

# MCB Bank Limited and Subsidiary Companies

## Condensed Interim Balance Sheet

As at June 30, 2006

	(Unaudited) June 30, 2006	(Audited) December 31, 2005
	(Rupees in '000)	
		(Restated)
<b>ASSETS</b>		
Cash and balances with treasury banks	25,120,961	23,665,549
Balances with other banks	3,420,784	1,522,483
Lendings to financial institutions	21,259,743	9,998,828
Investments - net	7 64,822,569	70,356,782
Advances - net	8 185,357,208	180,322,753
Other assets - net	8,602,670	5,466,420
Operating fixed assets	8,590,483	8,182,454
Deferred tax assets - net	142,298	192,362
	<b>317,316,716</b>	<b>299,707,631</b>
<b>LIABILITIES</b>		
Bills payable	7,913,431	8,536,674
Borrowings from financial institutions	12,747,265	27,377,502
Deposits and other accounts	255,710,348	229,339,867
Sub-ordinated loan	1,597,760	1,598,080
Liabilities against assets subject to finance lease	-	-
Other liabilities	9,114,328	8,182,270
Deferred tax liabilities - net	-	-
	<b>287,083,132</b>	<b>275,034,393</b>
<b>NET ASSETS</b>	<b>30,233,584</b>	<b>24,673,238</b>
<b>REPRESENTED BY:</b>		
<b>Shareholders Equity</b>		
Share capital	5,118,392	4,265,327
Reserves	14,629,725	9,054,940
Unappropriated profit	3,512,753	5,339,402
	<b>23,260,870</b>	<b>18,659,669</b>
Minority Interest	50	29
	<b>23,260,920</b>	<b>18,659,698</b>
Surplus on revaluation of assets - net of tax	6,972,664	6,013,540
	<b>30,233,584</b>	<b>24,673,238</b>

### CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 18 form an integral part of these condensed interim financial statements.

**Mohammad Aftab Manzoor**  
President and  
Chief Executive

**S.M. Muneer**  
Director

**Tariq Rafi**  
Director

**Aftab Ahmad Khan**  
Director

MCB Bank Limited and Subsidiary Companies  
Condensed Interim Profit and Loss Account (Unaudited)

For the six months period ended June 30, 2006

Note	Quarter ended June 30, 2006	Half year ended June 30, 2006	Quarter ended June 30, 2005 (Restated)	Half year ended June 30, 2005 (Restated)
----- (Rupees in '000) -----				
Mark-up / return / interest earned	6,180,935	12,012,644	4,079,145	7,187,412
Mark-up / return / interest expensed	1,038,120	1,900,970	628,511	1,140,941
Net mark-up / interest income	5,142,815	10,111,674	3,450,634	6,046,471
(Reversal) / provision against non-performing loans and advances - net	(92,409)	140,626	312,785	430,834
Provision for diminution in the value of investments	20,851	20,851	-	-
Bad debts written off directly	1,075	1,129	490	1,881
	(70,483)	162,606	313,275	432,715
Net mark-up / interest income after provisions	5,213,298	9,949,068	3,137,359	5,613,756
<b>NON MARK-UP/INTEREST INCOME</b>				
Fee, commission and brokerage income	520,338	1,118,591	571,457	1,143,718
Income earned as trustees to various funds	130	130	5,668	9,799
Dividend income	36,402	141,537	23,369	109,452
Income from dealing in foreign currencies	252,011	394,053	109,310	215,864
Income / gain on investments	104,380	435,755	178,681	561,068
Gain / (loss) on trading in government securities	(2)	33	(572)	338
Other income	169,430	281,226	101,605	228,342
Total non mark-up / interest income	1,082,689	2,371,325	989,518	2,268,581
	6,295,987	12,320,393	4,126,877	7,882,337
<b>NON MARK-UP/INTEREST EXPENSE</b>				
Administrative expenses	1,778,625	3,618,957	1,901,722	3,740,241
Other provisions	9,910	9,910	-	(92,512)
Other charges - net	1,435	2,645	1,944	4,270
Total non mark-up/interest expenses	1,789,970	3,631,512	1,903,666	3,651,999
Share of Profit of Associated Undertaking	92,124	326,277	104,337	157,497
<b>PROFIT BEFORE TAXATION</b>	4,598,141	9,015,158	2,327,548	4,387,835
Taxation - current	1,500,528	2,747,850	767,512	1,433,866
- prior years	173,698	173,698	-	-
- deferred	85,799	50,866	(183,973)	(243,992)
Share of tax of Associated undertaking	19,301	23,377	20,796	31,346
	1,779,326	2,995,791	604,335	1,221,220
<b>PROFIT AFTER TAXATION</b>	2,818,815	6,019,367	1,723,213	3,166,615
Share of profit attributable to minority interest	(1)	(1)	-	-
	2,818,814	6,019,366	1,723,213	3,166,615
Unappropriated profit brought forward	3,487,265	5,339,402	1,408,192	559,559
Transfer from surplus on revaluation of fixed assets - net of tax	4,189	31,378	4,193	27,030
	3,491,454	5,370,780	1,412,385	586,589
<b>Profit available for appropriation</b>	6,310,268	11,390,146	3,135,598	3,753,204
<b>APPROPRIATIONS</b>				
Transfer to:				
Statutory reserve	273,836	574,116	23,535	303,961
Capital reserves	-	-	-	-
General reserve	1,500,000	5,000,000	-	-
Reserve for issue of bonus shares 2005 @ 20% (2004: 10%)	-	853,065	-	337,180
Final cash dividend 2005 @ Re. 1 per share - (2004: Re. Nil)	-	426,533	-	-
Interim cash dividend - March 2006 @ Rs 2 per share - (2005: Rs 1.75)	1,023,679	1,023,679	649,072	649,072
	2,797,515	7,877,393	672,607	1,290,213
Unappropriated profit carried forward	3,512,753	3,512,753	2,462,991	2,462,991
Earnings per share - Basic and Diluted	5.51	11.76	3.37	6.19

The annexed notes 1 to 18 form an integral part of these condensed interim financial statements.

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MCB Bank Limited and Subsidiary Companies  
Condensed Interim Cash Flow Statement (Unaudited)

For the six months period ended June 30, 2006

	June 30, 2006	June 30, 2005
	(Rupees '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	9,015,158	4,387,835
Less: Dividend income and share of profit in associated undertaking	(467,814)	(266,949)
	<u>8,547,344</u>	<u>4,120,886</u>
Adjustments for non-cash charges		
Depreciation / Amortization	377,947	287,358
Provision against non-performing loans and advances	140,626	430,834
Provision for diminution in the value of investments	20,851	-
Provision / (Reversal) of provision on other assets	9,910	(92,512)
Bad debts written off directly	1,129	1,881
Gain on disposal of fixed assets	(12,457)	(1,193)
Surplus on revaluation of held-for-trading securities	40,795	-
	<u>578,801</u>	<u>626,368</u>
	9,126,145	4,747,254
(Increase) / decrease in operating assets		
Lendings to financial institutions	(11,260,915)	8,579,339
Held-for-trading securities	(198,097)	-
Advances - net	(5,176,210)	(19,183,698)
Other assets -net	(3,078,471)	(1,347,741)
	<u>(19,713,693)</u>	<u>(11,952,100)</u>
Increase / (decrease) in operating liabilities		
Bills payable	(623,243)	(780,383)
Borrowings from financial institutions	(14,630,237)	16,949,572
Deposits	26,370,481	21,494,037
Other liabilities	130,650	297,448
	<u>11,247,651</u>	<u>37,960,674</u>
	660,103	30,755,828
Income tax paid	(2,177,343)	(149,610)
<b>Net cash flows from operating activities</b>	<u>(1,517,240)</u>	<u>30,606,218</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	(9,471,295)	(23,962,754)
Net investments in held-to-maturity securities	16,398,868	(7,149,227)
Dividends income received	154,747	207,496
Investments in operating fixed assets - net of disposals	(773,925)	(514,798)
<b>Net cash flows from investing activities</b>	<u>6,308,395</u>	<u>(31,419,283)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of sub-ordinated loan	(320)	(320)
Proceed from issue of right shares	-	1,390,868
Proceed from issue of shares to minority interest	20	-
Dividend paid	(1,437,811)	(396,469)
<b>Net cash flows from financing activities</b>	<u>(1,438,111)</u>	<u>994,079</u>
Exchange difference on translation of net investments in foreign branches	669	10,527
<b>Increase in cash and cash equivalents</b>	<u>3,353,713</u>	<u>191,541</u>
Cash and cash equivalents at beginning of the period	25,188,032	29,593,632
Cash and cash equivalents at end of the period	<u>28,541,745</u>	<u>29,785,173</u>

The annexed notes 1 to 18 form an integral part of these condensed interim financial statements.

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MCB Bank Limited and Subsidiary Companies  
Condensed Interim Statement of Changes in Equity (Unaudited)  
For the six months period ended June 30, 2006

	Capital Reserves				Other Reserves		Unappropriated profit	Sub Total	Minority Interest	Total
	Share capital	Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve				
(Rupees in '000)										
Balance as at January 01, 2005 - restated	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	222,379	9,255,732	28	9,255,760
Effect of change in accounting policy										
Transferred to reserve for issue of bonus shares - final	-	-	(337,180)	-	-	-	337,180	-	-	-
Balance as at January 01, 2005 - restated	3,371,800	473,673	-	(56,354)	3,107,054	1,800,000	559,559	9,255,732	28	9,255,760
Effect of change in accounting policy										
Transferred to reserve for issue of bonus shares - final	-	-	337,180	-	-	-	(337,180)	-	-	-
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	27,030	27,030	-	27,030
Profit after taxation for six months period ended June 30, 2005	-	-	-	-	-	-	3,166,615	3,166,615	-	3,166,615
Exchange difference on translation of net investments in foreign branches	-	-	-	10,527	-	-	-	10,527	-	10,527
Total recognised income and expense for the period	-	-	-	10,527	-	-	3,193,645	3,204,172	-	3,204,172
Transferred to statutory reserve	-	-	-	-	303,961	-	(303,961)	-	-	-
Transferred to general reserve	-	-	-	-	-	-	-	-	-	-
Issue of bonus shares	337,180	-	(337,180)	-	-	-	-	-	-	-
Interim cash dividend	-	-	-	-	-	-	(649,072)	(649,072)	-	(649,072)
Issue of right shares	556,347	834,521	-	-	-	-	-	1,390,868	-	1,390,868
Balance as at June 30, 2005	4,265,327	1,308,194	-	(45,827)	3,411,015	1,800,000	2,462,991	13,201,700	28	13,201,728
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	56,719	56,719	-	56,719
Profit after taxation for six months period ended December 31, 2005	-	-	-	-	-	-	6,047,772	6,047,772	-	6,047,772
Share of profit attributable to minority interest	-	-	-	-	-	-	(1)	(1)	1	-
Exchange difference on translation of net investments in foreign branches	-	-	-	(6,722)	-	-	-	(6,722)	-	(6,722)
Total recognised income and expense for the period	-	-	-	(6,722)	-	-	6,104,490	6,097,768	1	6,097,769
Transferred to statutory reserve	-	-	-	-	588,280	-	(588,280)	-	-	-
Transferred to general reserve	-	-	-	-	-	2,000,000	(2,000,000)	-	-	-
Interim cash dividend	-	-	-	-	-	-	(639,799)	(639,799)	-	(639,799)
Balance as at December 31, 2005	4,265,327	1,308,194	-	(52,549)	3,999,295	3,800,000	5,339,402	18,659,669	29	18,659,698
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	31,378	31,378	-	31,378
Profit after taxation for six months period ended June 30, 2006	-	-	-	-	-	-	6,019,367	6,019,367	-	6,019,367
Share of profit attributable to minority interest	-	-	-	-	-	-	(1)	(1)	1	-
Issue of shares to minority interest	-	-	-	-	-	-	-	-	20	20
Exchange difference on translation of net investments in foreign branches	-	-	-	669	-	-	-	669	-	669
Total recognised income and expense for the period	-	-	-	669	-	-	6,050,744	6,051,413	21	6,051,434
Transferred to statutory reserve	-	-	-	-	574,116	-	(574,116)	-	-	-
Transferred to general reserve	-	-	-	-	-	5,000,000	(5,000,000)	-	-	-
Issue of bonus shares	853,065	-	-	-	-	-	(853,065)	-	-	-
Final cash dividend	-	-	-	-	-	-	(426,533)	(426,533)	-	(426,533)
Interim cash dividend	-	-	-	-	-	-	(1,023,679)	(1,023,679)	-	(1,023,679)
Balance as at June 30, 2006	5,118,392	1,308,194	-	(51,880)	4,573,411	8,800,000	3,512,753	23,260,870	50	23,260,920

The annexed notes 1 to 18 form an integral part of these financial statements.

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**MCB Bank Limited and Subsidiary Companies**  
**Notes to the Condensed Interim Financial Statements (Unaudited)**  
*For the six months period ended June 30, 2006*

**1. STATUS AND NATURE OF BUSINESS**

The Group consists of:

**Holding Company**

- MCB 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	99.99%

MCB 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 959 branches including 5 Islamic banking branches (June 30, 2005: 940) inside Pakistan and 5 (June 30, 2005: 5) branches outside Pakistan (including the Karachi Export Processing Zone Branch).

**2. BASIS OF PRESENTATION**

- a) 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.
- b) The consolidated financial statements include the financial statements of MCB 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 unaudited financial statements for the period ended June 30, 2006 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 reviewed financial statements for the period ended June 30, 2006.
- 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 15 to these financial statements.

### **3. STATEMENT OF COMPLIANCE**

These condensed interim 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 and the State Bank of Pakistan. Approved accounting standards comprise of such International Accounting Standards 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 Securities and Exchange Commission of Pakistan and the State Bank of Pakistan 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.

The disclosures made in these condensed interim financial statements have, however, been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular Letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34, 'Interim Financial Reporting'.

### **4. BASIS OF MEASUREMENT**

These condensed interim 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.

### **5. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the bank for the year ended December 31, 2005 except for the following:

During the period the Institute of Chartered Accountants of Pakistan issued a Circular Number 06-2006 dated June 19, 2006 which requires that all declarations of dividend to holders of equity instruments including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date should not be recognised as liabilities or change in reserves at the balance sheet date. Previously all declarations of dividends to holders of equity instruments and transfers to reserves relating to profit for the year although declared subsequent to year end, were accounted for in the year to which those related. This change has been applied retrospectively and comparatives have been restated. The change in accounting policy had following impact on these condensed interim financial statements:

	<b>June 30, 2006</b>	December 31, 2005
	<b>(Rupees in '000)</b>	
- Decrease in General Reserve	-	3,500,000
- Decrease in Reserve for Issue of Bonus Shares	-	853,065
- Increase in unappropriated profit	-	4,779,598
- Decrease in other liabilities (proposed cash dividend)	-	426,533

The effect of change in accounting policy has been reflected in the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current year.

#### **6. SIGNIFICANT ACCOUNTING ESTIMATES**

The basis for accounting estimates adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the bank for the year ended December 31, 2005.

7. INVESTMENTS - NET

		Held by Group	Given as collateral	Total
----- (Rupees in '000) -----				
As on June 30, 2006	7.1	60,439,374	4,383,195	64,822,569
As on December 31, 2005		50,838,315	19,518,467	70,356,782

7.1 INVESTMENTS BY TYPES

----- June 30, 2006 -----				
Held-for-trading securities		264,153	-	264,153
Available-for-sale securities	7.2	38,205,725	4,386,008	42,591,733
Held-to-maturity securities		17,611,023	-	17,611,023
		56,080,901	4,386,008	60,466,909
Associate				
Adamjee Insurance Company Limited	7.3	2,073,569	-	2,073,569
First Women Bank Limited		63,300	-	63,300
		2,136,869	-	2,136,869
		58,217,770	4,386,008	62,603,778
Less: Provision for diminution in the value of investments		(560,791)	-	(560,791)
Surplus on revaluation of investments		2,821,556	(2,813)	2,818,743
Deficit on revaluation of held-for-trading investments		(39,161)	-	(39,161)
<b>Investments - net</b>		<b>60,439,374</b>	<b>4,383,195</b>	<b>64,822,569</b>

7.2 Investments include Pakistan Investment bonds amounting to Rs. 232.600 million (December 31, 2005: Rs. 232.600 million) earmarked by the State Bank of Pakistan and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned by the bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (December 31, 2005: Rs. 5 million) have been pledged with the Controller of Military Accounts on the account of Regimental Fund Account. Further Euro bonds issued by Government of Pakistan amounting to US Dollar 29 Million (Face Value) are earmarked by Mashreqbank PSC against loan obtained by the bank.

7.3 Investment of the group in Adamjee Insurance Company Limited has been accounted for under equity method of accounting as at June 30, 2006 in accordance with the treatment specified in International Accounting Standard 28 "Accounting for Investments in Associates". The market value of the investment in Adamjee Insurance Company Limited as at June 30, 2006 amounted to Rs. 3,242.702 million (December 31, 2005: 3,296.847 million).

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

	June 30, 2006	December 31, 2005
Rupees in '000		
Opening Balance	1,869,045	1,041,800
Share of profits	326,277	349,019
Dividend from associate	(36,097)	(36,097)
Share of tax	(23,377)	(25,357)
	266,803	287,565
Share of unrealised surplus on investments	(62,279)	539,680
Closing balance	2,073,569	1,869,045

**8. ADVANCES - net**

**June 30,      December 31,**  
**2006              2005**  
**(Rupees in '000)**

Loans, cash credits, running finances, etc

- In Pakistan	<b>176,423,394</b>	174,625,232
- Outside Pakistan	<b>3,978,725</b>	3,755,036
	<b>180,402,119</b>	178,380,268

Net Investment in Finance Lease

- In Pakistan	<b>5,445,428</b>	3,897,184
- Outside Pakistan	<b>85,311</b>	93,330
	<b>5,530,739</b>	3,990,514

Bills discounted and purchased (excluding treasury bills)

- Payable in Pakistan	<b>3,584,222</b>	2,386,952
- Payable outside Pakistan	<b>3,565,796</b>	3,381,943
	<b>7,150,018</b>	5,768,895

**193,082,876**      188,139,677

Less: Provision for non - performing loans and advances

- Specific provision	8.1	<b>(5,265,420)</b>	(5,534,376)
- General provision		<b>(2,200,000)</b>	(2,098,053)
- Potential lease losses		<b>(3,903)</b>	(3,941)
General provision against consumer loans		<b>(256,345)</b>	(180,554)
		<b>(7,725,668)</b>	(7,816,924)

**185,357,208**      180,322,753

**8.1** Advances include Rs. 8,173.738 million (December 31, 2005: Rs 8,395.989 million) which have been placed under non-performing status as detailed below:

Category of Classification	Domestic	Overseas	Total	Provision required	Provision held
----- Rupees in '000 -----					
Other Assets Especially Mentioned    8.1.1	59,776	-	59,776	-	-
Substandard	357,165	-	357,165	83,994	83,994
Doubtful	298,509	-	298,509	132,446	132,446
Loss	4,781,389	2,676,899	7,458,288	5,048,980	5,048,980
	<b>5,496,839</b>	<b>2,676,899</b>	<b>8,173,738</b>	<b>5,265,420</b>	<b>5,265,420</b>

**8.1.1** 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 State Bank of Pakistan.

9. CONTINGENCIES AND COMMITMENTS	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>9.1 Transaction-related Contingent Liabilities / Commitments</b>		
Guarantees in favour of:		
- Government	3,716,443	3,864,070
- Banks and financial institutions	35,761	37,673
- Others	2,596,968	1,901,102
Suppliers credit / payee guarantee	1,533,975	1,428,642
	7,883,147	7,231,487
<b>9.2 Trade-related Contingent Liabilities</b>	<b>41,414,888</b>	39,189,177
<b>9.3 Other Contingencies</b>	<b>225,420</b>	492,420
<b>9.4 Commitments to extend credit</b>		
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.		
<b>9.5 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	20,126,489	13,646,165
Sale	25,354,382	16,263,722
	45,480,871	29,909,887
<b>9.6 Commitments for the acquisition of operating fixed assets</b>	<b>1,390,960</b>	587,242
<b>9.7 Commitments in respect of:</b>		
Forward Lending	700,000	-
Forward Borrowing	-	-
	700,000	-
<b>10. CREDIT RATING</b>		
PACRA has assigned long-term credit rating of AA+ (double A plus) and short-term credit rating of A1+ (A one plus) to the bank.		
<b>11. OTHER INCOME</b>		
Other income includes claim of the bank amounting to Rs. 44.802 million in respect of compensation on 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.		
<b>12. STAFF RETRENCHMENT COST</b>		
During the period 689 employees in the Non-clerical staff cadre were retrenched with effect from June 01, 2006. The bank has incurred an expense of Rs. 443.620 million , in addition to payments under the staff retirement funds.		
<b>13. EARNINGS PER SHARE - BASIC AND DILUTED</b>		
Profit after taxation attributable to ordinary shareholders	6,019,366	3,166,615
	(Number of shares)	
Weighted average number of shares outstanding during the period	511,839,290	511,839,290
	(Rupees)	
Earnings per share	11.76	6.19

## 14. RELATED PARTY TRANSACTIONS

The group has related party relationship with its associated undertakings, employee benefit plans, and its directors and executive officers (including their associates).

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

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. There are no transactions with the key management other than under their terms of employment. Remuneration to the executives are determined in accordance with the terms of their appointment.

Details of transactions with related parties except those under the terms of employment and balances with them as at the period-end were as follows:

Type of related party	Directors		Associated companies		Other Related Parties	
	Six months period ended	Year ended	Six months period ended	Year ended	Six months period ended	Year ended
	June 30, 2006	Dec 31, 2005	June 30, 2006	Dec 31, 2005	June 30, 2006	Dec 31, 2005
----- (Rupees '000) -----						
<b>Deposits</b>						
Deposits at the beginning of the period	61,996	2,030	785,634	227,631	211,409	270,188
Deposits received during the period	286,306	697,586	7,121,530	7,274,635	9,675,199	23,140,725
Deposits repaid during the period	(345,594)	(637,620)	(7,562,802)	(6,716,632)	(9,514,082)	(23,199,504)
Deposits at the end of the period	<u>2,708</u>	<u>61,996</u>	<u>344,362</u>	<u>785,634</u>	<u>372,526</u>	<u>211,409</u>
					<b>June 30, 2006</b>	December 31, 2005
					<b>(Rupees in '000)</b>	
Receivable from Pension Fund					<b>3,039,538</b>	1,973,998
	Directors		Associated companies		Other Related Parties	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	----- (Rupees '000) -----					
<b>Adamjee Insurance Company Ltd.</b>						
Insurance premium paid	-	-	45,475	67,266	-	-
Insurance claim settled	-	-	13,042	28,749	-	-
Dividend Received	-	-	36,097	-	-	-
Rent Income Received	-	-	1,176	1,176	-	-
<b>MCB Employees Foundation</b>						
- Service expenses	-	-	-	-	7,662	6,456
- Cash sorting expenses	-	-	-	-	4,919	1,781
- Cash in transit expenses	-	-	-	-	1,713	1,797
<b>MCB Employees Security System &amp; Services (Private) Limited</b>						
- Security guard expenses	-	-	-	-	38,844	37,018

Details of remuneration, including all benefits to key management personnels i.e. Chief Executive, Directors and Senior Management, as at the period-end were as follows:

	<b>Six months period ended June 30, 2006</b>		
	<b>Chief Executive</b>	<b>Directors</b>	<b>Senior Management</b>
	----- (Rupees in '000)'-----		
Fees	10	40	-
Managerial remuneration	11,530	717	53,656
Retirement benefits	333	-	1,800
Rent and house maintenance	1,892	-	9,723
Utilities	400	-	2,160
Medical	100	-	308
Conveyance	152	-	1,732
	<u>14,417</u>	<u>757</u>	<u>69,379</u>
Number of persons	<u>1</u>	<u>9</u>	<u>11</u>

The Chief Executive and Senior Management are provided with free use of the bank's maintained cars and household equipment in accordance with the terms of their appointment.

**15. ISLAMIC BANKING BRANCH**

<b>June</b>	<b>December</b>
<b>30, 2006</b>	<b>31, 2005</b>
<b>(Rupees in '000)</b>	

**ASSETS**

Cash and balances with treasury banks	<b>75,261</b>	87,027
Investments	<b>800,000</b>	-
Advances - net	<b>2,212,610</b>	2,287,561
Other assets - net	<b>525,310</b>	63,484
Operating fixed assets	-	21,019
	<b>3,613,181</b>	2,459,091

**LIABILITIES**

Bills payable	<b>20,379</b>	4,644
Borrowings from MCB	<b>2,550,000</b>	1,600,000
Deposits and other accounts	<b>579,971</b>	443,501
Other liabilities	<b>130,653</b>	163,484
	<b>3,281,003</b>	2,211,629

**NET ASSETS**

<b>332,178</b>	<b>247,462</b>
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**REPRESENTED BY**

Islamic Banking Fund	<b>230,000</b>	230,000
Retained earnings	<b>102,178</b>	17,462
	<b>332,178</b>	247,462
Surplus on revaluation of assets - net of tax	-	-
	<b>332,178</b>	<b>247,462</b>

**16. CORRESPONDING FIGURES**

Comparative information has been resated to give effect to the change in accounting policy as disclosed in note 5 to these condensed interim financial statements. Further, certain other corresponding figures have been reclassified for the purpose of comparison.

**17. GENERAL**

**17.1** The Board of Directors in its meeting held on August 24, 2006 has approved cash dividend for the six months period ended June 30, 2006 at Rs. 2.00 per share (June 30, 2005: cash dividend of Rs. Nil per share) resulting in total distribution of Rs. 1,023.679 million. In addition, the Board of Directors has also approved appropriation to general reserves amounting to Rs. 1,000 million (June 30, 2005: Rs. 1,000 million). The condensed interim financial statements for the six months ended June 30, 2006 do not include the effect of these appropriations which will be accounted for in the annual financial statements for the year ending December 31, 2006.

**17.2** Figures have been rounded off to the nearest thousand rupees.

**18. DATE OF AUTHORISATION FOR ISSUE**

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

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**Mohammad Aftab Manzoor**  
**President and**  
**Chief Executive**

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**S.M. Muneer**  
**Director**

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**Tariq Rafi**  
**Director**

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**Aftab Ahmad Khan**  
**Director**