure inflation rate	-	-	3.00%	
- salary increase rate	7.00%	7.00%	7.00%	
- expected rate of return on plan assets	9.00%	9.00%	-	



Notes to the Financial Statements for the year ended December 31, 2005

	2004			
	Approved pension fund	Employees' contributory benevolent scheme	Post retirement medical benefits	Employee's compensated absences
	(Rupees' 000)			
Reconciliation of (receivable) / payable from / to defined benefit plan and other benefits				
Present value of defined benefit obligation	6,542,624	362,104	1,121,548	603,624
Fair value of plan assets	(7,034,175)	(18,126)	-	-
Net actuarial gain / (losses) not recognised	(241,169)	173	(123,785)	-
Unrecognised transitional liability	-	-	(321,152)	-
Unrecognised negative past service cost	-	-	37,019	-
Net (receivable) / payable	<u>(732,720)</u>	<u>344,151</u>	<u>713,630</u>	<u>603,624</u>
Movement in balance of (receivable) / payable recognised				
Opening balance of (receivable) / payable	(772,076)	361,104	496,191	607,314
Amount recognised	189,356	28,968	317,257	133,992
Contributions during the year	(150,000)	(45,921)	-	-
Benefits paid	-	-	(99,818)	(137,682)
Closing balance of (receivable) / payable	<u>(732,720)</u>	<u>344,151</u>	<u>713,630</u>	<u>603,624</u>

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

	(Rupees' 000)			
Current service cost	63,327	5,378	35,733	133,992
Interest cost	495,201	24,862	77,565	-
Expected return on plan assets	(489,756)	(1,186)	-	-
Recognised negative past service cost	-	-	(18,510)	-
Amortisation of transitional liability	-	-	160,577	-
Net actuarial (gain) / loss recognised	120,584	(86)	61,892	-
	<u>189,356</u>	<u>28,968</u>	<u>317,257</u>	<u>133,992</u>
Actual return on plan assets	<u>234,916</u>	<u>1,188</u>	<u>-</u>	<u>-</u>
Actuarial assumption				
- valuation discount rate	8.00%	7.00%	7.00%	
- medical cost inflation rate	-	-	5.00%	
- exposure inflation rate	-	-	-	
- salary increase rate	6.00%	5.00%	5.00%	
- expected rate of return on plan assets	8.00%	7.00%	-	

Fair value of the bank's shares held by the Pension Fund as at December 31, 2005 amounted to Rs 6,287.649 million (2004: Rs 1,960.0 million)

38. DEFINED CONTRIBUTION PLAN

The bank operates an approved contributory provident fund for 5,625 (2004: 5,852) employees where contributions are made by the bank and employees at 8.33% (2004: 8.33%) of the basic salary. During the year, the bank has contributed Rs 102.128 million (2004: Rs 91.210 million) in respect of this fund.

The bank also operates an approved non-contributory provident fund for 3,673 (2004: 4,005) employees who have opted for the new scheme, where contributions are made by the employees at 12% (2004: 12%) of the basic salary.

Notes to the Financial Statements for the year ended December 31, 2005

39. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	(Rupees' 000)					
Fees	-	-	112	16	-	-
Managerial remuneration	11,276	10,750	1,434	1,434	383,167	367,170
Retirement benefits	637	575	-	-	21,993	20,380
Rent and house maintenance	3,683	3,105	-	-	118,812	110,096
Utilities	765	690	-	-	26,403	24,466
Medical	183	262	-	-	15,127	13,218
Conveyance	223	171	-	-	45,980	40,625
	<u>16,767</u>	<u>15,553</u>	<u>1,546</u>	<u>1,450</u>	<u>611,482</u>	<u>575,955</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>329</u>	<u>307</u>

The Chief Executive and certain executives are provided with free use of the banks maintained cars and household equipment in accordance with the terms of their employment.

The aggregate amount charged to income for fee to directors and remuneration to key management personnel was Rs 112 thousand and Rs 91,029 thousand respectively.

40. MATURITIES OF ASSETS AND LIABILITIES

	Total	2005			
		Upto three months	Over three months to one year (Rupees' 000)	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-
Balances with other banks	1,469,333	1,469,333	-	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-
Investments - net	69,481,487	18,874,975	34,047,021	10,622,941	5,936,550
Advances - net	180,322,753	35,995,132	91,593,691	50,293,926	2,440,004
Other assets - net	5,464,426	2,678,635	811,793	1,973,998	-
Fixed assets	8,182,454	225,027	712,945	1,315,411	5,929,071
Deferred tax assets - net	191,967	-	-	-	191,967
	<u>298,776,797</u>	<u>92,907,479</u>	<u>127,165,450</u>	<u>64,206,276</u>	<u>14,497,592</u>
Liabilities					
Bills payable	8,536,674	8,536,674	-	-	-
Borrowings from financial institutions	27,377,502	24,707,908	2,669,594	-	-
Deposits and other accounts	229,345,178	50,994,975	124,173,837	40,851,793	13,324,573
Subordinated loan	1,598,080	320	320	1,597,440	-
Other liabilities	8,611,600	2,980,472	2,760,073	2,321,067	549,988
Deferred tax liabilities - net	-	-	-	-	-
	<u>275,469,034</u>	<u>87,220,349</u>	<u>129,603,824</u>	<u>44,770,300</u>	<u>13,874,561</u>
Net assets	<u>23,307,763</u>	<u>5,687,130</u>	<u>[2,438,374]</u>	<u>19,435,976</u>	<u>623,031</u>
Share capital	4,265,327				
Reserves	13,408,005				
Unappropriated profit	210,662				
Surplus on revaluation of assets - net of tax	5,423,769				
	<u>23,307,763</u>				



Notes to the Financial Statements for the year ended December 31, 2005

	2004				
	Total	Upto three months	Over three months to one year (Rupees' 000)	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	23,833,253	23,833,253	-	-	-
Balances with other banks	5,708,323	5,708,323	-	-	-
Lendings to financial institutions	10,965,297	9,465,297	1,500,000	-	-
Investments - net	67,194,971	36,492,433	13,196,219	11,830,139	5,676,180
Advances - net	137,317,773	17,145,261	81,675,412	36,804,565	1,692,535
Other assets - net	6,154,370	2,163,939	409,914	3,580,517	-
Fixed assets	7,999,821	100,101	461,528	1,303,832	6,134,360
Deferred tax asset - net	-	-	-	-	-
	259,173,808	94,908,607	97,243,073	53,519,053	13,503,075
Liabilities					
Bills payable	7,566,684	7,566,684	-	-	-
Borrowings from financial institutions	7,590,864	6,444,361	1,146,503	-	-
Deposits and other accounts	221,069,158	49,368,292	118,344,532	40,731,234	12,625,100
Subordinated loan	1,598,720	320	320	1,598,080	-
Other liabilities	6,525,999	3,574,505	1,211,910	1,025,302	714,282
Deferred tax liabilities - net	269,499	5,320	109,662	85,113	69,404
	244,620,924	66,959,482	120,812,927	43,439,729	13,408,786
Net assets					
	14,552,884	27,949,125	(23,569,854)	10,079,324	94,289
Share capital	3,371,800				
Reserves	5,661,553				
Unappropriated profit	165,208				
Surplus on revaluation of assets - net of tax	5,354,323				
	14,552,884				

41. YIELD / INTEREST RATE RISK

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	2005				Not exposed to Yield/ Interest Risk
			Upto three months	Exposed to Yield/ Interest risk Over three months to one year (Rupees' 000)	Over one year to five years	Over five years	
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	2.30%	23,665,549	1,426,216	-	-	-	22,239,333
Balances with other banks	4.11%	1,469,333	597,020	-	-	-	872,313
Lendings to financial institutions	5.11%	9,998,828	9,998,828	-	-	-	-
Investments - net	7.59%	68,417,035	16,382,411	31,065,431	9,816,222	3,325,406	7,827,565
Advances - net	7.75%	180,322,753	35,995,132	91,593,691	50,293,926	2,440,004	-
Other assets - net	-	3,227,263	-	-	-	-	3,227,263
		287,100,761	64,399,607	122,659,122	60,110,148	5,765,410	34,166,474

Notes to the Financial Statements for the year ended December 31, 2005

	Effective Yield/ Interest rate	Total	2005				Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees' 000)							
Liabilities							
Bills payable	-	8,536,674	-	-	-	-	8,536,674
Borrowings from financial institutions	3.92%	27,377,502	24,707,908	2,669,594	-	-	-
Deposits and other accounts	0.69%	229,345,178	43,058,693	84,492,427	21,011,087	1,419,268	79,363,703
Subordinated loan	11.75%-15.75%	1,598,080	320	320	1,597,440	-	-
Other liabilities	-	5,890,548	-	-	-	-	5,890,548
		272,747,982	67,766,921	87,162,341	22,608,527	1,419,268	93,790,925
On-balance sheet gap		14,352,779	(3,367,314)	35,496,781	37,501,621	4,346,142	(59,624,451)
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-	-
		-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Outright sale - Govt. securities	-	-	-	-	-	-	-
		-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(3,367,314)	35,496,781	37,501,621	4,346,142	
Cumulative Yield / Interest Risk Sensitivity Gap			(3,367,314)	32,129,467	69,631,088	73,977,230	

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.

	Effective Yield/ Interest rate	Total	2004				Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees' 000)							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	1.29%	23,833,253	1,300,647	-	-	-	22,532,606
Balances with other banks	2.53%	5,708,323	3,972,122	-	-	-	1,736,201
Lendings to financial institutions	2.80%	10,965,297	9,465,297	1,500,000	-	-	-
Investments - net	4.44%	66,130,596	34,654,721	13,192,565	9,279,849	2,661,099	6,342,362
Advances - net	4.59%	137,317,773	17,145,261	81,675,412	36,804,565	1,692,535	-
Other assets - net	-	1,718,302	-	-	-	-	1,718,302
		245,673,544	66,538,048	96,367,977	46,084,414	4,353,634	32,329,471



Notes to the Financial Statements for the year ended December 31, 2005

	Effective Yield/ Interest rate	Total	2004				Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees' 000)							
Liabilities							
Bills payable	-	7,566,684	-	-	-	-	7,566,684
Borrowings from financial institutions	2.01%	7,590,864	6,444,361	1,146,503	-	-	-
Deposits and other accounts	0.65%	221,069,158	42,179,723	83,499,586	22,755,460	731,290	71,903,099
Subordinated loan	11.75%-15.75%	1,598,720	320	320	1,598,080	-	-
Other liabilities	-	4,634,424	-	-	-	-	4,634,424
		242,459,850	48,624,404	84,646,409	24,353,540	731,290	84,104,207
On-balance sheet gap		<u>3,213,694</u>	<u>17,913,644</u>	<u>11,721,568</u>	<u>21,730,874</u>	<u>3,622,344</u>	<u>(51,774,736)</u>
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Outright sale - Govt. securities	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Off-balance sheet gap	-	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Yield / Interest Risk Sensitivity Gap			<u>17,913,644</u>	<u>11,721,568</u>	<u>21,730,874</u>	<u>3,622,344</u>	
Cumulative Yield / Interest Risk Sensitivity Gap			<u>17,913,644</u>	<u>29,635,212</u>	<u>51,366,086</u>	<u>54,988,430</u>	

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.

42. CURRENCY RISK

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees '000)			
Pakistan Rupee	279,406,248	260,259,204	180,165	19,327,209
United States Dollar	16,047,904	12,176,493	(1,458,960)	2,412,451
Pound Sterling	1,388,297	1,457,908	352,957	283,346
Japanese Yen	13,101	6,935	2,349	8,515
Euro	447,999	757,989	212,049	(97,941)
Other currencies	1,473,248	810,505	711,440	1,374,183
	<u>298,776,797</u>	<u>275,469,034</u>	<u>-</u>	<u>23,307,763</u>

Notes to the Financial Statements for the year ended December 31, 2005

	2004			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees '000)			
Pakistan Rupee	240,154,058	229,965,677	2,741,162	12,929,543
United States Dollar	16,564,075	12,524,545	(3,072,006)	967,524
Pound Sterling	640,293	613,894	33,958	60,357
Japanese Yen	68,386	3,155	(63,762)	1,469
Euro	701,823	620,917	(15,856)	65,050
Other currencies	1,045,173	892,736	376,504	528,941
	259,173,808	244,620,924	-	14,552,884

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, 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 judgement was exercised in application of accounting policies are as follows:

- i) classification of investments (note 9)
- ii) provision against investments (note 9) and advances (note 10.4.1)
- iii) income taxes (note 30 and 23.10)
- iv) staff retirement benefits (note 37)
- v) fair value of derivatives (note 11.3)

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradeable securities classified by the bank as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 24,595 million (2004: Rs 42,072 million).

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 40 and 41 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 repriced.

45. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Out of the total financial assets of Rs 288,165 million (2004: Rs 246,738 million) the financial assets which are subject to credit risk amounting to Rs 282,102 million (2004: Rs 240,477 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs 57,103 million (2004: Rs 58,211 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs 15,054 million (2004: Rs 14,836 million) are held by the bank with the SBP and central banks of other countries.



Notes to the Financial Statements for the year ended December 31, 2005

45.1 Risk Management

The wide variety of the bank's businesses requires it to identify, measure and manage risks effectively. The bank manages these risks through a framework of risk principles, organizational structures and risk measurement and monitoring processes that are closely aligned with the activities of the bank. The bank's risk management function is independent of the business areas.

Based on the SBP and Bank for International Settlement guidelines / frameworks, the bank has constituted a Risk Management Committee, developed an elaborate risk identification measurement and management framework and has also reorganised risk management function broadly based on the following:

- Setting up of separate risk areas (as detailed below)
- Engaging the advisory services of an international consultant for the overall risk management function.

Risk management organization

The head of risk management is a member of risk management and management committees of the bank and is responsible for credit, market and operational risk management activities within the bank in close coordination with the respective business areas.

For each risk, i.e credit, operational and market, a specific department has been established with the mandate to:

- ensure that the business conducted is consistent with the risk appetite of the bank;
- formulate and implement risk policies, procedures and methodologies in coordination with the business areas;
- conduct periodic reviews to ensure that the risks are within acceptable parameters; and
- develop and implement risk management infrastructures and systems that are appropriate for each area.

The most important risks that the bank's management assumes are specific banking risks and risks arising from the general business environment.

The bank's risk management process distinguishes among various kinds of specific banking risks and mainly comprises of credit risk, liquidity risk, operational risk and market risk. The policies and procedures for managing these risks are outlined below:

Credit risk makes up the largest part of bank's risk exposures. The bank measures and manages its credit risk by adopting the following policies:

- Across the bank, consistent standards are applied for credit decision processes.
- The approval of credit limits for counter parties and the management of individual credit exposures is subject to credit strategies.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- The bank assigns credit approval authorities to individuals according to their qualifications, experience and training, and the management reviews these periodically.

The management measures and consolidates all the bank's credit exposures to each obligor on a global consolidated basis that applies across the bank.

Liquidity risk management safeguards the ability of the bank to meet all payment obligations when they become due. The bank's liquidity risk management framework has been instrumental in maintaining adequate liquidity and a healthy funding profile.

Operational risk has been defined as the potential of incurring losses in relation to employees, project management, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences and customer relationships. This includes legal and regulatory risk, but excludes business risk. At present the bank is in the initial phase of defining the operational risk framework and related policies while the responsibility for implementing the framework as well as the day-to-day operational risk management lies with the business areas.

The business of the bank is subject to the risk that market prices and rates will move and result in profits / losses. The bank distinguishes among four types of **market risk**:

- interest rate risk
- equity price risk

Notes to the Financial Statements for the year ended December 31, 2005

- foreign exchange risk
- commodity price risk

45.2 Segment by class of business

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Textile	28,587,254	15.85%	1,567,238	0.68%	7,495,848	9.68%
Commerce / Trade	29,994,256	16.63%	31,152,855	13.58%	6,965,473	9.00%
Agribusiness	1,109,181	0.62%	25,512,459	11.13%	1,030,145	1.33%
Production and transmission of energy	7,621,276	4.23%	588,797	0.26%	5,114,732	6.61%
Financial Sector	3,463,544	1.92%	2,041,002	0.89%	46,520,085	60.10%
Individuals	13,942,290	7.73%	113,439,811	49.46%	-	0.00%
Others	95,604,952	53.02%	55,043,016	24.00%	10,283,930	13.28%
	<u>180,322,753</u>	<u>100.00%</u>	<u>229,345,178</u>	<u>100.00%</u>	<u>77,410,213</u>	<u>100.00%</u>

	2004					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Textile	33,455,623	24.36%	1,900,742	0.86%	6,065,572	9.93%
Commerce / Trade	30,207,166	22.00%	31,514,066	14.26%	6,923,400	11.33%
Agribusiness	2,431,136	1.77%	26,904,024	12.17%	1,005,219	1.64%
Production and transmission of energy	9,732,147	7.09%	1,077,731	0.49%	7,165,703	11.73%
Financial Sector	-	0.00%	490,571	0.22%	18,325,470	29.99%
Individuals	19,257	0.01%	106,089,311	47.98%	-	0.00%
Others	61,472,444	44.77%	53,092,713	24.02%	21,627,657	35.38%
	<u>137,317,773</u>	<u>100%</u>	<u>221,069,158</u>	<u>100%</u>	<u>61,113,021</u>	<u>100.00%</u>

45.3 Segment by sector

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Public / Government	23,498,289	13.00%	6,515,291	2.84%	15,936,337	20.59%
Private	156,824,464	87.00%	222,829,887	97.16%	61,473,876	79.41%
	<u>180,322,753</u>	<u>100%</u>	<u>229,345,178</u>	<u>100%</u>	<u>77,410,213</u>	<u>100%</u>

	2004					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Public / Government	22,250,553	16.20%	5,310,853	2.40%	15,963,908	26.12%
Private	115,067,220	83.80%	215,758,305	97.60%	45,149,113	73.88%
	<u>137,317,773</u>	<u>100%</u>	<u>221,069,158</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>



Notes to the Financial Statements for the year ended December 31, 2005

46. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	12,753,735	292,437,277	23,043,011	76,526,777
Asia Pacific (including South Asia)	82,149	2,375,147	82,149	883,436
Middle East	182,603	3,964,373	182,603	-
	<u>13,018,487</u>	<u>298,776,797</u>	<u>23,307,763</u>	<u>77,410,213</u>
	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	3,820,213	253,861,851	14,054,796	60,415,234
Asia Pacific (including South Asia)	58,790	1,877,150	229,945	697,787
Middle East	178,713	3,434,807	238,143	-
	<u>4,057,716</u>	<u>259,173,808</u>	<u>14,522,884</u>	<u>61,113,021</u>

Total assets employed include intra group items of Rs nil (2004: Nil).

Total assets employed shown above mean total assets shown on the balance sheet and intra group items. Net assets employed mean net assets shown on the balance sheet.

47. RELATED PARTY TRANSACTIONS AND BALANCES

The bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates). The details of investments in subsidiary companies and associated undertaking are stated in note 9 to these financial statements.

Transactions between the bank and its related parties are carried out at arm's length basis under the comparable uncontrolled price method. However, the transactions between the bank and one of its subsidiary MNET Services (Private) Limited are carried out on 'cost plus' method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 37 and 38. Remuneration to the executives and disposals of vehicles are disclosed in notes 39 and 12.4 to these financial statements.

	Directors		Associated Companies		Subsidiary Companies		Other related parties	
	2005	2004	2005	2004	2005	2004	2005	2004
	(Rupees' 000)							
Deposits								
Deposits at beginning of the year	2,030	2,202	227,631	96,317	5,239	14,289	270,188	218,024
Deposits received during the year	697,586	1,102,311	7,274,635	3,310,113	60,941	73,166	23,140,725	19,148,448
Deposits repaid during the year	(637,620)	(1,102,483)	(6,716,632)	(3,178,799)	(60,869)	(82,216)	(23,199,504)	(19,096,284)
Deposits at end of the year	<u>61,996</u>	<u>2,030</u>	<u>785,634</u>	<u>227,631</u>	<u>5,311</u>	<u>5,239</u>	<u>211,409</u>	<u>270,188</u>
Interest expense on deposits	27	7	851	1,234	20	43	145	157

Notes to the Financial Statements for the year ended December 31, 2005

	Directors		Associated Companies		Subsidiary Companies		Other related parties	
	2005	2004	2005	2004	2005	2004	2005	2004
	(Rupees' 000)							
Adamjee Insurance Company Ltd								
- Insurance premium paid - net of refund	-	-	75,443	66,453	-	-	-	-
- Insurance claim settled	-	-	60,106	25,296	-	-	-	-
- Rent income received	-	-	1,825	900	-	-	-	-
- Dividend received	-	-	36,097	-	-	-	-	-
MNET Services (Private) Limited								
- Outsourcing service charges	-	-	-	-	20,975	13,697	-	-
- Networking service charges	-	-	-	-	7,631	7,836	-	-
- Other charges	-	-	-	-	-	170	-	-
Muslim Commercial Financial Services (Private) Limited								
- Custodian charges received	-	-	-	-	6,993	15,020	-	-
- Dividend received	-	-	-	-	3,000	7,500	-	-
MCB Employees Foundation								
- Service expenses	-	-	-	-	-	-	14,023	12,285
- Cash sorting expenses	-	-	-	-	-	-	3,115	17,597
- Cash in transit expenses	-	-	-	-	-	-	3,638	1,155
MCB Employees Security System and Services (Private) Limited								
- Security guard expenses	-	-	-	-	-	-	74,346	52,155

Directors' remuneration

The details of director's remuneration has been given in note 39 to these financial statements.

Debts due by executives of the bank are disclosed in note 10.6 to these financial statements.

48. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications are as follows:

- Deposits and other accounts amounting to Rs 1,103.101 million have been reclassified from borrowings from financial institutions to deposits and other accounts.
- Amortisation of premium on held to maturity securities amounting to Rs 263.384 million has been reclassified from income / gain on investment to mark-up / return / interest. This amount was deducted from gain on investments in prior years
- Provision in respect of fraud and forgeries amounting to Rs 27.265 million has been reclassified from administrative expenses and shown as part of other charges.
- Restructuring expenses which were shown separately have now been shown as part of administrative expenses.
- Comparative information has also been restated to comply with the change in accounting policy as disclosed in note 5.7 to the financial statements.

49. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 24, 2006 by the Board of Directors of the bank.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director

Annexure 'I' as referred to in Note 10.5.3 to these accounts

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
1	CITY FASHION (PVT.) LTD 7-A, Bastani Road, Samnabad, Lahore	M. Amjad Butt Mst. Iftikhar Bano	275-88-360906 275-45-360905	Nasar Nasar Ahmed	5,568	1,989	0	7,557	535	0	1,989	2,524
2	KHAN ICE CREAM Barrage Road, Sukkur	Kaleemullah	409-34-193580	Asadullah	188	385	15	588	188	0	400	588
3	ABDUL MANAN WARPING FACTORY Gali Havaladarwali, Garjakh, Gujranwala.	Abdul Manan	212-56-193705	Abdul Rehman	281	74	663	1,018	281	22	715	1,018
4	SAEED SULEMAN, (EX-STAFF) 120-Model Town, Lahore.	Saeed Suleman	--	--	881	0	0	881	881	0	0	881
5	ZAM ZAM FABRICS (PVT.) LTD, Shariqpur Road, Sheikhpura.	M. Aslam M. Ali M. Idress Tahir Kashif Ali	335-50-228953 333-52-030260 333-89-030236 335-25-103792	Wali Muhammad Karim Elahi Abdul Raheem Karim Elahi	1,927	8,413	19	10,359	2,189	0	8,170	10,359
6	BAHAWALPUR BOARD MILLS LTD Industrial Area, Sheikhpura.	Sh. M. Aslam M. Amjad Mst. Noor Jehan Mst. Tufail Nasreen Shahbaz Ahmed	--	--	1,106	1,828	0	2,934	1,106	0	1,828	2,934
7	SALMA HOSIERY D-167, Site, Karachi	Late Muhammad Yasin	507-57-032030	Shamsuddin	13,164	12,401	377	25,942	1,654	0	10,210	11,864
8	MAGSI PETROLEUM SERVICE Wagda Colony, Miro Khan Road, Larkana	Wajid Ali	427-54-098707	Wali Muhammad Magsi	496	784	0	1,280	256	0	784	1,040
9	MAGSI RICE MILLS C/o. Dur Muhammad Magsi, Miro Khan Chowk, Larkana.	Wajid Ali Taj Muhammad Ajaz Ahmed	427.54-098707	Wali Muhammad Magsi Dur Muhammad Magsi Dur Muhammad	753	1,192	0	1,945	501	0	1,192	1,693
10	WAJID PETROLEUM SERVICE Petrol Pump, Miro Khan, Distt. Larkana.	Wajid Ali	427-54-098707	Wali Muhammad Magsi	500	837	0	1,337	260	30	807	1,097
11	AL-AZHAR TEXTILE MILLS LIMITED, Bahawalpur, Punjab	Dr. Mirza M. Umer Baig	--	--	0	1,204	0	1,204	0	0	1,204	1,204
12	SDA A/C. HAZARA PHOSPHATE KAKUL MINES PIA Building, Arbab Road, Peshawar	Public Sector Enterprises	--	--	5,259	4,970	5,505	15,734	0	0	10,475	10,475
13	PHALIA SUGAR MILLS LTD, 20-F/1, (c), Gulberg-III, Lahore	Moonis Elahi Ch. Manzoor Elahi Ch. Shafat Hussain Gulzar Muhammad Mst. Qaisra Elahi Mst. Kausar Hussain Mst. Khalida Begum	--	--	0	33,006	0	33,006	0	0	16,839	16,839
14	SDA COLD STORAGE (SWAT) PIA Building, Arbab Road, Peshawar	Public Sector Enterprises	--	--	5,812	10,027	14,666	30,505	0	0	24,111	24,111

Annexure 'I' as referred to in Note 10.5.3 to these accounts

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
15	GHOSIA CATTLE CUM DAIRY FARM C-895, Metrowill-II, Quaidabad, Karachi	Syed Mohammad Yousuf	--	Syed Ghulam Rasool	1,400	2,907	0	4,307	500	359	2,548	3,407
16	MAQBOOL BROTHERS COTTON GINNERS KLP Road, Bhultakat, Rahim Yar Khan	Ch. Mohammad Maqbool Ch. Mohammad Ayub Ch. Mohammad Ramzan Mst. Kalsoom Akhter	358-93-551907 358-85-114233 358-87-114234 358-55-451912	Abdul Ghafoor Abdul Ghafoor Abdul Ghafoor W/o. Ch. Mohammad Maqbool	5,800	5,838	231	11,869	800	0	6,069	6,869
17	LUCKY ELECTRONICS 2-Nasim Centre, Fojdari Road, Hyderabad.	Mohammad Ilyas	450-92-135329	Mohammad Kamal	1,095	607	58	1,760	0	0	636	636
18	AHMED MODEL COTTON FACTORY By Pass Road, Rahim Yar Khan	Mian Abdul Qayyum Mian Abdul Hayee Mian Abdul Samad Mian Ahmed Hassan Mst. Nasim Akhtar	358-44-205883 358-48-358984 358-49-490277 358-37-005627 358-56-468189	Mian Ghous Muhammad Mian Ghous Muhammad Mian Ghous Muhammad Mian Ghous Muhammad Mian Abdul Salam	3,660	8,927	155	12,742	0	0	8,716	8,716
19	H.D. CORPORATION Opp. University Grid Station, Faisalabad	Muhammad Gasim Muhammad Usman	246-79-346067 246-80-346068	Anwar ul Haq Anwar ul Haq	2,499	1,196	109	3,804	0	0	523	523
20	R.K. STEEL RE-ROLLING MILLS 50-A, Industrial Area, 1-9, Islamabad	Muhammad Raza Khan Muhammad Nasir Khan	101-46-046586 101-55-519788	Haji Muhammad Umar Khan Haji Muhammad Umar Khan	21,056	1,483	0	22,539	503	0	1,484	1,987
21	PUNJAB ROAD TRANSPORT CORPORATION Transport House, II-A, Egerton Road, Lahore	Public Sector Enterprises (Guaranteed by Government of Punjab)			30,000	76,175	145,263	251,438	0	0	218,438	218,438
22	SH. ABDUL RASHID Shareef Complex, F-Block, Main Market, Gulberg, Lahore.	Sh. Abdul Rashid	--	Haji Abdul Shareef	452	1,652	26	2,130	452	0	1,678	2,130
23	SH. NASRULLAH MUSHTAQ 13-C-I, M.M. Alam Road, Gulberg-III, Lahore	Sh. Nasrullah Mushtaq	270-55-175195	--	246	422	25	693	246	0	447	693
24	UMAR RICE DEALER 51-Ghallah Mandi, Okara	Manzoor Ahmed	--	--	480	277	29	786	480	35	271	786
25	NADEEM ENTERPRISES B-6, 3rd Floor, Mayfair Centre, Saddar, Karachi	Mohammad Nadeem	517-93-471671	Zafar Iqbal	745	0	0	745	745	0	0	745
26	MEDITEX INTERNATIONAL LTD, 82-Industrial Estate, Kot Lakhpat, Lahore	Lt. Col. (Rtd) Ashfaq Ahmed Mst. Shella Ashfaq Ch. Asghar Ali Farooq Akhter	--	--	791	1,308	0	2,099	290	0	1,308	1,598



Annexure 'I' as referred to in Note 10.5.3 to these accounts

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
27	PAK BELT INDUSTRIES LIMITED 22-KM, G.T. Road, Maridke.	Sh. Arshad Saeed Asad Amin Sheikh Sh. Akmal Arshad Sh. Aftab Arshad Naeem Saddique Asif Amin Mst. Pazira Arshad	35202-3300714-5 35201-9478856-1 35202-0174157-7 35202-0165702-7 35201-1587075-3 274-61-021329 35202-7483049-0	Sh. M. Amin Sh. Arshad Saeed Sh. Arshad Saeed Sh. Arshad Saeed Sh. M. Saddique Sh. Arshad Saeed W/o. Sh. Arshad	739	1,215	0	1,954	488	0	1,215	1,703
28	WAZIRISTAN OIL INDUSTRIES LTD, Dera Ismail Khan, N.W.F.P	Mian M. Adil Monoo Mian Rafi Monoo Mrs. Rafi Monoo M. Irfan Monoo Mohammad Iqbal Sher Alam Khan	--	--	690	1,209	0	1,899	558	0	1,209	1,767
29	MALIK TEXTILE LIMITED 35-Gulberg, Lahore	Malik Liqa M. Noor Fayyaz Ahmed Noon Ch. Muhammad Ahsan Arif Noon	--	--	945	743	590	2,278	762	0	1,333	2,095
30	SHAFI WOOLEN INDUSTRIES LTD, 107, B-3, M.M. Alam Road, Lahore.	Aurangzeb Shafi Burki Jehanzeb Burki Mst. Rubina Burki Mst. Ayesha Burki	--	--	591	1,134	0	1,725	295	0	1,134	1,429
31	ULTRA ENGINEERING LTD, Industrial Area, North Karachi	Sultan Ahmed K. Rehman Muhammad Hanif Mrs. Sultan Ahmed	--	--	727	610	0	1,337	208	0	610	818
32	GRACE COMPUTER TECHNOLOGY A-75, 130/D-1, Gulshan-e-Iqbal, Karachi	Muhammad Amir	518-68-493758	Muhammad Saleem	676	835	0	1,511	676	0	835	1,511
33	GLOREX TEXTILES LTD, Room No.501, 5th Floor, Business Avenue, Shahrah-e-Faisal, Karachi	Farooque Khan Farhat Reza Khan Sadat Jang Muhammad Shabbir Shaukat Pervez	--	N/A. N/A. Shabbir Ahmed Khan Amir M. Khan (Late) N/A.	3,384	1,874	0	5,258	1,083	0	1,874	2,957
34	GENERAL DAIRIES & FOOD LTD, 44, Farid Chambers, Abdullah Haroon Road, Karachi	Brig. Rtd. M.A. Baig Qamar Ahmed Taufiq Ahmed	--	Hamid Yar Jang Molvi Abdul Jabbar Abdul Latif	1,125	946	0	2,071	810	0	946	1,756
35	CENTRAL ASSOCIATES LIMITED Bhatti Road, Rawalpindi	Abdul Razzak Abdul Aziz Aslam Waqar Mohammad	--	Haji Yaqoob Haji Yaqoob N/A. Haji Yaqoob	453	4,903	597	5,953	0	0	1,949	1,949
36	FAROOQ COMPOSIT FERTILIZER CORP. LTD, ST,13/1, Sector 6-B, North Karachi	Farooq Ahmed Saleem Yaseen Farooq Saleem Shamim Ahmed	--	--	1,132	2,033	0	3,165	0	0	2,009	2,009
37	LEATHER MANUFACTURER, B-12, Lower Ground Floor, Panorama Centre, Karachi	Shoukat Ali	512-66-088167	Kasim Ali	2,000	0	75	2,075	1,850	0	75	1,925

Annexure 'I' as referred to in Note 10.5.3 to these accounts

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
38	CHARME STYLE, 17-C, 1st street, Phase-IV, Sunset Commercial Street, DHA, Karachi	Abdul Haq	514-47-147735	Choudhry Rahim Bux	5,094	3,000	157	8,251	1,674	0	3,156	4,830
39	FRENCH FOOD PRODUCTS (PVT.) LTD, 1-A, Ground Floor-1, Sea View Apartments, DHA, Karachi	A. Sattar Kiddy Javed Bashir Sadat Hayat Khan	514-90-139447 N/A. N/A.	Adam Kiddy Bashir Ahmed Karim H. Khan	1,455	4,458	0	5,913	1,455	0	3,342	4,797
40	JAMAL TUBE MILLS (PVT.) LTD, 88-Railway Road, Lahore	Muhammad Ashfaq Mohsin Ashfaq Haroon Ashfaq	-- -- --	Jamal Din M. Ashfaq M. Ashfaq	91,899	154,365	0	246,264	55,567	0	154,365	209,932
41	S & K ENTERPRISES House No. 11, Street 54, F-7/4, Islamabad	Dr. Kafeel A. Qureshi Mst. Salma Kafeel	101-40-635044 211-47-137588	N/A. Dr. Kafeel a. Qureshi	34,910	41,422	1,130	77,462	2,011	5,741	36,811	44,563
42	ZAHID TRADERS, G-10, Serena Hotel, Quetta	S. Zahid Hussain	--	--	0	8,088	0	8,088	0	0	8,088	8,088
43	LAHORE DYEING & PRINTING MILLS LTD, 104, Industrial Estate, Kot Lakhpat, Lahore	Rana Sajjad Anwar Rana Shehzad Anwar Naveed Mukhtar Rana Muhammad Rashid Khan Muhammad Ajmal Rana	-- -- -- -- --	-- -- -- -- --	980	2,228	1,332	4,540	0	0	3,560	3,560
44	RAINBOW PACKAGES LTD, Lahore Road, Sheikhpura, Punjab	Syed Bashir Ahmed Syed Aziz Ahmed Syed Wasim Akhlaq Suhail Ahmed Siddiqui Syed Riaz Ahmed	-- -- -- -- --	-- -- -- -- --	1,688	2,096	0	3,784	1,332	0	2,096	3,428
45	MAXFAN TRADING CO. (PVT.) LTD, 4, Main Chambers, 1st Floor, Shahrah-e-Liaquat, Karachi	Badar Jatoi Shama Jatoi Mohammad Qasim Shakil Ahmed Khan Ibrahim Najib Turk Zubeeda Balouch Yar Mohammad	-- -- -- -- -- -- -- --	Qamaruddin W/o. Badaruddin Jatoi Haji Mohammad Khalil Ahmed Khan Abdul Majid N/A. D/o. Rasool Bukhsh N/A.	39,537	45,399	119	85,055	27,023	0	45,518	72,541
46	CONSOLIDATED SPINNING & TEXTILE MILLS LTD, 67/68-A, Lalazar, M.T. Khan Road, Lahore	K.M. Asif K.M. Usman K.M. Zaki Muneer	-- -- --	-- -- --	1,035	6,916	1,468	9,419	1,001	0	8,383	9,384
47	STAR SILICA INDUSTRIES LTD, 3rd Floor, Aziz Chambers, 21 Queens Road, Lahore	Zakariya Ghani Abdul Wahab Ghani M.T. Hussain Idrees Ghani	-- -- -- --	-- -- -- --	3,577	6,594	967	11,138	3,421	0	7,562	10,983
48	HUSSAIN BEVERAGES LTD, 1706, Sea Breeze Plaza, Shahrah-e-Faisal, Karachi	Syed Sajjad Hussain Shah Mst. Uzma Hussain Matloob Hussain Zerak Begum Nasiruddin Ahmed Mst. Mehnaz Mullick Mst. Malika Mukhtar	517-89-187185 517-93-187187 517-38-192377 517-23-123657 517-86-213437 517-64-187186 517-28-014033	Abbas Hussain W/o. Abbas Hussain Syed Mohammad Shah W/o. Late Raziuddin Late Raziuddin W/o. Khawar Mullick Abu M. Mukhtar	3,544	2,704	0	6,248	1,783	0	2,704	4,487



Annexure 'I' as referred to in Note 10.5.3 to these accounts

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
49	WALEED LEATHER INDUSTRIES LTD, Bahawalpur, Punjab	Shafiq A. Chaudhry Wajid A. Chaudhry Kamran Bashir	--	--	1,405	1,082	0	2,487	901	0	1,082	1,983
50	BELA GHEE MILLS LTD, 73/1, Khayaban-e-Badar, Main Street, Phase-VI, DHA, Karachi	Jam Kamal Khan Jam Ali Akbar Princess Zenab Baloch Gul Hassan Bhotani Mst. Shella Bibi Princess Shereen Jan Ahmed Ali Ahmed Zai	51501-7340107-3 502-54-365189 51501-7588139-0 641-52-005376 641-69-161902 42000-7497117-2 42000-7871731-1	--	1,607	2,481	0	4,088	761	0	2,481	3,242
51	SUNSHINE JUTE MILLS LTD, 112-B, Gulberg Road, Lahore	Mian Aftab A. Sheikh Avais Mazhar Hussain Mst. Nasreen Aftab Hussain Aftab	--	--	3,552	8,771	4,732	17,055	2,888	0	13,503	16,391
52	PUNJAB CABLES LTD, 2-A, Gulberg-II, Lahore	M. Raza Hussain Mst. Kausar Parveen Mst. Tehmina Zawar Riaz Hussain,	--	--	2,798	3,912	0	6,710	2,299	0	3,912	6,211
53	PARAS TEXTILE MILLS LTD, 63, Main Gulberg, Lahore	Faisal Abbas Malik Nasir Hussain Malik Farhan Abbas Malik Muhammad Hayat Mst. Akhtar un Nisa Mst. Aliya Faisal Malik	--	Nisar Hussain Malik Malik Umer Ali Nisar Hussain Malik Mohammad Baksh Nisar Hussain Malik W/o. Faisal Abbas Malik	10,100	40,807	16,678	67,585	3,142	0	57,485	60,627
54	ALIPUR JUTE MILLS LTD, 30-A, Jauharabad Distt. Khushab	M. Afzal Khan Ghulam Dastagir Khan (Late) Ghulam Subhani Ghulam Samdhani Ghulam Rabbani Khan Ghulam Rasool Mst. Rehana Rehmat	--	--	5,475	10,246	0	15,721	4,250	0	10,246	14,496
55	FLORA TEXTILE MILLS LTD, 7-B, New Muslim Town, Lahore	Ahmed Irfan Mian Farooq Mian Bashir M. Akhter	--	--	1,620	4,594	1,256	7,470	1,106	0	5,850	6,956
56	ALI TRADERS Ghalla Mandi, Tehsil Mailsi District, Vehari.	Liaquat Hussain Shah	325-91-298244	Nasir uddin Shah	937	686	0	1,623	99	0	587	686
57	SIND TEXTILE INDUSTRIES LTD, C-41, Block-6, PECHS, Karachi	Syed Ali Azhar Naqvi Syed Ali Athar Naqvi Syed Ali Qaiser Naqvi Syed Ali Akbar Naqvi	--	--	9,099	10,926	0	20,025	4,468	0	10,926	15,394
58	BELA CHEMICAL INDUSTRIES LTD, 12-A, Mohammad Ali Housing Society, Karachi	Iqbal Reta Ghulam Ali Zaigham Mehmood Rizvi Mehran Elahi Mushtaq Hussain Qureshi	--	--	28,437	28,271	0	56,708	26,081	0	28,271	54,352

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Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
59	NIZAMUDDIN (SPONSOR) ALI ASBESTOS INDUSTRIES LTD, 5/1, State View House, I.I. Chundrigar Road, Karachi.	Nizamuddin Tilawat Ali Qamaruddin Ahmed Moinuddin Ahmed	--	--	1,050	6,379	1,085	8,514	606	0	7,464	8,070
60	KARACHI PROPERTIES INVESTMENT (1974) LTD, (HAYAT REGENCY HOTEL PROJECT) Opp. PIDC House, M.T. Khan Road, Karachi	M.C. Minwala D.C. Minwala K.M. Minwala K.M. Zaki Muneer	--	--	1,241	3,725	1,176	6,142	0	0	3,992	3,992
61	FAIR FASHIONS 5-D, Commercial Area, D-Ground, Peoples Colony, Faisalabad.	Mohammad Arshad Raza	244-85-338151	Shamsuddin	4,000	1,757	0	5,757	0	0	1,582	1,582
62	CHANNEL TEX (PVT.) LTD, P-625, Street No.9, , Afghanabad No.1 Faisalabad.	Amjad Saleemi Mst. Khurshid Bibi Muhammad Sadiq Mst. Rukhsana Amjad, Safdar Saleemi	245-90-134240 245-90-134239 245-90-134237 245-90-310717 245-89-134241	Muhammad Sadiq Muhammad Sadiq Imam Din Amjad Saleemi Muhammad Sadiq	13,965	23,318	1,322	38,605	0	0	23,305	23,305
63	GREEN STAR FLOUR MILLS Mouza Goth Bajan Near Railway Station, Bahawalpur.	Muhammad Gasim Muhammad Zia Muhammad Madni Muhammad Khalid Mst. Nagmana Zia Mst. Nusrat Begum,	344-68-121350 344-87-120349 344-67-062503 344-72-062504 344-67-252690 344-52-084592	Atta ullah Ch. Atta ullah Ghulam Farid Ghulam Farid W/o. Muhammad Zia W/o. Alam Sultan Mehmood	2,687	2,479	62	5,228	0	0	1,195	1,195
64	TAHIR UL MULK Koti Nawab Sahib, Gujrat.	Tahir ul Mulk	224-88-056276	Raul ul Mulk	655	7,070	0	7,725	655	0	7,070	7,725
65	ZARA ENTERPRISES, B-23, Block-1, Gulshan-e-Iqbal, Karachi	Sohail Jawed Butt	--	M. Amin Butt	3,406	5,286	0	8,692	2,706	80	5,206	7,992
66	MUHAMMAD FAYYAZ HUSSAIN MARHAL, 8-Guldin Colony Chowk, Nawan Shehar, Multan	M. Fayyaz Hussain Marhal	322-90-622337	Charagh Bakhsh	1,732	3,417	58	5,207	0	0	2,429	2,429
67	REHMAN INDUSTRIES SOAP MANUFACTURERS (PVT.) LTD, Shadera, Ferozwala, Lahore.	Manzoor Ahmed Nasir Manzoor Basharat Manzoor	285-31-452183 285-62-432187 285-64-432188	A. Ghani Manzoor Ahmed Manzoor Ahmed	4,611	7,321	71	12,003	0	0	7,321	7,321
68	MEHRAN ENGINEERING INDUSTRIES (PVT.) LTD, Al-Hamra Shopping Centre, D-6, Shaheed-e-Millat Road, Karachi	Faiz Muhammad Palari Gulab Khan Palari Moula Bux Palari	--	Mazhar Khan Palari Mazhar Khan Palari Mazhar Khan Palari	3,500	7,264	220	10,984	0	0	4,658	4,658
69	PREMIER INTERNATIONAL, 6-A, Shami Road, Civil Lines, Sheikhupura.	Arshad Zahoore Asad Zahoore Zafar Zahoore Akhtar Zahoore Tahir Zahoore	--	--	2,500	904	55	3,459	0	0	904	904
70	ZAFAR BROTHERS, Ghalla Mandi, Sheikhupura.	Tahir Zahoore Arshad Zahoore Asad Zahoore Zafar Zahoore	--	--	1,900	609	35	2,544	0	0	609	609



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Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2005.

(Rupees '000)

Sl. 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/ Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
71	M/S. M. AYYAN TRADERS, Office No.5, 1st Floor, Shalimar Plaza, M.B. Faisalabad.	Nadeem Sarwar Mst. Zakiya Sarwar	244-88-225293 244-53-021672	Malik Muhammad Sarwar Malik Muhammad Sarwar	992	266	734	1,992	0	0	692	692
72	TEXTIEL INTERNATIONAL, KARACHI 804, Mehdi Towers, SMCHS, Karachi.	Khawaja Khalid Haq Mr. Masood Ahsan Mr. Khurram Younus	517-93-221072 501-85-295096 517-60-163789	Khawaja Mazharul Haq M. Amin Ahsan M. Younus	1,148	1,033	0	2,181	548	0	1,033	1,581
73	SDA COLD STORAGE, PESHAWAR Jamrud Road, Peshawar	Haji Said Anwar			6,665	11,512	16,171	34,348	0	0	27,119	27,119
74	SAAQIB FABRICS P-213, Tikka Gali No.2, Montgomery Bazar, Faisalabad.	Saaqib Saeed	322-92-443536	Muhammad Saeed Ahmed	9,941	7,905	0	17,846	0	0	7,036	7,036
75	HI-TECH INTERNATIONAL 39/A, Gali No.2, Partab Nagar, Jhang Road, Faisalabad	Irshad Ahmed	326-92-059017	Ilam Din	9,682	10,869	0	20,551	0	0	9,406	9,406
76	DIAMOND INTERNATIONAL CORP. LTD, 702, Uni Tower, I.I. Chundrigar Road, Karachi.	Mr. Inam ur Rehman Mr. Asif Inam Mr. Khurram Inam Mrs. Summaya Rehman Mr. Zika ur Rehman Miss. Rehana Rehman Mr. Habib ur Rehman	517-40-142657 517-85-392563 517-85-392564 517-48-145920	S.M. Yahya Inam ur Rehman Inam ur Rehman Inam ur Rehman Inam ur Rehman Inam ur Rehman Inam ur Rehman	2,550	3,004	0	5,554	0	0	727	727
77	KHALIL AHMED ANSARI B-2175, Karbala Mohallah, Rohri	Khalil Ahmed Ansari	--	Noor Muhammad Ansari	300	696	0	996	0	0	625	625
78	BHEROMAL & PREMCHAND, P.O. Chunar Jamali, Thatta	Bheromal Premchand	469-52-615535	Karam Chand Kundumal	0	1,094	0	1,094	0	0	1,094	1,094
79	SATELLITE ENTERPRISES, 2/C, Commercial Centre, Gulfishan Colony, Jhang Road, Faisalabad.	Muhammad Anwar	245-66-121220	Muhammad Ismail	800	791	74	1,665	0	0	615	615
80	HELPFUL TRADERS, 117/C, SITE, Sialkot	Zarar Ahmed Iftkhar Ahmad Saeed Ahmed	300-57-032092 300-87-032094 300-87-032047	Muhammad Iqbal Muhammad Iqbal Muhammad Iqbal	857	1,355	0	2,212	0	0	677	677
81	REDCO TEXTILES LTD, Redco Arcade, 78-E, Blue Area, Islamabad.	Saif ur Rehman Khan Amanullah Khan Mujib ur Rehman Khan Atiq ur Rehman Khan Taufiq Amanullah Khan Muneze Saif ur Rehman Samina Asad Khan		Amanullah Khan Ehsan ur Rehman Khan Amanullah Khan Amanullah Khan Amanullah Khan Saif ur Rehman Khan Col. Asad Khan	2,185	2,394	139	4,718	2,185	0	2,533	4,718
Total					440,589	692,898	217,444	1,352,079	166,559	6,267	861,251	1,034,077
82	MEEZAN TRADING CO. 201, 9th Cross St. Colombo-II.	Mr. Ibrahim Mohammad Jafar Mr. Ibrahim Mohammad Anis Mr. Ibrahim Mohammad Ashraf	622010844X 661752475X 693442222X	Mr. Ibrahim Mr. Ibrahim Mr. Ibrahim	927	272	0	1,199	751	0	272	1,023
Total					927	272	0	1,199	751	0	272	1,023
Grand Total					441,516	693,170	217,444	1,353,278	167,310	6,267	861,523	1,035,100

Branch Network Sector-wise position of Circles/Regions as on December 31, 2005

COMMERCIAL BANKING - LAHORE OFFICE			562
Lahore East			56
01.	Lahore East	24	
02.	Sahiwal	32	
Lahore West			70
03.	Lahore City	25	
04.	Lahore West	20	
05.	Sheikhupura	25	
Faisalabad			55
06.	Faisalabad Central	27	
07.	Faisalabad City	28	
Gujranwala			80
08.	Gujranwala	27	
09.	Gujrat	26	
10.	Sialkot	27	
Islamabad			84
11.	Islamabad	18	
12.	Rawalpindi	26	
13.	Chakwal	22	
14.	Jhelum	18	
Sargodha			78
15.	Jhang	27	
16.	Mianwali	25	
17.	Sargodha	26	
Peshawar			64
18.	Kohat	20	
19.	Mardan	22	
20.	Peshawar	22	
Abbottabad			75
21.	Abbottabad	30	
22.	Attock	28	
23.	Swat	17	
WHOLESALE BANKING GROUP			12
01.	South (Karachi)	03	
02.	Central (Lahore)	06	
03.	North (Islamabad)	03	
ISLAMIC BANKING			05
01.	Karachi	01	
02.	Lahore	01	
03.	Multan	01	
04.	Hyderabad	01	
05.	Faisalabad	01	
ATM BRANCHES			234
ONLINE BRANCHES			535

COMMERCIAL BANKING - KARACHI OFFICE			368
Karachi East			48
01.	Karachi East	23	
02.	Karachi North	25	
Karachi West			41
03.	Karachi South	18	
04.	Karachi West	23	
Karachi Central			17
05.	Karachi Central	17	
Hyderabad			52
06.	Hyderabad	27	
07.	Nawabshah	25	
Sukkur			51
08.	Larkana	25	
09.	Sukkur	26	
Quetta			33
10.	Quetta	33	
Bahawalpur			51
11.	Bahawalpur	25	
12.	Rahim Yar Khan	26	
Multan			75
13.	Dera Ghazi Khan	26	
14.	Multan	28	
15.	Vehari	21	

SUMMARY

GROUP	REGIONS	CIRCLES	NO. OF BRANCHES
Commercial Banking - Lahore Office	23	8	562
Commercial Banking - Karachi Office	15	8	368
Wholesale Banking	4	2	12
Islamic Banking	-	-	5
TOTAL DOMESTIC	42	18	947
Overseas*			4
EPZ			1
TOTAL			952

PROVINCE-WISE

	NO. OF BRANCHES
Punjab	587
Sindh	213
NWFP	105
Balochistan	34
Azad Jammu & Kashmir	8
Total Domestic	947
Overseas*	4
EPZ	1
TOTAL	952

*Sri Lanka: 1.Colombo Main 2.Pettah 3.Maradana Bahrain: 1.OBU Bahrain



Pattern of shareholding as of December 31, 2005

NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
17703	1	100	657189	.1540
15011	101	500	4043237	.9479
11573	501	1000	7580459	1.7772
2261	1001	5000	4413293	1.0346
266	5001	10000	1941938	.4552
96	10001	15000	1213685	.2845
40	15001	20000	705534	.1654
41	20001	25000	923685	.2165
37	25001	30000	1015022	.2379
21	30001	35000	678048	.1589
12	35001	40000	449120	.1052
14	40001	45000	603793	.1415
24	45001	50000	1169643	.2742
7	50001	55000	366255	.0858
10	55001	60000	581816	.1364
3	60001	65000	194600	.0456
7	65001	70000	472945	.1108
4	70001	75000	295777	.0693
10	75001	80000	780653	.1830
6	80001	85000	499315	.1170
3	85001	90000	263150	.0616
1	90001	95000	94550	.0221
6	95001	100000	589700	.1382
5	100001	105000	516348	.1210
5	105001	110000	545716	.1279
4	110001	115000	448500	.1051
4	115001	120000	474493	.1112
7	120001	125000	856198	.2007
4	125001	130000	510537	.1196
1	130001	135000	133000	.0311
3	135001	140000	415860	.0974
1	140001	145000	142158	.0333
1	145001	150000	150000	.0351
2	150001	155000	306003	.0717
2	155001	160000	317400	.0744
2	160001	165000	324898	.0761
4	165001	170000	668358	.1566
1	170001	175000	175000	.0410
4	175001	180000	711518	.1668
2	180001	185000	364918	.0855
2	185001	190000	376400	.0882
2	190001	195000	384407	.0901
6	195001	200000	1200000	.2813
4	200001	205000	813728	.1907
3	205001	210000	621831	.1457
2	210001	215000	422342	.0990
1	220001	225000	222672	.0522
1	225001	230000	227300	.0532
2	230001	235000	467652	.1096
2	235001	240000	475634	.1115

Pattern of shareholding as of December 31, 2005

NO. OF SHAREHOLDERS	HAVING SHARES		SHARES HELD	PERCENTAGE
	FROM	TO		
2	245001	250000	495200	.1160
2	255001	260000	515604	.1208
2	260001	265000	525267	.1231
2	265001	270000	538500	.1262
1	270001	275000	275000	.0644
1	275001	280000	280000	.0656
3	295001	300000	896836	.2102
3	300001	305000	901789	.2114
2	320001	325000	646689	.1516
1	330001	335000	332056	.0778
2	335001	340000	672763	.1577
6	350001	355000	2112294	.4952
1	355001	360000	356957	.0836
1	360001	365000	362026	.0848
2	375001	380000	754270	.1768
1	380001	385000	385000	.0902
1	385001	390000	385400	.0903
1	400001	405000	402100	.0942
1	405001	410000	408500	.0957
1	425001	430000	427817	.1003
1	430001	435000	430400	.1009
1	435001	440000	438500	.1028
2	450001	455000	902800	.2116
1	455001	460000	459500	.1077
1	460001	465000	461000	.1080
1	475001	480000	476500	.1117
1	485001	490000	488300	.1144
3	495001	500000	1500000	.3516
1	505001	510000	507504	.1189
3	525001	530000	1584222	.3714
1	530001	535000	534100	.1252
1	535001	540000	538000	.1261
1	550001	555000	554057	.1298
1	555001	560000	556240	.1304
1	565001	570000	569178	.1334
1	570001	575000	573600	.1344
1	585001	590000	587171	.1376
1	590001	595000	590008	.1383
1	630001	635000	631800	.1481
2	635001	640000	1272872	.2984
2	640001	645000	1283618	.3009
4	700001	705000	2816396	.6603
1	775001	780000	776419	.1820
1	815001	820000	816000	.1913
2	995001	1000000	1996800	.4681
1	1055001	1060000	1058615	.2481
1	1120001	1125000	1123036	.2632
1	1215001	1220000	1219000	.2857
1	1240001	1245000	1240518	.2908
1	1255001	1260000	1258242	.2949

Categories of Shareholders as at December 31, 2005

Particulars	Shareholding	Percentage
Directors, CEO their spouses and children	24,704,658	5.7920
Associated companies, undertaking and related parties	85,419,650	20.0265
NIT & ICP	561,822	0.1317
Banks, DFI & NBFIs	18,435,487	4.3222
Insurance Companies	30,466,949	7.1429
Modarabas & Mutual Funds	8,461,470	1.9838
Shareholders Holding 10%	-	-
General Public (Local)	137,867,092	32.3227
General Public (Foreign)	1,929,455	0.4524
Others (Limited COs, Foreign Cos, Pensions / Provident Funds)	118,686,159	27.8258
	426,532,742	100.00



Notice of Annual General Meeting

Notice is hereby given that 58th Annual General Meeting of the members of MCB Bank Limited will be held at Hotel Crown Plaza, 99 Jinnah Avenue, Islamabad on Tuesday, March 28, 2006 at 3:00 p.m. to transact the following business:

1. To confirm the Minutes of last Annual General Meeting held on March 28, 2005 and Extraordinary General Meeting held on June 13, 2005.
2. To receive, consider and adopt the audited accounts of MCB Bank Limited & consolidated accounts of MCB Bank Limited and its subsidiaries for the year ended 31st December 2005 together with the Directors' and Auditor's report thereon including post facto approvals of donation of Rs. 30.059 million to President Earthquake Relief Fund and remuneration of Rs. 1.434 million to Chairman reported at notes 27.1 & 39 of annual report respectively as required under SBP Prudential Regulation.
3. To approve as recommended by directors dividend @ 20 % in the form of bonus shares and @ 10% cash dividend in addition to 17.5% and 15% first and second interim cash dividend respectively.
4. To appoint auditors and fix their remuneration. One of the member has proposed the name of M/s KPMG Taseer Hadi & Company Chartered Accountants in place of retiring auditor M/s A. F. Ferguson & Company Chartered Accountants whereas other retiring auditors M/s Riaz Ahmad & Company, Chartered Accountants being eligible has offered themselves for reappointment.
5. To elect 9 directors as fixed by the directors for a period 3 years in place of the following retiring directors:

1 Mian Mohammad Mansha	4 Mohammad Arshad	7 Mian Umer Mansha
2 Tariq Rafi	5 Shahzad Saleem	8 Aftab Ahmad Khan
3 S.M. Muneer	6 Sarmad Amin	9 Atif Yaseen
6. Any other business with the permission of the Chair.

Islamabad: February 24, 2006

By order of the Board

Tahir Hassan Qureshi
Secretary

Notes:

1. Any person who seeks to contest election to the office of director shall, whether he is a retiring director or otherwise, file with the Bank not later than fourteen days before the date of meeting at which elections are to be held, a notice of his intention to offer himself for election as director.

Consent in writing shall also be given by such person. A declaration shall be attached with consent that he is aware of duties and powers under the relevant laws, Memorandum & Article of Association of the Bank and listing regulation of stock exchanges. The person shall also confirm that he is not a director in more than 10 listed companies including MCB Bank Limited, his name is on register of National Tax payers and neither he nor his spouse is engaged in brokerage business.

In terms of SBP Circular No. BPRD 12 dated June 02, 2000 any person who seeks to contest the election to the office of the director shall file not later than 14 days before the date of meeting the affidavit on the proforma enclosed with above circular.

In terms of the circular of SBP association of the following persons as Director is undesirable and against public interest (a) a person who is/has been associated with any illegal activity especially relating to banking business; and (b) a person who in his individual capacity or a proprietary concern or any partnership firm or any private limited company or any unlisted public company (of which he has been a proprietor, partner, director or shareholder) has been in default of payment of dues owned to any financial institution and/or in default of payment of any taxes.

A person is also not permitted to be a director of more than one financial institution.

Guidelines under Fit & Proper Test shall be complied with in terms of SBP, BPD Circular No. 35 dated November 30, 2002 and shall be submitted with affidavit referred above.
 2. The share transfer books of the Bank will remain closed from March 20, 2006 to March 28, 2006 (both days inclusive) for entitlement of bonus shares and cash dividend to those members whose names appear on the register of members as at the close of business on March 18, 2006.
 3. Any 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 company or not.
 4. Members whose shares are deposited with Central Depository Company of Pakistan Limited are requested to bring their original Computerized National Identity Cards (CNIC) alongwith the participant's I.D. number and their account numbers in Central Depository Company of Pakistan Limited to facilitate identification at the time of Annual General Meeting. In case of proxy, an attested copy of proxy's Identity Card(CNIC), Account & Participants ID number be enclosed. In case of corporate entity, the Board of Directors, resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier).
- Proxies, in order to be valid, must be deposited at the office of Share Registrar, THK Associates (Pvt) Ltd., Ground Floor, Modern Motor House, Beaumont Road, Karachi not less than 48 hours before the time of meeting.
5. Members are requested to promptly notify M/s. THK Associates (Pvt) Limited, of any change in their addresses to ensure delivery of mail.

**Consolidated
Accounts**



**MCB Bank Limited
and Subsidiary Companies**



Directors' Report on Consolidated Financial Statements

The board of directors present report on the consolidated financial statements of MCB Bank Ltd and its subsidiaries namely Muslim Commercial Financial Services (Pvt.) Limited, MNET Services (Pvt.) Limited, MCB Trade Services Limited and MCB Asset Management Company Limited for the year ended December 31, 2005.

The following appropriation of profit has been recommended by the Board of Directors:

	(Rupees '000)
Profit before taxation	13,340,576
Taxation	4,126,189
Profit after taxation	9,214,387
Share of profit attributable to minority interest	(1)
Profit attributable to shareholders	9,214,386
Un-appropriated profit brought forward	222,379
Transfer from surplus on revaluation of fixed assets (net of tax)	83,749
	306,128
Profit available for appropriation	9,520,514
Appropriations:	
Statutory Reserve	892,241
General Reserve	5,500,000
Interim dividend - first 17.5%	649,072
Interim dividend - second 15%	639,799
Final dividend - cash 10%	426,533
- bonus 20%	853,065
Total appropriations	8,960,710
Un-appropriated profit carried forward	559,804

Pattern of shareholding

The pattern of shareholding as at December 31, 2005 is annexed with the financial statements of MCB Bank Ltd.

Earning per share

The Consolidated financial statements reflect Rs. 31.94 and Rs. 22.06 pre-tax and after tax basic earning per share respectively for the year under review and its computation has been shown in notes 32 and 33 to the financial statements.

On behalf of Directors

Mian Mohammad Mansha
Chairman

Dated: February 24, 2006



Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of MCB Bank Limited and its subsidiary companies (The Group) as at December 31, 2005 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches, except for sixty one branches which have been audited by us and four branches audited by auditors abroad. We have also expressed a separate opinion on the financial statements of MCB Bank Limited while the financial statements of its subsidiary companies, MNET Services (Private) Limited and Muslim Commercial Financial Services (Private) Limited were audited by A.F.Ferguson & Co and Riaz Ahmad & Co respectively. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these 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 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.

In our opinion the consolidated financial statements examined by us, based on sixty one branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2005 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Riaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 24, 2006



Balance Sheet as at December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
ASSETS			
Cash and balances with treasury banks	6	23,665,549	23,833,253
Balances with other banks	7	1,522,483	5,760,379
Lendings to financial institutions	8	9,998,828	10,965,297
Investments - net	9	70,356,782	67,242,016
Advances - net	10	180,322,753	137,317,773
Other assets - net	11	5,466,420	6,155,578
Operating fixed assets	12	8,182,454	7,999,821
Deferred tax assets - net	19	192,362	-
		299,707,631	259,274,117
LIABILITIES			
Bills payable	14	8,536,674	7,566,684
Borrowings from financial institutions	15	27,377,502	7,590,864
Deposits and other accounts	16	229,339,867	221,063,918
Sub-ordinated loan	17	1,598,080	1,598,720
Liabilities against assets subject to finance lease		-	-
Other liabilities	18	8,608,803	6,525,522
Deferred tax liabilities - net	19	-	269,317
		275,460,926	244,615,025
NET ASSETS			
		24,246,705	14,659,092
REPRESENTED BY:			
Share capital	20	4,265,327	3,371,800
Reserves	21	13,408,005	5,661,553
Unappropriated profit		559,804	222,379
		18,233,136	9,255,732
Minority Interest		29	28
		18,233,165	9,255,760
Surplus on revaluation of assets - net of tax	22	6,013,540	5,403,332
		24,246,705	14,659,092
CONTINGENCIES AND COMMITMENTS			
	23		

The annexed notes 1 to 50 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director

Profit and Loss Account for the year ended December 31, 2005

	Note	2005	2004 Restated
		(Rupees '000)	
Mark-up / return / interest earned	24	17,757,540	9,085,162
Mark-up / return / interest expensed	25	2,781,434	2,057,597
Net mark-up / interest income		14,976,106	7,027,565
Reversal of provision for diminution in the value of investments	9.3	(98,982)	(172,876)
Provision against loans and advances	10.4.1	1,242,153	442,595
Provision for potential lease losses	10.4.1	-	1,200
Bad debts written off directly	10.5.1	1,184	8,771
		1,144,355	279,690
Net mark-up / interest income after provisions		13,831,751	6,747,875
NON-MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		2,452,507	1,992,356
Income earned as trustees to various funds		10,199	23,328
Dividend income		442,122	371,496
Income from dealing in foreign currencies		531,455	492,738
Gain on investments		866,895	804,419
Gain / (loss) on trading in government securities		851	(11,440)
Other income	26	1,078,255	560,987
Total non-mark-up / interest income		5,382,284	4,233,884
		19,214,035	10,981,759
NON-MARK-UP / INTEREST EXPENSES			
Administrative expenses	27	6,456,975	7,242,618
(Reversal) / other provisions	11.2	(72,740)	149,593
Other charges	28	178,841	41,864
Total non-mark-up / interest expenses		6,563,076	7,434,075
Share of profit of associate	9.6	349,019	50,900
Exceptional item			
Compensation on delayed tax refunds	29	340,598	513,852
PROFIT BEFORE TAXATION		13,340,576	4,112,436
Taxation - Current year	30	4,615,843	1,561,211
- Prior years	30	(149,274)	1,326
- Deferred	30	(365,737)	70,238
- Share of tax of associate	9.6 and 30	25,357	2,684
		4,126,189	1,635,459
PROFIT AFTER TAXATION		9,214,387	2,476,977
Share of profit attributable to minority interest		(1)	(1)
PROFIT ATTRIBUTABLE TO SHARE HOLDERS		9,214,386	2,476,976
Unappropriated profit brought forward		222,379	207,693
Transfer from surplus on revaluation of fixed assets - net of tax		83,749	25,839
		306,128	233,532
Profit available for appropriation		9,520,514	2,710,508
APPROPRIATIONS			
Transfer to:			
Statutory reserve		892,241	507,999
General reserve		5,500,000	800,000
Capital reserve		-	-
Proposed cash dividend Re 1 per share (2004: Rs Nil per share)		426,533	-
Reserve for issue of bonus shares-Final @ 20 % (2004: 10%)		853,065	337,180
Interim cash dividend Rs 1.75 (2004:Rs 1.00) per share		649,072	337,180
Interim cash dividend Rs 1.50 (2004:Rs 1.50) per share		639,799	505,770
		8,960,710	2,488,129
Unappropriated profit carried forward		559,804	222,379
		9,520,514	2,710,508
Basic and diluted earnings per share - after tax	33	22.06	6.10

The annexed notes 1 to 50 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director



Cash Flow Statement for the year ended December 31, 2005

	Note	2005	2004 Restated
		(Rupees '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		13,340,576	4,112,436
Less: Dividend income and share of profit in associated undertaking		(791,141)	(422,396)
		12,549,435	3,690,040
Adjustments for non-cash charges			
Depreciation		575,538	598,928
Amortisation		60,113	-
Provision against loans and advances		1,242,153	442,595
Reversal of provision for diminution in the value of investments (Reversal) / Provision for diminution in the value of other assets		(98,982)	(172,876)
Bad debts written off directly		(72,740)	149,593
Provision for potential lease losses		1,184	8,771
Gain on disposal of non-banking asset		-	1,200
Loss on disposal of fixed assets		(24,664)	-
Surplus on revaluation of 'held for trading' securities		22,114	(39,324)
		(1,634)	-
		1,703,082	988,887
		14,252,517	4,678,927
(Increase)/decrease in operating assets			
Lendings to financial institutions		966,469	(534,847)
Advances - net		(44,248,317)	(40,570,160)
Other assets - net		(2,264,550)	(518,788)
		(45,546,398)	(41,623,795)
Increase/(decrease) in operating liabilities			
Bills payable		969,990	(829,636)
Borrowings from financial institutions		19,786,638	(25,037,087)
Deposits and other accounts		8,275,949	9,566,814
Other liabilities		979,201	26,552
		30,011,778	(16,273,357)
		(1,282,103)	(53,218,225)
		(1,156,172)	(654,387)
		-	370,208
		(2,438,275)	(53,502,404)
Income tax paid			
Income tax refund			
Net cash used in operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in 'available for sale' securities		(20,301,953)	105,507,469
Net investments in 'held to maturity' securities		18,278,483	(46,099,945)
Net investments in 'held for trading' securities		(66,056)	-
Dividends received		586,028	339,208
Investments in operating fixed assets		(1,029,307)	(1,265,675)
Investments in associated undertakings		-	-
Sale proceeds of non-banking asset		589,676	-
Sale proceeds of property and equipment disposed off		127,254	81,308
		(1,815,875)	58,562,365
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of subordinated loan		(640)	(640)
Proceeds from issue of right shares		1,390,868	-
Dividend paid		(1,545,483)	(818,306)
		(155,255)	(818,946)
Exchange differences on translation of cash and cash equivalents in foreign branches		3,805	(56,354)
		(4,405,600)	4,184,661
(Decrease) / increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		29,599,978	25,553,170
Effects of exchange rate changes on cash and cash equivalents		(6,346)	(144,199)
		29,593,632	25,408,971
Cash and cash equivalents at end of the year	34	25,188,032	29,593,632

The annexed notes 1 to 50 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director

Statement of Changes in Equity for the year ended December 31, 2005

	Attributable to shareholders of the bank							Minority Interest	Total	
	Share capital	Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve	Unappropriated profit			
	(Rupees '000)									
Balance as at December 31, 2003 - as reported earlier	3,065,273	473,673	306,527	-	2,599,055	1,000,000	293,363	7,737,891	27	7,737,918
Effect of change in accounting policy in respect of recognition of cumulative unrecognised actuarial gains / (losses) - note 5.7	-	-	-	-	-	-	(85,670)	(85,670)	-	(85,670)
Balance as at December 31, 2003 - restated	3,065,273	473,673	306,527	-	2,599,055	1,000,000	207,693	7,652,221	27	7,652,248
Profit after taxation for the year ended December 31, 2004 - restated	-	-	-	-	-	-	2,476,977	2,476,977	-	2,476,977
Share of profit attributable to minority interest	-	-	-	-	-	-	(1)	(1)	1	-
Transferred from surplus on revaluation of fixed assets to un appropriated profit - net of tax	-	-	-	-	-	-	25,839	25,839	-	25,839
Exchange differences on translation of net investment in foreign branches	-	-	-	(56,354)	-	-	-	(56,354)	-	(56,354)
Issue of bonus shares	306,527	-	(306,527)	-	-	-	-	-	-	-
Transferred to general reserve	-	-	-	-	-	800,000	(800,000)	-	-	-
Transferred to statutory reserve	-	-	-	-	507,999	-	(507,999)	-	-	-
Interim cash dividend - March 2004	-	-	-	-	-	-	(337,180)	(337,180)	-	(337,180)
Interim cash dividend - September 2004	-	-	-	-	-	-	(505,770)	(505,770)	-	(505,770)
Transferred to reserve for issue of bonus shares - final	-	-	337,180	-	-	-	(337,180)	-	-	-
Balance as at December 31, 2004	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	222,379	9,255,732	28	9,255,760
Profit after taxation for the year ended December 31, 2005	-	-	-	-	-	-	9,214,387	9,214,387	-	9,214,387
Share of profit attributable to minority interest	-	-	-	-	-	-	(1)	(1)	1	-
Transferred from surplus on revaluation of fixed assets to un appropriated profit - net of tax	-	-	-	-	-	-	83,749	83,749	-	83,749
Exchange differences on translation of net investment in foreign branches	-	-	-	3,805	-	-	-	3,805	-	3,805
Transferred to statutory reserve	-	-	-	-	892,241	-	(892,241)	-	-	-
Interim cash dividend - March 2005	-	-	-	-	-	-	(649,072)	(649,072)	-	(649,072)
Interim cash dividend - September 2005	-	-	-	-	-	-	(639,799)	(639,799)	-	(639,799)
Transferred to general reserve	-	-	-	-	-	5,500,000	(5,500,000)	-	-	-
Issue of bonus shares	337,180	-	(337,180)	-	-	-	-	-	-	-
Issue of right shares	556,347	834,521	-	-	-	-	-	1,390,868	-	1,390,868
Transferred to reserve for issue of bonus shares - final	-	-	853,065	-	-	-	(853,065)	-	-	-
Proposed cash dividend - final	-	-	-	-	-	-	(426,533)	(426,533)	-	(426,533)
Balance as at December 31, 2005	4,265,327	1,308,194	853,065	(52,549)	3,999,295	7,300,000	559,804	18,233,136	29	18,233,165

The annexed notes 1 to 50 and Annexure I form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director



Notes to the consolidated financial statements for the year ended December 31, 2005

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited (formerly Muslim Commercial Bank Limited)

"Percentage holding of MCB Bank Limited"

Subsidiary companies

- | | |
|--|--------|
| - Muslim Commercial Financial Services (Private) Limited | 99.99% |
| - MNET Services (Private) Limited | 99.95% |
| - MCB Trade Services Limited | 100% |
| - MCB Asset Management Company Limited | 100% |

MCB Bank Limited (Formerly Muslim Commercial Bank Limited) (Holding company)

MCB Bank Limited (formerly Muslim Commercial Bank Limited) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all the stock exchanges in Pakistan. The bank's registered office and principal office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB Tower, I.I. Chundrigar Road, Karachi respectively. The bank operates 947 branches including 5 Islamic banking branches (2004: 941 branches including 3 Islamic banking branches) inside Pakistan and 5 (2004: 5) branches outside the country (including the Karachi Export Processing Zone Branch).

Muslim Commercial Financial Services (Private) Limited (Subsidiary Company)

The company was incorporated on February 12, 1992 under the Companies Ordinance, 1984 as a private limited company. The principal object of the company is to float, administer and manage modaraba companies, modaraba funds and modarabas. The company's registered office is situated at 16th Floor, MCB Tower, I.I. Chundrigar Road, Karachi.

The company acts as a trustee of Mutual Funds.

MNET Services (Private) Limited (Subsidiary Company)

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 is 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.

MCB Trade Services Limited (Subsidiary Company)

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 Asset Management Company Limited (Subsidiary Company)

Subsequent to the year end, the bank has established MCB Asset Management Company Limited. The company has not commenced its operations and will be engaged in providing investment advisory services.

2. BASIS OF PRESENTATION

- 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 utilised and the appropriate portion of mark-up thereof.

Notes to the consolidated financial statements for the year ended December 31, 2005

- b) The consolidated financial statements include the financial statements of MCB Bank Limited (formerly Muslim Commercial Bank Limited) and its subsidiary companies and associates.
- c) 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 assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the audited financial statements for the year ended December 31, 2005 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.
- d) 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 associate have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group's share in associate has been accounted for based on the audited financial statements for the year ended December 31, 2005.
- e) Minority interest are 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.
- f) The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material intra bank transactions/balances. Key financial figures of the Islamic Banking branches are disclosed in note 35 to these financial statements.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

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

The following IAS, which have been published, have been revised and the amendments are applicable to the financial statements of the Group covering accounting periods beginning on or after January 1, 2006 or later periods:

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

Adoption of the above amendments would result in an impact on the extent of disclosures presented in the future financial statements of the Group.

3.3 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. 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.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that certain fixed assets are stated at revalued amounts, certain investments, commitments in respect of certain forward exchange contracts and derivative financial instruments have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

The preparation of financial statements in conformity with International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 43.



Notes to the consolidated financial statements for the year ended December 31, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Group classifies its investments as follows:

(a) Held for trading

These are securities, which are either acquired for generating a 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 Group has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in associates, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognised at cost which includes 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 recognised at the trade date. Trade date is the date on which the Group commits to purchase or sell the investment.

In accordance with the requirements of SBP, quoted securities, other than those classified as 'held to maturity' and investments in associates (which qualify for accounting under IAS 28), 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.

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. Investments classified as 'held to maturity' are carried at amortised cost.

Investments in associates are recorded on the basis of equity accounting except for those that do not qualify as associates under International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates', and which are carried at cost less impairment losses, if any.

Provision for diminution in the values of securities (except debentures, participation term certificates and term finance certificates) is made after considering permanent impairment, if any, in their value. Provisions for diminution 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 at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an associate include the carrying amount of goodwill relating to the associate sold.

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 from financial institutions. Securities purchased under an agreement to resell (reverse repo) are not recognised 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 recognised as mark-up income / expense on 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 Prudential Regulations and other directives issued by SBP and charged to the profit and loss account. Provisions comprise of provisions against identified losses and provisions against unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential

Notes to the consolidated financial statements for the year ended December 31, 2005

Regulations issued by SBP and provision based on historical loss experience on advances. These provisions are maintained on a consistent basis. Advances are written off when there is no realistic prospect of recovery.

Leases where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

5.4 Fixed assets and depreciation

Property and equipment, other than land which is not depreciated, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Depreciation on all property and equipment is charged using the diminishing balance method except for vehicles, computers, carpets and buildings which are depreciated using the straight line method in accordance with the rates specified in note 12.1 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 property and equipment 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 property and equipment (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 property and equipment (net of deferred taxation) is transferred directly to unappropriated profit.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalised.

5.5 Intangible assets

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

The intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any are taken to the profit and loss account.

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 amount. 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 (Formerly Muslim Commercial Bank Limited) (holding company)

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



Notes to the consolidated financial statements for the year ended December 31, 2005

- 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

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 1, 2000) the bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to its 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 completion of qualifying period of service.

During the current year, the Group has changed its accounting policy in respect of recognition of net cumulative actuarial gains and losses at each balance sheet date. The change has been made as the management is of the view that the new policy, which results in faster recognition of actuarial gains and losses in the financial statements, provides more relevant and realistic presentation of the financial statements and financial results therein. According to the new policy, the net cumulative actuarial gains / losses at each balance sheet date are recognized equally over a period of three years or the expected remaining average working lives of employees, whichever is lower. Previously, net cumulative actuarial gains / losses, in excess of the higher of the following corridor limits, were recognized over the expected remaining average working lives of employees on a straight-line basis.

- (i) 10 percent of the present value of the defined benefit obligation (before deducting plan assets); or
- (ii) 10 percent of the fair value of plan assets.

In accordance with the requirements of IAS 8; "Accounting Policies, Changes in Accounting estimates and errors", the effect of the change in accounting policy, amounting to Rs 85.67 million (net of tax), has been adjusted in the opening balance of unappropriated profit as at January 1, 2004 and the comparative information has been restated.

The effect of the change in accounting policy for 2005 and 2004 is tabulated below:

	2005	2004
	(Rupees '000)	
- Profit before taxation would have been (lower) / higher by	(1,505,088)	145,727
- Other assets would have been (lower) / higher by	(1,534,722)	95,469
- Other liabilities would have been lower by	273,021	127,760
- Deferred tax income would have been lower by	43,786	16,742
- Current tax charge would have been (lower) / higher by	(593,719)	20,523
	(Rupees)	
- Basic and diluted earnings per share - after taxation would have been (lower) / higher by	(2.29)	0.27

Notes to the consolidated financial statements for the year ended December 31, 2005

MNET Services (Private) Limited (subsidiary company)

The company intends to operate a gratuity scheme for its active employees and is in the process of getting the scheme approved by the tax authorities. Meanwhile, the company has made a provision for the gratuity of all its active employees based on the completed years of service as at the balance sheet date.

5.8 Employees' compensated absences

MCB Bank Limited (Formerly Muslim Commercial Bank Limited) (holding company)

Liability in respect of employees' compensated absences are accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains or losses if any, are recognised immediately.

5.9 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, if any. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Group records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A 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 Group also recognises deferred tax asset / liability on deficit / surplus on revaluation of fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard 12, 'Income Taxes'.

5.10 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, 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.

5.11 Dividend distribution

Dividend distribution (including stock dividend) is accounted for in the year to which they relate.

5.12 Foreign currencies

5.12.1 Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling 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.

5.12.2 Foreign operations

The assets and liabilities of foreign operations 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.

5.12.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Group's net investment in foreign operations, which are taken to the capital reserve (Exchange Translation Reserve).



Notes to the consolidated financial statements for the year ended December 31, 2005

5.12.4 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 ruling on the balance sheet date.

5.13 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by SBP.
- 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.
- Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of SBP or overseas regulatory authorities of the country where the foreign operations of the Group operate. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.
- Commission income is recognised on a time proportion basis.
- Dividend income is recognised when the Group's right to receive dividend is established.
- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.
- Profit / loss on sale of investments is credited / charged to profit and loss account currently.

5.14 Operating leases

Operating lease rentals are recorded on a time proportion basis over the term of the lease arrangement.

5.15 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with banks in current and deposit accounts.

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings from financial institutions, deposits and other payables. 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 recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

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 group intends either to settle on a net basis, or to realise the assets and settle the liabilities, simultaneously.

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005 (Rupees '000)	2004 (Rupees '000)
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	4,943,189	5,492,045
- foreign currencies		530,781	301,749
In transit - local currency		575,694	482,006
- foreign currencies		14,028	96,429
With State Bank of Pakistan in:	6.2		
Local currency current account		12,958,433	12,986,121
Local currency deposit account		460	460
Foreign currency deposit account		1,901,621	1,734,196
With other central banks in foreign currency current account	6.2	193,088	115,419
With National Bank of Pakistan in local currency current account		2,548,255	2,624,828
		<u>23,665,549</u>	<u>23,833,253</u>

6.1 This includes national prize bonds amounting to Rs 47.799 million (2004: Rs 36.161 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.

	Note	2005 (Rupees '000)	2004 (Rupees '000)
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- current account		3,288	6,847
- deposit account		53,150	52,056
Outside Pakistan			
- current account		917,900	1,729,354
- deposit account		548,145	3,972,122
		<u>1,522,483</u>	<u>5,760,379</u>

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		8,650,000	7,200,000
Repurchase agreement lendings	8.1	1,348,828	3,765,297
		<u>9,998,828</u>	<u>10,965,297</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

8.1 Securities held as collateral against lendings to financial institutions

	2005			2004		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	848,828	-	848,828	495,297	-	495,297
Pakistan Investment Bonds	500,000	-	500,000	3,270,000	-	3,270,000
	<u>1,348,828</u>	<u>-</u>	<u>1,348,828</u>	<u>3,765,297</u>	<u>-</u>	<u>3,765,297</u>

9. INVESTMENTS - NET

9.1 Investments by types

	Note	2005			2004		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)							
Held for trading securities							
- Shares in listed companies		66,056	-	66,056	-	-	-
Available-for-sale securities							
- Market Treasury Bills	9.4	19,605,074	4,824,186	24,429,260	3,186,553	-	3,186,553
- Pakistan Investment Bonds	9.4	2,039,818	-	2,039,818	4,721,435	-	4,721,435
- Shares in listed companies	9.10	5,042,072	-	5,042,072	3,840,647	-	3,840,647
- Shares in unlisted companies	9.5	443,369	-	443,369	461,100	-	461,100
- NIT units		83	-	83	9,557	-	9,557
- Listed Term Finance Certificates		1,173,320	-	1,173,320	608,862	-	608,862
		<u>28,303,736</u>	<u>4,824,186</u>	<u>33,127,922</u>	<u>12,828,154</u>	<u>-</u>	<u>12,828,154</u>
Held-to-maturity securities							
- Market Treasury Bills	9.4	7,872,469	14,698,045	22,570,514	38,888,686	499,363	39,388,049
- Federal Investment Bonds		-	-	-	480,500	-	480,500
- Pakistan Investment Bonds	9.4	2,467,983	-	2,467,983	2,532,406	-	2,532,406
- Federal Government Securities		992,861	-	992,861	1,097,199	-	1,097,199
- Provincial Government Securities		118	-	118	118	-	118
- Government Compensation Bonds		870,771	-	870,771	870,771	-	870,771
- Sukuk Bonds		759,767	-	759,767	-	-	-
- Euro Bonds		2,971,758	-	2,971,758	3,286,190	-	3,286,190
- TFCs, Debentures, Bonds and PTCs		1,876,119	-	1,876,119	3,580,526	-	3,580,526
- Certificates of Investment		1,500,000	-	1,500,000	1,100,000	-	1,100,000
		<u>19,311,846</u>	<u>14,698,045</u>	<u>34,009,891</u>	<u>51,836,396</u>	<u>499,363</u>	<u>52,335,759</u>
Associates							
Adamjee Insurance Company Limited	9.14	1,869,045	-	1,869,045	1,041,800	-	1,041,800
First Women Bank Limited	9.15	63,300	-	63,300	63,300	-	63,300
		<u>1,932,345</u>	<u>-</u>	<u>1,932,345</u>	<u>1,105,100</u>	<u>-</u>	<u>1,105,100</u>
		<u>49,613,983</u>	<u>19,522,231</u>	<u>69,136,214</u>	<u>65,769,650</u>	<u>499,363</u>	<u>66,269,013</u>
Less: Provision for diminution in the value of investments	9.3	(547,424)	-	(547,424)	(695,976)	-	(695,976)
Surplus / (deficit) on revaluation of available for sale investments - net	22.2	1,770,122	(3,764)	1,766,358	1,668,979	-	1,668,979
Surplus on revaluation of 'held for trading' investments - net		1,634	-	1,634	-	-	-
Investments at revalued amounts - net of provisions		<u>50,838,315</u>	<u>19,518,467</u>	<u>70,356,782</u>	<u>66,742,653</u>	<u>499,363</u>	<u>67,242,016</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005 (Rupees '000)	2004
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	46,999,774	42,574,602
- Federal Investment Bonds		-	480,500
- Pakistan Investment Bonds	9.4	4,507,801	7,253,841
- Others			
- Federal Government Securities		992,861	1,097,199
- Government Compensation Bonds		870,771	870,771
- Euro Bonds		2,971,758	3,286,190
- Sukuk Bonds		759,767	-
Provincial Government Securities		118	118
Associated Undertakings	9.6, 9.14 and 9.15	1,932,345	1,105,100
Fully Paid-up Ordinary Shares:			
- Listed Companies	9.10	5,042,658	3,825,177
- Unlisted Companies	9.5 and 9.12	443,369	461,100
Fully Paid Preference Shares:			
- Listed Companies		65,470	15,470
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates		1,173,320	608,862
- Unlisted Term Finance Certificates		1,271,631	728,517
- Debentures, Bonds and Participation Term Certificates		604,488	2,852,009
- Certificates of Investment		1,500,000	1,100,000
Other Investments:			
- NIT Units		83	9,557
		69,136,214	66,269,013
Less: Provision for diminution in the value of investments	9.3	(547,424)	(695,976)
Add: Surplus on revaluation of available for sale investments - net	22.2	1,766,358	1,668,979
Surplus on revaluation of held for trading investments - net		1,634	-
Investments at revalued amounts (net of provisions)		<u>70,356,782</u>	<u>67,242,016</u>

9.3 Particulars of provision for diminution in the value of investments

Opening balance	695,976	868,852
Investment written off against provision	(49,570)	-
Reversal during the year	(98,982)	(172,876)
Closing balance	<u>547,424</u>	<u>695,976</u>

9.4 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting.

9.5 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 300 million (2004: Rs 300 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the Group cannot sell or transfer their investment before a period of five years due on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to the prior approval of the SBP. In addition, profit, if any, and other income of Khushhali Bank, shall not be used to pay any dividend to the members, and shall be utilised to promote the objective of Khushhali Bank.

Notes to the consolidated financial statements for the year ended December 31, 2005

- 9.6 Investment of the Group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting based on its unaudited financial statements as at December 31, 2005 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, 2005 amounted to Rs. 3,296.847 million (2004: Rs 1,578.636 million).

Investment in Adamjee Insurance Company Limited under equity method - holding 29.13%

	2005	2004
	(Rupees '000)	
Opening balance	1,041,800	943,600
Share of post acquisition profits for the year / period	349,019	50,900
Dividend from associate	(36,097)	-
Share of tax	(25,357)	(2,684)
	287,565	48,216
Share of unrealised surplus on investments	539,680	49,984
Closing balance	1,869,045	1,041,800

- 9.7 Market value of quoted investments was Rs 62,433.508 million (2004: Rs 57,474.407 million) and book value of unquoted investments was Rs 8,968.826 million (2004: Rs 10,032.797 million).

- 9.8 Investments include Pakistan Investment Bonds amounting to Rs 232.60 million (2004: Pakistan Investment Bonds and Federal Investment Bonds amounting to Rs 232.55 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 (2004: Rs 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

- 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.

9.10 Particulars of investments held in listed companies and modarabas

Investee	Number of ordinary and preference shares /certificates held	Paid-up value per share/ certificate	Total paid-up /nominal value
----- Rupees -----			
Listed Shares / Certificates			
Abamco Composite Fund	3,900,000	10	39,000,000
Al-Ghazi Tractors Limited	67,200	5	336,000
Allied Bank Limited	341,000	10	3,410,000
Al-Meezan Islamic Fund Limited	1,000,000	50	50,000,000
Al-Meezan Mutual Fund Limited	1,512,026	10	15,120,260
Askari Commercial Bank Limited	90,000	10	900,000
Atlas Income Fund	109,744	500	54,872,000
Atlas Stock Market Fund	22,499	500	11,249,500
Azgard Nine Limited	1,546,989	10	15,469,890
Baig Spinning Mills Limited	390,230	10	3,902,300
Bank Al-Habib Limited	246,201	10	2,462,010
Bank Alfalah Limited	125,000	10	1,250,000
The Bank of Punjab	325,000	10	3,250,000
BSJS Balanced Fund Limited	558,245	10	5,582,450

Notes to the consolidated financial statements for the year ended December 31, 2005

Investee	Number of ordinary and preference shares /certificates held	Paid-up value per share/ certificate	Total paid-up /nominal value
		----- Rupees -----	
Listed Shares / Certificates			
Century Paper and Board Mills Limited	199,300	10	1,993,000
E.F.U. General Insurance Limited	444,801	10	4,448,010
Engro Chemical Pakistan Limited	584,589	10	5,845,890
Fauji Fertilizer Company Limited	6,360,084	10	63,600,840
GlaxoSmithKline Pakistan Limited	100,655	10	1,006,550
Honda Atlas Cars (Pakistan) Limited	111,500	10	1,115,000
The Hub Power Company Limited	26,769,500	10	267,695,000
Indus Motors Company Limited	249,300	10	2,493,000
International General Insurance Company Pakistan Limited	7,187	10	71,870
Kot Addu Power Company Limited	2,949,400	10	29,494,000
Kohinoor Energy Limited	55,500	10	555,000
Lucky Cement Limited	131,000	10	1,310,000
Maple Leaf Cement Company Limited	75,000	10	750,000
Masood Textile Mills Limited - preference shares	5,000,000	10	50,000,000
Meezan Balanced Fund	1,000,000	10	10,000,000
Mehr Dastgir Textile Mills Limited	1,617,412	10	16,174,120
Millat Tractors Limited	661,003	10	6,610,030
National Bank of Pakistan	208,500	10	2,085,000
Oil and Gas Development Corporation Limited	175,062	10	1,750,620
Orix Leasing Pakistan Limited	220,800	10	2,208,000
P. I. C. I. C. Growth Fund	62,250	10	622,500
Pakistan Industrial Credit and Investment Corporation Limited	600,000	10	6,000,000
Pakistan Reinsurance Company Limited	25,000	10	250,000
Packages Limited	319,448	10	3,194,480
Pakistan Petroleum Limited	20,000	10	200,000
Pakistan Oilfields Limited	520,860	10	5,208,600
Pakistan State Oil Company Limited	570,020	10	5,700,200
Pakistan Telecommunication Company Limited	1,658,656	10	16,586,560
Redco Textile Limited	500,000	10	5,000,000
Rupali Polyester Limited	658,545	10	6,585,450
Sui Northern Gas Pipelines Limited	44,351,839	10	443,518,390
Thal Jute Mills Limited	250,000	5	1,250,000
Trust Securities and Brokerage Limited	300,000	10	3,000,000
Unilever Pakistan Limited	22,800	50	1,140,000
Union Bank Limited	33,000	10	330,000
United Bank Limited	893,300	10	8,933,000
Unit Trust of Pakistan	10,000	5,000	50,000,000
Modaraba Certificates			
	Name of the Management Company		
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,583,270	10
Standard Chartered Modaraba	Standard Chartered Services of Pakistan (Private) Limited	215,250	10



Notes to the consolidated financial statements for the year ended December 31, 2005

9.11 Particulars of investments in Term Finance Certificates

Investee	Number of certificates held	Paid-up value per certificate	Total Paid-up value	Name of Chief Executive
Aruj Textile Mills Limited	1	295,900	295,900	Mr. Sheikh Mohammed Tahir
Rai Textile Mills Limited	1	382,500	382,500	Mr. Jawed A. Kiyani
Al-Abbas Sugar Mills Limited	10,000 10,000	2,895 2,895	28,947,360 28,947,360	Mr. Shunaid Qureshi
	20,000		57,894,720	
Dawood Investment Bank Limited	5,650 30	5,000 100,000	28,250,000 3,000,000	Mr. Rafique Dawood
	5,680		31,250,000	
Jahangir Siddiqui & Company Limited	39,968 56	4,999 4,997,000	199,800,000 279,832,000	Mr. Munaf Ibrahim
	40,024		479,632,000	
Pakistan Services Limited	20,000	640	12,793,748	Mr. Murtaza Hashwani
SPV Securetel Limited	3,185	417	1,327,054	Mr. Nusrat Yar Ahmed
Pak Kuwait Investment Company (Private) Limited	100,000	5,000	500,000,000	Mr. Istaqbal Mehdi
Sui Southern Gas Company Limited	13,500 2,000	2,494 16,654	33,662,913 33,308,000	Mr. Munawar Baseer Ahmed
	15,500		66,970,913	
Reliance Export (Private) Limited	25	10,000,000	250,000,000	Mr. Mian Fawad Ahmed
Reliance Weaving Mills Limited	6,000	2,143	12,857,144	Mr. Fazal Ahmed Sheikh
Hira Textile Mills Limited	9,988	4,999	49,930,012	Mr. Nadeem Aslam Butt
Azgard Nine Limited	20,000	5,000	100,000,000	Mr. Ahmed H. Shaikh
Bank Al Habib Limited	20,000	4,998	99,960,000	Mr. Abbas D. Habib
Bank Al-Falah Limited	10,000 39,720	4,998 5,000	49,980,800 198,600,000	Mr. Mohammad Saleem Akhtar
	49,720		248,580,800	
Askari Commercial Bank Limited	20,000 19,980	4,999 5,000	99,980,000 99,900,000	Mr. Kalim- ur -Rehman
	39,980		199,880,000	
Soneri Bank Limited	30,000	4,999	149,970,000	Mr. Safar Ali K Lakhani

The above excludes Term Finance Certificates of companies which are fully provided for in these financial statements.

Notes to the consolidated financial statements for the year ended December 31, 2005

9.12 Particulars of investments held in unlisted companies

Company Name	Note	Percentage of Holding	Number of shares held	Break-up value of investment	Based on audited financial statements as at	Name of Chief Executive
				(Rupees '000)		
Shareholding more than 10%						
Pak Asian Fund Limited		10.22%	1,150,000	16,595	30-Jun-05	Mr. Ashfaq A Berdi
Khushhali Bank Limited	9.15	17.60%	300	306,037	31-Dec-04	Mr. Ghalib Nishtar
First Women Bank Limited	9.15	26.78%	7,596,000	152,224	31-Dec-04	Ms. Zarine Aziz
MNET Services (Private) Limited		99.99%	750,000	11,610	31-Dec-04	Mr. Agha Ahmed Shah
Central Depository Company of Pakistan Limited		13%	1,300,000	75,205	30-Jun-05	Mr. Muhammad Hanif Jakhura
Shareholding upto 10%						
Abamco Limited			1,988,646	28,577	30-Jun-05	Mr. Muhammad Najam Ali
Equity Participation Fund			15,000	6,992	30-Jun-04	Mr. Jamil Nasim
National Institution for Facilitation of Technology (Private) Limited			472,744	16,669	30-Jun-05	Mr. Muzaffar Mahmood Khan
National Investment Trust Limited			52,800	75,997	30-Jun-05	Mr. Tariq Iqbal Khan
SME Bank Limited			1,117,992	16,535	31-Dec-04	Mr. Mansur Khan
Pakistan Agricultural Storage and Services Corporation			2,500	(97,690)	31-Mar-05	Mr. Maj. General Mohammad Iqbal Khan
Lanka Clearing (Private) Limited			100,000	569	31-Dec-05	Mr. Sarath De Silva
Credit Information Bureau of Sri Lanka			300	17	31-Dec-05	Mr. N.P.H. Amarasena

The above excludes shares of companies which are fully provided for in these financial statements.

9.13 Details of Bonds and Debentures

Bonds and Debentures	Terms of redemption		Rate of Interest	Amount (Rupees '000)
	Principal	Interest		
- Local Currency				
Rice Export Corporation of Pakistan	Yearly	Half-yearly	15%	465,756
Heavy Mechanical Complex	At Maturity	Yearly	6%	27,224
Public Sector Enterprises Bonds	At Maturity	Yearly	9%	286,557
Public Sector Enterprises Bonds	At Maturity	Yearly	6%	556,990
Pakistan Engineering Company	Half-yearly	Half-yearly	6 months weighted average treasury bill rate	1,403
- Foreign Currency				
Government of Pakistan	Yearly	Yearly	3 months LIBOR + 1 %	US \$ 10,184 608,127
Euro Bonds-OBU Bahrain	At Maturity	Half-yearly	6.75%	US \$ 48,256 2,881,560
Government Sukuk Bonds	At Maturity	Half-yearly	LIBOR + 2.2 %	US \$ 12,723 759,767
Sri Lanka Development Bonds	At Maturity	Half-yearly	6.55%	SLRs 255,550 149,446
Euro Bonds-Sri Lanka	At Maturity	Half-yearly	6.75%	US \$ 1,510 90,198
Government of Sri Lanka Treasury Bonds	At Maturity	Half-yearly	11.75%	SLRs 377,894 220,992

The above excludes bonds and debentures which are fully provided for in these financial statements.

Notes to the consolidated financial statements for the year ended December 31, 2005

9.14 Summarised financial information of associates

The gross amount of assets, liabilities, revenue, profit and net assets of associated undertakings are as follows:

Name of associated undertakings	Country of incorporation	Assets	Liabilities	Net assets	Revenues	Profit	% interest held
September 2005 (un-audited)							
First Women Bank Limited	Pakistan	8,845,375	8,159,374	686,001	325,305 *	101,735	26.78%
Adamjee Insurance Company Limited	Pakistan	8,790,924	6,755,756	2,035,168	2,931,438 **	772,245	29.13%
		<u>17,636,299</u>	<u>14,915,130</u>	<u>2,721,169</u>	<u>3,256,743</u>	<u>873,980</u>	
December 2004							
First Women Bank Limited	Pakistan	9,646,542	9,056,352	590,190	347,763 *	124,324	26.78%
Adamjee Insurance Company Limited	Pakistan	8,004,620	6,617,776	1,386,844	3,678,368 **	327,461	29.13%
		<u>17,651,162</u>	<u>15,674,128</u>	<u>1,977,034</u>	<u>4,026,131</u>	<u>451,785</u>	

* Represents net mark-up / interest income

** Represents net premium revenue

9.15 These investments are being carried at cost and have not been accounted for under the equity method as the Group does not have significant influence over these entities.

	Note	2005 (Rupees '000)	2004 (Rupees '000)
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		174,625,232	131,832,570
Outside Pakistan		3,755,036	3,457,410
		178,380,268	135,289,980
Net investment in finance lease	10.2		
In Pakistan		3,897,184	1,322,440
Outside Pakistan		93,330	100,211
		3,990,514	1,422,651
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		2,386,952	3,692,473
Payable outside Pakistan		3,381,943	3,605,067
		5,768,895	7,297,540
		188,139,677	144,010,171
Provision against loans and advances	10.4		
Specific provision		(5,534,376)	(5,754,709)
General provision		(2,098,053)	(827,455)
General provision against consumer loans		(180,554)	(106,401)
Provision for potential lease losses		(3,941)	(3,833)
		(7,816,924)	(6,692,398)
		<u>180,322,753</u>	<u>137,317,773</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

		2005 (Rupees '000)		2004	
10.1	Particulars of advances				
10.1.1	In local currency - net		169,829,904		130,425,036
	In foreign currencies - net		10,492,849		6,892,737
			<u>180,322,753</u>		<u>137,317,773</u>
10.1.2	Short-term - net		127,588,823		98,820,673
	Long-term - net		52,733,930		38,497,100
			<u>180,322,753</u>		<u>137,317,773</u>
10.2	Net Investment in Finance Lease				
		2005		2004	
		Not later than one year	Later than one and less than five years	Over five years	Total
		Not later than one year	Later than one and less than five years	Over five years	Total
		(Rupees '000)			
Lease rentals receivable		1,120,527	2,793,440	19,852	3,933,819
Guaranteed residual value		56,664	733,127	15,135	804,926
Minimum lease payments		1,177,191	3,526,567	34,987	4,738,745
Finance charge for future periods		(274,238)	(471,975)	(2,018)	(748,231)
Present value of minimum lease payments		<u>902,953</u>	<u>3,054,592</u>	<u>32,969</u>	<u>3,990,514</u>
		<u>347,600</u>	<u>933,335</u>	-	<u>1,280,935</u>
		<u>39,403</u>	<u>232,457</u>	-	<u>271,860</u>
		<u>387,003</u>	<u>1,165,792</u>	-	<u>1,552,795</u>
		<u>(60,043)</u>	<u>(70,101)</u>	-	<u>(130,144)</u>
		<u>326,960</u>	<u>1,095,691</u>	-	<u>1,422,651</u>

10.3 Advances include Rs 8,395.989 million (2004: Rs 8,837.712 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	Domestic	Overseas	Total	Provision required	Provision held	
		(Rupees '000)					
Other Assets Especially Mentioned (OAEM)	10.3.1	52,005	-	52,005	-	-	
Substandard		318,976	-	318,976	76,968	76,968	
Doubtful		276,214	-	276,214	124,660	124,660	
Loss		5,070,235	2,678,559	7,748,794	5,332,748	5,332,748	
		<u>5,717,430</u>	<u>2,678,559</u>	<u>8,395,989</u>	<u>5,534,376</u>	<u>5,534,376</u>	

10.3.1 This represents non-performing portfolio of agricultural financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural Financing issued by the SBP.

10.4 Particulars of provision against loans and advances

Note	Specific	General	2005 Consumer loans	Leasing	Total
	(Rupees '000)				
Opening balance	5,754,709	827,455	106,401	3,833	6,692,398
Exchange adjustments	4,215	-	-	108	4,323
Provision made during the year	1,878	1,166,122	74,153	-	1,242,153
Transfer	(104,476)	104,476	-	-	-
Amounts written off	(102,598)	1,270,598	74,153	-	1,242,153
	(121,950)	-	-	-	(121,950)
Closing balance	<u>5,534,376</u>	<u>2,098,053</u>	<u>180,554</u>	<u>3,941</u>	<u>7,816,924</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2004				Total
		Specific	General	Consumer loans (Rupees '000)	Leasing	
Opening balance		6,145,859	662,298	-	2,760	6,810,917
Exchange adjustments		30,250	-	-	(127)	30,123
Provision made during the year	10.4.1	171,037	165,157	106,401	1,200	443,795
Transfer		-	-	-	-	-
Amounts written off	10.5	171,037 (592,437)	165,157 -	106,401 -	1,200 -	443,795 (592,437)
Closing balance		5,754,709	827,455	106,401	3,833	6,692,398

	Note	2005 (Rupees '000)	2004 (Rupees '000)
10.4.1	The following amounts have been charged to the profit and loss account:		
		1,878	171,037
		1,166,122	165,157
	10.4.6	74,153	106,401
		1,242,153	442,595
		-	1,200
		1,242,153	443,795

10.4.2 The Prudential Regulations for Corporate / Commercial Banking and Small and Medium Enterprises (SME), issued by SBP, require banks to apply a prescribed adjustment factor to the Forced Sales Value (FSV) of assets held as collateral against non-performing advances while determining the provision requirement against these loans and advances. The adjustment factor applicable for the current year is 80 percent in respect of FSVs conducted for the first time during the year and 70 percent in respect of FSVs which were carried out in previous years and remain valid for the current year. Under the Prudential Regulations, the adjustment factor is to be reduced to 50 percent from the year 2006 in respect of FSVs which have been carried out in previous years and remain valid for that year. In addition, benefits can be availed in respect of revaluation of FSVs after expiry of the three year validity period, specified in the Prudential Regulations, only to the extent of the revised value or 50 percent of the previous value, whichever is lower. Accordingly, in view of this requirement of the Prudential Regulations and as a matter of prudence, the bank has applied an adjustment factor of 50 percent on all FSVs of collateral considered in determining the provisioning requirement against the non-performing loans and advances portfolio. Had the FSVs been discounted strictly in accordance with the requirements of the Prudential Regulations, the specific provision against non-performing advances as at December 31, 2005 would have been lower and consequently the profit before taxation for the current year and advances (net of provision) as at December 31, 2005 would have been higher by Rs. 126.686 million.

10.4.3 During the year, the State Bank of Pakistan has revised the basis of classification of non-performing corporate and SME loans and advances vide BSD Circular 7 dated November 1, 2005. Under the revised guidelines the category of Other Assets Especially Mentioned (OAEM) has been dispensed with while the categories of substandard, doubtful and loss have been retained. In addition, the basis of classification of loans and advances under these three categories has been redefined whereby all advances overdue by 90, 180 and 365 days are now required to be classified as substandard, doubtful and loss respectively. Previously, short-term and long-term advances were required to be separately assessed and were classified as OAEM, substandard, doubtful or loss based on different prescribed ageing criteria. The revised guidelines specify that provision should be made in the financial statements equal to 25 percent, 50 percent and 100 percent, in respect of overdue advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. In addition, the revised guidelines have withdrawn the benefit relating to FSVs conducted in respect of non-performing loans and advances where the outstanding principal amount is Rs. 5 million or less.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirement of the State Bank of Pakistan, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2005 would have been higher by Rs. 594.92 million.

Notes to the consolidated financial statements for the year ended December 31, 2005

10.4.4 The State Bank of Pakistan has issued Prudential Regulations for Agriculture Finance during the current year vide BPD Circular No. 27 dated October 22, 2005. These regulations require agricultural advances overdue by 90 days, one year, one and a half years and two years to be classified as OAEM, substandard, doubtful and loss respectively. In addition, these regulations specify that provision should be made in the financial statements equal to 20 percent, 50 percent and 100 percent, in respect of overdue agricultural advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. No provision is required to be made against the outstanding balance of principal relating to overdue agriculture advances classified as OAEM. Previously, provision was determined in respect of non-performing agriculture advances in accordance with the guidelines given in the Prudential Regulations for Corporate / Commercial banking.

Had the provision against agriculture advances been determined in accordance with the Prudential Regulations for Corporate / Commercial banking, the specific provision against non performing agriculture advances would have been lower, and consequently the profit before taxation and advances (net of provision) would have been higher by Rs 38.115 million.

10.4.5 During the current year, the management has revised the estimate relating to provision against unidentified losses and accordingly the general provision against loans and advances is being maintained at around one percent of gross loans and advances. Had the estimate not been revised, the profit before taxation for the year would have been higher by Rs 1,017.038 million. In addition, the general provision against loans and advances would have been lower by the same amount.

10.4.6 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.

	Note	2005 (Rupees '000)	2004 (Rupees '000)
10.5 Particulars of write offs:			
10.5.1 Against provisions	10.4	121,950	592,437
Directly charged to the profit and loss account		1,184	8,771
		<u>123,134</u>	<u>601,208</u>
10.5.2 Write offs of Rs 500,000 and above		122,656	595,727
Write offs of below Rs 500,000		478	5,481
		<u>123,134</u>	<u>601,208</u>

10.5.3 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, 2005 is given at Annexure- I. However, this write off does not affect the group's right to recover the debts from these customers.

10.6 Particulars of Loans and Advances to Directors, Associated Companies, etc.

	Balance as at December 31, 2005	Maximum total amount of advances including temporary advances granted during the year **
	(Rupees '000)	
Debts due by directors, executives or other employees of the bank or any of them either severally or jointly with any other persons*	3,083,682	3,222,999
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	1,297,320	1,297,320

* (These include loans given by the Group to its executives and other employees as per the terms of their employment)

** (Maximum amount has been arrived at by reference to month end balance)



Notes to the consolidated financial statements for the year ended December 31, 2005

11. OTHER ASSETS - NET	Note	2005	2004 Restated
(Rupees '000)			
Income / mark-up accrued on advances and investments - local currency		2,358,014	1,210,049
Income / mark-up accrued on advances and investments - foreign currencies		166,523	97,810
Other advances, deposits, advance rent and prepayments		158,637	110,813
Taxation (payments less provisions)		-	2,376,237
Compensation for delayed refunds		62,048	513,852
Unrealised gain on derivative financial instruments - net	11.3	45,211	-
Non-banking assets acquired in satisfaction of claims	11.1	122,610	665,012
Stationery and stamps on hand		42,700	38,406
Prepaid exchange risk fee		235	245
Other income receivable		145,565	91,728
Receivable from pension fund	37	1,973,998	732,720
Receivable from provident fund		-	80,000
Others		895,158	815,725
		<u>5,970,699</u>	<u>6,732,597</u>
Less: Provision held against other assets	11.2	504,279	577,019
		<u>5,466,420</u>	<u>6,155,578</u>

11.1 The market value of non-banking assets as per the latest valuation dated December 15, 2004 amounted to Rs 131.76 million.

11.2 Provision against other assets	Note	2005	2004
(Rupees '000)			
Opening balance		577,019	427,426
Charge for the year		27,529	149,593
Reversal during the year		(100,269)	-
		<u>(72,740)</u>	<u>149,593</u>
Closing balance		<u>504,279</u>	<u>577,019</u>

11.3 Derivative financial instruments	Contract/ Notional amount	Fair value
(Rupees '000)		
Unrealised gain on:		
Interest rate swaps	2,812,078	7,822
Forward exchange contracts	3,020,497	37,389
	<u>5,832,575</u>	<u>45,211</u>

12. OPERATING FIXED ASSETS		2005	2004
(Rupees '000)			
Property and equipment	12.1	7,363,157	7,497,662
Intangible asset	12.2	249,038	-
Capital work-in-progress	12.3	570,259	502,159
		<u>8,182,454</u>	<u>7,999,821</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

12.1 Property and equipment

Description	2005											
	Cost/ Revalued amount					Accumulated Depreciation						
	At Jan 1, 2005	Additions/ (deletions)	Adjustment	Revaluation surplus	transfer in/ (transfer out)	At Dec 31, 2005	At Jan 1, 2005	Charge for the year/ (depreciation on deletions)	Adjustment	At Dec 31, 2005	Net book value at Dec 31, 2005	Annual rate of depreciation
(Rupees' 000)												
Land - Freehold	3,871,070	79,855 (49,294)	(42,835)	-	-	3,858,796	-	-	-	-	3,858,796	-
Land - Leasehold	37,565	20,000	(135)	-	-	57,430	-	-	-	-	57,430	-
Buildings	2,211,257	56,570 (54,921)	3,925	-	(22,610)	2,194,221	15,382	82,592 (1,036)	-	96,938	2,097,283	2.5% to 5%
Furniture, office equipment and computers	3,291,039	382,996 (50,786)	-	-	-	3,623,249	2,122,362	403,292 (40,323)	-	2,485,331	1,137,918	10% to 33%
Vehicles	517,089	112,635 (115,951)	-	-	-	513,773	292,614	89,654 (80,225)	-	302,043	211,730	20%
	9,928,020	652,056 (270,952)	(39,045)	-	(22,610)	10,247,469	2,430,358	575,538 (121,584)	-	2,884,312	7,363,157	
2004												
Description	Cost/ Revalued amount					Accumulated Depreciation						
	At Jan 1, 2004	Additions/ (deletions)	Reversal due to revaluation	Revaluation surplus	transfer in/ (transfer out)	At Dec 31, 2004	At Jan 1, 2004	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation	At Dec 31, 2004	Net book value at Dec 31, 2004	Annual rate of depreciation
(Rupees' 000)												
Land - Freehold	-	-	-	-	3,871,070	3,871,070	-	-	-	-	3,871,070	-
Land - Leasehold	-	-	-	-	37,565	37,565	-	-	-	-	37,565	-
Buildings	3,126,676	831,306 (21,644)	(608,681)*	3,084,735	(292,500) (3,908,635)	2,211,257	488,664	141,894 (6,495)	(608,681)*	15,382	2,195,875	5%
Furniture, office equipment and computers	2,655,598	666,684 (31,243)	-	-	-	3,291,039	1,781,750	367,056 (26,444)	-	2,122,362	1,168,677	10% to 33%
Vehicles	452,748	156,382 (92,041)	-	-	-	517,089	272,641	89,978 (70,005)	-	292,614	224,475	20%
	6,235,022	1,654,372 (144,928)	(608,681)	3,084,735	3,908,635 (4,201,135)	9,928,020	2,543,055	598,928 (102,944)	(608,681)	2,430,358	7,497,662	

* This represents adjustment of cost and accumulated depreciation made consequent to the revaluation of bank's property as per IAS-16 property, plant and equipment.



Notes to the consolidated financial statements for the year ended December 31, 2005

12.1.1 The domestic properties of the bank were last revalued on December 15, 2004 by Iqbal Nanjee & Co., Valuation and Engineering Consultants, an independent valuer on the basis of market value. This valuation was incorporated at December 31, 2004 and resulted in a surplus of Rs 4,039.160 million over the written down value of Rs 2,020.074 million of these assets.

	(Rupees '000)
Total revalued amount of land	3,865,665
Total revalued amount of buildings	2,154,524

Had the land and buildings not been revalued their carrying amounts as at December 31, 2005, would have been as follows:

	(Rupees '000)
Land	703,267
Buildings	1,402,387

12.1.2 International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005 and requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, based on a review of the above, the management has revised the following:

- rate of depreciation on certain buildings has been reduced from 5 percent to 2.5 percent
- estimate in respect of residual value of vehicles has been revised to 20 percent of cost
- Depreciation on additions is now 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. Previously, depreciation for the entire year was charged on assets in the year of addition while no depreciation was charged in the year the assets were disposed off.

In addition to the above, the management has also decided to revise the depreciation method used to allocate the depreciable amount of buildings from the diminishing balance method to straight-line method. The management believes that the depreciation charge computed on the straight-line method reflects a more systematic allocation of the depreciable amount of these assets over their estimated useful lives.

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of these changes in accounting estimates has been recognised prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been lower by Rs 19.477 million.

12.1.3 During the current year the management has initiated a detailed exercise to centralise records relating to fixed assets of the bank. This exercise is expected to be completed in 2006. Therefore, pending completion of this exercise, the gross carrying amount of fully depreciated assets that are still in use of the bank have not been disclosed in these financial statements.

12.2 Intangible asset

Description	Cost			Accumulated amortisation			Net book value at Dec 31, 2005	Annual rate of amortisation%
	At Jan 1, 2005	Additions	At Dec 31, 2005	At Jan 1, 2005	Amortisation for the year	At Dec 31, 2005		
Computer software	-	309,151	309,151	-	60,113	60,113	249,038	33.33
2005	-	309,151	309,151	-	60,113	60,113	249,038	

Notes to the consolidated financial statements for the year ended December 31, 2005

12.3 Capital work-in-progress	2005	2004
	(Rupees '000)	
Civil works	281,546	175,675
Equipment	78,396	21,232
Advances to suppliers	157,380	103,826
Others	52,937	201,426
	570,259	502,159

12.4 Disposal of fixed assets

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
(Rupees '000)							
Furniture, office equipment and computers							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000							
	50,786	40,323	10,463	3,936			
Vehicles							
Honda Civic	1,245	1,079	166	194	Retirement benefit	* Mr. Malik Abdul Waheed, Ex-employee	Karachi
Toyota Corolla	1,189	872	317	700	Negotiation	* Mr. Ali Munir, Employee	Karachi
Honda Civic	955	684	271	303	Retirement benefit	* Mr. Tameezul Haq, Ex-employee	Karachi
Toyota Corolla	1,169	779	390	416	Retirement benefit	* Mr. Malik Abdul Waheed, Ex-employee	Karachi
Toyota Corolla	939	689	250	251	Retirement benefit	* Mr. Ahmed Karim, Ex-employee	Karachi
Toyota Corolla	939	673	266	260	Retirement benefit	Mr. Mohammad Qasim, Ex-employee	Karachi
Honda Accord	3,400	2,097	1,303	1,400	Tender	M/s Vanguard Books Pvt. Ltd	Karachi
Honda Civic	955	700	255	255	Retirement benefit	* Mr. Ahmed Karim, Ex-employee	Karachi
Honda Civic	1,245	892	353	365	Retirement benefit	* Mr. Mohd. Shoaib Qureshi, Ex-employee	Karachi
Toyota Corolla	1,169	838	331	343	Retirement benefit	* Mr. Mohd. Shoaib Qureshi, Ex-employee	Karachi
Mercedes Benz	6,801	3,060	3,741	4,275	Tender	M/s. Ashary's	Karachi
Toyota Corolla	939	391	548	556	Retirement benefit	Mr. Nazir Ahmed Memon, Ex-employee	Karachi
Honda Civic	955	653	302	329	Retirement benefit	Mr. Mohammad Hanif Khan, Ex-employee	Karachi
Suzuki Cultus	609	315	294	292	Retirement benefit	Mr. Sami Ahmed Siddiqui, Ex-employee	Karachi
Balance carried forward	22,509	13,722	8,787	9,939			



Notes to the consolidated financial statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
	(Rupees '000)						
Balance brought forward	22,509	13,722	8,787	9,939			
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Manzar Hussain, Ex-employee	Karachi
Suzuki Cultus	609	315	294	301	Retirement benefit	Mr. Saleem Akhtar, Ex-employee	Karachi
Suzuki Cultus	609	284	325	584	Tender	Mr. M. Ejaz Khan	Karachi
Suzuki Cultus	609	315	294	309	Retirement benefit	Mr. Abdul Rauf Khulsai, Ex-employee	Karachi
Honda Civic	1,280	618	662	684	Bank Policy	* Mr. Musaddiq Ejaz, Employee	Karachi
Honda Civic	955	573	382	382	Retirement benefit	Mr. Mudassar Anjum, Ex-employee	Karachi
Suzuki Cultus	609	183	426	427	Retirement benefit	Mr. Hassan Ali Wadia, Ex-employee	Karachi
Honda Civic	955	589	366	382	Retirement benefit	Mr. Rao Sajid Ali Khan, Ex-employee	Karachi
Toyota Corolla	939	579	360	376	Retirement benefit	Mr. Rao Sajid Ali Khan, Ex-employee	Karachi
Toyota Corolla	939	282	657	900	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	1,169	351	818	858	Bank Policy	* Mr. Ali Munir, Employee	Karachi
Suzuki Cultus	609	183	426	453	Retirement benefit	Mr. Mohammad Iqbal, Ex-employee	Karachi
Toyota Corolla	939	297	642	643	Retirement benefit	Mr. Haroon Khalid, Ex-employee	Karachi
Honda Civic	1,288	365	923	945	Bank Policy	* Mr. Khalid Ateeq Ghazi, Employee	Karachi
Toyota Corolla	939	297	642	900	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	297	642	667	Retirement benefit	Mr. Ghulam Rasool Khan, Ex-employee	Karachi
Toyota Corolla	1,029	1,012	17	112	Retirement benefit	Mr. Aarij Ali, Ex-employee	Karachi
Honda Civic	945	662	283	292	Retirement benefit	Mr. Zafar Ibrar Naqvi, Ex-employee	Karachi
Suzuki Cultus	609	223	386	394	Retirement benefit	Mr. Ather Kamal, Ex-employee	Karachi
Toyota Corolla	939	721	218	219	Retirement benefit	Mr. M.Nasimur Riaz, Ex-employee	Karachi
Honda Civic	955	732	223	223	Retirement benefit	Mr. M.Nasimur Riaz, Ex-employee	Karachi
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Pervaiz Iqbal Siddiqui, Ex-employee	Karachi
Suzuki Cultus	604	336	268	329	Retirement benefit	Mr. Nazir Mehmood Bhatti, Ex-employee	Gujrat
Toyota Corolla	939	626	313	805	Insurance Claim	M/s. Adamjee Insurance	Karachi
Toyota Corolla	939	563	376	376	Retirement benefit	Mr. Muddasar Anjum, Ex-employee	Karachi
Suzuki Cultus	609	162	447	487	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	319	620	699	Retirement benefit	Mr. Durvesh Alam Lodhi, Ex-employee	Faisalabad
Balance carried forward	45,621	25,216	20,405	23,348			

Notes to the consolidated financial statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
	(Rupees '000)						
Balance brought forward	45,621	25,216	20,405	23,348			
Honda Civic	955	706	249	329	Retirement benefit	Mr. Durvesh Alam Lodhi, Ex-employee	Faisalabad
Suzuki Cultus	609	132	477	609	Insurance Claim	M/s. Adamjee Insurance Co.	Hyderabad
Suzuki Cultus	620	176	444	496	Retirement benefit	Mr. Amjad Ali Khan, Ex-employee	Lahore
Suzuki Cultus	609	305	304	331	Retirement benefit	Mr. Jehan Khesro Khan, Ex-employee	Peshawar
Honda Civic	955	707	248	328	Retirement benefit	Mr. Amir Ali Shah, Ex-employee	Sarghoda
Toyota Corolla	939	319	620	698	Retirement benefit	Mr. Amir Ali Shah, Ex-employee	Sarghoda
Suzuki Cultus	609	329	280	331	Retirement benefit	Mr. Ismail Abdul Majid, Ex-employee	Sarghoda
Toyota Corolla	939	454	485	563	Retirement benefit	Mr. M. Rafiq Dosani, Ex-employee	Sukkar
Toyota Corolla	939	641	298	345	Retirement benefit	Mr. M. Gulzar, Ex-employee	Abbottabad
Mitsubishi Jeep	1,760	1,760	-	910	Tender	Mr. Asif Ali	Abbottabad
Pajero Jeep	1,282	1,282	-	705	Tender	M/S United Mineral	Abbottabad
Toyota Corolla	939	188	751	939	Insurance Claim	M/s. Adamjee Insurance	Abbottabad
Toyota Corolla	939	679	260	323	Retirement benefit	Mr. Ch. Mohammad Nawaz, Ex-employee	Bhawalpur
Suzuki Cultus	609	325	284	288	Retirement benefit	Mr. Khawaja Shaheen Saeed, Ex-employee	Lahore
Honda Civic	939	721	218	296	Retirement benefit	Mr. Hira Lal, Ex-employee	Karachi
Suzuki Cultus	604	393	211	282	Retirement benefit	Mr. Zafar Ali, Ex-employee	Karachi
Toyota Corolla	939	563	376	376	Retirement benefit	Mr. Tahawar Raza, Ex-employee	Multan
Toyota Corolla	939	203	736	751	Insurance Claim	M/s Adamjee Insurance	Karachi
Toyota Corolla	1,169	925	244	361	Retirement benefit	Mr. Aarij Ali, Ex-employee	Lahore
Toyota Corolla	939	663	276	323	Retirement benefit	Mr. Khalid Rashid, Ex-employee	Lahore
Honda Civic	955	483	472	520	Retirement benefit	Mr. Khalid Rashid, Ex-employee	Lahore
Toyota Corolla	939	595	344	376	Retirement benefit	Mr. Tariq Bin Nisar, Ex-employee	Lahore
Honda Civic	1,285	684	601	687	Bank policy	* Mr. Shahid Sattar, Employee	Lahore
Honda Civic	1,285	535	750	750	Retirement benefit	* Mr. Aneek Khawar, Ex-employee	Lahore
Toyota Corolla	1,169	487	682	682	Retirement benefit	* Mr. Aneek Khawar, Ex-employee	Lahore
Balance carried forward	69,486	39,471	30,015	35,947			



Notes to the consolidated financial statements for the year ended December 31, 2005

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particular of buyers	Location
	(Rupees '000)						
Balance brought forward	69,486	39,471	30,015	35,947			
Toyota Corolla	939	689	250	313	Bank policy	* Mr. Salman Usmani	Karachi
Toyota Corolla	939	266	673	751	Retirement benefit	Mr. Abbas Qureshi, Ex-employee	Karachi
Toyota Corolla	939	297	642	751	Insurance Claim	M/s. Adamjee Insurance Co.	Karachi
Toyota Corolla	939	627	312	313	Retirement benefit	Mr. Mukhtar ullah Jan, Ex-employee	Peshawar
	73,242	41,350	31,892	38,075			
Other vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	42,709	38,875	3,834	21,138			
Land and buildings							
Textile Plaza, 6th floor	29,540	246	29,294	24,500	Tender	Mr. Anwar Ahmed Tata	Karachi
Textile Plaza, 20th, 21st & 22nd floors	900	19	881	1,231	Tender	Mr. Sheikh Muhammad Shafi	Karachi
Textile Plaza, 7th floor, office no.9	675	11	664	900	Tender	M/S Gatron Industry	Karachi
Banglow 59 A Abdali Road, Multan	2,680	56	2,624	3,474	Tender	Mr. Shahid Yousuf Gillani	Multan
Property no. 137-P, Gulberg II, Lahore	70,420	704	69,716	34,000	Tender	Mr. Asim Tiwana	Lahore
	104,215	1,036	103,179	64,105			
2005	270,952	121,584	149,368	127,254			
2004	144,928	102,944	41,984	82,743			

* key management personnel of the bank

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005 (Rupees '000)	2004
13. CONTINGENT ASSETS		-	-
There were no contingent assets of the Group as at December 31, 2005.			
14. BILLS PAYABLE			
In Pakistan		8,510,322	7,560,165
Outside Pakistan		26,352	6,519
		8,536,674	7,566,684
15. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		24,693,569	6,095,476
Outside Pakistan		2,683,933	1,495,388
		27,377,502	7,590,864
15.1 Particulars of borrowings from financial institutions			
In local currency		24,693,569	6,095,476
In foreign currencies		2,683,933	1,495,388
		27,377,502	7,590,864
15.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance	15.3	4,980,519	4,487,738
Locally Manufactured Machinery	15.4	-	5,735
Others		1,970,562	1,782,900
		6,951,081	6,276,373
Repurchase agreement borrowings		19,473,049	498,901
Unsecured			
Agent balances		494,007	685,202
Call borrowings		459,365	130,388
		953,372	815,590
		27,377,502	7,590,864
15.3	The bank has entered into agreements for financing with the SBP for extending export finance to customers. As per the agreement, 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.		
15.4	According to agreements with the SBP, these loans were obtained for providing finance to customers against locally manufactured machinery.		
15.5	Borrowing from SBP under the export and locally manufactured machinery refinance scheme is secured by the bank's cash and security balances held by the SBP.		



Notes to the consolidated financial statements for the year ended December 31, 2005

16. DEPOSITS AND OTHER ACCOUNTS

	2005 (Rupees '000)	2004
Customers		
Fixed deposits	13,292,621	14,077,890
Savings deposits	137,067,311	133,538,585
Current accounts - non remunerative	74,329,231	69,720,453
Margin accounts	2,568,306	2,011,324
Others	41,396	121,994
	227,298,865	219,470,246
Financial Institutions		
Remunerative deposits	183,338	442,983
Non-remunerative deposits	1,857,664	1,150,689
	2,041,002	1,593,672
	<u>229,339,867</u>	<u>221,063,918</u>
16.1 Particulars of deposits		
In local currency	217,011,775	209,322,850
In foreign currencies	12,328,092	11,741,068
	<u>229,339,867</u>	<u>221,063,918</u>

17. SUB-ORDINATED LOAN -UNSECURED (NON-PARTICIPATORY)

	Mark-up payable	Mark-up payment period	Mark-up not yet due		
Listed Term Finance Certificates	Semi-annually	2003-2008	Rs 291.482 million	<u>1,598,080</u>	<u>1,598,720</u>

- 17.1 Liability against Term Finance Certificates is stated at nominal amount. The liability is subordinated as to payment of principal and profit to all other indebtedness of the bank (including deposits) and is not redeemable before maturity without prior approval of the SBP. Rate of mark up on the liability is based on the cut-off yield of 5 year Pakistan Investment Bonds auctioned on the last working day before the beginning of each semi-annual redemption period plus 1.5 % subject to floor and cap of 11.75% and 15.75% per annum respectively. The major redemption will commence from 54th month of the issue in the following manner:

Month	Redemptions
February, 2007	40% of the issue amount
August, 2007	30% of the issue amount
February, 2008	30% of the issue amount

Notes to the consolidated financial statements for the year ended December 31, 2005

18. OTHER LIABILITIES	Note	2005 (Rupees '000)	2004 Restated
Mark-up / return / interest payable in local currency		1,383,407	1,711,843
Mark-up / return / interest payable in foreign currencies		78,853	60,634
Accrued expenses		649,657	291,006
Unclaimed dividends		66,239	322,851
Proposed dividend		426,533	-
Staff welfare fund		101,024	103,599
Unrealised loss on forward foreign exchange contracts - net		-	24,392
Provision for employees' compensated absences	37	856,213	603,624
Provision for post retirement medical benefits	37	1,300,336	713,630
Provision for employees' contributory benevolent scheme	37	307,216	344,151
Provision for gratuity	37.1	1,066	519
Security deposits received in respect of finance lease		789,173	221,709
Taxation (provision less payments)		934,159	-
Branch adjustment account		102,810	357,930
Others		1,612,117	1,769,634
		8,608,803	6,525,522

19. DEFERRED TAX (ASSETS) / LIABILITIES			
Taxable temporary differences on:			
Surplus on revaluation of fixed assets	22.1	238,881	261,088
Accelerated tax depreciation		212,730	164,478
Surplus on revaluation of securities	22.2	-	93,703
		451,611	519,269
Deductible temporary differences on:			
Surplus on revaluation of securities	22.2	(3,620)	-
Provision for contributory benevolent scheme		(107,526)	-
Provision for gratuity scheme		(395)	(182)
Provision for employee's compensated absences		(77,315)	-
Provision for post retirement medical benefits		(455,117)	(249,770)
		(643,973)	(249,952)
		(192,362)	269,317

20. SHARE CAPITAL

20.1 Authorised Capital

2005	2004		2005 (Rupees '000)	2004
650,000,000	650,000,000	Ordinary shares of Rs 10 each	6,500,000	6,500,000

20.2 Issued, subscribed and paid-up capital

2005			2004					
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total			
----- Number of shares -----								
107,130,690	230,049,344	337,180,034	107,130,690	199,396,614	306,527,304	Opening balance	3,371,800	3,065,273
55,634,705	33,718,003	89,352,708	-	30,652,730	30,652,730	Shares issued during the year	893,527	306,527
162,765,395	263,767,347	426,532,742	107,130,690	230,049,344	337,180,034	Closing balance	4,265,327	3,371,800

Related parties of the bank namely, Siddiqsons Denim Mills Limited, Din Leather (Private) Limited, Adamjee Insurance Company Limited, Muslim Commercial Bank Limited Pension Fund and Muslim Commercial Bank Limited Provident Fund (Pakistan Staff) hold 21,604,630 (2004: 17,078,760), 2,837,234 (2004: 2,242,875), 4,043,200 (2004: 3,188,910), 37,471,092 (2004: 33,390,113), 19,277,026 (2004: 16,817,863) shares of Rs. 10 each of the bank at December 31, 2005 respectively.



Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
21. RESERVES			
Share Premium		1,308,194	473,673
Reserve for issue of bonus shares		853,065	337,180
Exchange translation reserve		(52,549)	(56,354)
Statutory reserve	21.1	3,999,295	3,107,054
General Reserve		7,300,000	1,800,000
		13,408,005	5,661,553

21.1 Statutory reserves represent amount set aside as per the requirements of section 21 of the Banking Companies Ordinance 1962.

	Note	2005	2004
(Rupees '000)			
22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus arising on revaluation (net of tax) of:			
- fixed assets	22.1	3,653,898	3,778,072
- securities	22.2	1,769,978	1,575,276
Share of unrealised surplus of investment of associated undertakings - net		589,664	49,984
Surplus on revaluation of assets - net of tax		6,013,540	5,403,332
22.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 1		4,039,160	725,707
Reversal of revaluation surplus during the year		(39,045)	-
Surplus arising on revaluation during the year		-	3,084,735
Reversal of revaluation loss on property classified as non-banking assets		-	272,512
Surplus realised on disposal of revalued properties - net of deferred tax		(64,564)	(847)
Related deferred tax liability		(11,829)	(588)
		(76,393)	(1,435)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(19,185)	(24,992)
Related deferred tax liability		(11,758)	(17,367)
		(30,943)	(42,359)
Surplus on revaluation of fixed assets as at December 31		3,892,779	4,039,160
Less: Related deferred tax liability on:			
Revaluation as at January 1		261,088	300,774
Reversal of deferred tax liability		1,380	(21,731)
Disposal of revalued properties during the year transferred to profit and loss account		(11,829)	(588)
Incremental depreciation charged during the year transferred to profit and loss account		(11,758)	(17,367)
		238,881	261,088
		3,653,898	3,778,072

Notes to the consolidated financial statements for the year ended December 31, 2005

	2005 (Rupees '000)	2004
22.2 Surplus / (deficit) on revaluation of securities - net of tax		
Market Treasury Bills	(22,814)	(6,467)
Pakistan Investment Bonds	16,627	342,214
Listed Securities	1,772,545	1,333,232
	1,766,358	1,668,979
Add: Related deferred tax asset / (liability)	3,620	(93,703)
	1,769,978	1,575,276

23. CONTINGENCIES AND COMMITMENTS

23.1 Transaction-related contingent liabilities / commitments

Guarantees in favour of:		
Government	3,864,070	3,268,760
Banks and financial institutions	37,673	47,813
Others	1,901,102	1,461,807
Suppliers' credit / payee guarantee	1,428,642	1,624,464
	7,231,487	6,402,844

23.2 Trade-related contingent liabilities

	39,189,177	32,738,625
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23.3 Other contingencies

	492,420	542,425
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23.4 Commitments to extend credit

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.

	2005 (Rupees '000)	2004
23.5 Commitments in respect of forward foreign exchange contracts		
Purchase	13,646,165	8,708,435
Sale	16,263,722	12,192,336
	29,909,887	20,900,771
23.6 Commitments in respect of operating leases		
Not later than one year	-	573
23.7 Commitments in respect of:		
Forward lending	-	-
Forward borrowing (repo borrowing)	-	-
23.8 Commitments for the acquisition of fixed assets	587,242	368,696
23.9 Other commitments		
Outright purchase - Government Securities	-	-
Outright sale - Government Securities	-	-
Others	-	-
	-	-



Notes to the consolidated financial statements for the year ended December 31, 2005

23.10 Taxation

The income tax assessments of MCB Bank Limited (formerly Muslim Commercial Bank Limited) have been finalised upto and including the Tax Year 2005. Assessments for the Tax Years 2003 and 2004 were amended by the Taxation Officer, resulting in an additional tax liability amounting to Rs 1,185 million. The Commissioner of Income Tax Appeals through its order dated September 8, 2005 has decided the matter in favour of the bank due to which the above additional tax liability has been deleted. The department has filed an appeal before the ITAT, which is pending to date.

Total disallowance for the assessment years 1994-95 to 1997-98 on account of interest in suspense amounted to Rs. 722.682 million against which the tax liability would amount to approximately Rs 428.808 million. Out of this an amount of Rs 317.289 million has been allowed in the assessment years 1998-1999 to 2000-2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of the bank as allowed in assessment years 1992-1993 and 1993-1994.

Subsequent to the favourable order of the Honourable Sindh High Court the management considers that provision is not necessary for the remaining tax liability for interest in suspense of Rs 244.781 million as the bank has been subjected to taxes far exceeding its normal tax liability and is hopeful of favourable decisions in appeals. Accordingly, no provision has been made in these financial statements for the above amount.

	2005	2004
	(Rupees '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On Loans and advances to:		
Customers	12,086,305	4,927,838
Financial Institutions	284,972	185,386
	12,371,277	5,113,224
On Investments in:		
Available for sale securities	4,337,124	3,162,828
Held to maturity securities	643,328	543,167
	4,980,452	3,705,995
On securities purchased under resale agreements	261,478	190,172
Others	144,333	75,771
	17,757,540	9,085,162
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	1,566,920	1,409,522
Securities sold under repurchase agreements	463,498	187,639
Other short-term borrowings	337,784	109,283
Sub-ordinated loan	188,158	187,519
Others	225,074	163,634
	2,781,434	2,057,597
26. OTHER INCOME		
Rent on property / lockers	42,886	41,751
Net profit on sale of fixed assets	-	39,324
Gain on Sale of non-banking assets	24,664	-
Exchange income on import/export bills purchased/negotiated	55,477	65,341
Bad debts recovered	54,906	60,053
Liability no longer required written back	495,234	-
Others	405,088	354,518
	1,078,255	560,987

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
Salaries and allowances		4,613,594	3,998,291
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	37	(2,069,467)	189,356
- Gratuity scheme	37.1	548	519
- Post retirement medical benefits	37	703,755	317,257
- Employees' contributory benevolent scheme	37	72,873	28,968
- Employees' compensated absences	37	255,007	133,992
		(1,037,284)	670,092
Contributions to defined contribution plan - provident fund		102,128	91,210
Non-executive directors' fees		112	16
Rent, taxes, insurance, electricity		603,449	549,591
Legal and professional charges		106,793	93,024
Communications		21,366	1,736
Repairs and maintenance		188,938	147,714
Rentals of operating leases		10	4,630
Stationery and printing		173,319	158,601
Advertisement and publicity		210,250	124,304
Cash transportation charges		125,137	107,352
Instrument clearing charges		74,270	56,073
Donations	27.1	30,059	1,449
Auditors' remuneration	27.2	10,700	10,932
Depreciation	12.1	575,538	598,928
Amortization of intangible asset	12.2	60,113	-
Staff welfare fund		12,513	14,000
Traveling, conveyance and fuel		256,619	204,574
Subscription		19,407	19,214
Entertainment		39,938	31,534
Restructuring expenses		-	150,100
Others		270,006	209,253
		6,456,975	7,242,618

27.1 This represents donation given by the bank to President Earthquake Relief Fund amounting to Rs 30.059 million. Donations were not made to any donee in which the bank or a director or his spouse had any interest.

27.2 Auditors' remuneration

	2005				2004
	A. F. Ferguson & Co.	Riaz Ahmad & Co.	Overseas auditors of branches and subsidiaries	Total	Total
(Rupees '000)					
Audit fee	1,500	1,500	1,148	4,148	3,824
Fee for audit of EPZ branch	50	-	-	50	50
Fee for audit of subsidiaries	40	40	-	80	70
Special certifications and sundry advisory services	2,615	2,505	-	5,120	5,711
Out-of-pocket expenses	652	650	-	1,302	1,277
	4,857	4,695	1,148	10,700	10,932



Notes to the consolidated financial statements for the year ended December 31, 2005

	2005 (Rupees '000)	2004
28. OTHER CHARGES		
Provision against fraud and forgeries	119,412	27,265
Net loss on disposal of fixed assets	22,114	-
Penalties imposed by State Bank of Pakistan	24,815	14,599
Others	12,500	-
	<u>178,841</u>	<u>41,864</u>

29. EXCEPTIONAL ITEM

This represents claim of MCB Bank Limited (formerly Muslim Commercial Bank Limited) in respect of compensation of delayed tax refunds under section 171 of the Income Tax Ordinance, 2001 (parallel to section 102 of the repealed Income Tax Ordinance, 1979) for the assessment years 1992-93 to 2002-03 and tax year 2004. This compensation has been calculated at the rate of 6-15 percent per annum on the amount of the refund for the period commencing at the end of three months of refund becoming due to the bank and ending on the date of payment / adjustment by the income tax authorities.

	Note	2005 (Rupees '000)	2004 Restated (Rupees '000)
30. TAXATION			
For the year			
Current		4,615,843	1,561,211
Deferred		[167,123]	70,238
		4,448,720	1,631,449
Prior years			
Current		[149,274]	1,326
Deferred		[198,614]	-
		[347,888]	1,326
Share of tax of associate	9.6	25,357	2,684
		<u>4,126,189</u>	<u>1,635,459</u>

30.1 Relationship between tax expense and accounting profit

Accounting profit for the year	13,340,576	4,112,436
Tax rate	38%	41%

	(Rupees '000)	
Tax on income	5,069,419	1,686,099
Prior year's tax (reversal) / charge	[149,274]	1,326
Tax effect on separate block of income	[153,123]	(138,021)
Tax effect of permanent differences	[271,542]	(272,166)
Share of tax of associated undertaking	25,357	2,684
Tax effect of computation adjustments	[394,648]	355,537
	<u>4,126,189</u>	<u>1,635,459</u>

31. CREDIT RATING

PACRA has assigned long term credit rating of AA (double A) and short-term credit rating of A1+ (A one plus) to MCB Bank Limited (formerly Muslim Commercial Bank Limited)

Notes to the consolidated financial statements for the year ended December 31, 2005

	Note	2005	2004 Restated
(Rupees '000)			
32. BASIC EARNINGS PER SHARE - PRE TAX			
Profit before taxation		13,340,576	4,112,436
Number of Shares			
Weighted average number of shares outstanding during the year		417,706,926	406,144,478
(Rupees)			
Earnings per share - pre tax		31.94	10.13
2005			
2004			
Restated			
(Rupees '000)			

33. BASIC / DILUTED EARNINGS PER SHARE - AFTER TAX

Profit after taxation attributable to the shareholders of the holding company		9,214,386	2,476,976
Number of Shares			
Weighted average number of shares outstanding during the year		417,706,926	406,144,478
(Rupees)			
Basic / diluted earnings per share		22.06	6.10
2005			
2004			
(Rupees '000)			

34. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	6	23,665,549	23,833,253
Balances with other banks	7	1,522,483	5,760,379
		25,188,032	29,593,632

35. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES

Islamic Banking Fund		230,000	165,000
Deposits		443,501	356,149
Borrowings from head office		1,600,000	1,000,000
Ijarah financing		725,038	492,967
Murabaha financing		1,562,522	1,072,025
Profit before taxation		17,462	2,311
Letters of credit		520,998	139,183

36. STAFF STRENGTH

		(Numbers)	
Total number of permanent employees as at the end of the year		9,493	9,983



Notes to the consolidated financial statements for the year ended December 31, 2005

37. DEFINED BENEFIT PLANS AND OTHER BENEFITS

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employees' compensated absences were carried out at as at December 31, 2005. The results of the actuarial valuations are as follows:

	2005			
	Approved Pension Fund	Employees' Contributory Benevolent Scheme	Post Retirement Medical Benefits	Employees' Compensated Absences
	(Rupees' 000)			
Reconciliation of (receivable) / payable from / to defined benefit plan and other benefits				
Present value of defined benefit obligation	5,503,819	407,569	1,456,392	856,213
Fair value of plan assets	(10,554,024)	(18,976)	-	-
Net actuarial gains / (losses) not recognised	3,076,207	(81,377)	(91,259)	-
Unrecognised transitional liability	-	-	(160,575)	-
Unrecognised negative past service cost	-	-	187,047	-
Unrecognised past service cost	-	-	(91,269)	-
Net (receivable) / payable	<u>(1,973,998)</u>	<u>307,216</u>	<u>1,300,336</u>	<u>856,213</u>

Movement in balance of (receivable) / payable recognised

Opening balance of (receivable) / payable	(732,720)	344,151	713,630	603,624
Amount recognised	(2,069,467)	72,873	703,755	255,007
Refunds / (Contributions) during the year	828,189	(109,808)	-	-
Benefits paid	-	-	(117,049)	(2,418)
Closing balance of (receivable) / payable	<u>(1,973,998)</u>	<u>307,216</u>	<u>1,300,336</u>	<u>856,213</u>

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

	(Rupees' 000)			
Current service cost	57,655	8,106	36,619	255,007
Interest cost	170,690	25,347	78,508	-
Expected return on plan assets	(562,734)	(1,269)	-	-
Recognised past service cost	-	-	525,063	-
Recognised negative past service cost	-	-	(142,641)	-
Amortisation of transitional liability	-	-	160,577	-
Interest on borrowing from MCB main branch	116,759	-	-	-
Net actuarial (gain) / loss recognised	(1,585,796)	40,689	45,629	-
Curtailement gain	(266,041)	-	-	-
	<u>(2,069,467)</u>	<u>72,873</u>	<u>703,755</u>	<u>255,007</u>
Actual return on plan assets	<u>5,576,412</u>	<u>850</u>	<u>-</u>	<u>-</u>
Actuarial assumption				
- valuation discount rate	9.00%	9.00%	9.00%	
- medical cost inflation rate	-	-	5.00%	
- exposure inflation rate	-	-	3.00%	
- salary increase rate	7.00%	7.00%	7.00%	
- expected rate of return on plan assets	9.00%	9.00%	-	

Notes to the consolidated financial statements for the year ended December 31, 2005

	2004			
	Approved Pension Fund	Employees' Contributory Benevolent Scheme	Post Retirement Medical Benefits	Employees' Compensated Absences
	(Rupees' 000)			
Reconciliation of (receivable) / payable from / to defined benefit plan and other benefits				
Present value of defined benefit obligation	6,542,624	362,104	1,121,548	603,624
Fair value of plan assets	(7,034,175)	(18,126)	-	-
Net actuarial gain / (losses) not recognised	(241,169)	173	(123,785)	-
Unrecognised transitional liability	-	-	(321,152)	-
Unrecognised negative past service cost	-	-	37,019	-
Net (receivable) / payable	<u>(732,720)</u>	<u>344,151</u>	<u>713,630</u>	<u>603,624</u>
Movement in balance of (receivable) / payable recognised				
Opening balance of (receivable) / payable	(772,076)	361,104	496,191	607,314
Amount recognised	189,356	28,968	317,257	133,992
Contributions during the year	(150,000)	(45,921)	-	-
Benefits paid	-	-	(99,818)	(137,682)
Closing balance of (receivable) / payable	<u>(732,720)</u>	<u>344,151</u>	<u>713,630</u>	<u>603,624</u>

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

	(Rupees' 000)			
Current service cost	63,327	5,378	35,733	133,992
Interest cost	495,201	24,862	77,565	-
Expected return on plan assets	(489,756)	(1,186)	-	-
Recognised negative past service cost	-	-	(18,510)	-
Amortisation of transitional liability	-	-	160,577	-
Net actuarial (gain) / loss recognised	120,584	(86)	61,892	-
	<u>189,356</u>	<u>28,968</u>	<u>317,257</u>	<u>133,992</u>
Actual return on plan assets	<u>234,916</u>	<u>1,188</u>	<u>-</u>	<u>-</u>
Actuarial assumption				
- valuation discount rate	8.00%	7.00%	7.00%	
- medical cost inflation rate	-	-	5.00%	
- exposure inflation rate	-	-	-	
- salary increase rate	6.00%	5.00%	5.00%	
- expected rate of return on plan assets	8.00%	7.00%	-	

Fair value of the shares of MCB Bank Limited (formerly Muslim Commercial Bank Limited) held by the Pension Fund of the bank as at December 31, 2005 amounted to Rs 6,287.649 million (2004: Rs 1,960.0 million)

- 37.1 MNET Services (Pvt) Limited intends to operate an unfunded retirement gratuity scheme for all its active employees and is in the process of getting the scheme approved by the tax authorities. Meanwhile, the company has made a provision for the gratuity of all its active employees based on the completed years of service as at the balance sheet date.

38. DEFINED CONTRIBUTION PLAN

MCB Bank Limited (formerly Muslim Commercial Bank Limited) operates an approved contributory provident fund for 5,625 (2004: 5,852) employees where contributions are made by the bank and employees at 8.33% (2004: 8.33%) of the basic salary. During the year, the bank has contributed Rs 102.128 million (2004: Rs 91.210 million) in respect of this fund.

MCB Bank Limited (formerly Muslim Commercial Bank Limited) also operates an approved non-contributory provident fund for 3,673 (2004: 4,005) employees who have opted for the new scheme, where contributions are made by the employees at 12% (2004: 12%) of the basic salary.



Notes to the consolidated financial statements for the year ended December 31, 2005

39. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	(Rupees '000)					
Fees	-	-	112	16	-	-
Managerial remuneration	11,276	10,750	1,434	1,434	383,167	367,170
Retirement benefits	637	575	-	-	21,993	20,380
Rent and house maintenance	3,683	3,105	-	-	118,812	110,096
Utilities	765	690	-	-	26,403	24,466
Medical	183	262	-	-	15,127	13,218
Conveyance	223	171	-	-	45,980	40,625
	<u>16,767</u>	<u>15,553</u>	<u>1,546</u>	<u>1,450</u>	<u>611,482</u>	<u>575,955</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>329</u>	<u>307</u>

The Chief Executive and certain executives are provided with free use of the Group's maintained cars and household equipment in accordance with the terms of their employment.

The aggregate amount charged to income for fee to directors and remuneration to key management personnel was Rs 112 thousand and Rs 91,029 thousand respectively.

The particulars in this note do not include, particulars of Chief Executive and Executives employed by subsidiaries.

40. MATURITIES OF ASSETS AND LIABILITIES

	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	(Rupees '000)				
Assets					
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-
Balances with other banks	1,522,483	1,522,483	-	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-
Investments - net	70,356,782	18,882,377	34,047,021	10,622,941	6,804,443
Advances - net	180,322,753	35,995,132	91,593,691	50,293,926	2,440,004
Other assets - net	5,466,420	2,680,630	811,792	1,973,998	-
Fixed assets	8,182,454	225,027	712,945	1,315,411	5,929,071
Deferred tax assets - net	192,362	-	-	-	192,362
	<u>299,707,631</u>	<u>92,970,026</u>	<u>127,165,449</u>	<u>64,206,276</u>	<u>15,365,880</u>
Liabilities					
Bills payable	8,536,674	8,536,674	-	-	-
Borrowings from financial institutions	27,377,502	24,707,908	2,669,594	-	-
Deposits and other accounts	229,339,867	50,989,664	124,173,837	40,851,793	13,324,573
Subordinated loan	1,598,080	320	320	1,597,440	-
Other liabilities	8,608,803	2,977,675	2,760,073	2,321,067	549,988
Deferred tax liabilities - net	-	-	-	-	-
	<u>275,460,926</u>	<u>87,212,241</u>	<u>129,603,824</u>	<u>44,770,300</u>	<u>13,874,561</u>
Net assets	<u>24,246,705</u>	<u>5,757,785</u>	<u>(2,438,375)</u>	<u>19,435,976</u>	<u>1,491,319</u>
Share capital	4,265,327				
Reserves	13,408,005				
Unappropriated profit	559,804				
Surplus on revaluation of assets - net of tax	6,013,540				
Minority interest	29				
	<u>24,246,705</u>				

Notes to the consolidated financial statements for the year ended December 31, 2005

	2004				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
----- (Rupees '000) -----					
Assets					
Cash and balances with treasury banks	23,833,253	23,833,253	-	-	-
Balances with other banks	5,760,379	5,760,379	-	-	-
Lendings to financial institutions	10,965,297	9,465,297	1,500,000	-	-
Investments - net	67,242,016	36,498,753	13,196,219	11,830,139	5,716,905
Advances - net	137,317,773	17,145,261	81,675,412	36,804,565	1,692,535
Other assets - net	6,155,578	2,163,939	409,914	3,581,725	-
Fixed assets	7,999,821	100,101	461,528	1,303,832	6,134,360
Deferred tax asset - net	-	-	-	-	-
	<u>259,274,117</u>	<u>94,966,983</u>	<u>97,243,073</u>	<u>53,520,261</u>	<u>13,543,800</u>
Liabilities					
Bills payable	7,566,684	7,566,684	-	-	-
Borrowings from financial institutions	7,590,864	6,444,361	1,146,503	-	-
Deposits and other accounts	221,063,918	49,368,292	118,344,532	40,731,234	12,619,860
Subordinated loan	1,598,720	320	320	1,598,080	-
Other liabilities	6,525,522	3,574,505	1,211,910	1,024,825	714,282
Deferred tax liabilities - net	269,317	5,320	109,662	85,113	69,222
	<u>244,615,025</u>	<u>66,959,482</u>	<u>120,812,927</u>	<u>43,439,252</u>	<u>13,403,364</u>
Net assets	<u>14,659,092</u>	<u>28,007,501</u>	<u>(23,569,854)</u>	<u>10,081,009</u>	<u>140,436</u>
Share capital	3,371,800				
Reserves	5,661,553				
Unappropriated profit	222,379				
Surplus on revaluation of assets - net of tax	5,403,332				
Minority interest	28				
	<u>14,659,092</u>				

41. YIELD / INTEREST RATE RISK

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	2005					Not exposed to Yield/ Interest Risk
		Total	Upto three months	Exposed to Yield/ Interest risk Over three months to one year	Over one year to five years	Over five years	
----- (Rupees '000) -----							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	2.30%	23,665,549	1,426,216	-	-	-	22,239,333
Balances with other banks	4.11%	1,522,483	648,359	-	-	-	874,124
Lendings to financial institutions	5.11%	9,998,828	9,998,828	-	-	-	-
Investments - net	7.59%	68,424,437	16,389,813	31,065,431	9,816,222	4,389,858	6,763,113
Advances - net	7.75%	180,322,753	35,995,132	91,593,691	50,293,926	2,440,004	-
Other assets - net	-	3,233,450	240	-	-	-	3,233,210
		<u>287,167,500</u>	<u>64,458,588</u>	<u>122,659,122</u>	<u>60,110,148</u>	<u>6,829,862</u>	<u>33,109,780</u>



Notes to the consolidated financial statements for the year ended December 31, 2005

	Effective Yield/ Interest rate	Total	2005 Exposed to Yield/ Interest risk				Not exposed to Yield/ Interest Risk
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees '000)							
Liabilities							
Bills payable	-	8,536,674	-	-	-	-	8,536,674
Borrowings from financial institutions	3.92%	27,377,502	24,707,908	2,669,594	-	-	-
Deposits and other accounts	0.69%	229,339,867	43,503,382	84,492,427	21,011,087	1,419,268	78,913,703
Subordinated loan	11.75%-15.75%	1,598,080	320	320	1,597,440	-	-
Other liabilities	-	5,891,877	-	-	-	-	5,891,877
		272,744,000	68,211,610	87,162,341	22,608,527	1,419,268	93,342,254
On-balance sheet gap		14,423,500	(3,753,022)	35,496,781	37,501,621	5,410,594	(60,232,474)
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-	-
		-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Outright sale - Govt. securities	-	-	-	-	-	-	-
		-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(3,753,022)	35,496,781	37,501,621	5,410,594	
Cumulative Yield / Interest Risk Sensitivity Gap			(3,753,022)	31,743,759	69,245,380	74,655,974	

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.

	Effective Yield/ Interest rate	Total	2004 Exposed to Yield/ Interest risk				Not exposed to Yield/ Interest Risk
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees '000)							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	1.29%	23,833,253	1,300,647	-	-	-	22,532,606
Balances with other banks	2.53%	5,760,379	3,972,122	-	-	-	1,788,257
Lendings to financial institutions	2.80%	10,965,297	9,465,297	1,500,000	-	-	-
Investments - net	4.44%	66,136,916	34,654,721	13,192,565	9,279,849	3,725,474	5,284,307
Advances - net	4.59%	137,317,773	17,145,261	81,675,412	36,804,565	1,692,535	-
Other assets - net	-	1,830,806	-	-	-	-	1,830,806
		245,844,424	66,538,048	96,367,977	46,084,414	5,418,009	31,435,976

Notes to the consolidated financial statements for the year ended December 31, 2005

Effective Yield/ Interest rate	Total	2004				Not exposed to Yield/ Interest Risk
		Exposed to Yield/ Interest risk				
		Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees '000)						
Liabilities						
Bills payable	7,566,684	-	-	-	-	7,566,684
Borrowings from financial institutions	7,590,864	6,444,361	1,146,503	-	-	-
Deposits and other accounts	221,063,918	42,179,723	83,499,586	22,755,460	731,290	71,897,859
Subordinated loan	1,598,720	320	320	1,598,080	-	-
Other liabilities	4,634,424	-	-	-	-	4,634,424
	242,454,610	48,624,404	84,646,409	24,353,540	731,290	84,098,967
On-balance sheet gap	3,389,814	17,913,644	11,721,568	21,730,874	4,686,719	(52,662,991)
Off-balance sheet financial instruments						
Forward lendings	-	-	-	-	-	-
Outright purchase - Govt. securities	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-
Outright sale - Govt. securities	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap		17,913,644	11,721,568	21,730,874	4,686,719	
Cumulative Yield / Interest Risk Sensitivity Gap		17,913,644	29,635,212	51,366,086	56,052,805	

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.

42. CURRENCY RISK

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
(Rupees '000)				
Pakistan Rupee	280,333,667	260,250,029	180,165	20,263,803
United States Dollar	16,051,319	12,177,560	(1,458,960)	2,414,799
Pound Sterling	1,388,297	1,457,908	352,957	283,346
Japanese Yen	13,101	6,935	2,349	8,515
Euro	447,999	757,989	212,049	(97,941)
Other currencies	1,473,248	810,505	711,440	1,374,183
	299,707,631	275,460,926	-	24,246,705



Notes to the consolidated financial statements for the year ended December 31, 2005

	2004			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees '000) -----			
Pakistan Rupee	240,254,367	229,959,778	2,741,162	13,035,751
United States Dollar	16,564,075	12,524,545	(3,072,006)	967,524
Pound Sterling	640,293	613,894	33,958	60,357
Japanese Yen	68,386	3,155	(63,762)	1,469
Euro	701,823	620,917	(15,856)	65,050
Other currencies	1,045,173	892,736	376,504	528,941
	<u>259,274,117</u>	<u>244,615,025</u>	<u>-</u>	<u>14,659,092</u>

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Groups accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, 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 Groups financial statements or where judgement was exercised in application of accounting policies are as follows:

- i) classification of investments (notes 5.1 and 9)
- ii) provision against investments (notes 9.1 and 5.10) and advances (notes 5.3 and 10.4.1)
- iii) income taxes (notes 5.9, 30 and 23.10)
- iv) staff retirement benefits (notes 5.7 and 37)
- v) fair value of derivatives (notes 5.16.2 and 11.3)

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradeable securities classified by the Group as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 24,595 million (2004: Rs 42,072 million).

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 Group's accounting policy as stated in note 5.3 and 5.6 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 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 repriced.

45. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Out of the total financial assets of Rs 287,168 million (2004: Rs 245,844 million) the financial assets which are subject to credit risk amounting to Rs 281,104 million (2004: Rs 239,472 million). To manage credit risk the Group applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs 57,103 million (2004: Rs 58,211 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs 15,054 million (2004: Rs 14,836 million) are held by the bank with the SBP and central banks of other countries.

Notes to the consolidated financial statements for the year ended December 31, 2005

45.1 Risk Management

The wide variety of the bank's businesses requires it to identify, measure and manage risks effectively. The bank manages these risks through a framework of risk principles, organizational structures and risk measurement and monitoring processes that are closely aligned with the activities of the bank. The bank's risk management function is independent of the business areas.

Based on the SBP and Bank for International Settlement guidelines / frameworks, the bank has constituted a Risk Management Committee, developed an elaborate risk identification measurement and management framework and has also reorganised risk management function broadly based on the following:

- Setting up of separate risk areas (as detailed below)
- Engaging the advisory services of an international consultant for the overall risk management function.

Risk management organization

The head of risk management is a member of risk management and management committees of the bank and is responsible for credit, market and operational risk management activities within the bank in close coordination with the respective business areas.

For each risk, i.e credit, operational and market, a specific department has been established with the mandate to:

- ensure that the business conducted is consistent with the risk appetite of the bank;
- formulate and implement risk policies, procedures and methodologies in coordination with the business areas;
- conduct periodic reviews to ensure that the risks are within acceptable parameters; and
- develop and implement risk management infrastructures and systems that are appropriate for each area.

The most important risks that the bank's management assumes are specific banking risks and risks arising from the general business environment.

The bank's risk management process distinguishes among various kinds of specific banking risks and mainly comprises of credit risk, liquidity risk, operational risk and market risk. The policies and procedures for managing these risks are outlined below:

Credit risk makes up the largest part of bank's risk exposures. The bank measures and manages its credit risk by adopting the following policies:

- Across the bank, consistent standards are applied for credit decision processes.
- The approval of credit limits for counter parties and the management of individual credit exposures is subject to credit strategies.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.
- The bank assigns credit approval authorities to individuals according to their qualifications, experience and training, and the management reviews these periodically.

The management measures and consolidates all the bank's credit exposures to each obligor on a global consolidated basis that applies across the bank.

Liquidity risk management safeguards the ability of the bank to meet all payment obligations when they become due. The bank's liquidity risk management framework has been instrumental in maintaining adequate liquidity and a healthy funding profile.

Operational risk has been defined as the potential of incurring losses in relation to employees, project management, contractual specifications and documentation, technology, infrastructure failure and disasters, external influences and customer relationships. This includes legal and regulatory risk, but excludes business risk. At present the bank is in the initial phase of defining the operational risk framework and related policies while the responsibility for implementing the framework as well as the day-to-day operational risk management lies with the business areas.



Notes to the consolidated financial statements for the year ended December 31, 2005

The business of the bank is subject to the risk that market prices and rates will move and result in profits / losses. The bank distinguishes among four types of **market risk**:

- interest rate risk
- equity price risk
- foreign exchange risk
- commodity price risk

45.2 Segment by class of business

	2005					
	Advances (Net)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Textile	28,587,254	15.85%	1,567,238	0.68%	7,495,848	9.68%
Commerce / Trade	29,994,256	16.63%	31,152,855	13.58%	6,965,473	9.00%
Agribusiness	1,109,181	0.62%	25,512,459	11.13%	1,030,145	1.33%
Production and transmission of energy	7,621,276	4.23%	588,797	0.26%	5,114,732	6.61%
Financial Sector	3,463,544	1.92%	2,041,002	0.89%	46,520,085	60.10%
Individuals	13,942,290	7.73%	113,439,811	49.46%	-	0.00%
Others	95,604,952	53.02%	55,037,705	24.00%	10,283,930	13.28%
	<u>180,322,753</u>	<u>100.00%</u>	<u>229,339,867</u>	<u>100.00%</u>	<u>77,410,213</u>	<u>100.00%</u>

	2004					
	Advances (Net)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Textile	33,455,623	24.36%	1,900,742	0.86%	6,065,572	9.93%
Commerce / Trade	30,207,166	22.00%	31,514,066	14.26%	6,923,400	11.33%
Agribusiness	2,431,136	1.77%	26,904,024	12.17%	1,005,219	1.64%
Production and transmission of energy	9,732,147	7.09%	1,077,731	0.49%	7,165,703	11.73%
Financial Sector	-	0.00%	490,571	0.22%	18,325,470	29.99%
Individuals	19,257	0.01%	106,089,311	47.99%	-	0.00%
Others	61,472,444	44.77%	53,087,473	24.01%	21,627,657	35.38%
	<u>137,317,773</u>	<u>100%</u>	<u>221,063,918</u>	<u>100%</u>	<u>61,113,021</u>	<u>100.00%</u>

45.3 Segment by sector

	2005					
	Advances (Net)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Public / Government	23,498,289	13.00%	6,515,291	2.84%	15,936,337	20.59%
Private	156,824,464	87.00%	222,824,576	97.16%	61,473,876	79.41%
	<u>180,322,753</u>	<u>100%</u>	<u>229,339,867</u>	<u>100%</u>	<u>77,410,213</u>	<u>100%</u>

Notes to the consolidated financial statements for the year ended December 31, 2005

	Advances (Net)		2004 Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent	(Rupees '000)	Percent	(Rupees '000)	Percent
Public / Government	22,250,553	16.20%	5,310,853	2.40%	15,963,908	26.12%
Private	115,067,220	83.80%	215,753,065	97.60%	45,149,113	73.88%
	<u>137,317,773</u>	<u>100%</u>	<u>221,063,918</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>

46. NET ASSETS OF SUBSIDIARY COMPANIES

(before Intra-Group elimination)

	2005 (Rupees '000)	2004 (Rupees '000)
MNET Services (Private) Limited	57,671	54,847
Muslim Commercial Financial Services (Private) Limited	11,033	10,638
MCB Trade Services Limited	2,348	-
	<u>71,052</u>	<u>65,485</u>

47. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	13,073,041	293,364,696	23,979,605	76,526,777
Asia Pacific (including South Asia)	84,932	2,378,562	84,497	883,436
Middle East	182,603	3,964,373	182,603	-
	<u>13,340,576</u>	<u>299,707,631</u>	<u>24,246,705</u>	<u>77,410,213</u>
	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	3,874,933	253,962,160	14,191,004	60,415,234
Asia Pacific (including South Asia)	58,790	1,877,150	229,945	697,787
Middle East	178,713	3,434,807	238,143	-
	<u>4,112,436</u>	<u>259,274,117</u>	<u>14,659,092</u>	<u>61,113,021</u>

Total assets employed shown above mean total assets shown on the balance sheet. Net assets employed mean net assets shown on the balance sheet.

48. RELATED PARTY TRANSACTIONS AND BALANCES

The Group has related party relationship with its associated undertakings, employee benefit plans, and its key management personnel (including their associates). The details of investments in associates are stated in note 9 to these financial statements.

Transactions between the Group and its related parties are carried out at arm's length basis under the comparable uncontrolled price method.

Details of loans and advances to the companies or firms in which the directors of the Group are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 37 and 38. Remuneration to the executives and disposals of vehicles are disclosed in notes 39 and 12.4 to these financial statements.



Notes to the consolidated financial statements for the year ended December 31, 2005

	Directors		Associated Companies		Other related parties	
	2005	2004	2005	2004	2005	2004
	(Rupees '000)					
Deposits						
Deposits at beginning of the year	2,030	2,202	227,631	96,317	270,188	218,024
Deposits received during the year	697,586	1,102,311	7,274,635	3,310,113	23,140,725	19,148,448
Deposits repaid during the year	(637,620)	(1,102,483)	(6,716,632)	(3,178,799)	(23,199,504)	(19,096,284)
Deposits at end of the year	<u>61,996</u>	<u>2,030</u>	<u>785,634</u>	<u>227,631</u>	<u>211,409</u>	<u>270,188</u>
Interest expense on deposits	27	7	851	1,234	145	157
Adamjee Insurance Company Ltd						
- Insurance premium paid - net of refund	-	-	75,443	66,453	-	-
- Insurance claim settled	-	-	60,106	25,296	-	-
- Rent income received	-	-	1,825	900	-	-
- Dividend received	-	-	36,097	-	-	-
MCB Employees Foundation						
- Service expenses	-	-	-	-	14,023	12,285
- Cash sorting expenses	-	-	-	-	3,115	17,597
- Cash in transit expenses	-	-	-	-	3,638	1,155
MCB Employees Security System and Services (Private) Limited						
- Security guard expenses	-	-	-	-	74,346	52,155

Directors' remuneration

The details of directors' remuneration has been given in note 39 to these financial statements.

Debts due by executives of the bank are disclosed in note 10.6 to these financial statements.

49. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications are as follows:

- Deposits and other accounts amounting to Rs 1,103.101 million have been reclassified from borrowings from financial institutions to deposits and other accounts.
- Amortisation of premium on held to maturity securities amounting to Rs 263.384 million has been reclassified from income / gain on investment to mark-up / return / interest. This amount was deducted from gain on investments in prior years
- Provision in respect of fraud and forgeries amounting to Rs 27.265 million has been reclassified from administrative expenses and shown as part of other charges.
- Restructuring expenses which were shown separately have now been shown as part of administrative expenses.
- Comparative information has also been restated to comply with the change in accounting policy as disclosed in note 5.7 to the financial statements.

50. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 24, 2006 by the Board of Directors of MCB Bank Limited (formerly Muslim Commercial Bank Limited), the holding company.

Mohammad Aftab Manzoor
President and Chief Executive

Mohammad Arshad
Director

Mian Umer Mansha
Director

Atif Yaseen
Director



Form of Proxy

Folio No. _____ CDC Participants Identity Card No. _____ A/C. No. _____

I/We _____ of _____ a member/ members of MCB Bank Limited, and holder of _____ shares do hereby appoint _____ of _____ or failing him / her _____ of _____ who is also a member of the Company, vide Registered Folio No. _____ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the 58th Annual General Meeting of the Company to be held on Tuesday, March 28, 2006 at 3:00 p.m. at Hotel Crown Plaza, 99 Jinnah Avenue, Islamabad and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2006.

Signature on
Five-Rupees
Revenue Stamp

The signature should
agree with the
specimen registered
with the Company.

Dated:
Place:

Notes:

1. The Proxy Form should be deposited in the office of THK Associates (Pvt.) Ltd., Ground Floor, Modern Motors House, Beaumont Road, Karachi, as soon as possible but not less than 48 hours before the time of holding the meeting and in default Proxy Form will not be treated as valid.
2. No person shall act as proxy unless he/she is a member of the company except a corporation being a member may appoint as its proxy any officer of such corporation whether a member of the company or not.



MCB Bank Limited
(Formerly Muslim Commercial Bank Ltd.)

Principal Office: MCB Tower, I.I. Chundrigar Road, Karachi. UAN: (021) 111-000-111 Website: www.mcb.com.pk

