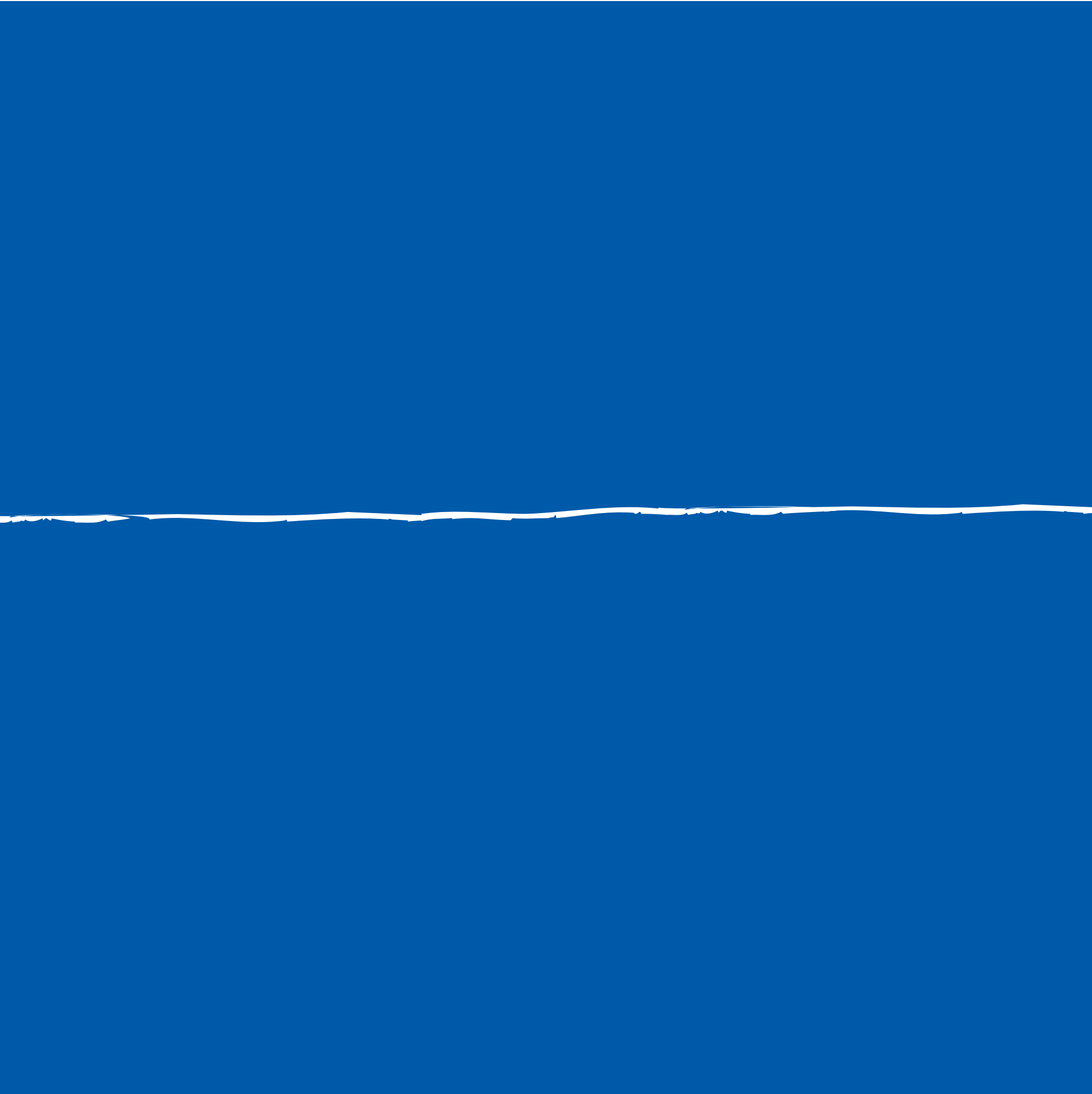




Annual Report 2006



Smooth sailing all the way





Full steam ahead

MCB's leadership - steering customers through new waves of success.

Taking command of every situation



It comes from p**L**anning ahead of time

It comes from k**E**eping a steady course

It comes from t**A**king on challenges

It comes from a **D**ding value to our service

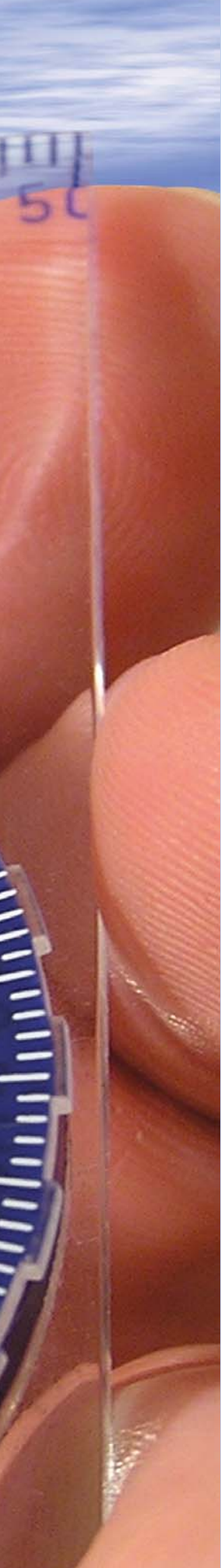
It comes from s**E**curing common interests

It comes from b**R**idging the distances

It comes from a **S**ociating with you

Navigating to achieve consistent success





Vision

Challenging and Changing the way you bank

Mission

MCB Bank's team of committed professionals is dedicated to maintaining long-term customer relationships through outstanding service and convenience

Core Values

- Trust
- Customer Focus
- Innovation
- Teamwork
- Achievement
- Social Responsibility

Shining through

when it matters, where it matters

Corporate Information

Board of Directors

Mian Mohammad Mansha
Chairman

S. M. Muneer
Vice Chairman

Tariq Rafi
Shahzad Saleem
Sarmad Amin
Mian Umer Mansha
Aftab Ahmad Khan
Atif Yaseen
Dr. Muhammad Yaquub

Mohammad Aftab Manzoor
President & Chief Executive

Advisor
Raza Mansha

Audit Committee
Dr. Muhammad Yaquub - Chairman
Tariq Rafi - Member
Main Umer Mansha - Member
Aftab Ahmad Khan - Member

Chief Financial Officer
Ali Munir

Secretary
Tahir Hassan Qureshi

Auditors
KPMG Taseer Hadi & 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, State Life Building No.3,
Dr. Ziauddin Ahmed Road, Karachi.

We give direction to your financial vision



Contents

16	Directors' Report to Members	99	Pattern of Shareholding
20	Six Years Progress	102	Categories of Shareholders
22	Statement of Compliance with the Code of Corporate Governance	103	Notice of Annual General Meeting
23	Auditors' Review Report to the Members	106	Directors' Report on Consolidated Financial Statements
24	Auditors' Report to the Members	107	Auditors' Report to the Members
25	Balance Sheet	108	Consolidated Balance Sheet
26	Profit & Loss Account	109	Consolidated Profit & Loss Account
27	Cash Flow Statement	110	Consolidated Cash Flow Statement
29	Statement of Changes in Equity	112	Consolidated Statement of Changes in Equity
31	Notes to the Financial Statements	114	Notes to the Consolidated Financial Statements
98	Branch Network	171	Form of Proxy



Guiding you to the shores of security



Management Committee

(left to right)
Mohammad Aftab Manzoor, Ali Munir,
Ali Muhammad Mahoon, Aamer Hassan Zaidi,
Tahir Ayub, Tahir Hassan Qureshi, Salman Ahmed Usmani,
Shahid Sattar, Agha Saeed Khan, Sadia P. Saeed.





Board of Directors

(Starting from the top)
(from left to right)

Mian Mohammad Mansha,
S. M. Muneer, Dr. Muhammad Yaqub,
Mian Umer Mansha, Shahzad Saleem, Atif Yaseen,
Tariq Rafi, Sarmad Amin,
Aftab Ahmad Khan, Mohammad Aftab Manzoor.

Products and Services



The largest network of over 315 online 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. To satisfy your banking needs at all MCB Full Day Banking branches across the country we now serve you 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. Tenure 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.



MCB Smart Savings Account gives you the optimum value you deserve. A savings account where not only you get a competitive return but also enjoy the unlimited number of fringe benefits.



MCB provides the convenience of banking on the internet. Whether at office, home or traveling log on to www.mcb.com.pk and enjoy 24-hour access to all your accounts at MCB for the largest array of services such as Inter Bank Funds Transfer, Utility Bill Payments, Mobile Top ups and many more.



There's no easier way to bank than the new enhanced MCB Call Center, which blends innovation and convenience to provide you banking services that go beyond your expectations. We make sure your banking needs are met 24/7 from the comfort of your very home because we at MCB, are just a call away!



MCB Personal Loan is simply a clean cash facility extended out for personal use. It offers a fixed installment loan that provides you access to cash instantly without any collateral. Financing available is up to 5 years for amount up to Rs. 1 million.



A suite of Classic and Gold Credit Cards focusing primarily on providing convenience, safety, shopping pleasure and security giving a different feel to the world of Credit Cards through innovative features. These unique features include i-revolve which makes the variable markup rate available to you upon revolving and is the first of its kind in Pakistan. Other ad-ons include comprehensive insurance plans, installment plans, reward points, upfront loyalties and much more.



Banking at your finger tips. SMS anytime to get information regarding balance and mini statements.



The nation's largest network of over 260 ATMs and still growing. Get 24-hour convenience of cash withdrawal, mini-statement, utility bill payment, funds transfer services and much more.



MCB on wheels. Now not only do you get a world class banking service but we make sure of your convenience. Our new classy mobile ATMs ensure that you are given a service closer to you.



MNET is an electronic hub for ATM sharing plus other touch points. Members include 16 local and foreign financial institutions enjoying ATM sharing and bureau services.



SmartCard

A secure instrument of payment providing Cash Free Convenience. It is more than just an ordinary Debit Card offering customers the peace of mind through unmatched and convenient services including easy bill payments, funds transfer, 24 hours cash withdrawal, balance inquiry and unlimited shopping pleasure.



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.

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.



Rupee Travelers Cheque

A safe and secure way to make payments nationwide. MCB Rupee Travelers Cheque, being the market leader, is the most widely accepted way to pay cash for travel-related purposes.



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.



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 up to 20 years for amount up to 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.



MCB Sabzazar is an agricultural financing scheme for farmers that offers two financing plans, MCB Shadabi Plan for short-term financial needs and MCB Khushali Plan for long-term financial requirements.

Directors' Report to Members

I am pleased to place before you, on behalf of the Board of Directors, the 59th annual report of your Bank for the year ending December 31, 2006.

Economy

Pakistan's economy turned in a strong performance for yet another year, recording real GDP growth of 6.6% for the fiscal year 2005-06. This was achieved due to the proactive economic policies of the Government, resulting in broad based advancement in the services sector supported by growth in Large Scale Manufacturing as well as expansion in trade and private investment. The telecom, banking, auto and retail sectors performed particularly well. The economy thus presented outstanding opportunities to businesses and consequently attracted substantial foreign interest. As a result the Foreign Direct Investment increased by more than 100% during the year. These factors combined with exchange rate stability, considerable growth in home remittances and increased government spending pushed the aggregate demand from all circles.

The agricultural growth decelerated during the year largely due to the production of the cotton crop falling below the target. Key industries, particularly the cement and fertilizer industry faced capacity constraints. In addition to these concerns, the infrastructure constraints and high energy costs adversely had an impact on the textile and sugar industries. Subsequently the commodity producing sector displayed relatively poor performance. Even though exports grew significantly they failed to surpass the growth in imports, causing the trade deficit to increase on a year on year basis. During the year the State Bank of Pakistan resorted to tightening of the Monetary Policy by raising interest rates to control inflation. Nevertheless rising food prices, low tax to GDP ratio and high fiscal deficit continued to present inflationary pressures.

The banking sector has continued its past momentum of growth as a result of healthy economic growth and liberal financial reforms adopted by the State Bank. The balance sheets soared as both advances and deposits increased significantly. Even though the recent interest rate hikes have increased the cost of credit, strong demand for credit still exists due to the presence of a healthy investment cycle. The SME, corporate and agriculture sectors accounted for more than 70% of the advances. Although, most of these are short term in nature, the economy is witnessing increase in long term financing as key industries are moving towards modernization and expansion of their capacity.

Bank's Performance Review

I take immense pride in informing you that your Bank has displayed robust performance for yet another year. It not only recorded a strong growth in financials but also made its mark on the global stage with the issuance of Global Depository Receipts (GDRs) worth 150 million dollars, which were heavily oversubscribed. This was the first GDR offering in over ten years that made your Bank the first ever in the history of the country to be listed on the London Stock Exchange for trading on the Professional Securities Market. We are now perched for growth not only on domestic but also on international fronts.

During the year, your Bank maintained its strategy of concentrating on growth while placing its customers at the centre of its activities. This was achieved with the consistent dedication shown by our teams of committed professionals in all divisions. Long-term customer relations have been developed through enhancement in service quality, growth in branch networking, investment in technology & people and improvement in risk management processes.

Challenging the status quo to anticipate future needs, your Bank continued to deliver innovative solutions to meet the requirements of the growing number of customers. In the process, the Consumer segment of the Retail Banking Group successfully launched Pakistan's first EMV Compliant Chip Credit Card and reintroduced the Personal Loans. In order to further improve the services provided to our diversified group of customers, the Service Quality Unit took several added initiatives including the introduction of the Model Branch Concept in over 500 branches. Our branch network is rapidly increasing as 41 new branches have been established. The MCB Call Centre has also been revamped. As the Group substantially improved its cross sell ratios, it witnessed a high level of synergy generated between Commercial and Consumer segments. The credit portfolio in consumer assets grew at a fast pace while maintaining the lowest NPLs in all banks in consumer financing. Overall the Retail Banking Group achieved healthy spreads while maintaining the delivery costs within the budget.

Technology utilized to equip the Bank to succeed in the fast-changing world and stay ahead of its competitors is continuously updated and maintained. During the year the Operations and IT Group supported and managed a wide spectrum of transactions within a controlled environment. The existing branches were reorganized and mechanized while 30 additional ATMs were deployed. The Group also strengthened its operational risk management processes and internal controls through management reviews.

The Treasury and FX Group also made impressive progress over the year. The Group worked diligently, striving to become the leading treasury of Pakistan. During the course it delivered good returns as the trade volumes soared and the product line was aggressively enhanced. It offered different derivative products such as Interest Rate Swaps, Cross Currency Swaps and Options. Additionally an Economic Research Division, a dedicated sales force for Structured Products and a Fixed Income Sales Desk have also been established. With these developments the Treasury and FX Group aims not only to broaden its client base but provide extended facilities to the existing clients. The Group added significantly to MCB's profits, while strengthening the Bank's liquidity and funding position. It actively contributed in setting up the risk monitoring cell, limits and policies. It has also successfully completed and implemented the technological infrastructure which has been developed entirely in-house. This allows efficient management of currency risk, interest rate risk, internal and external limits.

To avoid any unexpected losses, your Bank ensures that its risk management capabilities and the integrated Risk Management framework are in line with the evolving trends and growing avenues of businesses. Thus it aims

to align its systems and processes with best international practices. The Bank is all set to implement Basel II in line with the State Bank's defined timelines and currently it is preparing itself for the adoption of advanced approaches ahead of these regulatory timelines. Basel II for your Bank is more than compliance; it is actually a business opportunity whereby improvement in risk management practices would result in calculated and prudent risk decisions, and optimal utilization of capital.

Performance of the Wholesale Banking Group has also been strong as improvements were made at every financial front with considerable increase in asset base, deposits and profitability. Enhanced marketing and diversifications strategy resulted in significant growth especially in the advances and deposits.

The exceptional rise in remittances increased the Financial Institution and International Division's profits almost ten fold. During the year this segment of the Wholesale Banking Group finalized agreements for remittance business with four renowned foreign banks. Furthermore, the Division has also introduced zero cost deposits. The Investment Banking Division played an active role and achieved impressive results during the year. The Islamic Banking Division revealed significant improvement during the year as advances and deposits witnessed a strong growth and trade volume increased significantly. The Division made persistent efforts to develop and introduce new Shariah compliant products and successfully launched three such products during the year. In order to further diversify and expand its operations across the country, the division established a new Islamic Banking branch in Islamabad.

With all divisions expanding their operations and delivering robust performances, your Bank continues to stay ahead of its competitors as it challenges and changes the way you bank. Moreover, your Bank has lived up to its values by contributing significantly to the social welfare of the community. In the year 2005, The Pakistan Center for Philanthropy placed MCB amongst the top ten corporate entities for its generous donations. Additionally it has been conferred the Euromoney Award for the Best Bank in Pakistan for the sixth time in the last seven years and has been declared the Best Domestic Bank in Pakistan by Asiamoney for the third consecutive year. MCB is the only bank in the country to receive these awards consistently over the years.

Future Outlook

The economic outlook for the coming year is promising. The Government is expected to continue with its proactive policies and execute corrective actions if and when required. Though strong inflationary pressures persist they are likely to ease off due to declining international oil prices and the tight monetary posture assumed by the State Bank. The key industries that faced strong capacity constraints during most of the year are already moving to expand their capacity which is likely to result in increased demand for long-term credit. These factors present outstanding prospects for the banking sector.

Our Bank is determined to grow in line with the economy and is well placed to seize the existing and future opportunities presented within the economy. We aim to pursue our customer lead strategy and bring innovation in products to enter new customer segments. We will continue to strengthen the infrastructure and the technology of the Bank while developing vigorous risk management capabilities. We are all set to

realize good revenue growth for the coming year and continue our strong profit momentum. We have always focused on quality, integrity and dedication and have been able to lead the way. We believe our strong performance is sustainable and we are well positioned for even stronger performances in the future.

Financials

Your Bank has once again outperformed during the year 2006 by witnessing a substantial growth in operating results. The growth is attributable to significant increase in loans and deposit volumes which contributed major increase in generating net revenues from customers. Additionally the intermediation cost remained almost flat. The profit before and after taxation, available for appropriation together with recommended appropriation is as under:

	Rs. in million
Profit before taxation	18,501
Taxation	6,358
Profit after taxation	12,143
Un-appropriated profit brought forward	4,990
Transfer from surplus on revaluation of fixed assets (net of tax)	32
	5,022
Profit available for appropriation	17,165
Appropriations	
Statutory reserve	1,214
General reserve	6,000
Issue of Bonus Shares - Dec 2005	853
Final Dividend - Dec 2005	427
Interim Cash Dividend - Mar 2006	1,024
Interim Cash Dividend - Jun 2006	1,024
Interim Cash Dividend - Sep 2006	1,092
	11,634
	5,531

The increased equity would help to meet capital requirement under Basel Accord II and will also be utilized for general corporate and growth purposes.

Earning per share

During the year under review pre-tax and after tax basic earning per share was Rs. 35.65 and Rs. 23.40 respectively. In note 33 & 34 to the financial statements, its computation has been reported.

Dividend and Bonus

The Board has recommended final dividend @ 15% in form of bonus issue and @ 15% cash dividend. This is in addition to 60% interim cash dividends announced during the year.

Pattern of Shareholding

The pattern of shareholding as at December 31, 2006 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 those reported in note 5.11 to final accounts
- The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure having material impact therefrom 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
- All the statutory liabilities, if any, have been adequately disclosed in the financial statements
- The number of board meetings held during 2006 were six (6) and attended by directors as under:

S. No.	Name	Meetings Attended
1	Mian Mohammad Mansha	05
2	S. M. Muneer	04
3	Tariq Rafi	03
4	Shahzad Saleem	03
5	Sarmad Amin	03
6	Aftab Ahmed Khan	06
7	Mian Umer Mansha	03
8	Atif Yaseen	05
9	Khalid Niaz Khawaja*	01
10	Dr. Muhammad Yaqub *	01
11	Mohammad Aftab Manzoor, CEO	06

- Due to resignation of Khalid Niaz Khawaja, Dr. Muhammad Yaqub was appointed to fill casual vacancy
- Value of investment including accrued income of provident and

pension fund as at 30.06.2006 on the basis of audited accounts is:

Provident Fund Pak Staff	Rs. 9,347 million
Pension Fund Pak Staff	Rs. 14,374 million

- The aggregate shares held by following are:

a)	Associated Companies, undertakings & related parties			
			No. of shares	
1.	Siddiqsons Denim Mills		24,934,855	
2.	Din Leather (Pvt.) Ltd.		3,404,680	
3.	Adamjee Insurance Co. Ltd.		10,944,360	
4.	MCB Employees Pension Fund		44,290,310	
5.	MCB Provident Fund Pakistan Staff		23,132,431	
6.	Pak Asian Fund Ltd.		10,000	
7.	BSJS Balanced Fund Ltd.		345,000	
b)	NIT		34,079	
c)	ICP		1,424	
d)	Directors	Self	Spouse & Children	Total
1	Mian Mohammad Mansha	3,847	3,153,231	3,157,078
2	S. M. Muneer	931,702	-	931,702
3	Tariq Rafi	2,148,164	57,774	2,205,938
4	Shahzad Saleem	1,401	-	1,401
5	Sarmad Amin	1,401	-	1,401
6	Aftab Ahmed Khan	7,669	-	7,669
7	Mian Umer Mansha	19,880,998	-	19,880,998
8	Atif Yaseen	61,200	-	61,200
9	Dr. Muhammad Yaqub	500	-	500
10	Mohammad Aftab Manzoor	60,000	-	60,000
11	Other Executives			41,902

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

Name	Purchase/ transfers	Sales/ transfers
Mrs. Naz Mansha	-	19,800,000
S. M. Muneer	305,159	-
Mrs. Saeeda Parveen	-	32,527
Mian Umer Mansha	19,800,000	-
Dr. Muhammad Yaqub	500	-
Ali Munir, CFO	-	20,880
Tahir Hassan Qureshi, Secretary	-	6,000

Statement on Internal Controls:

In terms of State Bank of Pakistan circular BSD 7 dated May 27, 2004 "Guidelines on Internal Control" and subsequent clarifications under BSD circular letter 3 dated January 26, 2005, BSD circular 1 dated January 13, 2006 and BSD circular letter 3 dated December 30, 2006, 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 there from; 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, it needs to be stated that system is 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.

Additionally, 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. The policies and procedures 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. Accordingly, the Bank, for the year ending December 31, 2007, has endeavoured to implement most widely implemented COSO framework for improving the quality of financial reporting inter alia through effective internal controls. Meanwhile the Board of Directors and the Management remain fully committed and supportive to the fact that the review of internal control systems is and will continue to be an ongoing process.

Risk Management

Risk management at MCB is aimed at maximizing value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value and what should be the return associated with the risks taken. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Risk management at MCB Bank enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. Value is maximized by setting strategy and objectives to strike an optimal balance between growths and return goals vis-à-vis related risks, and efficient

and effective deployment of resources in pursuit of the set objectives.

Risk Management Encompasses:

Aligning risk appetite and strategy - considering the entity's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.

Enhancing risk response decisions - provides the rigor to identify and select among alternative risk responses - risk avoidance, sharing, mitigation and acceptance.

Reducing operational surprises and losses - identify potential events and establish responses, reducing surprises and associated costs or losses.

Improving deployment of capital - obtaining robust risk information allows management to effectively assess overall capital needs.

These capabilities help management achieve the entity's performance and profitability targets and prevent losses. Risk management ensures effective reporting, compliance with laws & regulations and helps avoiding damages to the entity's reputation and associated consequences.

At strategic and macro levels, we have reconstructed our risk management organization in line with framework provided by Risk Management Guidelines of the State Bank of Pakistan, frameworks for risk identification, measurement, monitoring and controlling at micro level are in the final phase of development and will be implemented by the end of Financial Year 2007. We are, however, on course for implementation of Basel II Capital Accord.

Auditors

The present term of current auditors M/s KPMG Taseer Hadi & Company, Chartered Accountants and Riaz Ahmad & Company, Chartered Accountants is expiring and the Audit Committee has suggested their names for another term.

The Board of Directors, on the suggestion of Audit Committee recommended the names of both the auditors as statutory auditors for next term. Both firms being eligible offer themselves for re-appointment till the conclusion of next AGM.

In the end we applaud the Government of Pakistan, State Bank of Pakistan and Ministry of Finance for achieving vigorous economic growth with their determined efforts. We would also like to thank our respected shareholders and employees for their persistent support and trust and we hope to continue delivering similar outstanding results in the future.

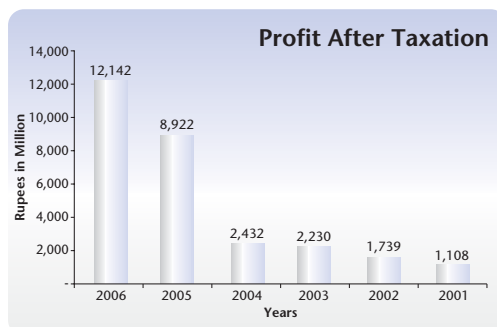
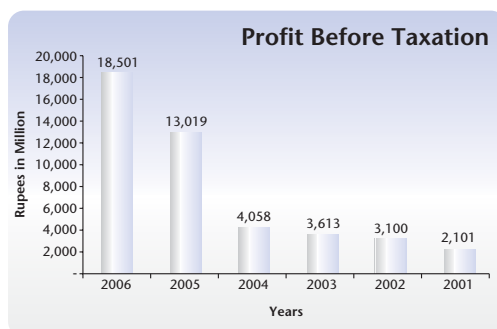
On behalf of Directors



Mian Mohammad Mansha
Chairman

February 23, 2007

Six Years Progress



OPERATING RESULTS

	2006	2005	2004	2003	2002	2001
(Rupees in Million)						
Mark-up / return earned	25,778	17,756	9,084	10,370	15,386	17,033
Mark-up / return expensed	4,525	2,781	2,058	2,933	6,075	7,545
Fund based income	21,253	14,975	7,026	7,437	9,311	9,488
Fee, commission, brokerage & FX income	3,573	4,406	3,575	2,118	1,909	1,944
Dividend and capital gains	1,418	1,348	1,172	2,414	681	257
Total income	26,244	20,729	11,773	11,969	11,901	11,689
Operating expenses	6,549	6,638	7,286	7,525	8,079	7,332
Operating profit before tax and provision	19,695	14,091	4,487	4,444	3,822	4,357
Provisions / write-off	1,194	1,072	429	831	722	2,256
Profit before taxation	18,501	13,019	4,058	3,613	3,100	2,101
Profit after taxation	12,142	8,922	2,432	2,230	1,739	1,108
Dividends	3,960	1,715	843	843	666	606
Bonus shares	819	853	337	307	400	-

BALANCE SHEET

Authorised capital	6,500	6,500	6,500	3,500	3,500	3,500
Paid up capital	5,463	4,265	3,372	3,065	2,665	2,423
Shareholders' equity	35,657	18,311	9,199	7,726	6,314	4,986
Assets	342,108	298,781	259,174	272,324	235,139	187,054
Revaluation reserves	5,188	5,424	5,354	3,383	5,385	1,901
Deposits	257,462	229,342	221,069	211,511	182,706	154,544
Borrowings from financial institutions	23,943	27,378	7,591	32,628	21,988	8,947
Advances - net of provisions	198,239	180,323	137,318	97,200	78,924	76,584
Investments - net of provisions	63,486	69,481	67,195	128,277	89,577	55,432

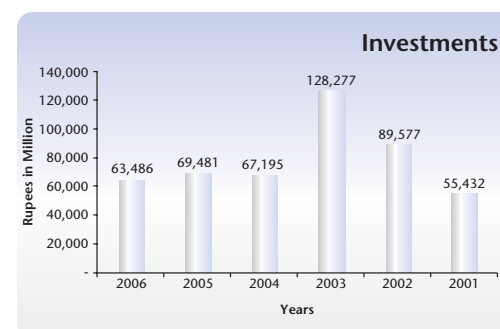
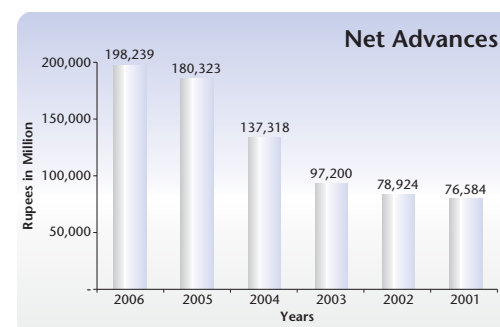
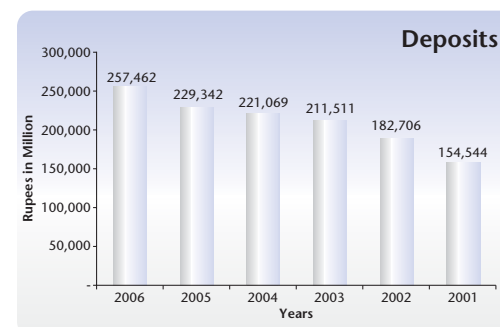
Six Years Progress

FINANCIAL RATIOS

	2006	2005	2004	2003	2002	2001
Gross spread ratio (Net markup income / Gross markup income)	82.45%	84.34%	77.35%	71.72%	60.52%	55.70%
Income / expense ratio	4.01:1	3.12:1	1.62:1	1.59:1	1.47:1	1.59:1
Return on average equity (ROE)	45.00%	64.87%	28.73%	31.77%	30.77%	23.40%
Return on average assets (ROA)	3.79%	3.20%	0.91%	0.88%	0.82%	0.61%
Loan / deposits ratio	77.00%	78.63%	62.12%	45.96%	43.20%	49.55%
Total assets turnover ratio / fixed assets Turnover ratio (total assets / fixed assets)	37.78	36.51	32.40	59.42	61.47	51.11
Price earning ratio	10.52	7.86	8.14	7.06	5.11	4.11
Earning per share (EPS) (after tax)	23.40	21.36	7.21	7.28	6.52	4.57
Market value per share	246.10	167.80	58.70	51.40	33.35	18.80
Book value per share	65.27	42.93	27.28	25.21	23.69	20.58
Book value per share including Surplus/(deficit) on revaluation	74.76	55.65	43.16	36.24	43.89	28.42
Number of branches	994	952	946	986	1,045	1,061
Number of permanent employees	9,011	9,377	9,889	10,164	10,926	11,614
Number of accounts	4,350,245	4,248,399	4,122,338	4,433,539	4,463,530	4,392,164

OTHERS

Imports	135,542	138,047	89,653	64,453	48,842	53,008
Exports	60,725	54,794	37,796	28,609	28,284	34,968





Statement of Compliance with the Code of Corporate Governance for year ended December 31, 2006

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 37, chapter XIII and XI of listing regulations of Karachi, Lahore & Islamabad Stock Exchanges (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 taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Khalid Niaz Khawaja, Director tendered his resignation and Dr. Muhammad Yaqub was appointed to fill in the casual vacancy, other than that no casual vacancy occurred in the Board during the year.
5. The Bank in year 2002 prepared "Statement of Ethics and Business Practices" for directors and employees. It has been signed by the directors and employees. During the year the same 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 along with 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 and, in his absence, by the other Director nominated as Chairman. The Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated. The Company Secretary and Chief Financial Officer attended the meetings of the Board of Directors.
9. The appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms of employment has been approved by the board. However no new appointments have been made during the year except for the Head of Internal Audit. Further the Board during the year also approved the appointment of a new Chief Financial Officer and Company Secretary to be effective from 1 January 2007.
10. The orientation courses for directors were arranged during the year and appropriate arrangements shall be made in future as and when required.
11. The directors report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than those disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements.
15. The Board has formed an audit committee. It comprises of four members, all of whom are non-executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Bank, as required by the Code. The terms of reference of the committee have been formulated and advised to the committee for compliance.
17. The Board has set up an internal audit function which is now being restructured for enhanced performance and for meeting the increased banking and regulatory requirements.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program 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 the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

On behalf of Directors

Mian Mohammad Mansha
Chairman

Dated: February 23, 2007

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, 2006.



KPMG TASEER HADI & CO.
Chartered Accountants
Karachi

Dated: February 23, 2007



RIAZ AHMAD & CO.
Chartered Accountants
Karachi

Auditors' Report to the Members

We have audited the annexed balance sheet of MCB Bank Limited ("the Bank") as at December 31, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixty one branches which have been audited by us and five 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 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 account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 5.11 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, 2006 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.

The financial statements of the Bank for the year ended December 31, 2005 were audited by A.F. Ferguson & Co., Chartered Accountants and Riaz Ahmad & Co., Chartered Accountants who had expressed an unqualified opinion on those financial statements vide their report dated February 24, 2006.


 KPMG TASEER HADI & CO.
 Chartered Accountants
 Karachi


 RIAZ AHMAD & CO.
 Chartered Accountants
 Karachi

Dated: February 23, 2007

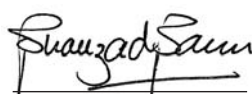
Balance Sheet as at December 31, 2006

	Note	2006	2005 Restated (Rupees '000)
Assets			
Cash and balances with treasury banks	6	32,465,976	23,665,549
Balances with other banks	7	6,577,017	1,466,045
Lendings to financial institutions	8	21,081,800	9,998,828
Investments - net	9	63,486,316	69,481,487
Advances - net	10	198,239,155	180,322,753
Operating fixed assets	11	9,054,156	8,182,454
Deferred tax assets - net	12	172,373	191,967
Other assets - net	13	11,031,450	5,471,697
		342,108,243	298,780,780
Liabilities			
Bills payable	15	7,089,679	8,536,674
Borrowings	16	23,943,476	27,377,502
Deposits and other accounts	17	257,461,838	229,341,890
Sub-ordinated loan	18	1,597,440	1,598,080
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	11,171,496	8,192,338
		301,263,929	275,046,484
Net assets		40,844,314	23,734,296
Represented by:			
Share capital	20	5,463,276	4,265,327
Reserves	21	24,662,426	9,054,940
Unappropriated profit		5,530,973	4,990,260
		35,656,675	18,310,527
Surplus on revaluation of assets - net of tax	22	5,187,639	5,423,769
		40,844,314	23,734,296
Contingencies and commitments	23		

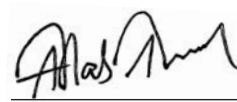
The annexed notes 1 to 46 and Annexure I to V form an integral part of these financial statements.



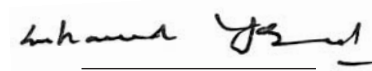
Mohammad Aftab Manzoor
President and Chief Executive



Shahzad Saleem
Director



Aftab Ahmad Khan
Director



Dr. Muhammad Yaqub
Director

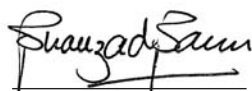
Profit and Loss Account for the year ended December 31, 2006

	Note	2006	2005 Restated (Rupees '000)
Mark-up / return / interest earned	25	25,778,061	17,756,232
Mark-up / return / interest expensed	26	4,525,359	2,781,468
Net mark-up / interest income		21,252,702	14,974,764
Provision / (reversal) of provision for diminution in the value of investments	9.3	121,197	(98,982)
Provision against loans and advances	10.4.2	1,014,540	1,242,153
Bad debts written off directly	10.5.1	47,000	1,184
		1,182,737	1,144,355
Net mark-up / interest income after provisions		20,069,965	13,830,409
Non-mark-up / interest income			
Fee, commission and brokerage income		2,311,235	2,448,950
Dividend income		811,801	480,344
Income from dealing in foreign currencies		692,010	531,455
Gain on sale of securities - net	27	605,865	866,112
Unrealised gain on revaluation of investments classified as held for trading		-	1,634
Other income - net	28	570,505	1,425,174
Total non-mark-up / interest income		4,991,416	5,753,669
		25,061,381	19,584,078
Non-mark-up / interest expenses			
Administrative expenses	29	6,482,592	6,459,490
Other provision / (reversal)	13.2	11,411	(72,740)
Other charges	30	66,708	178,841
Total non-mark-up / interest expenses		6,560,711	6,565,591
Extra ordinary / unusual item		-	-
Profit before taxation		18,500,670	13,018,487
Taxation - Current year		5,701,443	4,611,359
- Prior years		593,497	(149,763)
- Deferred		63,332	(365,524)
	31	6,358,272	4,096,072
Profit after taxation		12,142,398	8,922,415
Unappropriated profit brought forward		4,990,260	502,388
Transfer from surplus on revaluation of fixed assets - net of tax		32,166	83,749
		5,022,426	586,137
Profit available for appropriation		17,164,824	9,508,552
Basic and diluted earnings per share - after tax	34	23.40	17.43

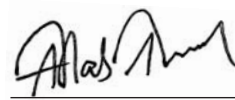
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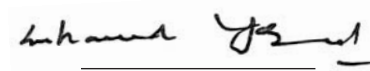
Mohammad Aftab Manzoor
President and Chief Executive



Shahzad Saleem
Director



Aftab Ahmad Khan
Director



Dr. Muhammad Yaqub
Director

Cash Flow Statement for the year ended December 31, 2006

Cash flows from operating activities

Profit before taxation
Less: Dividend income

Adjustments for non-cash charges

Depreciation

Amortisation

Provision against loans and advances

Provision / (reversal of provision) for diminution in the value of investments

Provision / (reversal of provision) for diminution in the value of other assets

Bad debts written off directly

Operating fixed assets written off

Gain on disposal of non-banking asset

(Gain) / loss on disposal of fixed assets

Surplus on revaluation of 'held for trading' securities

(Increase) / decrease in operating assets

Lendings to financial institutions

Advances - net

Other assets - net

Increase / (decrease) in operating liabilities

Bills payable

Borrowings

Deposits

Other liabilities

Income tax paid

Net cash flows from operating activities

Note	2006	2005 Restated
	(Rupees '000)	
	18,500,670	13,018,487
	(811,801)	(480,344)
	17,688,869	12,538,143
	555,292	575,538
11.2	121,285	60,113
11.3	1,014,540	1,242,153
10.4.2	121,197	(98,982)
9.3	11,411	(72,740)
13.2	47,000	1,184
10.5.1	60,452	-
	-	(24,664)
	(24,903)	22,114
28 & 30	1,634	(1,634)
9.5		
	1,907,908	1,703,082
	19,596,777	14,241,225
	(11,082,972)	966,469
	(18,977,942)	(44,248,317)
	(5,522,561)	(2,264,032)
	(35,583,475)	(45,545,880)
	(1,446,995)	969,990
	(3,434,026)	19,786,638
	28,119,948	8,272,733
	1,100,295	982,933
	24,339,222	30,012,294
	8,352,524	(1,292,361)
	(4,877,358)	(1,152,344)
	3,475,166	(2,444,705)



Cash Flow Statement for the year ended December 31, 2006

Cash flows from investing activities

Net investments in 'available for sale' securities
Net investments in 'held to maturity' securities
Net investments in 'held for trading' securities
Dividends received
Investments in operating fixed assets
Investments in subsidiary companies and associated undertakings
Sale proceeds of non-banking asset
Sale proceeds of property and equipment disposed off

Note 2006 2005
Restated
(Rupees '000)

(13,324,991)	(20,301,953)
19,336,261	18,278,483
66,056	(66,056)
792,100	588,153
(1,830,790)	(1,029,307)
(299,980)	(77)
-	589,676
82,597	127,254
4,821,253	(1,813,827)

Net cash flows from investing activities

Cash flows from financing activities

Redemption of subordinated loan
Proceeds from issue of Global Depository Receipts (net of expenses)
Proceeds from issue of right shares
Dividend paid

(640)	(640)
8,739,218	-
-	1,390,868
(3,122,510)	(1,545,483)

Net cash flows from financing activities

5,616,068 (155,255)

Exchange differences on translation of the net investment in foreign branches

(1,088) 3,805

Increase / (decrease) in cash and cash equivalents

13,911,399 (4,409,982)

Cash and cash equivalents at beginning of the year

25,198,236 29,547,922

Effects of exchange rate changes on cash and cash equivalents

(66,642) (6,346)

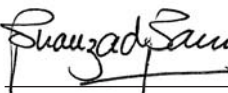
25,131,594 29,541,576

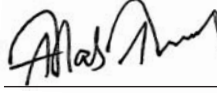
Cash and cash equivalents at end of the year

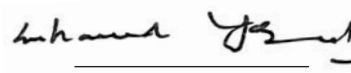
35 39,042,993 25,131,594

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


Mohammad Aftab Manzoor
President and Chief Executive


Shahzad Saleem
Director


Aftab Ahmad Khan
Director


Dr. Muhammad Yaqub
Director

Statement of Changes in Equity for the year ended December 31, 2006

	Share capital	Share premium	Capital Reserves Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	Revenue Reserves General reserve	Unappropriated profit	Total
	(Rupees '000)							
Balance as at December 31, 2004 - as previously reported	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	165,208	9,198,561
Effect of change in accounting policy - note 5.11								
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	-	(337,180)	-	-	-	337,180	-
Balance as at December 31, 2004 - restated	3,371,800	473,673	-	(56,354)	3,107,054	1,800,000	502,388	9,198,561
Transferred to reserve for issuance of bonus shares	-	-	337,180	-	-	-	(337,180)	-
Issuance of bonus shares	337,180	-	(337,180)	-	-	-	-	-
Changes in equity for 2005								
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
Net income recognised directly in equity	-	-	-	3,805	-	-	83,749	87,554
Total recognised income and expense for the year ended December 31, 2005	-	-	-	3,805	-	-	9,006,164	9,009,969
Transferred to general reserve	-	-	-	-	-	2,000,000	(2,000,000)	-
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)
Issuance of right shares	556,347	834,521	-	-	-	-	-	1,390,868
Balance as at December 31, 2005 - Restated	4,265,327	1,308,194	-	(52,549)	3,999,295	3,800,000	4,990,260	18,310,527
Transferred to reserve for issuance of bonus shares	-	-	853,065	-	-	-	(853,065)	-
Issuance of bonus shares	853,065	-	(853,065)	-	-	-	-	-

Statement of Changes in Equity for the year ended December 31, 2006

	Share capital	Share premium	Capital Reserves Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	Revenue Reserves General reserve	Unappropriated profit	Total
	(Rupees '000)							
Changes in equity for 2006								
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	-	12,142,398	12,142,398
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	32,166	32,166
Exchange differences on translation of net investment in foreign branches	-	-	-	(1,088)	-	-	-	(1,088)
Net income recognised directly in equity	-	-	-	(1,088)	-	-	32,166	31,078
Total recognised income and expense for the year ended December 31, 2006	-	-	-	(1,088)	-	-	12,174,564	12,173,476
Transferred to statutory reserve	-	-	-	-	1,214,240	-	(1,214,240)	-
Final cash dividend - December 2005	-	-	-	-	-	-	(426,533)	(426,533)
Interim cash dividend - March 2006	-	-	-	-	-	-	(1,023,679)	(1,023,679)
Interim cash dividend - June 2006	-	-	-	-	-	-	(1,023,679)	(1,023,679)
Interim cash dividend - September 2006	-	-	-	-	-	-	(1,092,655)	(1,092,655)
Transferred to general reserve	-	-	-	-	-	6,000,000	(6,000,000)	-
Issuance of Global Depository Receipts (GDRs) - note 20.3	344,884	8,760,054	-	-	-	-	-	9,104,938
GDRs issuance expense - note 21.1	-	(365,720)	-	-	-	-	-	(365,720)
Balance as at December 31, 2006	5,463,276	9,702,528	-	(53,637)	5,213,535	9,800,000	5,530,973	35,656,675

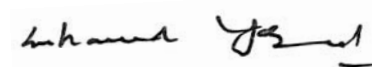
For details of dividend declaration and appropriations, refer note 45.4 to these financial statements.

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


Mohammad Aftab Manzoor
President and Chief Executive


Shahzad Saleem
Director


Aftab Ahmad Khan
Director


Dr. Muhammad Yaqub
Director

Notes to the Financial Statements for the year ended December 31, 2006

1. STATUS AND NATURE OF BUSINESS

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank is listed on all the stock exchanges in Pakistan.

During the year, the Bank was admitted to the Official List of the UK Listing Authority and London Stock Exchange Professional Securities Market for trading of Global Depositary Receipts (GDRs) issued by the Bank. These GDRs are also eligible for trading on the International Order Book (IOB) system of the London Stock Exchange. Trading in the GDRs on the London Stock Exchange had commenced on October 18, 2006. Refer note 20.3 for further detail.

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 988 branches including 6 Islamic banking branches (2005: 947 branches including 5 Islamic banking branches) within Pakistan and 6 (2005: 5) branches outside the country (including the Karachi Export Processing Zone branch).

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 thereon.

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 Annexure II to these financial statements.

For the purpose of translation to US Dollar, the rates of Rs. 60.910 and Rs. 59.714 per US Dollar have been used for December 31, 2006 and December 31, 2005 respectively.

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.

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.

During 2005, Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard - 1 issued by Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transactions undertaken by a bank, effective for financial periods beginning on or after January 01, 2006. The standard has not been adopted by stand-alone Islamic branches of conventional banks pending resolution of certain issues, e.g., invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Bank's Association has taken up the matter with the State Bank of Pakistan.

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

The following standards, amendments and interpretations of approved accounting standards effective for accounting period beginning on or after January 01, 2007 are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosures in certain cases:

IAS - 1 Presentation of Financial Statements - Amendments Relating to Capital Disclosures

IFRS - 2 Share Based Payments

IFRS - 3 Business Combinations

IFRS - 5 Non-Current Assets Held for Sale and Discontinued Operations

IFRS - 6 Exploration for and Evaluation of Mineral Resources

IFRIC - 8 Scope of IFRS 2 Share Based Payments

IFRIC - 9 Reassessment of embedded derivatives

IFRIC - 10 Interim Financial Reporting and Impairment

IFRIC - 11 Group and Treasury Share Transactions

IFRIC - 12 Services Concession Arrangements

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts and 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.

4.2 The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

4.3 Critical accounting estimates and judgments

The preparation of financial statements are in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

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

b) Provision against advances

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

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.4.3 and 10.4.4.

c) Impairment of available for sale equity investments

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

d) Taxation

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

e) Fair value of derivatives

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

f) Depreciation, amortisation and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in

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

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in these financial statements (note 37) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Bank classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

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

c) Available for sale

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

Investments are initially 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 the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard (IAS) 28, "Investment in Associates"), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities 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, Investment in Associates) are carried at cost less provision for diminution, if any.

Provision for diminution in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. 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. 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 a time proportion basis, as the case may be.

5.3 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions 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 ownership of an asset to the lessee are classified as financial leases. A receivable is recognised at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.4 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortised, 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 operating fixed assets 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 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

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

Surplus on revaluation of 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.

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

5.5 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 assets are amortised over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. 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.

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

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

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the projected unit credit method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service. The net cumulative actuarial gains / losses at each balance sheet date are recognised equally over a period of three years or the expected remaining average working lives of employees, whichever is lower.

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognised immediately and the remaining unrecognised past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested.

5.8 Employees' compensated absences

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. 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. 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 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. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

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

5.10 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 and appropriations

During the year, the Bank changed its accounting policy pertaining to the recognition of dividend (including bonus dividend) and other appropriations (except appropriations which are required by law) declared / approved subsequent to the balance sheet date. As per the new policy, dividend declared and other appropriations (other than appropriations required by law) approved subsequent to the balance sheet date are considered as non-adjusting events and are not recorded in the financial statements. Previously, such dividend declarations and appropriations were treated as adjusting events in the financial statements of the Bank and were recorded as appropriations in the financial statements. The new policy is in accordance with the requirements of International Accounting Standard (IAS) 10 dealing with "Events after the Balance Sheet Date" and also complies with the requirements set out in Circular number 06-2006 dated June 19, 2006 issued by the Institute of Chartered Accountants of Pakistan. The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment specified in International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change in accounting policy, the impact on these financial statements would have been as follows:

	December 31, 2006	December 31, 2005 (Rupees '000)	December 31, 2004
General reserve would have been higher by	-	3,500,000	-
Reserve for issue of bonus shares would have been higher by	819,491	853,065	337,180
Unappropriated profit would have been lower by	1,638,982	4,779,598	337,180
Other liabilities would have been higher by	819,491	426,533	-

The effect of change in accounting policy has been reflected in the statement of changes in equity and other liabilities. However, the change in accounting policy has not resulted in any change in the profit for the current and previous years.

5.12 Foreign currencies

5.12.1 Foreign currency transactions

Transactions in foreign currencies (other than the results of operations of foreign operations discussed in note 5.12.2) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupees 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 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 Bank's net investment in foreign branches, 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 the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of the countries where the branches operate.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognised as income when these are realised.
- 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 branches of the Bank operate.
- Premium on foreign currency options and commission income is recognised on a time proportion basis.
- Dividend income is recognised when the Bank's right to receive dividend is established.
- Profit / loss on sale of investments is credited / charged to profit and loss account currently.

5.14 Operating leases

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

5.15 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, deposits, sub-ordinated debts 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 their fair value using valuation techniques. All derivative financial instruments are carried as assets when the 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 currently.

5.16.3 Off setting

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

5.17 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognised as deduction from the share premium account.

5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.18.1 Business segment

Corporate Financing

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

Trading and Sales

It includes fixed income, equity, foreign exchanges commodities, lendings to financial institutions, repos and brokerage debt.

Retail and Consumer Banking

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

Commercial Banking

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

5.18.2 Geographical segments

The Bank operates in three geographic regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2006 (Rupees '000)	2005
In hand - local currency	6.1	6,654,824	4,943,189
- foreign currencies		733,261	544,809
In transit - local currency		559,178	575,694
With State Bank of Pakistan (SBP) in:	6.2		
Local currency current account		19,907,420	12,958,433
Local currency deposit account	6.3	-	460
Foreign currency deposit account		1,893,759	1,901,621
With other central banks in foreign currency current account	6.2	69,212	193,088
With National Bank of Pakistan in local currency current account		2,648,322	2,548,255
		<u>32,465,976</u>	<u>23,665,549</u>

6.1 This includes national prize bonds amounting to Rs. 54.164 million (2005: Rs. 47.799 million).

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

6.3 These include balance of Rs. 1,420.32 million (2005: Rs. 1,426.22 million) which carry interest rate of 4.35% per annum (2005: 3.29% per annum).

7. BALANCES WITH OTHER BANKS

	Note	2006 (Rupees '000)	2005
Outside Pakistan			
- current account	7.1	4,046,021	917,900
- deposit account		2,530,996	548,145
		<u>6,577,017</u>	<u>1,466,045</u>

7.1 Balances with other banks outside Pakistan in deposit account carry interest rates ranging from 5.31% to 6.11% per annum (2005: 4.5% to 4.7% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2006 (Rupees '000)	2005
In local currency			
Call money lendings	8.1	9,050,000	8,650,000
Repurchase agreement lendings	8.2	12,031,800	1,348,828
		<u>21,081,800</u>	<u>9,998,828</u>

8.1 These carry mark-up rates ranging from 10% to 12% per annum (2005: 7.35% to 9.75% per annum).

8.2 Securities held as collateral against lendings to financial institutions

	Held by bank	2006 Further given as collateral	Total	Held by bank	2005 Further given as collateral	Total
	(Rupees '000)					
Market Treasury Bills	5,396,800	-	5,396,800	848,828	-	848,828
Pakistan Investment Bonds	6,635,000	-	6,635,000	500,000	-	500,000
	<u>12,031,800</u>	<u>-</u>	<u>12,031,800</u>	<u>1,348,828</u>	<u>-</u>	<u>1,348,828</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2006 amounted to Rs. 12,456 million (2005: Rs. 1,393 million). These carry mark-up rates ranging from 8.3% to 9.6% per annum (2005: 8% to 8.65% per annum).

9. INVESTMENTS - NET

9.1 Investments by types

		2006			2005		
	Note/ Annexure	Held by bank	Given as collateral	Total (Rupees '000)	Held by bank	Given as collateral	Total
Held for trading securities							
- Shares in listed companies	9.5	-	-	-	66,056	-	66,056
Available-for-sale securities							
- Market Treasury Bills	9.6	25,574,416	11,298,388	36,872,804	19,605,074	4,824,186	24,429,260
- Pakistan Investment Bonds	9.6	1,352,350	-	1,352,350	2,039,818	-	2,039,818
- Shares in listed companies, mutual funds and modarabas	Annexure I (note 1)	5,929,422	-	5,929,422	5,034,777	-	5,034,777
- Shares in unlisted companies	9.7 & Annexure I (note 2)	537,012	-	537,012	443,369	-	443,369
- NIT units		5,253	-	5,253	83	-	83
- Listed Term Finance Certificates (TFCs)	Annexure I (note 3)	1,450,659	-	1,450,659	1,173,320	-	1,173,320
		34,849,112	11,298,388	46,147,500	28,296,441	4,824,186	33,120,627
Held-to-maturity securities							
- Market Treasury Bills	9.6	-	-	-	7,872,469	14,698,045	22,570,514
- Pakistan Investment Bonds	9.6	2,439,089	-	2,439,089	2,467,983	-	2,467,983
- Federal Government Securities	Annexure I (note 4)	825,719	-	825,719	992,861	-	992,861
- Provincial Government Securities		118	-	118	118	-	118
- Government Compensation Bonds	Annexure I (note 4)	870,771	-	870,771	870,771	-	870,771
- Sukuk Bonds	Annexure I (note 4)	1,573,478	-	1,573,478	759,767	-	759,767
- Euro Bonds	Annexure I (note 4)	3,019,135	-	3,019,135	2,971,758	-	2,971,758
- Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	2,387,836	-	2,387,836	1,876,119	-	1,876,119
- Certificates of Investment	Annexure I (note 5)	3,550,000	-	3,550,000	1,500,000	-	1,500,000
		14,666,146	-	14,666,146	19,311,846	14,698,045	34,009,891
Subsidiaries							
MNET Services (Private) Limited	Annexure I (note 6)	49,975	-	49,975	49,975	-	49,975
MCB Trade Services Limited		77	-	77	77	-	77
MCB Asset Management Company Limited		299,980	-	299,980	-	-	-
Muslim Commercial Financial Services (Private) Limited		7,500	-	7,500	7,500	-	7,500
		357,532	-	357,532	57,552	-	57,552
Associates							
Adamjee Insurance Company Limited	Annexure I (note 7)	943,600	-	943,600	943,600	-	943,600
First Women Bank Limited	9.8	63,300	-	63,300	63,300	-	63,300
		1,006,900	-	1,006,900	1,006,900	-	1,006,900
Investments at cost							
Less: Provision for diminution in the value of investments	9.3	(363,019)	-	(363,019)	(547,424)	-	(547,424)
Investments (net of provisions)							
Surplus / (deficit) on revaluation of available for sale securities - net	22.2	1,686,295	(15,038)	1,671,257	1,770,015	(3,764)	1,766,251
Surplus on revaluation of 'held for trading' securities - net	9.5	-	-	-	1,634	-	1,634
Investments at revalued amounts - net of provisions							
		52,202,966	11,283,350	63,486,316	49,963,020	19,518,467	69,481,487

	Note / Annexure	2006 (Rupees '000)	2005
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.6	36,872,804	46,999,774
- Pakistan Investment Bonds	9.6	3,791,439	4,507,801
- Federal Government Securities	Annexure I (note 4)	825,719	992,861
- Government Compensation Bonds	Annexure I (note 4)	870,771	870,771
- Euro Bonds	Annexure I (note 4)	3,019,135	2,971,758
- Sukuk Bonds	Annexure I (note 4)	1,573,478	759,767
Provincial Government Securities		118	118
Subsidiaries and Associated Undertakings	9.8 & Annexure I (note 6 & 7)	1,364,432	1,064,452
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	5,867,820	5,035,363
- Unlisted companies / funds	9.7 & Annexure I (note 2)	437,012	443,369
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	61,602	65,470
- Unlisted Companies	Annexure I (note 2)	100,000	-
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	Annexure I (note 3)	1,450,659	1,173,320
- Unlisted Term Finance Certificates	Annexure I (note 3)	1,946,344	1,271,631
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	441,492	604,488
- Certificates of Investment	Annexure I (note 5)	3,550,000	1,500,000
Other Investments:			
- NIT Units		5,253	83
Total investments at cost		62,178,078	68,261,026
Less: Provision for diminution in the value of investments	9.3	(363,019)	(547,424)
Investments (net of provisions)		61,815,059	67,713,602
Add: Surplus on revaluation of 'available for sale' securities - net	22.2	1,671,257	1,766,251
Surplus on revaluation of 'held for trading' securities - net	9.5	-	1,634
Investments at revalued amounts - net of provisions		63,486,316	69,481,487
9.3 Particulars of provision			
Opening balance		547,424	695,976
Charge / (reversal) during the year		121,197	(98,982)
Investment written off against provision		(305,602)	(49,570)
Closing balance		363,019	547,424
9.3.1 Particulars of provision in respect of Type and Segment			
Available-for-sale securities			
Listed shares / Certificates / Units		96,747	197,325
Unlisted shares		65,957	100,687
		162,704	298,012
Held-to-maturity securities			
TFCs, Debentures, Bonds and Participation Term Certificates		200,315	207,799
Associates		-	41,613
		363,019	547,424

9.4 Quality of Available for sale securities

	2006			2005		
	Market value/ carrying value for unlisted investments (Rupees '000)	Credit Rating Long Term	Short Term Rated by	Market value/ carrying value for unlisted investments (Rupees '000)	Credit Rating Long Term	Short Term Rated by
Market Treasury Bills	36,832,900	(Unrated - Government Securities)		24,406,446	(Unrated - Government Securities)	
Pakistan Investment Bonds	1,350,985	(Unrated - Government Securities)		2,056,445	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Askari Commercial Bank Limited	201,799	AA	(Unrated) PACRA	201,880	AA	(Unrated) PACRA
Azgard Nine Limited	99,960	A+	(Unrated) JCRVIS	100,000	A+	(Unrated) JCRVIS
Bank Al-Habib Limited	99,920	AA-	(Unrated) PACRA	99,960	AA-	(Unrated) PACRA
Bank Alfalah Limited	248,486	AA-	(Unrated) PACRA	248,581	AA-	(Unrated) PACRA
United Bank Limited	284,890	AA-	(Unrated) JCRVIS	-	-	-
Allied Bank Limited	117,020	A	(Unrated) JCRVIS	-	-	-
First Dawood Investment Bank Limited	34,374	AA-	(Unrated) PACRA	34,375	AA-	(Unrated) PACRA
Hira Textile Mills Limited	49,910	A	(Unrated) JCRVIS	49,930	A	(Unrated) JCRVIS
Jahangir Siddiqui & Company Limited	149,764	AA+	(Unrated) PACRA	199,800	AA+	(Unrated) PACRA
Pakistan Services Limited	8,870	A	(Unrated) JCRVIS	13,305	A-	(Unrated) JCRVIS
Reliance Weaving Mills Limited	-	-	-	14,100	A-	(Unrated) JCRVIS
Soneri Bank Limited	149,910	A+	(Unrated) PACRA	149,970	A+	(Unrated) PACRA
SPV Securetel Limited	-	-	-	1,367	-----	(Unrated)-----
Sui Southern Gas Company Limited	12,567	AA	(Unrated) PACRA	73,342	AA	(Unrated) PACRA
	1,457,470			1,186,610		
Shares in Listed Companies / Certificates / Units						
AKD Opportunity Fund	4,765	-----	(Unrated)-----	-	-	-
Al-Ghazi Tractors Limited	14,683	-----	(Unrated)-----	13,238	-----	(Unrated)-----
Allied Bank Limited	47,311	A+	A1+ JCRVIS	29,497	A+	A1+ JCRVIS
Al-Meezan Mutual Fund	14,090	5 Star	(Unrated) PACRA	20,790	-----	(Unrated)-----
Askari Commercial Bank Limited	136,487	AA+	A1+ PACRA	11,412	AA+	A1+ PACRA
Atlas Income Fund	64,179	4 Star	(Unrated) PACRA	57,718	-----	(Unrated)-----
Atlas Islamic Fund	10,000	-----	(Unrated)-----	-	-	-
Atlas Stock Market Fund	15,314	4 Star	(Unrated) PACRA	14,148	-----	(Unrated)-----
Azgard Nine Limited - preference shares	8,122	A	A1 PACRA	18,951	A	A1 PACRA
Baig Spinning Mills Limited	1,385	-----	(Unrated)-----	3,707	-----	(Unrated)-----
Bank Alfalah Limited	8,012	AA	A1+ PACRA	-	-	-
Bank Al-Habib Limited	32,191	AA	A1+ PACRA	17,357	AA	A1+ PACRA
The Bank of Punjab	70,656	AA	A1+ PACRA	33,296	AA	A1+ PACRA
Bawany Sugar Mills Limited	76	-----	(Unrated)-----	-	-	-
BOC Pakistan Limited	3,163	-----	(Unrated)-----	-	-	-
Brothers Textile Mills Limited	211	-----	(Unrated)-----	-	-	-
BSJS Balanced Fund Limited	6,170	4 Star	(Unrated) PACRA	7,536	AA(f)	(Unrated) PACRA
Century Papers Mills Limited	16,741	-----	(Unrated)-----	15,725	-----	(Unrated)-----
Colony Mills Limited	2	-----	(Unrated)-----	-	-	-
EFU General Insurance Company Limited	175,943	AA	(Unrated) JCRVIS	72,569	AA	(Unrated) JCRVIS
EFU Life Insurance Company Limited	3,894	-----	(Unrated)-----	-	-	-
Engro Chemical Pakistan Limited	76,565	AA	A1+ PACRA	92,024	AA-	A1+ PACRA
Escorts Investment Bank Limited	1,146	A	A1 JCRVIS	-	-	-
Fauji Fertilizer Company Limited	719,673	-----	(Unrated)-----	871,332	-----	(Unrated)-----
Fauji Fertilizer Bin Qasim Company Limited	2,856	-----	(Unrated)-----	-	-	-
Fauji Cement Company Limited	395	-----	(Unrated)-----	-	-	-
Faysal Bank Limited	7,295	AA	A1+ PACRA	-	-	-
First Al - Noor Modaraba	22,891	BBB	A3 JCRVIS	37,966	BBB	A3 JCRVIS
First Investec Modaraba	27	-----	(Unrated)-----	-	-	-
Glaxo Smith Pakistan Limited	19,860	-----	(Unrated)-----	18,747	-----	(Unrated)-----
Habib Metropolitan Bank Limited	5,227	AA+	A1+ PACRA	-	-	-
Honda Atlas Cars Limited	9,192	-----	(Unrated)-----	12,767	-----	(Unrated)-----
Hub Power Company Limited	735,869	-----	(Unrated)-----	642,468	-----	(Unrated)-----
IGI Insurance Limited	3,728	AA	(Unrated) PACRA	1,948	AA	(Unrated) PACRA
Balance carried forward	2,238,119			1,993,196		

	Market value/ carrying value for unlisted investments (Rupees '000)	2006 Credit Rating		Rated by	Market value/ carrying value for unlisted investments (Rupees '000)	2005 Credit Rating		Rated by
		Long Term	Short Term			Long Term	Short Term	
Balance brought forward	2,238,119				1,993,196			
Indus Motors Limited	55,575	-----	(Unrated)-----		43,852	-----	(Unrated)-----	
Khurshid Spinning Mills Limited	33	-----	(Unrated)-----		-	-	-	-
Kohinoor Energy Limited	1,382	-----	(Unrated)-----		1,532	-----	(Unrated)-----	
Kohinoor Industries Limited	604	-----	(Unrated)-----		-	-	-	-
Kot Addu Power Company Limited	127,163	-----	(Unrated)-----		143,046	-----	(Unrated)-----	
Lucky Cement Limited	2,199	-----	(Unrated)-----		-	-	-	-
Masood Textile Mills Limited - preference shares	50,000	-----	(Unrated)-----		50,000	-----	(Unrated)-----	
Meezan Balanced Fund	8,600	5 Star	(Unrated)	PACRA	9,750	-----	(Unrated)-----	
Meezan Islamic Fund	29,705	MFR 5 STAR	(Unrated)	JCRVIS	75,270	-----	(Unrated)-----	
Mehr Dastagir Textile Mills Limited	8,893	-----	(Unrated)-----		12,778	-----	(Unrated)-----	
Millat Tractors Limited	186,256	-----	(Unrated)-----		195,326	-----	(Unrated)-----	
Mirza Sugars Limited	77	-----	(Unrated)-----		-	-	-	-
Mohammad Farooq Textile Mills Limited	138	-----	(Unrated)-----		-	-	-	-
National Bank of Pakistan	161,066	AAA	A1+	JCRVIS	21,640	AAA	A1+	JCRVIS
Oil & Gas Development Corporation Limited	54,352	-----	(Unrated)-----		20,657	-----	(Unrated)-----	
Orix Leasing Limited	5,410	AA+	A1+	PACRA	6,447	AA+	A1+	PACRA
Pakistan Industrial Credit and Investment Corporation Limited	-	-	-	-	38,880	AA	A1+	PACRA
PICIC Investment Fund	1,192	-----	(Unrated)-----		-	-	-	-
Packages Limited	43,102	AA	A1+	PACRA	64,528	AA	A1+	PACRA
Pakistan Capital Market Fund	379	5 Star	(Unrated)	PACRA	-	-	-	-
Pakistan Oilfields Limited	323,924	-----	(Unrated)-----		218,648	-----	(Unrated)-----	
Pakistan Reinsurance Company Limited	12,870	-----	(Unrated)-----		-	-	-	-
Pakistan Petroleum Limited	76,908	-----	(Unrated)-----		4,205	-----	(Unrated)-----	
Pakistan Premier Fund	1,058	5 Star	(Unrated)	PACRA	-	-	-	-
Pakistan PTA Limited	216	-----	(Unrated)-----		-	-	-	-
Pakistan State Oil Company Limited	254,782	AAA	A1+	PACRA	229,276	AAA	A1+	PACRA
Pakistan Synthetics Limited	100	-----	(Unrated)-----		-	-	-	-
Pakistan Telecommunication Company Limited	137,983	-----	(Unrated)-----		107,430	-----	(Unrated)-----	
PICIC Commercial Bank Limited	905	A+	A1	JCRVIS	-	-	-	-
PICIC Growth Fund	12,371	MFR 4 STAR	(Unrated)	JCRVIS	3,088	-----	(Unrated)-----	
Prime Commercial Bank Limited	1,725	A+	A1	PACRA	-	-	-	-
Redco Textiles Limited	350	-----	(Unrated)-----		1,250	-----	(Unrated)-----	
Rupali Polyester Limited	22,423	-----	(Unrated)-----		29,404	-----	(Unrated)-----	
Sakrand Sugar Limited	187	-----	(Unrated)-----		-	-	-	-
Saudi Pak Commercial Bank Limited	217	A-	A-2	JCRVIS	-	-	-	-
Standard Chartered Modaraba	3,599	AA+	A1+	PACRA	4,649	AA+	A1+	PACRA
* Sui Northern Gas Pipelines Limited	3,126,238	AA-	A1+	PACRA	3,015,925	AA-	A1+	PACRA
Taj Textile Mills Limited	1	-----	(Unrated)-----		-	-	-	-
Thal Limited	49,350	-----	(Unrated)-----		47,738	-----	(Unrated)-----	
Tripack Films Limited	404	A+	A1	PACRA	-	-	-	-
* Trust Security & Brokerage Limited	1,680	-----	(Unrated)-----		2,430	-----	(Unrated)-----	
Unilever Pakistan Limited	45,600	-----	(Unrated)-----		40,470	-----	(Unrated)-----	
Unit Trust of Pakistan	73,724	5 Star	(Unrated)	PACRA	89,424	AA(f)	(Unrated)	PACRA
United Bank Limited	389,875	AA	A1+	JCRVIS	94,703	AA	A1+	JCRVIS
UTP Growth Fund	1,843	-----	(Unrated)-----		-	-	-	-
UTP Large Capital Fund (ABAMCO Composite Fund)	26,000	-----	(Unrated)-----		31,038	-----	(Unrated)-----	
WorldCall Telecom Limited	30	A+	A1	PACRA	-	-	-	-
Yousuf Weaving Mills Limited	75	-----	(Unrated)-----		-	-	-	-
	7,538,683				6,596,580			

	2006			2005				
	Market value/ carrying value for unlisted investments (Rupees '000)	Credit Rating Long Term	Short Term	Rated by	Market value/ carrying value for unlisted investments (Rupees '000)	Credit Rating Long Term	Short Term	Rated by
Shares in Un-listed Companies								
* Khushhali Bank Limited	300,000	A-	A-1	JCRVIS	300,000	-----	(Unrated)-----	
* Equity Participation Fund	1,500	-----	(Unrated)-----		1,500	-----	(Unrated)-----	
* Investment Corporation of Pakistan	22,824	AA	A1+	PACRA	-	-	-	-
* National Investment Trust Limited	100	-----	(Unrated)-----		100	-----	(Unrated)-----	
* Pakistan Agricultural Storage and Services Corporation	2,500	-----	(Unrated)-----		2,500	-----	(Unrated)-----	
* SME Bank Limited (Formerly Small Business Finance Corporation)	10,106	BBB	A2	JCRVIS	10,106	BBB	A-2	JCRVIS
First Capital Investment (Private) Limited	2,500	AM4+	(Unrated)	PACRA	-	-	-	-
Musarrat Textile Mills Limited (de-listed)	-	-	-	-	804	-----	(Unrated)-----	
Pak Asian Fund	11,500	-----	(Unrated)-----		11,500	-----	(Unrated)-----	
Ayaz Textiles Mills Limited	-	-	-	-	113	-----	(Unrated)-----	
* JS ABAMCO Limited	-	-	-	-	9,121	-----	(Unrated)-----	
* Arabian Sea Country Club	4,920	-----	(Unrated)-----		-	-	-	-
* Central Depository Company Limited	10,000	-----	(Unrated)-----		4,810	-----	(Unrated)-----	
* National Institutional Facilitation Technologies (Private) Limited	1,527	-----	(Unrated)-----		1,527	-----	(Unrated)-----	
Society for Worldwide Inter Fund Transfer (SWIFT)	2,993	-----	(Unrated)-----		-	-	-	-
Fazal Cloth Mills Limited - Preference Share	100,000	-----	(Unrated)-----		-	-	-	-
Lanka Clearing (Private) Limited	567	-----	(Unrated)-----		585	-----	(Unrated)-----	
Credit Information Bureau of Sri Lanka	17	-----	(Unrated)-----		18	-----	(Unrated)-----	
	471,054				342,684			
Other Investment								
N.I.T. Units	4,960	4 Star	(Unrated)	PACRA	103	AA	(Unrated)	PACRA
	47,656,052				34,588,868			

* These are the strategic investments of the Bank.

9.5 Unrealised gain on revaluation of investments classified as held for trading - net

Investee Company	Unrealised gain as on December 31,		Cost as at December 31,	
	2006	2005	2006	2005
	----- (Rupees '000) -----			
National Bank of Pakistan	-	96	-	19,849
Pakistan Oilfield Limited	-	47	-	4,233
Lucky Cement Limited	-	671	-	10,320
Maple Leaf Cement Limited	-	60	-	2,921
United Bank Limited	-	47	-	3,290
Engro Chemical Pakistan Limited	-	(10)	-	4,164
Pakistan State Oil Limited	-	(78)	-	8,414
Union Bank Limited	-	88	-	2,184
Bank Alfalah Limited	-	817	-	8,402
Pakistan Reinsurance Company Limited	-	(104)	-	2,279
	-	1,634	-	66,056

9.6 'Available for sale' Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan (SBP). The market value of Pakistan Investment Bonds classified as 'held to maturity' as at December 31, 2006 amounted to Rs. 1,978.22 million (2005: Market Treasury Bills Rs. 22,552.82 million and Pakistan Investment Bonds Rs. 2,042.62 million).

9.7 This includes the Bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs. 300 million (2005: 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 Limited, shall not be used to pay any dividend to the members, and shall be utilized to promote the objectives of Khushhali Bank Limited. Currently proposal for relevant amendments in the Khushhali Bank Ordinance, 2000 is under the consideration of the Government of Pakistan.

- 9.8** Investment of the Bank in Adamjee Insurance Company Limited is carried at cost amounting to Rs. 943.600 million (2005: Rs. 943.600 million) as at December 31, 2006 in accordance with the treatment specified in International Accounting Standard (IAS) 28 "Accounting for Investments in Associates". The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2006 amounted to Rs. 4,481.877 million (2005: Rs. 3,296.847 million).
- 9.9** At December 31, 2006 market value of quoted investments was Rs. 53,852.405 million (2005: Rs. 62,426.106 million) while the book value of unquoted investments was Rs. 12,711.323 million (2005: Rs. 8,968.826 million).
- 9.10** Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2005: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan Limited against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2005: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account. Further Euro Bonds issued by Government of Pakistan amounting to US Dollar 29 million (2005: US Dollar 29 million) / Rs. 1,766.39 million (2005: Rs. 1,731.71 million) (carrying value) are earmarked by Mashreq Bank PSC against the Bank's borrowings.
- 9.11** Certain approved / Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

10. ADVANCES - NET

	Note	2006	2005
		(Rupees '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		189,472,034	174,625,232
Outside Pakistan		5,172,803	3,755,036
		<u>194,644,837</u>	<u>178,380,268</u>
Net investment in finance lease	10.2		
In Pakistan		6,082,806	3,897,184
Outside Pakistan		85,865	93,330
		<u>6,168,671</u>	<u>3,990,514</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,761,803	2,386,952
Payable outside Pakistan		4,272,188	3,381,943
		<u>6,033,991</u>	<u>5,768,895</u>
Advances - gross		<u>206,847,499</u>	<u>188,139,677</u>
Provision against advances	10.4		
Specific provision		(5,953,234)	(5,534,376)
General provision	10.4.3	(2,277,467)	(2,098,053)
General provision against consumer loans	10.4.4	(373,823)	(180,554)
General provision for potential lease losses (in Sri Lanka operations)		(3,820)	(3,941)
		<u>(8,608,344)</u>	<u>(7,816,924)</u>
Advances - net of provision		<u><u>198,239,155</u></u>	<u><u>180,322,753</u></u>
10.1 Particulars of advances (Gross)			
10.1.1 In local currency		193,486,349	177,647,743
In foreign currencies		13,361,150	10,491,934
		<u>206,847,499</u>	<u>188,139,677</u>
10.1.2 Short-term		144,595,484	135,405,747
Long-term		62,252,015	52,733,930
		<u>206,847,499</u>	<u>188,139,677</u>

10.2 Net investment in finance lease

	2006				2005			
	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	2,207,825	3,872,902	55,599	6,136,326	1,120,527	2,793,440	19,852	3,933,819
Guaranteed residual value	874,230	389,307	5,014	1,268,551	56,664	733,127	15,135	804,926
Minimum lease payments	3,082,055	4,262,209	60,613	7,404,877	1,177,191	3,526,567	34,987	4,738,745
Finance charge for future periods	(380,207)	(840,305)	(15,694)	(1,236,206)	(274,238)	(471,975)	(2,018)	(748,231)
Present value of minimum lease payments	2,701,848	3,421,904	44,919	6,168,671	902,953	3,054,592	32,969	3,990,514

10.3 Advances include Rs. 8,570.813 million (2005: Rs. 8,395.989 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2006								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees '000)								
Other Assets Especially Mentioned (OAEM)	10.3.1	87,699	-	87,699	-	-	-	-	-	-
Substandard		487,306	6,927	494,233	108,247	1,731	109,978	108,247	1,731	109,978
Doubtful		475,072	-	475,072	231,032	-	231,032	231,032	-	231,032
Loss		4,837,290	2,676,519	7,513,809	4,665,896	946,328	5,612,224	4,665,896	946,328	5,612,224
		5,887,367	2,683,446	8,570,813	5,005,175	948,059	5,953,234	5,005,175	948,059	5,953,234
Category of Classification	Note	2005								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees '000)								
Other Assets Especially Mentioned (OAEM)	10.3.1	52,005	-	52,005	-	-	-	-	-	-
Substandard		318,976	-	318,976	76,968	-	76,968	76,968	-	76,968
Doubtful		276,214	-	276,214	124,660	-	124,660	124,660	-	124,660
Loss		5,070,235	2,678,559	7,748,794	4,384,380	948,368	5,332,748	4,384,380	948,368	5,332,748
		5,717,430	2,678,559	8,395,989	4,586,008	948,368	5,534,376	4,586,008	948,368	5,534,376

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 State Bank of Pakistan.

10.4 Particulars of provision against advances

	Note	2006				
		Specific	General	General provision against consumer loans	Leasing (general)	Total
		(Rupees '000)				
Opening balance		5,534,376	2,098,053	180,554	3,941	7,816,924
Exchange adjustments		17,278	-	-	(121)	17,157
Provision made during the year	10.4.2	641,857	179,414	193,269	-	1,014,540
Transfer		-	-	-	-	-
Amounts written off	10.5.1	641,857	179,414	193,269	-	1,014,540
		(240,277)	-	-	-	(240,277)
Closing balance		5,953,234	2,277,467	373,823	3,820	8,608,344

	Note	Specific	General	2005		Total
				General provision against consumer loans (Rupees '000)	Leasing (general)	
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	10.4.2	1,878	1,166,122	74,153	-	1,242,153
Transfer		(104,476)	104,476	-	-	-
Amounts written off	10.5.1	(102,598)	1,270,598	74,153	-	1,242,153
		(121,950)	-	-	-	(121,950)
Closing balance		5,534,376	2,098,053	180,554	3,941	7,816,924

10.4.1 Particulars of provisions against advances

	Specific	2006		Specific	2005	
		General (total)	Total		General (total)	Total
						(Rupees '000)
In local currency	5,033,470	2,651,290	7,684,760	4,633,891	2,278,607	6,912,498
In foreign currencies	919,764	3,820	923,584	900,485	3,941	904,426
	5,953,234	2,655,110	8,608,344	5,534,376	2,282,548	7,816,924

	Note	2006	2005
		(Rupees '000)	(Rupees '000)
10.4.2 The following amounts have been charged to the profit and loss account:			
Specific provision		641,857	1,878
General provision	10.4.3	179,414	1,166,122
General provision against consumer loans	10.4.4	193,269	74,153
		1,014,540	1,242,153

10.4.3 General provision against advances represents provision maintained at around 1% of gross advances.

10.4.4 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.

10.5 Particulars of write offs:	Note	2006	2005
		(Rupees '000)	(Rupees '000)
10.5.1 Against provisions	10.4	240,277	121,950
Directly charged to the profit and loss account		47,000	1,184
		287,277	123,134
10.5.2 Write offs of Rs. 500,000 and above	10.5.3	282,613	122,656
Write offs of below Rs. 500,000		4,664	478
		287,277	123,134

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, 2006 is given at Annexure - III. However, this write off does not affect the Bank's right to recover the debts from these customers.

10.6 Particulars of advances to directors, associated companies, etc.

	Note	2006 (Rupees '000)	2005
Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		3,083,682	3,192,771
Loans granted during the year		659,589	1,698,064
Repayments		(593,721)	(1,807,153)
Balance at end of the year		3,149,550	3,083,682
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		1,297,320	-
Loans granted during the year		2,065,270	1,377,007
Repayments		(1,120,079)	(79,687)
Balance at end of the year		2,242,511	1,297,320
		5,392,061	4,381,002

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	951,525	570,259
Property and equipment	11.2	7,730,633	7,363,157
Intangible asset	11.3	371,998	249,038
		9,054,156	8,182,454

11.1 Capital work-in-progress

Civil works	418,328	281,546
Equipment	133,757	78,396
Advances against purchase of property	102,727	-
Advances to suppliers and Contractors	182,747	157,380
Others	113,966	52,937
	951,525	570,259

11.2 Property and equipment

Description	2006											Annual rate of depreciation/ estimated useful life
	Cost/ Revalued amount					Accumulated depreciation					Net book Value at December 31, 2006	
	At January 01, 2006	Additions/ (disposals)	Write-off	Adjustment /transfer out	At December 31, 2006	At January 01, 2006	Charge for the year/ (depreciation on disposals)	Write-off	Adjustment /transfer out	At December 31, 2006		
	(Rupees '000)											
Land - Freehold	3,858,796	110,316	-	** (70,454) (2,230)	3,896,428	-	-	-	-	-	3,896,428	-
Land - Leasehold	57,430	-	-	-	57,430	-	-	-	-	-	57,430	-
Buildings on freehold land	2,137,700	305,386 (40,269)	(49,779)	** (88,363) (3,925)	2,260,750	80,420	59,013 (2,013)	-	(411) (196)	136,813	2,123,937	50 years
Buildings on leasehold land	56,521	1,015	-	-	57,536	16,518	1,477	-	-	17,995	39,541	10 to 50 years
Furniture and fixtures	1,087,369	59,367 (29,397)	(47,925)	*(519,849)	549,565	823,170	28,922 (24,310)	(37,374)	*(519,849)	270,559	279,006	10% to 33%
Computers and office equipments	2,535,880	517,559	-	-	3,053,439	1,662,161	376,342	-	-	2,038,503	1,014,936	20% to 33%
Vehicles	513,773	211,636 (117,980)	(122)	*(20,931)	586,376	302,043	89,538 (103,629)	-	*(20,931)	267,021	319,355	20%
	10,247,469	1,205,279 (187,646)	(97,826)	(699,597) (6,155)	10,461,524	2,884,312	555,292 (129,952)	(37,374)	(541,191) (196)	2,730,891	7,730,633	

* In the previous year, the management had initiated a detailed exercise to centralise the fixed assets records of the Bank. Based on this exercise fully depreciated fixed assets (which are not in the Bank's use), have been adjusted. There is no net effect in the profit and loss account. The exercise will be expected to complete in year 2007.

** This includes reversal of revaluation surplus of Rs. 152.709 million (2005: Rs. 39.045 million) to write down the related assets to their expected realisable value. There is no net effect in the profit and loss account.

Description	2005										Net book value at December 31, 2005	Annual rate of depreciation
	Cost/ Revalued amount				Accumulated depreciation							
	At January 01, 2005	Additions/ (disposals)	Adjustment	transfer out	At December 31, 2005	At January 01, 2005	Charge for the year/ (depreciation on disposals)	Adjustment	At December 31, 2005			
	(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		

In the current year (2006), buildings have been split between building on freehold land and leasehold land. Further, furniture, office equipment and computer have been split between furniture & fixtures and computer and office equipments. However, the figures for 2005 cannot be so split due to impracticability.

- 11.2.1** The domestic properties (land and buildings) 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 (total revalued amount being Rs. 6,059.233 million - refer Annexure V for the details of locations, etc.). The details of revalued amounts (net of depreciation and disposals subsequent to the above valuation date) are as follows:

(Rupees '000)

Total revalued amount of land	3,730,669
Total revalued amount of buildings	1,847,828

Had the land and buildings not been revalued, the total carrying amounts as at December 31, 2006 would have been as follows:

(Rupees '000)

Land	578,509
Buildings	1,309,550

- 11.2.2** International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" requires the review of the residual value of assets, useful lives and depreciation method at each financial year-end. Accordingly, the management has revised the depreciation rates used to allocate the depreciable amount of buildings from the previous rates ranging between 2.5% to 5%, to the remaining expected useful lives of the buildings. The management believes that the above charge reflects a more appropriate allocation of the depreciable amounts of buildings over their estimated useful lives. The above change in accounting estimate has been recognised in the current year in accordance with the requirements of International Accounting Standard (IAS) 8 "Accounting Policies, Change in accounting Estimates and Errors". Had there been no such change, the profit before taxation for the year would have been lower by Rs. 34.281 million and the carrying value of operating fixed assets would have been lower by the same amount.

- 11.2.3** The gross carrying amount of fully depreciated assets that are still in use are as follows:

(Rupees '000)

Furniture and fixtures	9,113
Computer and office equipment	786,388
Vehicles	115,789

- 11.2.4** The carrying amount of properties held for disposal are as follows:

(Rupees '000)

Property at Empress Market, Karachi	36
Property at MCHS Military Road, Sukkur	5,979
Property at New Garden Town, Lahore	4,007
Property at Peshawar Cantt, Peshawar	20,461
Property at Quetta Cantt, Quetta	6,622

11.2.5 Details of disposal of operating fixed assets

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

11.3 Intangible asset

2006								
Description	Cost			Accumulated amortisation			Net book Value at December 31, 2006	Annual rate of amortisation %
	At January 01, 2006	Additions	At December 31, 2006	At January 01, 2006	Amortisation for the year	At December 31, 2006		
	(Rupees '000)							
Computer software (note 11.3.1)	309,151	244,245	553,396	60,113	121,285	181,398	371,998	33.33
	309,151	244,245	553,396	60,113	121,285	181,398	371,998	

2005								
Description	Cost			Accumulated amortisation			Net book Value at December 31, 2005	Annual rate of amortisation %
	At January 01, 2005	Additions	At December 31, 2005	At January 01, 2005	Amortisation for the year	At December 31, 2005		
	(Rupees '000)							
Computer software (note 11.3.1)	-	309,151	309,151	-	60,113	60,113	249,038	33.33
	-	309,151	309,151	-	60,113	60,113	249,038	

11.3.1 This includes Bank's operating software with carrying value of Rs. 174.898 million (2005: Rs. 249.038 million).

12. DEFERRED TAX ASSETS - net

12.1 The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	22.1	(188,398)	(238,881)
Accelerated tax depreciation		(256,429)	(212,730)
		(444,827)	(451,611)
Deductible temporary differences on:			
Surplus on revaluation of securities	22.2	14,343	3,620
Provision for contributory benevolent scheme		92,589	107,526
Provision for employee's compensated absences		5,060	77,315
Provision for post retirement medical benefits		505,208	455,117
		617,200	643,578
		172,373	191,967

13. OTHER ASSETS - NET

	Note	2006 (Rupees '000)	2005
Income / mark-up accrued on advances and investments - local currency	13.4	4,017,257	2,482,433
Income / mark-up accrued on advances and investments - foreign currencies		221,999	166,523
Other advances, deposits, advance rent and prepayments		767,249	158,397
Compensation for delayed income tax refunds		44,802	62,048
Branch Adjustment Account		238,096	-
Unrealised gain on derivative financial instruments	13.3	75,403	147,207
Non-banking assets acquired in satisfaction of claims	13.1	492,431	122,610
Stationery and stamps on hand		52,610	42,700
Prepaid exchange risk fee		139	235
Receivable from the pension fund	37.3	4,881,483	1,973,998
Others		755,671	819,825
		<u>11,547,140</u>	<u>5,975,976</u>
Less: Provision held against other assets	13.2	<u>515,690</u>	<u>504,279</u>
		<u>11,031,450</u>	<u>5,471,697</u>

13.1 The market value of non-banking assets of Rs. 363.862 million (after provision) as per the valuation report dated December 31, 2006 amounted to Rs. 386.835 million (2005: Based on valuation as of December 15, 2004 Rs. 131.76 million).

13.2 Provision against other assets

	2006 (Rupees '000)	2005
Opening balance	504,279	577,019
Charge for the year	15,410	27,529
Reversal during the year	(3,999)	(100,269)
	<u>11,411</u>	<u>(72,740)</u>
Closing balance	<u>515,690</u>	<u>504,279</u>

Contract / Notional amount	Unrealised gain
2006	2005
2005	2006
(Rupees '000)	(Rupees '000)

13.3 Derivative financial instruments

Unrealised gain on:				
Interest rate swaps	1,772,750	1,583,759	24,794	18,044
Forward exchange contracts	49,214,776	16,269,722	50,609	129,163
	<u>50,987,526</u>	<u>17,853,481</u>	<u>75,403</u>	<u>147,207</u>

13.4 This includes mark-up receivable from the pension fund and provident fund amounting to Rs. 55.695 million and Rs. 11.580 million respectively.

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2006 and December 31, 2005.

15. BILLS PAYABLE

	2006 (Rupees '000)	2005
In Pakistan	7,075,421	8,510,322
Outside Pakistan	14,258	26,352
	<u>7,089,679</u>	<u>8,536,674</u>

16. BORROWINGS

In Pakistan	20,304,629	24,693,569
Outside Pakistan	3,638,847	2,683,933
	<u>23,943,476</u>	<u>27,377,502</u>

	Note	2006 (Rupees '000)	2005
16.1 Particulars of borrowings with respect to currencies			
In local currency		20,304,629	24,693,569
In foreign currencies		3,638,847	2,683,933
		<u>23,943,476</u>	<u>27,377,502</u>
16.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	16.3 & 16.5	6,727,670	4,980,519
Locally manufactured machinery		-	-
Long term financing - export oriented products scheme	16.4 & 16.5	2,313,030	-
		<u>9,040,700</u>	<u>4,980,519</u>
Borrowings from other financial institutions	16.6	2,932,817	1,970,562
Repurchase agreement borrowings	16.7	11,263,929	19,473,049
		<u>23,237,446</u>	<u>26,424,130</u>
Unsecured			
Overdrawn nostro accounts		617,027	494,007
Call borrowings		89,003	459,365
		<u>706,030</u>	<u>953,372</u>
		<u>23,943,476</u>	<u>27,377,502</u>
16.3	The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
16.4	The amount is due to SBP and have been obtained for providing long term finance to customers for export oriented products. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
16.5	Borrowings from SBP under the export refinance schemes are secured against the Bank's cash and security balances held by the SBP.		
16.6	This represents short term loans by an overseas branch of the Bank and carry mark-up rates ranging between 5.5% to 6% per annum (2005: 2.6% to 4.6% per annum), maturing during 2007. These are secured against Euro bonds of Rs. 1,766.39 million (2005: Rs. 1,731.71 million).		
16.7	These carry mark-up rates ranging between 8.0% to 9.4% per annum (2005: 6.25% to 8.65% per annum) and are secured against Government securities of carrying value of Rs. 11,298.39 million (2005: Rs. 19,522.23 million). These are repayable by March, 2007.		
17. DEPOSITS AND OTHER ACCOUNTS		2006	2005
		(Rupees '000)	
Customers			
Fixed deposits		33,297,203	13,296,121
Savings deposits		136,872,384	137,067,311
Current accounts - non remunerative		81,658,304	74,327,754
Margin accounts		2,447,944	2,568,306
Others		4,336	41,396
		<u>254,280,171</u>	<u>227,300,888</u>
Financial institutions			
Remunerative deposits		249,506	183,338
Non-remunerative deposits		2,932,161	1,857,664
		<u>3,181,667</u>	<u>2,041,002</u>
		<u>257,461,838</u>	<u>229,341,890</u>

	2006	2005
	(Rupees '000)	
17.1 Particulars of deposits		
In local currency	243,494,049	217,013,798
In foreign currencies	13,967,789	12,328,092
	<u>257,461,838</u>	<u>229,341,890</u>

17.2 Deposits include deposits from related parties amounting to Rs.1,135.514 million (2005: Rs. 1,067.132 million).

18. SUB-ORDINATED LOAN -UNSECURED (Non - participatory)

	Mark-up payable	Mark-up payment period	Mark-up not yet due (Rupees in million)	2006 (Rupees '000)	2005
Listed Term Finance Certificates	Semi-annually	2003-2008	177.579	<u>1,597,440</u>	<u>1,598,080</u>

The above liability is subordinated as to the 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 State Bank of Pakistan. 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 redemptions will commence from the 54th month of the issue in the following manner:

Month	Redemption (Rupees '000)
February, 2007	638,976
August, 2007	479,232
February, 2008	479,232
	<u>1,597,440</u>

19. OTHER LIABILITIES

	Note	2006	2005 Restated (Rupees '000)
Mark-up / return / interest payable in local currency		1,887,635	1,413,518
Mark-up / return / interest payable in foreign currencies		122,854	78,853
Accrued expenses		591,403	647,543
Unclaimed dividend		510,275	66,239
Staff welfare fund		87,054	101,024
Unrealised loss on derivative financial instruments	19.1	31,137	101,996
Provision for employees' compensated absences	37.3	1,023,683	856,213
Provision for post retirement medical benefits	37.3	1,443,450	1,300,336
Provision for employees' contributory benevolent scheme	37.3	264,542	307,216
Security deposits received in respect of finance lease		1,273,642	789,173
Taxation (provision less payments)		2,367,574	932,747
Retention money		24,774	30,185
Insurance payable against consumer assets		368,511	284,840
Branch adjustment account		-	63,283
Others		1,174,962	1,219,172
		<u>11,171,496</u>	<u>8,192,338</u>
		<u>Contract / Notional amount</u>	<u>Unrealised loss</u>
		<u>2006</u>	<u>2005</u>
		<u>(Rupees '000)</u>	<u>(Rupees '000)</u>

19.1 Derivative financial instruments

Unrealised loss on:				
Interest rate swaps	1,450,735	1,228,319	26,777	10,222
Forward exchange contracts	42,495,024	13,243,226	4,360	91,774
	<u>43,945,759</u>	<u>14,471,545</u>	<u>31,137</u>	<u>101,996</u>

20. SHARE CAPITAL

20.1 Authorised Capital

2006 (Number of shares)	2005		2006 (Rupees '000)	2005
<u>650,000,000</u>	<u>650,000,000</u>	Ordinary shares of Rs 10 each	<u>6,500,000</u>	<u>6,500,000</u>

20.2 Issued, subscribed and paid-up capital

2006			2005					
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total			
(Number of shares)								
162,765,395	263,767,347	426,532,742	107,130,690	230,049,344	337,180,034	Opening balance	4,265,327	3,371,800
*34,488,400	85,306,548	119,794,948	55,634,705	33,718,003	89,352,708	Shares issued during the year	1,197,949	893,527
<u>197,253,795</u>	<u>349,073,895</u>	<u>546,327,690</u>	<u>162,765,395</u>	<u>263,767,347</u>	<u>426,532,742</u>	Closing balance	<u>5,463,276</u>	<u>4,265,327</u>

* Represents the shares equivalent Global Depository Receipts issued during the year, as discussed in note 20.3.

20.3 During the year, the Bank was admitted to the Official List of the UK Listing Authority and to the London Stock Exchange Professional Securities Market for trading of Global Depository Receipts (GDRs) issued by the Bank. The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S Securities Act of 1933 and an offering outside the United States in reliance on Regulation S. The Bank has issued 8,622,100 GDRs each representing four ordinary equity shares at an offer price of US\$ 17.3970 per GDR (total receipt being US\$ 149.999 million). Accordingly, based on an exchange rate of Rs. 60.70 = US\$ 1.00 (which was the exchange rate on the date of the final offering circular relating to the GDR issue made by the Bank), 34,488,400 ordinary equity shares of nominal value of Rs. 10 each of the Bank were issued at a premium of Rs. 254 per ordinary equity share (total premium amount being Rs. 8,760.054 million).

The net proceeds from the issue of the GDRs are being utilized for general corporate purposes. Holders of GDRs are entitled, subject to the provisions of the Deposit Agreement, to receive dividend, if any and rank pari passu with other equity shareholders in respect of dividend. However, the holder of GDR have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Subject to the terms and restrictions set out in the offering circular dated October 11, 2006, the deposited equity shares in respect of which the GDRs were issued may be withdrawn from the depository facility. Upon withdrawal, the holders will rank pari passu with other equity shareholders in respect of dividend, voting and other direct rights of shareholders. As at December 31, 2006, 4.900 million of the deposited equity shares had been withdrawn from the depository facility.

20.4 Number of shares held by the related parties as at December 31, are as follows:

	2006 (Number of shares)	2005
Siddiqsons Denim Mills Limited	24,934,855	21,604,630
Din Leather (Private) Limited	3,404,680	2,837,234
Adamjee Insurance Company Limited	10,944,360	4,043,200
MCB Bank Limited Pension Fund	44,290,310	37,471,092
MCB Bank Limited Provident Fund (Pakistan staff)	23,132,431	19,277,026
	<u>106,706,636</u>	<u>85,233,182</u>

Note 2006 2005
 (Rupees '000) Restated

21. RESERVES

Share premium	21.1	9,702,528	1,308,194
Exchange translation reserve		(53,637)	(52,549)
Statutory reserve	21.2	5,213,535	3,999,295
General reserve		9,800,000	3,800,000
		<u>24,662,426</u>	<u>9,054,940</u>

21.1 This includes premium of Rs. 254 per share received on the issuance of 8,622,100 GDRs equivalent to 34,488,400 shares of the Bank (refer note 20.3), net of issuance expenses of Rs. 365.720 million.

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

**22. SURPLUS ON REVALUATION OF ASSETS
- NET OF TAX**

	Note	2006 (Rupees '000)	2005
Surplus arising on revaluation (net of tax) of:			
- fixed assets	22.1	3,502,039	3,653,898
- available-for-sale securities	22.2	1,685,600	1,769,871
		<u>5,187,639</u>	<u>5,423,769</u>
22.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 01		3,892,779	4,039,160
Reversal of revaluation surplus during the year		(152,709)	(39,045)
Surplus realised on disposal of revalued properties			
- net of deferred tax		(23,000)	(64,564)
Related deferred tax liability		(12,532)	(11,829)
		(35,532)	(76,393)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax			
Related deferred tax liability		(9,166)	(19,185)
		(4,935)	(11,758)
		(14,101)	(30,943)
Surplus on revaluation of fixed assets as at December 31		<u>3,690,437</u>	<u>3,892,779</u>
Less: Related deferred tax liability on:			
Revaluation as at January 01		238,881	261,088
Reversal of deferred tax liability		(33,016)	1,380
Disposal of revalued properties during the year transferred to profit and loss account		(12,532)	(11,829)
Incremental depreciation charged during the year transferred to profit and loss account		(4,935)	(11,758)
		188,398	238,881
		<u>3,502,039</u>	<u>3,653,898</u>
22.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax			
Federal Government Securities			
- Market Treasury Bills		(39,904)	(22,814)
- Pakistan Investment Bonds		(1,365)	16,627
Listed Securities			
- Shares / Certificates / Units		1,705,715	1,759,105
- Term Finance Certificates		6,811	13,333
		1,712,526	1,772,438
		1,671,257	1,766,251
Add: Related deferred tax asset		14,343	3,620
		<u>1,685,600</u>	<u>1,769,871</u>

As per the Income Tax Ordinance 2001, gain on sale of listed shares, etc. is exempt from taxation up to the tax year ending on June 30, 2007 (accounting year ended December 31, 2006). However, the Government of Pakistan has announced the deferment of taxation beyond the above indicated tax / accounting year. Accordingly, no provision for deferred taxation amounting to Rs. 599.384 million on the revaluation surplus on listed securities has been recognised in these financial statements.

23. CONTINGENCIES AND COMMITMENTS**23.1 Transaction-related contingent liabilities**

	2006 (Rupees '000)	2005
Guarantees in favour of:		
Government	3,810,101	3,864,070
Banks and financial institutions	13,441	37,673
Others	2,570,648	1,901,102
Suppliers' credit / payee guarantee	1,605,942	1,428,642
	<u>8,000,132</u>	<u>7,231,487</u>

23.2 Trade-related contingent liabilities

	42,035,977	39,189,177
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23.3 Other contingencies

Claims against the Bank not acknowledged as debts	197,848	492,420
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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.

	Note	2006 (Rupees '000)	2005
23.5 Commitments in respect of forward foreign exchange contracts			
Purchase		41,288,941	13,243,226
Sale		50,420,861	16,263,722
		<u>91,709,802</u>	<u>29,506,948</u>
23.6 Commitments in respect of forward lending			
Forward lending		1,853,461	-
23.7 Commitments for the acquisition of fixed assets		1,366,761	587,242
23.8 Other commitments			
Cross currency swaps (notional amount)	24.1 & 24.2	95,000	-
Fx Options (notional amount)	24.1		
- Purchase		155,641	303,767
- Sale		155,641	303,767
Interest rate swaps (notional amount)	24.1	3,223,485	2,812,078
Forward outright sale of Government Securities		5,107,030	-
Outright purchase of Government Securities from the SBP		6,942,230	-

23.9 Taxation

The income tax assessments of the Bank have been finalised up to and including the Tax Year 2006. For the Tax Years 2005 & 2006, the department has amended the assessments on certain issues against which the Bank has filed appeal before Commissioner (Appeals). 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 vide its order dated September 08, 2005 has decided the matter in favour of the Bank resulting in the deletion of additional tax liability against which the department has filed appeal before the Income Tax Appellate Tribunal (ITAT). The management and Bank's legal counsel are of the view that the issues will be decided in the Bank's favour as and when these are taken up by the appellate authorities and therefore no extra provision is required in the accounts.

Total disallowances for the assessment years 1994-95 to 1997-98 on account of interest in suspense amounted to Rs. 722.682 million out of which 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 tax 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.

24. DERIVATIVE INSTRUMENTS

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

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

Other Objectives include:

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

In light of the above the Bank is actively marketing interest rate risk and FX risk management tools, including:

- Foreign exchange contracts
- Interest Rate Swaps
- Third Currency FX options
- Currency Swaps.

Risk management is performed at:

- a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.
- b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

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

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

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risk associated with such transactions are minimal. However, the risk management system is capable of generating risk numbers for options (i.e. Delta, Gamma, Vega, Theta and Rho).

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has notional limits (both for the portfolio and the counterparty). The Bank is in process of finalizing other risk limits, including value at risk limits.

24.1 Product Analysis

Counter parties	2006					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal * (Rupees '000)
With Banks for Hedging Market Making	1 -	95,000 -	2 -	1,772,750 -	7 -	155,641 -
With other entities for Hedging Market Making	- 1	- 95,000	- 6	- 1,450,735	- 7	- 155,641
Total						
Hedging	1	95,000	2	1,772,750	7	155,641
Market Making	1	95,000	6	1,450,735	7	155,641



Counter parties	2005					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal * (Rupees '000)
With Banks for						
Hedging	-	-	1	1,492,850	5	303,767
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	5	1,319,228	5	303,767
Total						
Hedging	-	-	1	1,492,850	5	303,767
Market Making	-	-	5	1,319,228	5	303,767

* At the exchange rate prevailing at the end of the reporting period.

24.2 Maturity Analysis

Remaining Maturity	No. of Contracts	Notional Principal	2006		
			Mark to Market		Net
			Negative	Positive	
			----- (Rupees '000)		
Interest Rate Swaps					
1 to 2 Years	4	800,735	(11,222)	-	(11,222)
2 to 3 Years	2	1,922,750	(4,711)	7,490	2,779
3 to 5 Years	2	500,000	(10,844)	17,305	6,461
	No. of Contracts	Notional Principal	2005		
			Mark to Market		Net
			Negative	Positive	
			----- (Rupees '000)		
Interest Rate Swaps					
2 to 3 Years	4	919,228	(8,539)	826	(7,713)
3 to 5 Years	2	1,892,850	(1,683)	17,218	15,535
	No. of Contracts	Notional Principal	2006		
			Mark to Market		Net
			Negative	Positive	
			----- (Rupees '000)		
Cross Currency Swaps					
3 to 5 Years	2	190,000	-	-	-

Contracts for the cross currency swaps were agreed before the year-end with execution date being subsequent to the year-end.

24.3 The FX Options are due for maturity in January, 2007.

25. MARK-UP / RETURN / INTEREST EARNED

	2006	2005
	(Rupees '000)	
On loans and advances to:		
Customers	19,144,743	12,086,305
Financial institutions	86,455	82,495
	19,231,198	12,168,800
On investments in:		
Available for sale securities	3,911,514	4,300,641
Held to maturity securities	1,025,963	643,328
	4,937,477	4,943,969

	Note	2006	2005 (Rupees '000)
On deposits with financial institutions		82,445	45,613
On securities purchased under resale agreements		689,962	261,478
On money at call		589,536	156,864
Others		247,443	179,508
		<u>25,778,061</u>	<u>17,756,232</u>
26. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		2,907,121	1,566,920
Securities sold under repurchase agreements		555,542	463,498
Other short-term borrowings		518,534	337,784
Sub-ordinated loan		187,726	188,158
Discount, commission and brokerage		297,010	211,446
Others		59,426	13,662
		<u>4,525,359</u>	<u>2,781,468</u>
27. GAIN ON SALE OF SECURITIES - net			
Federal Government Securities			
- Market Treasury Bills		686	206
- Pakistan Investment Bonds		6,089	54,670
- Other Federal Government Securities		2,350	-
Shares / certificates / units			
- Listed		562,650	811,236
- Un-Listed		36,009	-
Term Finance Certificates		350	-
Others		(2,269)	-
		<u>605,865</u>	<u>866,112</u>
28. OTHER INCOME - net			
Rent on property / lockers		53,435	42,886
Net profit on sale of property and equipment		24,903	-
Gain on sale of non-banking assets		-	24,664
Exchange income on import / export bills purchased / negotiated		60,732	55,477
Bad debts recovered		51,872	54,906
Compensation for delayed income tax refunds	28.1	44,802	340,598
Liability no longer required written back		-	495,234
Others		334,761	411,409
		<u>570,505</u>	<u>1,425,174</u>

28.1 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 certain assessment years between 1992-93 to 2002-03 and tax years 2003 and 2004 (2005: assessment years 1992-93 to 2002-03 and tax year 2004). This compensation has been calculated at the rate of 6% per annum (2005: 6% to 15% 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.



29. ADMINISTRATIVE EXPENSES

	Note	2006 (Rupees '000)	2005
Salaries and allowances		4,641,863	4,613,594
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	37.8	(2,907,485)	(2,069,468)
- Post retirement medical benefits	37.8	471,812	703,754
- Employees' contributory benevolent scheme	37.8	142,896	72,873
- Employees' compensated absences	37.8	373,913	255,007
		(1,918,864)	(1,037,834)
Contributions to defined contribution plan - provident fund		98,789	102,128
Non-executive directors' fees		140	112
Rent, taxes, insurance, electricity		671,417	603,449
Legal and professional charges		151,389	106,622
Communications		199,010	21,366
Repairs and maintenance		336,027	188,938
Stationery and printing		223,362	173,308
Advertisement and publicity		164,981	210,250
Cash transportation charges		166,394	125,137
Instrument clearing charges		84,631	74,270
Donations	29.1	-	30,059
Auditors' remuneration	29.2	10,905	10,348
Depreciation	11.2	555,292	575,538
Amortisation of intangible asset	11.3	121,285	60,113
Staff welfare fund		-	12,513
Traveling, conveyance and fuel		278,642	256,619
Subscription		18,608	19,388
Entertainment		43,211	39,938
Staff retrenchment cost	29.3	443,655	-
Others		191,855	273,634
		<u>6,482,592</u>	<u>6,459,490</u>

29.1 No donations were made by the Bank during the year.

29.2 Auditors' remuneration

	KPMG Taseer Hadi & Co.	2006 Riaz Ahmad & Co.	Total	A.F. Ferguson & Co.	2005 Riaz Ahmad & Co.	Total
	(Rupees '000)					
Audit fee	1,650	1,650	3,300	1,500	1,500	3,000
Fee for the audit of branches	1,400	1,350	2,750	1,310	1,260	2,570
Fee for audit of overseas branches	-	-	1,039	-	-	878
Special certifications, etc.	1,180	1,180	2,360	1,355	1,245	2,600
Out-of-pocket expenses	695	761	1,456	650	650	1,300
	<u>4,925</u>	<u>4,941</u>	<u>10,905</u>	<u>4,815</u>	<u>4,655</u>	<u>10,348</u>

29.3 Staff Retrenchment Cost

During the year 689 employees in the non-clerical staff cadre were retrenched with effect from June 01, 2006. The Bank has incurred an expense of Rs. 443.655 million, in addition to payments under the staff retirement funds.

30. OTHER CHARGES

	2006 (Rupees '000)	2005
Provision against fraud and forgeries	3,748	119,412
Net loss on disposal of fixed assets	-	22,114
Fixed assets written off	60,452	-
Penalties imposed by State Bank of Pakistan	2,048	24,815
Others	460	12,500
	<u>66,708</u>	<u>178,841</u>

31. TAXATION

For the year

Current	5,701,443	4,611,359
Deferred	44,246	(166,910)
	<u>5,745,689</u>	<u>4,444,449</u>

Prior years
Current
Deferred

2006	2005
(Rupees '000)	
593,497	(149,763)
19,086	(198,614)
612,583	(348,377)
6,358,272	4,096,072

31.1 Relationship between tax expense and accounting profit

Accounting profit for the year	18,500,670	13,018,487
Tax rate	35%	38%
Tax on income	6,475,235	4,947,025
Tax effect on separate block of income	(244,993)	(153,123)
Tax effect of permanent differences	(479,618)	(337,695)
Tax effect of prior years provisions / reversals	612,583	(348,377)
Reversal of deferred tax liability on incremental depreciation	(4,935)	(11,758)
Tax charge for the year	6,358,272	4,096,072

32. CREDIT RATING

PACRA through its notification in May 2006, has assigned long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2005: through its notification in May 2005, has assigned long term credit rating of AA [double A] and short-term credit rating of A1+ [A one plus] to the Bank.

33. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX

Note	2006	2005
(Rupees '000)		
Profit before taxation	18,500,670	13,018,487
	(Number of shares)	
Weighted average number of shares outstanding during the year	518,925,900	511,839,242
	(Rupees)	
Basic and diluted earnings per share - pre tax	35.65	25.43

34. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX

	(Rupees '000)	
Profit after taxation	12,142,398	8,922,415
	(Number of shares)	
Weighted average number of shares outstanding during the year	518,925,900	511,839,242
	(Rupees)	
Basic and diluted earnings per share - after tax	23.40	17.43

35. CASH AND CASH EQUIVALENTS

	(Rupees '000)	
Cash and balances with treasury banks	32,465,976	23,665,549
Balances with other banks	6,577,017	1,466,045
	39,042,993	25,131,594

36. STAFF STRENGTH

	(Number)	
Permanent	9,011	9,377
Temporary/on contractual basis	168	298
Bank's own staff strength at the end of the year	9,179	9,675
Outsourced	5,751	2,963
	14,930	12,638

37. DEFINED BENEFIT PLANS AND OTHER BENEFITS

37.1 General description

The Bank operates the following retirement benefits for its employees:

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

37.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employees' compensated absences were carried out as at December 31, 2006. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006 (%)	2005 (%)	2006 (%)	2005 (%)	2006 (%)	2005 (%)	2006 (%)	2005 (%)
Valuation discount rate	9	9	9	9	9	9	9	9
Expected rate of return on plan assets	9	9	9	9	-	-	-	-
Salary increase rate	7	7	7	7	7	7	7	7
Indexation in pension	-	-	-	-	-	-	-	-
Medical cost inflation rate	-	-	-	-	5	5	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

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

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

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2006	2005	2006	2005	2006	2005	2006	2005
		(Rupees '000)							
Present value of defined benefit obligations	37.5	4,752,693	5,503,819	332,677	407,569	1,345,357	1,456,392	1,023,683	856,213
Fair value of plan assets	37.6	(14,810,557)	(10,554,024)	(20,650)	(18,976)	-	-	-	-
Net actuarial gains / (losses) not recognised		5,176,381	3,076,207	(47,485)	(81,377)	(36,737)	(91,259)	-	-
Unrecognised negative past service cost		-	-	-	-	134,830	187,047	-	-
Unrecognised transitional liability		-	-	-	-	-	(160,575)	-	-
Unrecognised past service cost		-	-	-	-	-	(91,269)	-	-
Net (receivable) / payable recognised as at the year-end		(4,881,483)	(1,973,998)	264,542	307,216	1,443,450	1,300,336	1,023,683	856,213

The effect of increase of one percentage point and the effect of a decrease of one percentage point in the medical trend rates on the percent value of medical obligation at December 31, 2006 would be Rs. 732.097 million (2005: Rs. 714.962 million) and Rs. 549.226 million (2005: Rs. 536.371 million) respectively.

37.4 Movement in balance (receivable) / payable

Opening balance of (receivable) / payable		(1,973,998)	(732,720)	307,216	344,151	1,300,336	713,630	856,213	603,624
Expense recognised	37.8	(2,907,485)	(2,069,468)	142,896	72,873	471,812	703,754	373,913	255,007
Refunds / (contributions) during the year									
- Employees' contribution		-	-	15,141	30,428	-	-	-	-
- Bank's contribution / benefits paid		-	828,190	(200,711)	(140,236)	(328,698)	(117,048)	(206,443)	(2,418)
Closing balance of (receivable) / payable		<u>(4,881,483)</u>	<u>(1,973,998)</u>	<u>264,542</u>	<u>307,216</u>	<u>1,443,450</u>	<u>1,300,336</u>	<u>1,023,683</u>	<u>856,213</u>

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006	2005	2006	2005	2006	2005	2006	2005
(Rupees '000)								
37.5 Reconciliation of the present value of the defined benefit obligations								
Present value of obligation as at January 01,	5,503,819	6,542,624	407,569	362,104	1,456,392	1,121,548	856,213	603,624
Current service cost	53,091	57,654	14,638	8,106	20,715	36,618	373,913	255,007
Interest cost	261,339	170,690	36,681	25,347	131,076	78,508	-	-
Benefits paid	(1,231,616)	(1,228,374)	(200,712)	(109,808)	(328,698)	(117,049)	(206,443)	(2,418)
Past service cost - vested	-	-	-	-	-	525,063	-	-
Past service cost - non-vested	-	-	-	-	-	91,269	-	-
Negative past service cost - vested	-	-	-	-	-	(124,131)	-	-
Negative past service cost - non-vested	-	-	-	-	-	(168,537)	-	-
Retrenchment loss	220,380	-	84,683	-	102,025	-	-	-
Curtailment gain	-	(170,657)	-	-	-	-	-	-
Actuarial (gains) / losses	(54,320)	131,882	(10,182)	121,820	(36,153)	13,103	-	-
Present value of obligation as at December 31,	<u>4,752,693</u>	<u>5,503,819</u>	<u>332,677</u>	<u>407,569</u>	<u>1,345,357</u>	<u>1,456,392</u>	<u>1,023,683</u>	<u>856,213</u>

37.6 Changes in fair values of plan assets

Net assets as at January 01,	10,554,024	7,034,175	18,976	18,126	-	-	-	-
Expected return on plan assets	1,066,621	562,734	1,708	1,269	-	-	-	-
Interest on borrowing from MCB								
Bank Limited - Main Branch	(212,517)	(116,759)	-	-	-	-	-	-
Contributions - Bank	-	(828,189)	185,571	109,808	-	-	-	-
Contributions - Employees	-	-	15,141	-	-	-	-	-
Benefits paid	(1,231,616)	(1,228,374)	(200,712)	(109,808)	-	-	-	-
Actuarial gain / (loss)	4,634,045	5,130,437	(34)	(419)	-	-	-	-
Net assets as at December 31, 37.10	<u>14,810,557</u>	<u>10,554,024</u>	<u>20,650</u>	<u>18,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

37.7 Fair value of the Bank's shares held by the Pension Fund as at December 31, 2006 amounted to Rs. 10,899.845 million (2005: Rs. 6,287.649 million).

37.8 Charge for defined benefit plans and other benefits

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

Current service cost	53,091	57,654	14,638	8,106	20,715	36,618	373,913	255,007
Interest cost	261,339	170,690	36,681	25,347	131,076	78,508	-	-
Expected return on plan assets	(1,066,621)	(562,734)	(1,708)	(1,269)	-	-	-	-
Interest on borrowing from MCB								
Bank Limited - Main Branch	212,517	116,759	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(2,588,191)	(1,585,796)	23,743	40,689	18,369	45,629	-	-
Contributions employees	-	-	(15,141)	-	-	-	-	-
Retrenchment loss recognised	220,380	-	84,683	-	102,025	-	-	-
Amortisation of transitional liability	-	-	-	-	160,575	-	-	-
Recognised past service cost	-	-	-	-	91,269	525,063	-	-
Recognised negative past service cost	-	-	-	-	(52,217)	(142,641)	-	-
Recognised transitional liability	-	-	-	-	-	160,577	-	-
Curtailment gain	-	(266,041)	-	-	-	-	-	-
	<u>(2,907,485)</u>	<u>(2,069,468)</u>	<u>142,896</u>	<u>72,873</u>	<u>471,812</u>	<u>703,754</u>	<u>373,913</u>	<u>255,007</u>

The effect of increase of one percentage point and the effect of a decrease of one percentage point in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 11.712 million (2005: Rs. 12.473 million) and Rs. 7.282 million (2005: Rs. 7.755 million) respectively.

37.9 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006	2005	2006	2005	2006	2005	2006	2005
(Rupees '000)								
Actual return on plan assets	<u>5,700,666</u>	<u>5,693,171</u>	<u>1,674</u>	<u>850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

37.10 Composition of fair value of plan assets

	Approved Pension Fund				Employees' contributory benevolent scheme			
	2006		2005		2006		2005	
	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)
Defense saving certificates	5,164,914	30.82	4,965,982	41.90	20,650	100	18,976	100
Listed equity shares	11,563,955	68.99	6,876,214	58.02	-	-	-	-
Cash and bank balances	31,899	0.19	9,148	0.08	-	-	-	-
Fair value of plan total assets	16,760,768	100	11,851,344	100	20,650	100	18,976	100
Borrowing	(1,950,211)		(1,297,320)		-		-	
Fair value of plan net assets	14,810,557		10,554,024		20,650		18,976	

37.11 Other relevant details of above funds are as follows:

37.11.1 Pension Fund

	2006	2005	2004	2003	2002
	(Rupees '000)				
Present value of defined benefit obligation	4,752,693	5,503,819	6,542,624	6,190,017	6,298,197
Fair value of plan assets	(14,810,557)	(10,554,024)	(7,034,175)	(6,996,518)	(5,856,280)
	(10,057,864)	(5,050,205)	(491,551)	(806,501)	441,917
Actuarial gain / (loss) on obligation					
Experience adjustment	54,320	(304,748)	(141,338)	40,950	(1,173,228)
Assumptions gain / (loss)	-	172,866	-	(194,418)	(197,816)
	54,320	(131,882)	(141,338)	(153,468)	(1,371,044)
Actuarial gain / (loss) on assets					
Experience adjustment	4,634,045	5,268,939	(254,840)	729,547	(544,027)
Assumptions gain / (loss)	-	(138,502)	-	208,192	654,127
	4,634,045	5,130,437	(254,840)	937,739	110,100

37.11.2 Employees' Contributory Benevolent Scheme

Present value of defined benefit obligation	332,677	407,569	362,104	355,177	403,447
Fair value of plan assets	(20,650)	(18,976)	(18,126)	(16,938)	(29,822)
	312,027	388,593	343,978	338,239	373,625
Actuarial gain / (loss) on obligation					
Experience adjustment	10,182	(228,823)	(22,609)	49,270	155,223
Assumptions gain / (loss)	-	107,003	-	-	(155,223)
	10,182	(121,820)	(22,609)	49,270	-
Actuarial gain / (loss) on assets					
Experience adjustment	(34)	(1)	2	(14,972)	(1,727)
Assumptions gain / (loss)	-	(418)	-	-	1,727
	(34)	(419)	2	(14,972)	-

37.11.3 Post Retirement Medical Benefits

Present value of defined benefit obligation	1,345,357	1,456,392	1,121,548	1,108,068	1,494,710
Fair value of plan assets	-	-	-	-	-
	1,345,357	1,456,392	1,121,548	1,108,068	1,494,710
Actuarial gain / (loss) on obligation					
Experience adjustment	36,153	8,743	-	27,994	(560,851)
Assumptions gain / (loss)	-	(21,846)	-	-	44,841
	36,153	(13,103)	-	27,994	(516,010)
Actuarial gain / (loss) on assets					
	-	-	-	-	-

37.11.4 Compensated absences

	2006	2005	2004	2003	2002
	(Rupees '000)				
Present value of defined benefit obligation	1,023,683	856,213	603,624	607,314	441,000
Fair value of plan assets	-	-	-	-	-
	<u>1,023,683</u>	<u>856,213</u>	<u>603,624</u>	<u>607,314</u>	<u>441,000</u>
Actuarial gain / (loss) on obligation	-	-	-	-	-
Actuarial gain / (loss) on assets	-	-	-	-	-

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

38. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 4,977 (2005: 5,625) employees where contributions are made by the Bank and employees at 8.33% per annum (2005: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 98.789 million (2005: Rs. 102.128 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 2,876 (2005: 3,673) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2005: 12% per annum) of the basic salary.

39. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees '000)					
Fees	-	-	140	112	-	-
Managerial remuneration	8,028	7,650	1,434	1,434	351,351	264,027
Bonus and other benefits	7,845	3,626	-	-	258,072	119,140
Retirement benefits	669	637	-	-	29,267	21,993
Rent and house maintenance	3,852	3,683	-	-	158,108	118,812
Utilities	803	765	-	-	35,135	26,403
Medical	356	183	-	-	18,774	15,127
Conveyance	497	223	-	-	63,861	45,980
	<u>22,050</u>	<u>16,767</u>	<u>1,574</u>	<u>1,546</u>	<u>914,568</u>	<u>611,482</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>429</u>	<u>329</u>

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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular 14 dated September 24, 2004. The fair value of these investments amounts to Rs. 1,978 (2005: Rs. 24,595) 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 44.4.1 and 44.3 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

41. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Eliminations	Total
	(Rupees '000)					
2006						
Total income	122,341	8,282,364	12,861,157	9,819,292	(315,676)	30,769,478
Total expenses	(30,235)	(1,542,942)	(10,192,053)	(819,254)	315,676	(12,268,808)
Income tax expense	-	-	-	-	-	(6,358,272)
Net income	92,106	6,739,422	2,669,104	9,000,038	-	12,142,398
Segment assets - (Gross)	133	95,175,652	134,557,825	112,202,260	-	341,935,870
Deferred tax assets	-	-	-	-	-	172,373
Total assets	133	95,175,652	134,557,825	112,202,260	-	342,108,243
Segment non performing loans	-	-	5,711,301	2,859,512	-	8,570,813
Segment specific provision required	-	-	4,911,425	1,041,809	-	5,953,234
Segment liabilities	29	3,649,058	274,023,262	21,224,006	-	298,896,355
Provision for taxation	-	-	-	-	-	2,367,574
Total liabilities - net	29	3,649,058	274,023,262	21,224,006	-	301,263,929
Segment return on assets (ROA) (%)	-	7.08%	1.98%	8.02%	-	3.55%
Segment cost of fund (%)	-	7.71%	1.42%	7.46%	-	1.47%
2005						
Total income	150,889	7,103,698	9,704,909	6,338,029	212,376	23,509,901
Total expenses	(28,432)	(856,643)	(8,474,099)	(919,864)	(212,376)	(10,491,414)
Income tax expense	-	-	-	-	-	(4,096,072)
Net income	122,457	6,247,055	1,230,810	5,418,165	-	8,922,415
Segment assets - (Gross)	36,655	67,702,958	125,634,664	105,214,536	-	298,588,813
Deferred tax assets	-	-	-	-	-	191,967
Total assets	36,655	67,702,958	125,634,664	105,214,536	-	298,780,780
Segment non performing loans	-	-	5,576,783	2,819,206	-	8,395,989
Segment specific provision required	-	-	4,445,361	1,089,015	-	5,534,376
Segment liabilities	(1,058)	1,822,491	254,536,430	17,755,874	-	274,113,737
Provision for taxation	-	-	-	-	-	932,747
Total liabilities - net	(1,058)	1,822,491	254,536,430	17,755,874	-	275,046,484
Segment return on assets (ROA) (%)	-	9.23%	0.98%	5.15%	-	2.99%
Segment cost of fund (%)	-	5.38%	0.72%	5.28%	-	0.92%

42. 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) and companies with common directors. The detail of investment in subsidiary companies and associated undertaking are stated in Annexure I to these financial statements.

Transactions between the Bank and its related parties are carried out at an 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 Bank 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 note 39 and Annexure IV to these financial statements.

	Directors		Associated companies		Subsidiary companies		Other related parties	
	2006	2005	2006	2005	2006	2005	2006	2005
(Rupees '000)								
A. Balances								
Deposits								
Deposits at beginning of the year	61,996	2,030	785,634	227,631	5,311	5,239	214,191	270,074
Deposits received during the year	572,767	697,586	33,568,048	7,274,635	653,980	60,941	17,714,493	23,107,364
Deposits repaid during the year	(615,664)	(637,620)	(33,831,041)	(6,716,632)	(379,562)	(60,869)	(17,614,639)	(23,163,247)
Deposits at end of the year	<u>19,099</u>	<u>61,996</u>	<u>522,641</u>	<u>785,634</u>	<u>279,729</u>	<u>5,311</u>	<u>314,045</u>	<u>214,191</u>
Mark-up expense on deposits	16	27	35,684	851	11,638	20	121	145
Mark-up rates on deposits range from 0.1% to 6.75% (2005: 0.1% to 6.75%) per annum.								
Advances (secured)								
Balance at beginning of the year	-	-	-	-	-	-	1,297,320	-
Loans granted during the year	-	-	-	-	2,810	-	2,062,460	1,377,007
Repayments received during the year	-	-	-	-	(337)	-	(1,119,742)	(79,687)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,473</u>	<u>-</u>	<u>2,240,038</u>	<u>1,297,320</u>
Income on advances							<u>257,354</u>	
Profit rates on advances to Pension Fund at 6 month KIBOR + 0.3% and to the Provident Fund at 6 month KIBOR + 0.3%. At December 31, 2006, interest receivable from the above funds amounted to Rs. 67.275 million.								
B. Other transactions (including profit and loss related transactions)								
Associates								
Adamjee Insurance Company Limited								
- Insurance premium paid - net of refund	-	-	71,673	75,443	-	-	-	-
- Insurance claim settled	-	-	23,664	60,106	-	-	-	-
- Rent income received	-	-	2,197	1,825	-	-	-	-
- Dividend received	-	-	62,568	36,097	-	-	-	-
Subsidiary Companies								
MNET Services (Private) Limited								
- Outsourcing service charges	-	-	-	-	31,223	20,975	-	-
- Networking service charges	-	-	-	-	5,681	7,631	-	-
Muslim Commercial Financial Services (Private) Limited								
- Custodian charges received	-	-	-	-	-	6,993	-	-
- Dividend received	-	-	-	-	1,875	3,000	-	-
MCB Asset Management Company Limited								
- Capital injection	-	-	-	-	299,980	-	-	-
MCB Trade Services Limited								
- Capital injection	-	-	-	-	-	77	-	-
- Dividend received	-	-	-	-	2,288	-	-	-
Other related parties								
MCB Employees Security System and Services (Private) Limited								
- Security guard expenses	-	-	-	-	-	-	87,767	74,346
MCB Employees Foundation								
- Service expenses	-	-	-	-	-	-	15,488	14,023
- Cash sorting expenses	-	-	-	-	-	-	6,465	3,115
- Cash in transit expenses	-	-	-	-	-	-	3,452	3,638
Others								
Dividend income	-	-	-	-	-	-	102,220	13,421
Proceeds from sale of vehicles to the executives	-	-	-	-	-	-	1,678	8,059
Gain on sale of vehicles to the executives	-	-	-	-	-	-	898	790
Remuneration of key management personnel (other than directors)	-	-	-	-	-	-	145,674	91,029
Other miscellaneous expenses	-	-	-	-	-	-	58,609	52,941

The details of director's compensations are given in note 39 to these financial statements.

43. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy is as follows:

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Regulatory Capital Base			
Tier I Capital			
Shareholders capital		5,463,276	4,265,327
Reserves (excluding exchange translation reserve)		24,716,063	13,460,554
Unappropriated profits		5,530,972	210,662
		35,710,311	17,936,543
Less: Adjustments	43.9	(334,407)	(22,329)
Total Tier I Capital		35,375,904	17,914,214
Tier II Capital			
Subordinated debt (up to 50% of total Tier I Capital)	43.1	95,846	1,182,579
General provisions subject to 1.25% of total risk weighted assets		2,655,110	2,101,994
Foreign exchange translation reserves		(53,637)	(52,549)
Revaluation reserve (up to 50%)		2,593,820	2,706,502
Total Tier II Capital		5,291,139	5,938,526
Eligible Tier III Capital		-	-
Total Regulatory Capital	(a)	40,667,043	23,852,740
Risk-Weighted Exposures			
	Note	2006 Book Value Risk Adjusted Value (Rupees '000)	2005 Book Value Risk Adjusted Value (Rupees '000)
Credit Risk			
Balance Sheet Items:			
Cash and other liquid assets	43.2	39,042,993	1,845,070
Money at call		21,081,800	1,810,000
Investments	43.3	63,486,316	13,765,510
Loans and advances	43.4	189,059,791	151,249,812
Fixed assets		9,054,156	9,054,156
Other assets	43.5	11,203,823	11,006,803
		332,928,879	188,731,351
Off Balance Sheet items:			
Loan repayment guarantees	43.6	8,217,622	6,857,274
Stand by letters of credit	43.7	39,997,162	19,998,580
Outstanding foreign exchange contracts - market related	43.8	86,499,132	421,430
		134,713,916	27,277,284
Credit risk-weighted exposures		216,008,635	188,710,741
Market Risk			
General market risk		143,425	74,469
Specific market risk		-	5,415
Foreign exchange risk		20,875	40,940
Total capital charge on market risk		164,300	120,824
Market risk-weighted exposures (total capital charge x 12.5)		2,053,750	1,510,300
Total Risk-Weighted exposures	(b)	218,062,385	190,221,041
Capital Adequacy Ratio [(a) / (b) x 100]		18.65%	12.54%

- 43.1** The liability against term finance certificates amounting to Rs. 1,597.440 million is subordinated as to the payment of principal and profit to all other indebtedness of the Bank (including deposits). The major redemption will commence from 54th month of the issue in the following manner:

Month of issue	Redemption (Rupees '000)
February, 2007	638,976
August, 2007	479,232
February, 2008	479,232

For the purpose of inclusion of subordinated loan in supplementary capital, a discount of 100% and 80% has been applied on the amount that will be redeemed in 1 year and 2 years time, respectively.

- 43.2** Balances with other banks includes balances with National Bank of Pakistan in local currency current account amounting to Rs. 2,648.322 million (2005: Rs. 2,548.255 million) classified under cash and balances with treasury banks in these financial statements.
- 43.3** Investments exclude investment in held-for- trading portfolio amounting to Rs. Nil (2005: Rs. 67.690 million).
- 43.4** Advances secured against government securities / own deposits / cash margin amounting to Rs. 11,834.474 million (2005: Rs. 11,046.465 million) have been deducted from gross advances. Advances are gross of general provision amounting to Rs. 2,665.110 million (2005: Rs. 2,101.994 million). This provision has been added to supplementary capital.
- 43.5** Other assets include deferred tax asset - net amounting to Rs. 172.373 million (2005: Rs. 191.967 million).
- 43.6** Cash margin amounting to Rs. 813.378 million (2005: Rs. 774.746 million) have been deducted from loan repayment guarantees.
- 43.7** Cash margin amounting to Rs. 858.262 million (2005: Rs. 809.436 million) have been deducted from standby letters of credit.
- 43.8** Forward foreign exchange contracts with maturity of less than or equal to 14 days from the original maturity amounting to Rs. 8,624.154 million have been excluded from the above.
- 43.9** The adjustments to Tier I capital represents net deductions for investments in subsidiary companies and deficit on revaluation of 'available for sale' securities (net of deferred tax).
- 43.10** The figures for the year ended December 31, 2005 are based on the returns prepared by the Bank and filed with the State Bank of Pakistan for that year and accordingly are based on the financial statements prepared for the year then ended.

44. RISK MANAGEMENT

The wide variety of Bank's businesses necessitates a risk management system to identify, measure, monitor and manage risks effectively. Bank's risk management framework is based on three pillars; risk principles, organizational structures and prudent risk measurement and monitoring processes which are closely aligned with the activities of the Bank so as to ensure that risks are kept within an acceptable level.

Risk Management Organization

The Bank risk management function is independent of the business areas. Based on the State Bank of Pakistan's (SBP) guidelines and Bank for International Settlement's Frameworks, the bank has constituted a Risk Management Committee (RMC), developed an elaborate risk identification measurement and management framework and has also reorganized 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.

The head of risk management is a member of risk management & management committees of the Bank and is responsible for credit, market and operational risk management activities within the Bank in close coordination with respective business areas. To ensure independence, head of risk management is directly reporting to the RMC.

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

- Identify, measure, monitor and mitigate risk while ensuring that risk / reward relationship is maintained at an optimal level.
- Ensure that the business conducted is consistent with the risk appetite of the Bank.
- Formulate and implement risk policies, procedures and methodology in coordination with business areas.
- Conduct periodic reviews to ensure that the risks are within acceptable parameters, and
- Develop & implement risk management infrastructure & systems that are appropriate for each area and flexible to cater risk emanating from changing banking environment.
- The most important risk that Bank 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 risks are outlined below:

44.1 Credit Risk

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

- Consistent standards are applied for credit decision processes.
- The approval of credit limits for counter parties and the management of individual credit exposures are subject to credit review.
- Every extension of credit or material change to a credit facility (such as tenor, collateral structure or major covenants) to counter party requires credit approval and independent review at the appropriate levels.
- The Bank assigns credit approval authorities to individuals according to their qualifications, experience and training and the management reviews these periodically. The approval process is checked through independent review by Risk Management Group (RMG), and post- fact by the audit function.

In addition, the below listed initiatives have been initiated by the Bank for enhancement of risk management capabilities:

- Development of risk based credit MIS
- Exposure and Collateral related database is being beefed up as per Basel II requirements
- Credit Administration role being revitalized and Credit Risk Control (CRC) roll out plan being implemented
- Automation of CRC function is being planned in line with the roll out of the Bank's core banking application.
- Establishment of portfolio management function
- Up-dation of credit manual to provide comprehensive guidelines for credit process and to adopt latest development in credit risk management practices.

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

Concentration of credit and deposits

Out of the total financial assets of Rs. 325,641 million (2005: Rs. 287,127 million) the financial assets which are subject to credit risk amounting to Rs. 317,694 million (2005: Rs. 281,063 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 46,953 million (2005: Rs. 57,103 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 21,870 million (2005: Rs. 15,054 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

44.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

44.1.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Agriculture, forestry, hunting and fishing	1,889,845	0.91	32,900,524	12.78	2,228,461	1.39
Mining and quarrying	389,106	0.19	348,899	0.14	112,220	0.07
Textile	28,932,854	13.99	1,989,420	0.77	8,668,281	5.39
Chemical and pharmaceuticals	4,993,570	2.41	1,353,387	0.53	5,938,173	3.69
Cement	6,609,300	3.20	228,468	0.09	3,310,583	2.06
Sugar	6,054,687	2.93	407,092	0.16	21,317	0.01
Footwear and leather garments	1,561,433	0.75	240,342	0.09	635,504	0.40
Automobile and transportation equipment	738,737	0.36	286,083	0.11	837,143	0.52
Electronics and electrical appliances	2,330,500	1.13	48,081	0.02	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water, sanitary	3,153,770	1.52	1,444,291	0.56	4,029,755	2.51
Exports / imports	21,419,484	10.36	34,013,464	13.21	6,121,691	3.81
Transport, storage and communication	17,293,669	8.36	1,969,668	0.77	5,892,594	3.66
Financial	15,160,198	7.33	1,670,441	0.65	117,338,576	72.95
Insurance	204,077	0.10	487	0.00	-	-
Services	4,508,695	2.18	3,168,557	1.23	-	-
Individuals	20,767,887	10.04	121,616,467	47.24	-	-
Others	70,839,687	34.24	55,776,167	21.65	5,708,710	3.54
	<u>206,847,499</u>	<u>100.00</u>	<u>257,461,838</u>	<u>100.00</u>	<u>160,843,008</u>	<u>100.00</u>

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Agriculture, forestry, hunting and fishing	1,157,264	0.62	25,512,459	11.12	1,030,140	1.28
Mining and quarrying	316,903	0.17	259,768	0.11	53,271	0.07
Textile	29,826,500	15.85	1,567,238	0.68	7,495,840	9.32
Chemical and pharmaceuticals	4,489,650	2.39	896,670	0.39	4,583,660	5.70
Cement	7,585,796	4.03	232,408	0.10	1,841,490	2.29
Sugar	6,208,734	3.30	518,997	0.23	279,620	0.35
Footwear and leather garments	1,633,249	0.87	216,167	0.09	682,932	0.85
Automobile and transportation equipment	845,772	0.45	310,653	0.14	1,465,506	1.82
Electronics and electrical appliances	1,961,384	1.04	127,209	0.06	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water, sanitary	7,951,656	4.23	588,797	0.26	5,114,732	6.36
Wholesale and retail trade	31,294,496	16.63	-	-	6,965,470	8.66
Exports / imports	-	-	31,152,855	13.58	-	-
Transport, storage and communication	18,368,862	9.76	1,696,019	0.74	2,534,520	3.15
Financial	3,613,687	1.92	2,041,002	0.89	46,520,090	57.84
Insurance	640,764	0.34	900	0.00	-	-
Services	4,357,571	2.32	1,395,417	0.61	-	-
Individuals	14,546,682	7.73	113,439,811	49.46	-	-
Others	53,340,707	28.35	49,385,520	21.54	1,859,615	2.31
	<u>188,139,677</u>	<u>100.00</u>	<u>229,341,890</u>	<u>100.00</u>	<u>80,426,886</u>	<u>100.00</u>

44.1.1.2 Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Public / Government	27,704,174	13.39	7,264,482	2.82	41,788,324	25.98
Private	179,143,325	86.61	250,197,356	97.18	119,054,684	74.02
	<u>206,847,499</u>	<u>100.00</u>	<u>257,461,838</u>	<u>100.00</u>	<u>160,843,008</u>	<u>100.00</u>

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Public / Government	23,498,289	12.49	6,515,291	2.84	15,936,337	19.81
Private	164,641,388	87.51	222,826,599	97.16	64,490,549	80.19
	<u>188,139,677</u>	<u>100.00</u>	<u>229,341,890</u>	<u>100.00</u>	<u>80,426,886</u>	<u>100.00</u>

44.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2006		2005	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	----- (Rupees '000) -----			
Agriculture, forestry, hunting and fishing	319,684	118,003	221,386	152,459
Mining and quarrying	4,238	4,238	7,607	1,248
Textile	1,087,981	1,020,228	1,342,004	1,018,724
Chemical and pharmaceuticals	32,720	32,720	43,867	35,837
Cement	750	750	750	750
Sugar	36,398	36,398	43,020	43,020
Footwear and leather garments	92,500	87,629	124,089	106,371
Automobile and transportation equipment	44,903	43,405	56,896	56,896
Electronics and electrical appliances	303,162	275,670	145,420	140,401
Construction	159,747	154,601	214,372	179,878
Power (electricity), gas, water, sanitary	1,935	1,839	2,903	2,903
Wholesale and retail trade	3,949,587	2,012,221	3,662,243	1,776,218
Exports / imports	421,130	369,771	472,421	340,662
Transport, storage and communication	27,408	25,913	23,181	20,940
Financial	65,243	65,243	67,840	66,095
Insurance	-	-	-	-
Services	167,651	89,656	160,140	95,344
Individuals	261,553	179,773	210,961	141,310
Others	1,594,223	1,435,176	1,596,889	1,355,320
	<u>8,570,813</u>	<u>5,953,234</u>	<u>8,395,989</u>	<u>5,534,376</u>

44.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	52,633	-	52,633	-
Private	8,518,180	5,953,234	8,343,356	5,534,376
	<u>8,570,813</u>	<u>5,953,234</u>	<u>8,395,989</u>	<u>5,534,376</u>

44.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- (Rupees '000) -----			
Pakistan	18,239,074	333,949,788	40,582,718	160,150,678
Asia Pacific (including South Asia)	103,834	2,949,729	103,834	692,330
Middle East	157,762	5,208,726	157,762	-
	<u>18,500,670</u>	<u>342,108,243</u>	<u>40,844,314</u>	<u>160,843,008</u>
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- (Rupees '000) -----			
Pakistan	12,753,735	292,441,260	23,469,544	79,543,450
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>298,780,780</u>	<u>23,734,296</u>	<u>80,426,886</u>

Total assets employed include intra group items of Rs. nil (2005: nil).

44.2 Market Risk Management

The Bank is exposed to interest rate risk, foreign exchange risk and equity price risk. The Bank is using in-house and vendor based solutions for calculating mark to market value of its positions, and generating VaR (value at risk) and sensitivity numbers. Besides conventional methods, the Bank is using VaR for market risk assessment of assets booked by treasury and capital market groups. For calculating VaR numbers, of conventional products, the Bank is using variance covariance methodology, while for derivatives and structured products monte carlo simulations is used.

Further stress testing of both banking and trading books are performed in line with SBP guidelines.

The Bank is exposed to interest rate risk both in trading and banking books. Presently the market risk reporting system is generating risk numbers of Government securities held by the Bank's treasury. The risk management system generates daily reports based upon the marked to market value of these assets. These reports provide risk numbers i.e. duration, PVB and VaR on individual security basis. The system also generates summarised reports on portfolio basis. These reports are presented to the senior management for review on daily basis.

44.2.1 Foreign Exchange Risk Management

Main objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank lies within the defined risk appetite (10% of the paid up capital). Daily reports are generated to evaluate the exposure in different currencies. Further risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on daily basis.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	------(Rupees '000)-----			
Pakistan Rupee	315,967,111	284,618,641	6,086,875	37,435,345
United States Dollar	23,199,011	13,634,488	(7,191,418)	2,373,105
Pound Sterling	555,830	1,197,433	17,304	(624,299)
Japanese Yen	23,809	120,878	113,102	16,033
Euro	617,960	1,014,993	(54,068)	(451,101)
Other currencies	1,744,522	677,496	1,028,205	2,095,231
	<u>342,108,243</u>	<u>301,263,929</u>	<u>-</u>	<u>40,844,314</u>

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	------(Rupees '000)-----			
Pakistan Rupee	279,410,231	259,836,654	180,165	19,753,742
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>298,780,780</u>	<u>275,046,484</u>	<u>-</u>	<u>23,734,296</u>

44.2.2 Equity Price Risk

Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis.

44.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

			2006									
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Not exposed to Yield/ Interest Risk
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
			(Rupees '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35%	32,465,976	1,420,319	-	-	-	-	-	-	-	-	31,045,657
Balances with other banks	5.77%	6,577,017	2,409,176	-	-	121,820	-	-	-	-	-	4,046,021
Lendings to financial institutions	9.13%	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-	-
Investments - net	9.22%	62,121,885	7,636,492	1,791,960	11,713,325	19,433,349	178,700	499,162	7,652,449	4,216,642	113,816	8,885,990
Advances - net	10.10%	198,239,155	3,025,175	40,581,531	31,723,075	60,657,360	35,631,318	13,810,935	10,921,950	1,864,789	23,022	-
Other assets - net	-	5,155,639	-	-	-	-	-	-	-	-	-	5,155,639
		325,641,472	25,887,962	50,358,491	45,136,400	80,212,529	35,810,018	14,310,097	18,574,399	6,081,431	136,838	49,133,307
Liabilities												
Bills payable	-	7,089,679	-	-	-	-	-	-	-	-	-	7,089,679
Borrowings	5.56%	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-	-
Deposits and other accounts	1.17%	257,461,838	138,302,691	7,950,363	6,229,354	7,688,296	2,840,110	1,333,264	4,286,583	1,788,431	-	87,042,746
Subordinated loan	11.75%-15.75%	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-	-
Other liabilities	-	6,072,247	-	-	-	-	-	-	-	-	-	6,072,247
		296,164,680	153,183,265	13,028,065	8,359,822	8,347,438	3,320,110	1,333,264	4,286,583	4,101,461	-	100,204,672
On-balance sheet gap		29,476,792	(127,295,303)	37,330,426	36,776,578	71,865,091	32,489,908	12,976,833	14,287,816	1,979,970	136,838	(51,071,365)
Off-balance sheet financial instruments												
Forward lendings	-	1,853,461	1,853,461	-	-	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	6,942,230	-	-	-	-	-	-	-	-	-	6,942,230
Foreign exchange contracts:												
- Purchase	-	41,288,941	16,883,524	21,223,894	2,160,021	1,021,502	-	-	-	-	-	-
Interest rate swaps	-	3,223,485	-	-	-	-	800,735	1,922,750	500,000	-	-	-
		53,308,117	18,736,985	21,223,894	2,160,021	1,021,502	800,735	1,922,750	500,000	-	-	6,942,230
Foreign exchange contracts:												
- Sale	-	50,420,861	13,876,815	9,573,175	20,298,836	6,672,035	-	-	-	-	-	-
Outright sale - Govt. securities	-	5,107,030	-	-	-	-	-	-	-	-	-	5,107,030
		55,527,891	13,876,815	9,573,175	20,298,836	6,672,035	-	-	-	-	-	5,107,030
Off-balance sheet gap		(2,219,774)	4,860,170	11,650,719	(18,138,815)	(5,650,533)	800,735	1,922,750	500,000	-	-	1,835,200
Total yield / interest risk sensitivity gap			(122,435,133)	48,981,145	18,637,763	66,214,558	33,290,643	14,899,583	14,787,816	1,979,970	136,838	
Cumulative yield / interest risk sensitivity gap			(122,435,133)	(73,453,988)	(54,816,225)	11,398,333	44,688,976	59,588,559	74,376,375	76,356,345	76,493,183	

44.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

			2005									
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Not exposed to Yield/ Interest Risk
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
			(Rupees '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%	1,466,045	593,732	-	-	-	-	-	-	-	-	872,313
Lendings to financial institutions	5.11%	9,998,828	9,998,828	-	-	-	-	-	-	-	-	-
Investments - net	7.59%	68,417,035	8,410,339	1,973,549	12,900,300	21,402,636	196,809	549,745	8,427,914	4,643,937	125,350	9,786,456
Advances - net	7.75%	180,322,753	843,595	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,829	-
Other assets - net	-	3,256,744	-	-	-	-	-	-	-	-	-	3,256,744
		287,126,954	21,272,710	36,548,610	49,325,655	77,219,783	29,157,240	11,901,933	18,318,124	7,050,874	177,179	36,154,846
Liabilities												
Bills payable	-	8,536,674	-	-	-	-	-	-	-	-	-	8,536,674
Borrowings	3.92%	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-	-
Deposits and other accounts	0.69%	229,341,890	138,951,917	185,160	2,096,008	43,100	3,151,726	703,750	3,430,546	1,419,268	-	79,360,415
Subordinated loan	11.75% to 15.75%	1,598,080	-	320	-	320	1,119,360	478,080	-	-	-	-
Other liabilities	-	4,733,543	-	-	-	-	-	-	-	-	-	4,733,543
		271,587,689	163,042,276	3,472,623	2,096,008	43,420	4,271,086	1,181,830	3,430,546	1,419,268	-	92,630,632
On-balance sheet gap		15,539,265	(141,769,566)	33,075,987	47,229,647	77,176,363	24,886,154	10,720,103	14,887,578	5,631,606	177,179	(56,475,786)
Off-balance sheet financial instruments												
Foreign exchange contracts:												
- Purchase	-	13,243,226	6,317,021	3,087,365	3,623,655	215,185	-	-	-	-	-	-
Interest rate swaps	-	2,812,078	-	-	-	-	-	919,228	1,892,850	-	-	-
		16,055,304	6,317,021	3,087,365	3,623,655	215,185	-	919,228	1,892,850	-	-	-
Foreign exchange contracts:												
- Sale	-	16,263,722	6,836,080	3,340,803	5,330,258	756,581	-	-	-	-	-	-
		16,263,722	6,836,080	3,340,803	5,330,258	756,581	-	-	-	-	-	-
Off-balance sheet gap		(208,418)	(519,059)	(253,438)	(1,706,603)	(541,396)	-	919,228	1,892,850	-	-	-
Total yield / interest risk sensitivity gap			(142,288,625)	32,822,549	45,523,044	76,634,967	24,886,154	11,639,331	16,780,428	5,631,606	177,179	
Cumulative yield / interest risk sensitivity gap			(142,288,625)	(109,466,076)	(63,943,032)	12,691,935	37,578,089	49,217,420	65,997,848	71,629,454	71,806,633	

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.

Reconciliation to total assets	2006 (Rupees '000)	2005 (Rupees '000)	Reconciliation to total liabilities	2006 (Rupees '000)	2005 (Rupees '000)
Balance as per balance sheet	342,108,243	298,780,780	Balance as per balance sheet	301,263,929	275,046,484
Less: Non-financial assets			Less: Non-financial liabilities		
Investment	1,364,431	1,064,452	Other liabilities	5,099,249	3,458,795
Operating fixed assets	9,054,156	8,182,454			
Deferred tax assets	172,373	191,967			
Other assets	5,875,811	2,214,953			
	16,466,771	11,653,826			
Total financial assets	325,641,472	287,126,954	Total financial liabilities	296,164,680	271,587,689

44.4 Liquidity Risk

It is the policy of the Bank to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet all the obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitments made. The Bank manages liquidity risk in three stages:

- Balance sheet management;
- Liquidity management; and
- Intraday liquidity management.

Balance sheet management

Balance sheet management is the practice of reviewing the actual and planned strategic growth of business and its impact from a balance sheet integrity and sustainability perspective. As such the goal is to identify any risks arising from structural imbalances and concentrations, and seek to alter plans in order to avoid these developing into a liquidity problem.

Liquidity management

Liquidity management is the day to day practice of ensuring that the Bank is able to meet all its payment obligations as they fall due without having to sell assets or borrow funds at short notice at adverse market prices. While primarily focused on the management of cash flows, the Bank maintains a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flow for meeting liquidity requirements.

Intraday liquidity management

Intraday liquidity is the practice of ensuring that the Bank has sufficient cash during the day to make payments through the local payment system. In this respect, the Bank maintains cash balances from which payments are made or generate cash balances through the receipt of payments due or from borrowings or the outright sale or pledging of qualifying securities with the State Bank of Pakistan.

44.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	2006									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	-(Rupees '000)-									
Assets										
Cash and balances with treasury banks	32,465,976	32,465,976	-	-	-	-	-	-	-	-
Balances with other banks	6,577,017	6,455,197	-	-	121,820	-	-	-	-	-
Lendings to financial institutions	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-
Investments - net	63,486,316	8,311,286	7,053,609	11,727,876	19,453,516	619,665	795,144	10,752,156	4,640,755	132,309
Advances - net	198,239,155	3,025,175	40,581,531	31,723,075	60,657,360	35,631,318	13,810,935	10,921,950	1,864,789	23,022
Operating fixed assets	9,054,156	75,944	159,497	307,593	1,091,204	739,757	501,313	229,566	436,846	5,512,436
Deferred tax assets	617,200	-	-	-	359	120,931	181,217	302,148	1,800	10,745
Other assets - net	11,031,450	5,720,961	664,312	480,562	44,802	630,000	3,490,813	-	-	-
	342,553,070	67,451,339	56,443,949	45,939,106	81,369,061	37,741,671	18,779,422	22,205,820	6,944,190	5,678,512
Liabilities										
Bills payable	7,089,679	7,089,679	-	-	-	-	-	-	-	-
Borrowings	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-
Deposits and other accounts	257,461,838	225,345,437	7,950,363	6,229,354	7,688,296	2,840,110	1,333,264	4,286,583	1,788,431	-
Subordinated loan	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-
Deferred tax liabilities	444,827	1,036	2,073	3,109	20,564	12,437	12,437	24,874	47,843	320,454
Other liabilities	11,171,496	3,369,864	623,301	460,994	2,878,406	498,190	501,349	1,023,194	954,932	861,266
	301,708,756	250,686,590	13,653,439	8,823,925	11,246,408	3,830,737	1,847,050	5,334,651	5,104,236	1,181,720
Net assets	<u>40,844,314</u>	<u>(183,235,251)</u>	<u>42,790,510</u>	<u>37,115,181</u>	<u>70,122,653</u>	<u>33,910,934</u>	<u>16,932,372</u>	<u>16,871,169</u>	<u>1,839,954</u>	<u>4,496,792</u>
Share capital	5,463,276									
Reserves	24,662,426									
Unappropriated profit	5,530,973									
Surplus on revaluation of assets										
- net of tax	5,187,639									
	<u>40,844,314</u>									

The above maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: Disclosure in the financial statements of banks and similar financial institutions based on contractual maturities. The maturity profile disclosed in note 44.4.2 includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of these deposits.

44.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	2005									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
----- (Rupees '000) -----										
Assets										
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-	-	-	-	-	-
Balances with other banks	1,466,045	1,466,045	-	-	-	-	-	-	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-	-	-	-	-	-
Investments - net	69,481,487	12,374,743	6,500,233	11,303,636	22,743,386	568,727	1,156,839	8,897,375	5,936,548	-
Advances - net	180,322,753	843,596	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,828
Operating fixed assets	8,182,454	52,971	105,942	158,913	888,085	635,651	575,160	165,184	412,960	5,187,588
Deferred tax assets - net	191,967	-	-	-	-	38,393	57,590	95,984	-	-
Other assets - net	5,471,697	3,356,453	39,599	39,599	62,048	761,250	630,000	582,748	-	-
	<u>298,780,780</u>	<u>51,758,185</u>	<u>41,220,835</u>	<u>47,927,503</u>	<u>79,510,666</u>	<u>30,964,452</u>	<u>13,771,777</u>	<u>19,631,501</u>	<u>8,756,445</u>	<u>5,239,416</u>
Liabilities										
Bills payable	8,536,674	8,536,674	-	-	-	-	-	-	-	-
Borrowings	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-
Deposits and other accounts	229,341,890	218,312,332	185,160	2,096,008	43,100	3,151,726	703,750	3,430,546	1,419,268	-
Subordinated loan	1,598,080	-	320	-	320	1,118,208	479,232	-	-	-
Other liabilities	8,192,338	2,498,032	617,122	427,910	1,377,232	217,498	217,498	1,590,029	1,247,017	-
	<u>275,046,484</u>	<u>253,437,397</u>	<u>4,089,745</u>	<u>2,523,918</u>	<u>1,420,652</u>	<u>4,487,432</u>	<u>1,400,480</u>	<u>5,020,575</u>	<u>2,666,285</u>	<u>-</u>
Net assets	<u>23,734,296</u>	<u>(201,679,212)</u>	<u>37,131,090</u>	<u>45,403,585</u>	<u>78,090,014</u>	<u>26,477,020</u>	<u>12,371,297</u>	<u>14,610,926</u>	<u>6,090,160</u>	<u>5,239,416</u>
Share capital	4,265,327									
Reserves	9,054,940									
Unappropriated profit	4,990,260									
Surplus on revaluation of assets										
- net of tax	5,423,769									
	<u>23,734,296</u>									

The above maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: Disclosure in the financial statements of banks and similar financial institutions based on contractual maturities. The maturity profile disclosed in note 44.4.2 includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of these deposits..

44.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Bank

	2006									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	----- (Rupees '000) -----									
Assets										
Cash and balances with treasury banks	32,465,976	32,465,976	-	-	-	-	-	-	-	-
Balances with other banks	6,577,017	6,455,197	-	-	121,820	-	-	-	-	-
Lendings to financial institutions	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-
Investments - net	63,486,316	8,311,286	7,053,609	11,727,876	19,453,516	619,665	795,144	10,752,156	4,640,755	132,309
Advances - net	198,239,155	3,025,175	40,581,531	31,723,075	60,657,360	35,631,318	13,810,935	10,921,950	1,864,789	23,022
Operating fixed assets	9,054,156	75,944	159,497	307,593	1,091,204	739,757	501,313	229,566	436,846	5,512,436
Deferred tax assets	617,200	-	-	-	359	120,931	181,217	302,148	1,800	10,745
Other assets - net	11,031,450	5,720,961	664,312	480,562	44,802	630,000	3,490,813	-	-	-
	342,553,070	67,451,339	56,443,949	45,939,106	81,369,061	37,741,671	18,779,422	22,205,820	6,944,190	5,678,512
Liabilities										
Bills payable	7,089,679	7,089,679	-	-	-	-	-	-	-	-
Borrowings	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-
Deposits and other accounts	257,461,838	26,101,223	32,870,784	69,126,607	70,585,549	20,010,179	14,028,581	14,123,596	6,263,182	4,352,137
Subordinated loan	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-
Deferred tax liabilities	444,827	1,036	2,073	3,109	20,564	12,437	12,437	24,874	47,843	320,454
Other liabilities	11,171,496	3,369,864	623,301	460,994	2,878,406	498,190	501,349	1,023,194	954,932	861,266
	301,708,756	51,442,376	38,573,860	71,721,178	74,143,661	21,000,806	14,542,367	15,171,664	9,578,987	5,533,857
Net assets	40,844,314	16,008,963	17,870,089	(25,782,072)	7,225,400	16,740,865	4,237,055	7,034,156	(2,634,797)	144,655
Share capital	5,463,276									
Reserves	24,662,426									
Unappropriated profit	5,530,973									
Surplus on revaluation of assets										
- net of tax	5,187,639									
	40,844,314									

Refer the sub-note to note 44.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

44.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Bank

	2005									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees '000)									
Assets										
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-	-	-	-	-	-
Balances with other banks	1,466,045	1,466,045	-	-	-	-	-	-	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-	-	-	-	-	-
Investments - net	69,481,487	12,374,743	6,500,233	11,303,636	22,743,386	568,727	1,156,839	8,897,375	5,936,548	-
Advances - net	180,322,753	843,596	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,828
Operating fixed assets	8,182,454	52,971	105,942	158,913	888,085	635,651	575,160	165,184	412,960	5,187,588
Deferred tax assets - net	191,967	-	-	-	-	38,393	57,590	95,984	-	-
Other assets - net	5,471,697	3,356,453	39,599	39,599	62,048	761,250	630,000	582,748	-	-
	298,780,780	51,758,185	41,220,835	47,927,503	79,510,666	30,964,452	13,771,777	19,631,501	8,756,445	5,239,416
Liabilities										
Bills payable	8,536,674	8,536,674	-	-	-	-	-	-	-	-
Borrowings	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-
Deposits and other accounts	229,341,890	26,256,886	24,740,778	63,111,306	61,058,398	19,173,308	12,598,561	12,888,593	5,546,039	3,968,021
Subordinated loan	1,598,080	-	320	-	320	1,118,208	479,232	-	-	-
Other liabilities	8,192,338	2,498,032	617,122	427,910	1,377,232	217,498	217,498	1,590,029	1,247,017	-
	275,046,484	61,381,951	28,645,363	63,539,216	62,435,950	20,509,014	13,295,291	14,478,622	6,793,056	3,968,021
Net assets	23,734,296	(9,623,766)	12,575,472	(15,611,713)	17,074,716	10,455,438	476,486	5,152,879	1,963,389	1,271,395
Share capital	4,265,327									
Reserves	9,054,940									
Unappropriated profit	4,990,260									
Surplus on revaluation of assets										
- net of tax	5,423,769									
	23,734,296									

Refer the sub-note to note 44.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

44.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The Bank has an operational risk policy approved by Board of Directors. Operational risk, is presently in state of evolution. The policy among other aspects focuses on measuring operational risk through establishing systems for maintaining operational loss database, identifying and monitoring key risk indicators, setting operational risk tolerance levels, etc.

The Bank is in the process of developing and documenting a detailed operational risk framework. The purpose of framework is to guide the implementation of operational risk policy. The framework aims at laying out clearly defined roles and responsibilities of individuals / units across different functions of the Bank that would be involved in performing various operational risk management tasks.

45. GENERAL AND NON-ADJUSTING EVENT

45.1 Revised format of annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements prepared by banks for periods commencing from January 01, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect to business activities and capital adequacy and expended disclosures in respect of the Bank's derivatives instruments and risk management.



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

- Other income receivable of Rs. 145.565 million has been clubbed with income / markup accrued on advance and investments - local currency.
- Branch adjustment account in other liabilities has been reduced by amount of Rs. 39.527 million and allocated to different heads within other liabilities and other assets as well.
- Unrealised gain / (loss) on forward exchange contracts have been grossed up to Rs. 147.207 million on the asset side and Rs. 101.996 million on the liability side, instead of a net unrealised gain on the asset side amounting to Rs. 45.211 million.
- Compensation on delayed tax refund amounting to Rs. 340.598 million has been reclassified from extraordinary item to other income.

45.3 Comparative information have also been restated to comply with the change in accounting policy as disclosed in note 5.11 to the financial statements.

45.4 Non-adjusting event

The Board of Directors in its meeting held on February 23, 2007 has announced a final cash dividend in respect of the year ended December 31, 2006 of Rs. 1.50 per share (2005: Re. 1.00 per share) and bonus shares 15% (2005: 20%). In addition, the Board of Directors has also approved the transfer to general reserve from unappropriated profit amounting to Rs. Nil (2005: Rs. 3,500 million). These financial statements for the year ended December 31, 2006 do not include the effect of these appropriations which will be accounted for subsequent to the year-end.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on February 23, 2007.

Mohammad Aftab Manzoor
President and Chief Executive

Shahzad Saleem
Director

Aftab Ahmad Khan
Director

Dr. Muhammad Yaqub
Director

Annexure - I

1. Particulars of investments in listed companies, mutual funds and modarabas (refer note 9) - available for sale

Investee entities	Note	Number of ordinary and preference shares/ certificates/units held	Paid-up value per share/certificate/ unit	Total paid-up / nominal value	Balance as at December 31, 2006
					------(Rupees '000)-----
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					61,602
Fully Paid-up Ordinary Shares					
Al-Ghazi Tractors Limited		67,200	5	336	6,651
Allied Bank Limited		506,000	10	5,060	40,836
Askari Commercial Bank Limited		1,300,495	10	13,005	125,443
Baig Spinning Mills Limited		390,230	10	3,902	3,512
Bank Alfalah Limited		191,667	10	1,917	9,561
Bank Al-Habib Limited		469,941	10	4,699	15,756
The Bank of Punjab		697,834	10	6,978	55,578
Bawany Sugar Mills Limited		10,600	10	106	58
BOC Pakistan Limited		22,409	10	224	3,106
Brother Textile Mills Limited		84,263	10	843	249
Century Papers Mills Limited		398,600	10	3,986	17,657
Colony Mills Limited		181	10	2	2
EFU General Insurance Company Limited		792,535	10	7,925	67,675
EFU Life Insurance Company Limited		16,228	10	162	1,979
Engro Chemical Pakistan Limited		453,047	10	4,530	51,383
Escorts Investment Bank Limited		84,229	10	842	1,424
Fauji Cement Limited		26,188	10	262	550
Fauji Fertilizer Bin Qasim Limited		100,174	10	1,002	2,865
Fauji Fertilizer Company Limited		6,818,316	10	68,183	601,703
Faysal Bank Limited		120,575	10	1,206	8,036
Glaxo Smith Pakistan Limited		125,818	10	1,258	4,936
Habib Metropolitan Bank Limited		72,600	10	726	5,304
Honda Atlas Cars Limited		161,550	10	1,616	5,529
Hub Power Company Limited		27,254,425	10	272,544	661,568
IGI Insurance Limited		9,343	10	93	601
Indus Motors Limited		285,000	10	2,850	31,030
Khurshid Spinning Mills Limited		20,400	10	204	43
Kohinoor Energy Limited		55,500	10	555	1,580
Kohinoor Industries Limited		55,627	10	556	743
Kot Addu Power Company Limited		3,124,400	10	31,244	141,668
Lucky Cement Limited		36,714	10	367	3,855
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		660,483	10	6,605	111,956
Mirza Sugars Limited		27,475	10	275	80
Mohammad Farooq Textile Limited		24,371	10	244	152
National Bank of Pakistan		718,241	10	7,182	164,133
Oil & Gas Development Corporation Limited		473,865	10	4,739	59,294
Orix Leasing Limited		220,800	10	2,208	5,025
PICIC Commercial Bank Limited		26,906	10	269	974
Packages Limited		205,248	10	2,052	25,489
Pakistan Oilfields Limited		926,159	10	9,262	307,727
Pakistan Reinsurance Limited		110,000	10	1,100	16,521
Pakistan Petroleum Limited		331,500	10	3,315	68,223
Pakistan PTA Limited		44,156	10	442	258
Pakistan State Oil Company Limited		866,607	10	8,666	254,021
Pakistan Synthetics Limited		14,230	10	142	121
Prime Commercial Bank Limited		35,529	10	355	2,110
Pakistan Telecommunication Company Limited		3,114,731	10	31,147	122,205

Annexure - I

Investee entities

	Number of ordinary and preference shares/ certificates/units held	Paid-up value per share/certificate/ unit	Total paid-up / nominal value	Balance as at December 31, 2006
				------(Rupees '000)-----
Redco Textiles Limited	175,000	10	1,750	1,750
Rupali Polyester Limited	658,545	10	6,585	46,476
Sakrand Sugar Limited	59,300	10	593	178
Saudi Pak Commercial Bank Limited	12,821	10	128	236
Sui Northern Gas Pipelines Limited	47,728,822	10	477,288	2,205,252
Taj Textile Mills Limited	400	10	4	1
Thal Limited	300,000	5	1,500	20,080
Tripack Films Limited	7,500	10	75	512
Trust Security & Brokerage Limited	300,000	10	3,000	3,000
United Bank Limited	2,539,900	10	25,399	278,620
Unilever Pakistan Limited	22,800	50	1,140	21,365
Worldcall Telecom Limited	2,753	10	28	32
Yousuf Weaving Mills Limited	13,638	10	136	91
				5,602,932

Fully Paid-up Ordinary Certificates / Units of Mutual Funds

AKD Opportunity Fund	100,000	50	5,000	5,000
Al-Meezan Mutual Fund	1,096,526	10	10,965	9,204
Atlas Income Fund	122,357	500	61,179	50,000
Atlas Islamic Fund	20,000	500	10,000	10,000
Atlas Stock Market Fund	27,729	500	13,865	10,000
BSJS Balanced Fund Limited	541,245	10	5,412	4,662
Meezan Balanced Fund	1,000,000	10	10,000	10,000
Meezan Islamic Fund	500,000	50	25,000	13,051
Pakistan Capital Market Fund	33,080	10	331	390
Pakistan Premier Fund Limited	81,360	10	814	1,041
PICIC Growth Fund Limited	439,481	10	4,395	16,972
PICIC Investment Fund Limited	82,229	10	822	1,233
Unit Trust of Pakistan	10,000	5000	50,000	30,154
UTP Growth Fund	141,741	10	1,417	1,949
UTP Large Capital Fund	3,250,000	10	32,500	32,500
				196,156

Fully Paid-up Modaraba Certificates

Name of Management Company

First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,583,270	10	55,833	60,934
Standard Chartered Modaraba	Standard Chartered Services of Pakistan (Private) Limited	236,775	10	2,368	7,784
First Investec Modaraba	-	13,825	10	138	14
					68,732
Carrying value (before revaluation and provision)					5,929,422
Provision for diminution in value of investments					(96,747)
Surplus on revaluation of securities					1,706,008
Carrying value as at December 31, 2006					7,538,683

- 1.1 These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs.10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

Annexure - I

2. Particulars of investments held in unlisted companies - (refer note 9) - available for sale

Company Name	Percentage of Holding (%)	Number of Shares held	Carrying value as at December 31, 2006 (Rupees '000)	Net asset value of total investment		Name of the Chief Executive
				(Rupees '000)	Based on audited financial statements as at	
Shareholding more than 10%						
Fully Paid-up Preference Shares						
Fazal Cloth Mills Limited (2.2)	24.00	10,000,000	100,000	-	-	Mr. Sheikh Naseem Ahmed
Fully Paid-up Ordinary Shares / Certificates / Units						
Pak Asian Fund Limited	10.22	1,150,000	11,500	18,973	June 30, 2006	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60	300	300,000	307,779	December 31, 2005	Mr. Ghalib Nishtar
Central Depository Company Limited	10.00	2,015,000	10,000	84,671	June 30, 2006	Mr. Mohammad Hanif Jakhura
First Capital Investment Limited	13.15	250,000	2,500	2,748	June 30, 2006	Mr. Mohammad Faisal Potrik
			324,000			
Shareholding up to 10%						
Fully Paid-up Ordinary Shares / Certificates / Units						
Equity Participation Fund		15,000	1,500	8,256	June 30, 2006	Mr. Jamil Nasim
National Institutional Facilitation Technologies (Private) Limited		662,584	1,527	29,912	June 30, 2006	Mr. Muzaffar Mahmood Khan
National Investment Trust Limited		52,800	100	*134,993	June 30, 2006	Mr. Tariq Iqbal Khan
SME Bank Limited (Formerly Small Business Finance Corporation)		1,490,619	10,106	22,192	December 31, 2005	Mr. Mansur Khan
Pakistan Agricultural Storage and Services Corporation		2,500	2,500	*(223,158)	March 31, 2006	Major General Muhammad Iqbal Khan
Society for Worldwide Inter Fund Transfer (SWIFT)		31	2,993	4,945	December 31, 2005	Mr. Leonard H. Schrank
Lanka Clearing (Private) Limited		100,000	567	Not available	Not available	Mr. Sarath De Silva
Credit Information Bureau of Sri Lanka		300	17	Not available	Not available	Mr. N.P.H. Amarasena
			19,310			
			443,310			

2.1 The above excludes shares of companies which are fully provided for in these financial statements. All the above companies are incorporated in Pakistan, except for Lanka Clearing (Private) Limited, Credit Information Bureau of Sri Lanka and SWIFT.

2.2 These carry dividend rate of 6 months KIBOR + 2.5%. The percentage of holding disclosed is in proportion to the preference share paid-up capital.

* Increase in share capital consequent to the issuance of bonus shares after the balance sheet date has been taken in the determination of net asset value disclosed above.

Annexure - I

3. Particulars of investments in Term Finance Certificates - (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total paid up value (before redemption) ----- (Rupees) -----	Profit	Principal redemption	Balance as at December 31, 2006 (Rupees '000)	Name of Chief Executive
LISTED TERM FINANCE CERTIFICATES - available for sale							
Allied Bank Limited	23,404	5,000	117,020,000	6 months KIBOR + 1.9% p.a.	0.24% of principal redeemable in the first 72 months and the remaining principal in 4 semi-annual installments of 24.94% each of the issue amount starting from the 78th month from December 2006.	117,020	Mr. Khalid A. Sherwani
Askari Commercial Bank Limited - issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from February 2005.	99,940	Mr. Shaharyar Ahmad
- issue no. II	19,992	5,000	99,960,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from October 2005.	99,860	--do--
	39,992		199,960,000				
Azgard Nine Limited	20,000	5,000	100,000,000	6 months KIBOR + 2.4% p.a.	In 10 installments starting from the 30th month from September 2005.	99,960	Mr. Ahmed H. Sheikh
Bank Al Habib Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.02% of total issue in equal installments in first 78 months and the remaining in 3 equal semi-annuals installment from the 84th month from July 2004.	99,920	Mr. Abbas D. Habib
Bank Alfalah Limited - issue no. II	10,000	5,000	50,000,000	6 months KIBOR + 1.5% p.a.	0.25% of principal in the first 78 months and remaining principal in 3 semi-annual installments of 33.25% each of the issue amount starting from the 84th month from November 2004.	49,962	Mr. Muhammad Saleem Akhtar
- issue no. III	39,720	5,000	198,600,000	6 months KIBOR + 1.5% p.a.	0.25% of the principal in the first 78 months and remaining in 3 semi annual installments of 33.25% each starting from the 84th month from November 2005.	198,524	--do--
	49,720		248,600,000				
First Dawood Investment Bank Limited - issue no. II	6,250	5,000	31,250,000	SBP Discount Rate + 1.75% p.a.	After 5 years from July 2002 to redeem the TFC in whole or in part at the face value.	31,250	Mr. Rafique Dawood
Hira Textile Mills Limited	9,988	5,000	49,940,000	6 months KIBOR + 2.5% p.a.	In 6 semi annual installments after a grace period of 24 months from March 2005.	49,910	Mr. Nadeem Aslam Butt
Jahangir Siddiqui and Company Limited	39,968	5,000	199,840,000	Base rate + 1.5% p.a., (base rate is the cut-off yield of the last successful 5-year PIB auction by SBP)	In 4 equal semi-annual installments from the 42nd month from April 2003.	149,764	Mr. Munaf Ibrahim
Pakistan Services Limited	20,000	5,000	100,000,000	SBP Discount Rate + 2.25% p.a.	In 7 equal semi-annual installments and will commence from the 24th month from November 2003 after a grace period of 18 months.	8,529	Mr. Murtaza Hashwani
Soneri Bank Limited	30,000	5,000	150,000,000	6 months KIBOR + 1.6% p.a.	In 4 semi annual equal installments starting from the 78th month from May 2005.	149,910	Mr. Safar Ali K. Lakhani
Sui Southern Gas Company Limited - issue no. II	13,500	5,000	67,500,000	SBP Discount Rate + 1.10% p.a.	In 6 equal semi annual installments from 2005 to 2007.	11,220	Mr. Munawar Baseer Ahmad (MD)
United Bank Limited - issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	284,890	Mr. Atif R. Bokhari
Carrying value before revaluation						1,450,659	
Add: Revaluation surplus						6,811	
Carrying value of listed TFCs (revalued amount)						1,457,470	
UN-LISTED TERM FINANCE CERTIFICATES - held to maturity							
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	279,720	Mr. Munaf Ibrahim
Pak Kuwait Investment Company (Private) Limited	100,000	5,000	500,000,000	3 months KIBOR + 1.25% p.a.	In 5 equal semi-annual installments commencing from the 36th month from June 2005.	500,000	Mr. Istaqbal Mehdi (M.D.)
Pakistan Mobile Corporation Limited	100,000	5,000	500,000,000	6 months KIBOR + 1.6% p.a.	In 5 equal semi-annual installments starting from the 36th month from March 2004.	500,000	Mr. Zuhair A. Khaliq
Reliance Export (Private) Limited	50	10,000,000	500,000,000	6 months KIBOR + 2.5% p.a.	Redemption will commence from the 18th month from July 2005.	500,000	Mr. Fawad Ahmed Mukhtar
Carrying value of unlisted TFCs						1,779,720	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

Annexure - I

4. Details of Bonds and Federal Government Securities (refer note 9) - held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount (‘000)	Carrying value as at December 31, 2006 (Rupees '000)
	Principal	Interest				
Federal Government Securities						
Government of Pakistan	Yearly	Yearly	Barclays Bank's 3 months USD LIBOR +1%	US\$	8,147	496,246
Government of Srilanka Treasury Bonds	At maturity	Half-yearly	11.75%	SLRs	365,684	207,306
Srilanka Development Bonds	At maturity	Half-yearly	6.55%	SLRs	215,500	122,167
					589,331	825,719
Government Compensation Bonds						
Heavy Mechanical Complex	At maturity	Yearly	6.00%	PKR	-	27,224
Public Sector Enterprises Bonds (PSE-89)	At maturity	Yearly	6.00%	PKR	-	556,990
Public Sector Enterprises Bonds (PSE-90)	At maturity	Yearly	9.00%	PKR	-	286,557
					-	870,771
Sukuk Bonds						
Government Sukuk Bonds	At maturity	Half-yearly	6 Month LIBOR+2.2%	US\$	12,699	773,478
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR	-	800,000
					12,699	1,573,478
Euro Bonds						
Euro Bonds - OBU Bahrain	At maturity	Half-yearly	6.75%	US\$	48,061	2,927,405
Euro Bonds - Srilanka	At maturity	Half-yearly	6.75%	US\$	1,506	91,730
					49,567	3,019,135
Government of Pakistan guaranteed bond						
* Rice Export Corporation of Pakistan	Yearly	Half-yearly	15.00%	PKR	-	310,504
					-	310,504

* The above excludes bonds, which are fully provided for in these financial statements.

5. Details of certificates of investment (refer note 9) - held to maturity in local currency

Company Name	Carrying value at December 31, 2006 (Rupees ‘000)	Profit rate (%)	Maturity date
Pak Libya Holding Company Limited	500,000	11.3	March 2007
Pak Kuwait Investment Company Limited	1,750,000	10.7 & 10.75	February 2007
Saudi Pak Commercial Bank Limited	250,000	10.75	January 2007
Pak Oman Investment Company Limited	500,000	10.75	January 2007
Pakistan Industrial Credit Investment Corporation Limited	500,000	11	January 2007
First Dawood Investment Bank Limited	50,000	12.05	February 2007
	3,550,000		

Annexure - I

6. Investment in subsidiaries

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

Name	% of holding	Country of incorporation	Year of incorporation
Muslim Commercial Financial Services (Private) Limited	* 99.99	Pakistan	1992
MNET Services (Private) Limited	* 99.95	Pakistan	2001
MCB Trade Services Limited	100	Hong Kong	2005
MCB Asset Management Company Limited	*99.99	Pakistan	2005

* Remaining shares are held by certain individuals as nominees of the Bank.

7. Summarised financial information of associated undertakings (refer note 9)

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

Name of associated undertaking	Country of incorporation	Assets	Liabilities	Net assets	Revenue	Profit	% of interest held
2006							
First Women Bank Limited (unaudited based on September 30, 2006)	Pakistan	8,232,447	7,401,926	830,521	360,263 *	105,752	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2006)	Pakistan	10,567,871	7,068,793	3,499,078	3,899,013 **	1,287,706	29.13%
		<u>18,800,318</u>	<u>14,470,719</u>	<u>4,329,599</u>	<u>4,259,276</u>	<u>1,393,458</u>	
December 2005							
First Women Bank Limited	Pakistan	10,503,234	9,776,545	726,689	436,835 *	133,601	26.78%
Adamjee Insurance Company Limited	Pakistan	9,182,380	6,880,132	2,302,248	3,997,327 **	1,163,246	29.13%
		<u>19,685,614</u>	<u>16,656,677</u>	<u>3,028,937</u>	<u>4,434,162</u>	<u>1,296,847</u>	

* Represents net mark-up / interest income

** Represents net premium revenue

Annexure - II

ISLAMIC BANKING BUSINESS

The Bank is operating 6 Islamic banking branches at the end of December 31, 2006 as compared to 5 Islamic banking branches at the end of December 31, 2005.

	2006 (Rupees '000)	2005 (Rupees '000)
ASSETS		
Cash and balances with treasury banks	92,053	87,027
Investments	800,000	-
Financing and receivables		
-Murabaha	1,592,019	1,562,523
-Ijara	1,073,014	725,038
-Islamic export refinance	268,347	-
Other assets	505,909	84,503
Total Assets	4,331,342	2,459,091
LIABILITIES		
Bills payable	14,517	4,644
Deposits and other accounts		
-Current accounts	121,102	164,900
-Saving accounts	264,268	222,249
-Term deposits	54,439	47,879
-Others	7,968	8,473
Borrowing from SBP	316,782	-
Due to head office	2,750,000	1,600,000
Other liabilities	434,076	163,484
	3,963,152	2,211,629
NET ASSETS	368,190	247,462
REPRESENTED BY		
Islamic banking fund	280,000	230,000
Unappropriated profit	88,190	17,462
	368,190	247,462
Remuneration to Shariah Advisor / Board	935	761
CHARITY FUND		
Opening Balance	2,757	2,743
Additions during the year	487	14
Payments / utilization during the year	-	-
Closing Balance	3,244	2,757

Annexure - III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2006.

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
1	M/S. RAJA FLOUR MILLS Deh Jhang, Taluka Abauro, Distt. Sukkur.	Pretam Das (Deceased)	413-40-055478	Pesumal	650	2,051	-	2,701	600	175	1,876	2,651
2	M/S. AKBAR FABRICS (PVT) LTD.. Chak No.279/RB,Khurd Kaleem Shaheed Park Road, Faisalabad.	1.Iqbal Akbar Khan 2.Nisar Akbar 3.Saeed Akbar	270-44-481053 246-39-021622 246-85-368285	1.Ch.Ali Akbar 2.Ch.Ali Akbar 3.Ch.Ali Akbar	29,071	14,334	-	43,405	3,871	-	14,334	18,205
3	M/S CONSOLIDATED ALLOYS (PVT) LTD. 75-D/I, Gulberg Lahore.	1.Muhammad Umar Tarar 2.Rashid Aslam 3.Mst. Ilyas Begum 4.Nadeem Hayat 5.Ahmed Hassan	274-89-361058 279-84-856921 276-89-361044 279-86-518965	1.Saifullah Tarar 2.M.Asam Khan 3.Muhammad Usman 4.M. Hayat Malik 5.Ghulam Rasool	-	2,937	15	2,952	-	-	2,749	2,749
4	M/S CHENAB CEMENT PRODUCTS (PVT) LTD. 75-D/I, Gulberg Lahore.	1.Muhammad Umar Tarar 2.Rashid Aslam 3.Mrs Aliya Usman 4.Jaffar Tarar	274-89-361058 279-84-856921 274-86-650854 274-86-985624	1.Saifullah Tarar 2.M.Asam Khan 3.Muhammad Usman 4.Saifullah Tarar	-	2,579	15	2,594	-	-	2,594	2,594
5	M/S. MUSLIM OIL MILLS Market Chowk Hyderabad.	1.Muhammad Iqbal 2.Abid Hussain 3.Miss Naheed Yasmeen 4.Khalid Hussain		1.Ch. Sher Muhammad 2.Ch. Muhammad Hussain 4.Ch. Muhammad Hussain	-	1,097	-	1,097	-	-	1,097	1,097
6	M/S. ORIENT BUILDERS Liberty Market Hyderabad.	Altaf Hussain (Late)		Shahabuddin Arain	-	1,505	36	1,541	-	219	1,322	1,541
7	M/S. MINAR TRADING CO. 377-B Faisal Town Lahore.	1.Jamshed Iqbal 2.Muhammad Latif	276-93-008667 276-93-088657	1.Muhammad Latif 2.Meher Ahmed Din	-	1,586	-	1,586	-	-	1,586	1,586
8	M/S. NEW ROSE SILK FACTORY Ferozwala Road, Gujranwala.	Inamullah	285-89-072576	Muhammad Muneer	2,868	2,734	67	5,669	-	21	2,780	2,801
9	M/S TEX TRADE GARMENTS (PVT) LTD. 24-Sultan Street, Near Water Wali Tanki, Islampura Lahore.	1.Ch. Sajjad Ahmed 2.Mrs.Shamim Sajjad	212-54-007638	1.Ch.Ghulam Murtaza 2.Ch.Sajjad Ahmed	71	931	35	1,037	-	-	838	838
10	M/S. SDA COLD STORAGE MARDAN Gul Trunk House, Khawaja Gunj Bazar, Mardan.	Gul Shehzada			5,095	20,707	-	25,802	-	-	20,481	20,481
11	M/S. CHAKWAL FLOUR MILLS Ghalla Mandi Chakwal	1.Ch.Ali Nawaz Khan 2.Ch.Ali Nasir Khan 3.Ch.Muhammad Mumtaz Khan	221-94-189662 221-58-189359		-	1,872	-	1,872	-	-	1,872	1,872
12	TARIQ SAEED Room No.406 Islamabad Stock Exchange Building Islamabad.	Tariq Saeed	516-41-169306	Saeed A. Khan	695	1,720	46	2,461	695	422	1,344	2,461
13	M/S. HEAVY ELECTRICAL COMPLEX (PVT) LTD. Hattar Industrial Estate, NWFP.	1.Javed Akhtar Kakar 2.Kamal Abbasi Siddiqui 3.Sajid Ali Abbasi	270-34-118800 101-37-113028 136-39-055604		-	64,618	81	64,699	-	99	64,600	64,699

Annexure - III

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
14	M/S.R.S. BOARD (PVT) LTD. 67/JB Jhang Road Sadhar, Faisalabad.	1.Raja Riaz Ahmed 2.Shujat Ali 3.Sadaqat Ali 4.Muhammad Saqib 5.Shamsha-ul-Haq 6.Mrs.Nighat Akbar	246-90-337393 246-55-044585 246-60-240483 246-85-240485 246-93-179784 246-85-287946	1.Raja Sher Muhammad 2.Amanat Ali 3.Amanat Ali 4.Amanat Ali 5.Mehar Atta Muhammad 6.Raja Riaz Ahmed	-	1,691	-	1,691	-	-	1,691	1,691
15	M/S. RAFAQAT ALI Saialvi House New Civil Lines Canal Office, Jhang Saddar	Rafaqat Ali	234-88-370005	Nazir Ahmed	-	1,383	-	1,383	-	-	1,383	1,383
16	M/S. MIAN FALAK SHER & COMPANY P-634 Water Works Street No.6, Nia Bazar, Jaranwala, Distt Faisalabad.	Mian Falak Sher (Deceased)	249-88-000047	Mian Rehmat Ali	-	1,122	-	1,122	-	-	1,122	1,122
17	M/S. SUPREME GUMS LTD. Chak No.506 Toba Link Road Jhang Saddar Jhang.	1.Sh Abdul Waheed 2.Sh.Muhammad Jamil 3.Sh.Muhammad Jahangir 4.Sh.Muhammad Anees 5. Mst Hameeda Saeed 6.Mst Sajida Waheed 7.Abdul Karim	259-87-094086 259-60-004062 259-88-004065 259-86-004060 259-34-094087 259-91-288433 259-54-209417	1.Muhammad Saeed 2.Muhammad Saeed 3.Muhammad Saeed 4.Muhammad Saeed 5.Sh.Abdul Waheed 6.Sh.Abdul Waheed 7.Abdul Ghani	17,152	32,180	508	49,840	2,458	2,832	29,856	35,146
18	M/S. CHAUDHRY TEXTILE MILLS P-143,Railway Road Faisalabad	Ch. Abdul Hameed	245-44-266361	Muhammad Sharif	-	3,870	-	3,870	-	-	3,870	3,870
19	M/S. KOILAWALA (PVT) LTD. F-187, S.I.T.E. Karachi.	1.Muhammad Farooq 2.Mrs Maimoona 3.Abdul Aziz 4.Fareed	512-47-128608 512-49-128609 512-44-142149 512-88-128611	1.Abdul Rahim 2.Muhammad Farooq 3.Hashim 4.Muhammad Farooq	-	2,587	114	2,701	-	-	2,701	2,701
20	M/S. KARACHI STEEL F-187, S.I.T.E. Karachi.	Fareed	512-88-128611	Muhammad Farooq	5,871	71,249	114	77,234	5,871	-	71,363	77,234
21	M/S. AL REHMAN MODEL INDUSTRIES Uch Sharif P.O. Same Tehsil Ahmed Pur East.	1.Malik Muhammad Iqbal 2.Malik Obaidur Rehman 3.Malik Farooq Ahmed 4.Malik Hafeezur Rehman 5.Malik Muhammad Anwar	361-46-218884 361-58-344991 361-56-016321 361-52-011313 361-44-275753	1.Hafiz Imam Bukhsh 2.Hafiz Imam Bukhsh 3.Hafiz Imam Bukhsh 4.Hafiz Imam Bukhsh 5.Hafiz Ghulam Qasim	-	2,602	-	2,602	-	-	2,602	2,602
22	M. ASLAM & SONS COTTON GINNERS OIL & ICE FACTORY Quaid Millat Road Khanpur	1.Rana Muhammad Aslam 2.Rana Muhammad Tariq 3.Rana Shahid Javaid 4.Rana Athar Javaid	359-36-315853 359-60-015854 359-61-015855 359-89-015858	1.Rana Ghulam Qadir 2.Rana Muhammad Aslam 3.Rana Muhammad Aslam 4.Rana Muhammad Aslam	-	1,687	-	1,687	-	-	1,687	1,687
23	M/S TARIQ NAWAZ 1/A Sector 24, Korangi Industrial Area, Karachi.	Tariq Nawaz		Karim Nawaz	1,000	-	35	1,035	1,000	-	35	1,035
24	M/S.A.S.Z & COMPANY 216, 2nd Floor, Panorama Centre, Saddar, Karachi	Shahid Razzak Sakrani		Abdul Razzak Sakrani	538	1,289	82	1,909	538	60	1,311	1,909
25	HAZOOR BUX BROHI Miro Khan Road, Near Kausar Mill, Larkana.	Hazoor Bux Brohi	422-37-016362	Haji Qasim Khan	300	749	-	1,049	300	196	553	1,049

Annexure - III

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
26	M/S. BILAL FIBRES LTD. 38-K.M.Sheikhupura Road, Faisalabad.	1.Altaf Ahmed Niazi 2.Bilal Umer 3.Khadim Hussain 4.Mian Habibullah 5.Mian Muhammad Saleem Umer 6.Mian Naeem Umer 7.Shaista Saleem	33100-0704498-9 33100-5120610-3 33100-3570030-9 37405-6085591-5 33100-0902344-5 33100-0571105-5 33100-7359416-0		34,570	-	-	34,570	31,293	-	-	31,293
27	M/S. ARSALA CORPORATION BS-14, Block-16,2nd Floor, Kashif Plaza, F.B.Area, Karachi	Asadullah Khan	501-41-220474	Imdadullah Khan	923	201	-	1,124	923	201	-	1,124
28	SALEEM AKHTAR QURESHI (EX STAFF) B-G/2-Al Mustafa Homes Behind Shell, House, Frere Town-2, Clifton,Karachi	Saleem Akhtar Qureshi (Ex Staff)	42301-0851344-9	Atta Muhammad Qureshi	-	1,022	-	1,022	-	-	1,022	1,022
29	M/S. AGRIPAK INSECTICIDE INDUSTRIES 114-Sector 24, Korangi Industrial Area, Karachi	1.Danish Mehmood Azfari (Expired) 2.Tehseen Mehmood Azfari 3.Tabish Mehmood Azfari 4.Jalees Mehmood Azfari	502-53-190448 502-56-190444 502-58-472579	1.M. Mehmood Ahmed Azfari 2.M.Mehmood Ahmed Azfari 3.M.Mehmood Ahmed Azfari 4.M.Mehmood Ahmed Azfari	-	2,369	46	2,415	-	-	2,415	2,415
30	NAWAB ALI BROHI Miro Khan Chowk Larkana	Nawab Ali Brohi	423-60-083217	Rehmatullah Brohi	500	677	-	1,177	500	34	643	1,177
31	M/S. RAJA MOTORS CO. LTD. 192-A,Raja Square, SMCHS, Karachi	1.Raja Abdul Rehman 2.Raja Tariq Rehman 3.Habib-ur-Rehman 4.Mrs.Imtiaz Rehman	517-33-179180 514-57-073164 517-65-179186 517-34-179181	2.Raja Abdul Rehman 3.Raja Abdul Rehman 4.Raja Abdul Rehman	56,039	-	-	56,039	10,039	-	-	10,039
32	M/S. NAWAB SONS 407,Light House Centre, M.A. Jinnah Road, Karachi.	Muhammad Yousif Sindhu	281-23-461735	Ibrahim Sindhu	3,999	2,486	63	6,548	3,999	-	2,549	6,548
33	M/S. MUMTAZ SHAHBAZ TEXTILE MILLS LTD. Mumtaz Centre, 15-A Shahrah-e-Fatima, Lahore.	1.Mirza Mumtaz Baig 2.Mirza Iftekhar Baig 3.Mirza Asrar Baig 4.Mirza Mukhtar Baig 5.Salahuddin Gondal 6.Qamar-uz-Zaman Khan Rath 7.Khan Allah Yar Khan Rath			36,120	2,749	-	38,869	36,120	-	2,749	38,869
34	M/S. QASIM FLOUR MERCHANT Sirki Road Quetta	Syed Zahir	602-90-361682	Haji Muhammad Rasool	8,000	10,383	-	18,383	8,000	757	9,626	18,383
35	M/S. BELA BUILDERS 4-Mazzanine Floor, Hilton Court-2, Main Clifton Road, Karachi	Abdul Sattar Lasi	42000-0423154-9	Haji Juma	13,236	8,456	-	21,692	13,236	-	8,456	21,692
36	M/S. IMATCO (PVT) LTD 806-807,Gul Tower, I.I. Chundrigar Road, Karachi.	1.M Riffat Jawaaid Chaudhry 2.Mrs Zahida Shaheen 3.Miss.Gulzar Noor Ali 4.Noor Muhd. Chaudhry 5.Khalid Zubair 6.Khalid Iqbal Muneer	518-52-128159 502-58-261923 511-91-027259 518-94-213788 518-57-213780 502-55-269921	1.Ch. Noor Muhammad 2.Munir Ahmed 3.Noor Ali 4.Faiz Muhammad Chaudhry 5.Noor Muhammad Chaudhry. 6.Munir Ahmed	1,532	3,923	165	5,620	1,532	325	3,763	5,620

Annexure - III

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
37	M/S. PARACHA BROTHERS 2/15 Arkey Square (Ext), Shahrah-e-Liaquat, Karachi	Noor Muhammad Paracha		Haji Sultan Ahmed	1,862	4,007	123	5,992	1,862	-	4,130	5,992
38	M/S. FALCON ENGINEERING INDUSTRIES (PVT) LTD. 25, Chagla Street, Marriot Road, Karachi	1.Hafiz-ur-Rehman 2.Shabbir Jamal 3.Zafar Iqbal 4.Muhammad Sadiq			2,199	4,912	-	7,111	2,199	-	4,912	7,111
39	M/S AL-ZUKHRUF FABRICS (PVT) LTD C-7-A,SITE, Kotri.	1.Sabur-ur- Rehman 2.Asif Iqbal		1.Habib-ur-Rehman 2.Iqbal Ahmed	1,000	2,179	52	3,231	1,000	100	2,131	3,231
40	M/S. MEHR TEXTILE MILLS LTD Mandra Road Chakwal	1.Lt.Col.(Retd) Muhammad Ayub Khan 2.Ch.Nasir Ali Khan 3.Ch.Muhammad Nawaz Khan 4.Ch.Muhammad Ali Khan			-	4,745	-	4,745	-	-	4,745	4,745
41	M/S. CHILTON GHEE MILLS (PVT) LTD Sirki Road Quetta	1.Sahibzada Muhd. Khan 2.Sahibzada Juma Khan	602-55-071469 602-59-071473	1.Sahibzada Abdul Rahim 2.Sahibzada Abdul Rahim	4,836	4,228	-	9,064	4,836	-	4,228	9,064
42	M/S. BEST PRODUCTS (PVT) LTD DP-12,Sector 12/C,North Karachi Industrial Area, Karachi.	1.Shaikh Naseem Anwar 2.Naim Anwar	42301-0922537-7 517-93-467991	Shaikh Fazal Ellahi Shaikh Naseem Anwar	2,171	4,199	113	6,483	2,171	103	4,209	6,483
43	M/S. DASTAGIR INVESTMENT & MANAGEMENT LIMITED 4th Floor, Tibet Centre, M.A. Jinnah Road, Karachi	1.M.Q.Zaman (Late) 2.Najam Zaman 3.Mst.Qureshabi 4.Mst.Mehmooda			2,200	-	282	2,482	2,200	-	282	2,482
44	M/S MIRZA SUGAR MILLS LIMITED Lakson Square, Sarwar Shaheed Road, Karachi.	1.Dr.Mrs.Fehmida Mirza 2.Mir Ghulamullah Talpur 3.Arshad Abid Mirza 4.Mir Furqan Ali Talpur 5.Mirza Saulat Raza 6.Gul Nawaz	510-56-386040 455-54-004894 450-87-131154 455-78-284121 449-93-165674	1.Dr.Zulfiqar Ali Mirza	35,747	45,835	-	81,582	24,910	-	45,835	70,745
45	M/S ZEENAT BROTHERS (PVT) LTD 1-III/A, SMCHS, Shahrah-e-Faisal, Karachi.	1.Atiquddin Siddiqui 2.Irshad Hussain Siddiqui 3.Muhammad Anwar			10,285	20,298	83	30,666	10,285	-	20,381	30,666
46	M/S. PERWANI EXPORT & IMPORT TRADING CO. 764/765,Central Commercial Area, PECHS, Karachi.	Gobind Perwani	517-47-019505	Karam Chand Perwani	3,635	-	179	3,814	3,635	-	179	3,814
47	M/S REHMAT TEXTILE (PVT) LTD. 59-Delhi Cooperative Housing Society, Karachi.	1.Habibullah Sheikh 2.Farhatullah Sheikh 3.Ziaullah Sheikh 4.Muhammad Azeem 5.Shabbir Ahmed	512-47-180318 517-58-252762 517-89-027792 928-47-465511 302-60-170960	1.Shaikh Rehmattullah 2.Shaikh Rehmattullah 3.Shaikh Rehmattullah 4.Ahmed Khan 5.Sardar Ahmed	46,174	11,609	-	57,783	46,174	-	11,609	57,783

Annexure - III

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
48	M/S SHAFIQ TEXTILE MILLS (PVT) LTD. 58-A, Lalazar, M. Tamizuddin Khan Road, Karachi.	1. Nawab Ahmed 2. Khan Mohammad 3. Ch. Gulzar Ahmed 4. Zafarullah Siddiqui 5. Mrs. Qamar Sultana 6. Hafiz Sadatullah Khan 7. Mrs. Samina Yousuf	516-92-121038 516-93-015998 516-92-256592 517-93-159110 516-93-398895	1. Ch. Iqbal Ahmed 3. Ch. Iqbal Khan 5. Nawab Ahmed 6. Azmatullah Khan 7. Ch. Gulzar Ahmed	3,806	7,503	78	11,387	3,806	-	7,581	11,387
49	M/S. ROLAND IMPEX Flat No.4, Zeenat Plaza, Gali No.4, Bihar Colony, Karachi.	Muhammad Sharif	261-44-042016	Muhammad Shams-ud- Din	6,507	8,851	106	15,464	6,507	-	8,957	15,464
50	M/S MUHAMMAD IQBAL MUHAMMAD ALI Eidgah Road Sargodha.	1. Muhammad Iqbal 2. Muhammad Ali.		1. Muhammad Ramzan 2. Muhammad Ramzan	-	816	-	816	-	-	816	816
51	M/S. SARFRAZ TRADING COMPANY Victoria Market Sukkur	Sarfraz Ahmed		Shaikh Abdul Majeed	-	564	-	564	-	-	564	564
52	SHAIKH ABDUL MAJEED Victoria Market Sukkur	Shaikh Abdul Majeed		Muhammad Yaqoob	-	759	-	759	-	-	759	759
53	M/S HYDERI PESTICIDE Village & P.O. Kot Bunglow	Nazar Hussain Jamali		Allah Bux	178	502	15	695	178	-	444	622
54	M/S. TAWAKAL COMMISSION SHOP Ghalla Mandi Chakwal	1. Ch. Ali Nawaz Khan 2. Ch. Ali Nasir Khan	221-89-189462 221-94-189463		-	540	-	540	-	-	540	540
55	M/S. MYKA STEEL (PVT) LTD. Plot No.33-C Industrial Estate Hayatabad, Peshawar	1. Rafiq-ur-Rehman 2. Rashid-ur-Rehman 3. Sana Ullah Khan	116-89-238186 116-63-078739 116-72-078742		-	870	-	870	-	-	870	870
56	M/S. HAFIZ BROTHERS Street No.7 Munshi Mohallah Faisalabad	Hafiz Ghulam Rasool (Deceased)	260-24-007925	Mian Khuda Buksh	116	909	41	1,066	-	-	681	681
57	M/S. GHAZIABAD COTTON GINNERS Guddo Road Nawazabad Sadiqabad	1. Rais Mehboob Ahmed Khan 2. Rais Muhammad Mehboob 3. Haji Ahmed 4. Saddat Ali 5. Yar Muhammad	360-87-398676 360-58-385431 360-50-066887 360-85-357588 360-45-225878	1. Rais Ghazi Muhammad Khan 2. Rais Ghazi Muhammad Khan 3. Abdul Haleem Khan 4. Muhammad Doulat 5. Jam Sajla Khan	-	833	-	833	-	-	833	833
58	M/S ASIM CORPORATION Haji Sir Abdullah Haroon Waqf Building # 2, Napier Road Karachi	Zakria Ibrahim Namoree (Late)		Ibrahim	814	-	34	848	814	-	34	848
59	M/S RAHAT SEWING MACHINE CO. 2-Amber Pride B/A Block 6, PECHS., Karachi.	1. Muhammad Asif 2. Muhammad Wasif	270-91-025765 512-09-027266	1. Haji Muhammad Aslam 2. Haji Muhammad Aslam	317	696	-	1,013	-	-	696	696
60	HASSAN ALI BROHI Rehmat Pur Mohallah Larkana	Hassan Ali Brohi	422-63-220063	Khalique Dad	300	615	-	915	300	140	475	915
61	MUHAMMAD YAQOOB BROHI Miro Khan Road Larkana	Muhammad Yaqoob Brohi	423-89-181675	Muhammad Hussain	300	688	-	988	300	149	539	988

Annexure - III

(Rupees '000)

Sr. No.	Name and Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at beginning of				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Other	Total				
62	MUHAMMAD ALI BROHI Miro Khan Chowk Larkana	Muhammad Ali Brohi	427-74-127490	Khalique Dad Brohi	300	573	-	873	300	96	477	873
63	M/S REHMATULLAH HUSSAIN ALI Kausar Mill Road Larkana	Rehmatullah Hussain Ali	425-44-004962	Nawab Khan Brohi	500	746	-	1,246	250	68	678	996
64	M/S KOHINOOR TEA (PVT) LTD 205,Dean Arcade, Clifton Tower, Karachi.	1.Dr.Amir Mushtaq Butt 2.Gohar Mushtaq Butt	516-59-149490 516-60-149491	1.Mushtaq Butt 2.Mushtaq Butt	47,054	55,645	-	102,699	45,601	-	48,966	94,567
65	M/S. GAUHAH ENGINEERING LTD. 65-E Pak Pavilion Plaza Fazal-e-Haq Road, Islamabad.	1.Humayun Gauhar 2.Munizeh Gauhar 3.Mashaal Gauhar 4.Saniya Gauhar	514-85-092138	Altaf Gahuar Humayun Gauhar Humayun Gauhar Humayun Gauhar	-	4,719	-	4,719	-	-	4,719	4,719
66	M/S. SADAT MINING & INDUSTRIAL TRADING CO. Prince Road Quetta.	1.Syed Abbas Ali Shah 2.Haji Said Hussain	601-46-178763 601-17-116768	1.Agha Said Hussian Shah 2.Syed Ahmed Shah	6,359	5,335	67	11,761	-	-	4,765	4,765
67	M/S. REGENCY TEXTILE MILLS LTD 88C/IIA,Arif Jan Road, Lahore Cantt.	1.M.Iqtidar Pervaiz 2.Khurram Pervaiz 3.Ms.Nazneen Pervaiz 4.Mian Pervaiz Aslam 5.Mian Javed Aslam 6.Salah uddin Keen 7.Mian Ayaz Karim 8.Mian Aftab Ahmed	270-35-364853 270-610364856 210-36-300834 543-51-213211 454-21-213211 465-41-321321	1.Khan Aziz Khan 2.Mian Iqtidar Pervaiz 3.Iqtidar Pervaiz 4.Iqtidar Pervaiz 5.Mian M. Aslam 6.Siddique Khan 7.Abdul Karim 8.M.Khan	17,486	29,374	-	46,860	-	-	29,374	29,374
68	M/S. ALI & LATIF TANNERIES (PVT) LTD 14th KM Wazirabad Road, Sialkot.	1.Aftab Butt 2.Waheed Anwar Butt 3.Mrs.Nabeela Aftab 4.Mrs.Gerbemye Rose Marrie	300-60-336305 300-56-250053 33-62-514738	1.Muhammad Ishaque 2.Muhammad Ishaque 3.Aftab Butt 4.Waheed Anwar Butt	3,118	12,377	70	15,565	3,118	-	12,447	15,565
69	M/S. AWAN COTTON GINNING PRESSING & OIL MILLS Mouza Sui Vehar, New Musafar Khana, Distt Bahawalpur.	1.Malik Tahir Mehmood 2.Malik Tariq Mehmood 3.Mst.Shahida Mehmood 4.Mst.Zahida Mehmood 5.Mst.Nazir Ellahi 6.Mst.Zahira Mehmood	344-55-050649 344-62-193813 344-55-011049 344-94-195577 344-37-160197 344-03-280715	1.Muhd. Sajid Mehmood 2.Muhd. Sajid Mehmood 3.Muhd. Sajid Mehmood 4.Muhd. Sajid Mehmood 5.Muhd. Sajid Mehmood 6.Muhd. Sajid Mehmood	5,195	10,811	64	16,070	612	-	10,875	11,487
70	M/S AL-SHAHBAZ FILLING STATION Link Road, Chiniot More, Jhang Saddar.	1.Musharraf Mehmood Khan 2.Shahbaz Mehmood Khan	33202-8679330-1 33202-7175674-1	1.Gul Sher Ahmed Khan 2.Musharraf Mehmood Khan	-	621	69	690	-	-	690	690
Total					420,689	517,705	2,798	941,192	282,033	5,997	506,291	794,321
71	M/S. INTERNATIONAL . EXPORTS (PVT) LTD No.279,Sir Ratnajothei Saravanamuthu, Mawatha Colombo 13.	1.Shakir Saleh Abdulhusein Jafferjee 2.Mazher Fazieali Mohamedbhoy	550302799 472993496	Abdulhusein Jafferjee Mohammadbhoy	580	-	-	580	580	-	-	580
Total Written off advances					421,269	517,705	2,798	941,772	282,613	5,997	506,291	794,901

Annexure - IV

Disposal of operating fixed assets (refer note 11.2.5)

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
----- (Rupees '000) -----							
Furniture and fixture							
Items having book value in aggregate more than Rs. 250,000 and cost of more than Rs. 1,000,000	15,374	11,514	3,860	1,000	Tender	M/S Tata Textile Mills	Karachi
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	14,023	12,796	1,227	1,113			
Vehicles							
Honda Civic	1,327	265	1,062	1,255	Tender	Associate Homes Textiles Ltd	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	M. Ehsan ullah, Employee	Karachi
Suzuki Cultus	609	386	223	244	Retirement benefit	M. Farooq Malik, Ex-Employee	Karachi
Suzuki Cultus	609	142	467	609	Insurance Claim	M/S. Adamjee Insurance Co.	Karachi
Suzuki Cultus	609	264	345	560	Insurance Claim	M/S. Adamjee Insurance Co.	Karachi
Toyota Land Cruiser	8,715	7,989	726	3,100	Tender	M/s. Chawla International (Mr. Mukesh Kumar)	Karachi
Toyota Corolla	939	829	110	112	Retirement benefit	Mr. A. Shakoor, Ex-Employee	Vehari
Toyota Corolla	1,169	623	546	625	Bank Policy	Mr. Aamir H. Zaidi, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Abdul Karim Agzadi, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Abdul Mateen Farooqi, Employee	Hyderabad
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Abdul Sattar Mamji, Employee	Karachi
Toyota Corolla	939	485	454	438	Retirement benefit	Mr. Abdus S. Sami, Ex-Employee	Karachi
Suzuki Cultus	540	540	-	380	Tender	Mr. Abid Rasheed Mir	Lahore
Suzuki Khyber	430	430	-	317	Tender	Mr. Abid Rasheed Mir	Lahore
Suzuki Cultus	540	540	-	353	Tender	Mr. Abid Rasheed Mir	Lahore
Toyota Corolla	849	849	-	274	Bank Policy	Mr. Amjad Aziz, Employee	Peshawar
Honda Civic	995	995	-	100	Retirement benefit	Mr. Amjad Farooq, Ex-Employee	Karachi
Honda Civic	955	780	175	191	Retirement benefit	Mr. Amjad Farooq, Ex-Employee	Karachi
Suzuki Cultus	599	559	40	61	Retirement benefit	Mr. Aqeel Ahmed Siddiqui, Ex-Employee	Karachi
Toyota Corolla	924	924	-	289	Bank Policy	Mr. Asif Mumtaz Butt, Employee	Lahore
Suzuki Cultus	604	604	-	207	Bank Policy	Ms. Asma Mazhar, Employee	Karachi
Honda Civic	955	605	350	357	Retirement benefit	Mr. Ayub A Patel, Ex-Employee	Karachi
Toyota Corolla	939	595	344	351	Retirement benefit	Mr. Ayub A Patel, Ex-Employee	Karachi
Toyota Corolla	929	929	-	530	Tender	Mr. Capt. Razaqat Ali Khan	Karachi
Suzuki Bolan Van	351	351	-	250	Tender	Mr. Capt. Razaqat Ali Khan	Karachi
Toyota Corolla	844	844	-	500	Tender	Mr. Capt. Razaqat Ali Khan	Karachi
Toyota Corolla	924	924	-	289	Bank Policy	Mr. Ch. Muhammad Ayub, Employee	Rawalpindi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Dilshad Sherwani, Employee	Lahore
Toyota Corolla	939	407	532	563	Resignation	Mr. Farhan Shabbir, Ex-Executive	Karachi
Honda Civic	963	562	401	498	Retirement benefit	Mr. Farid Ahmed Khan, Ex-Employee	Karachi
Toyota Corolla	962	513	449	455	Retirement benefit	Mr. Ghani Akbar Usmani, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	60	Retirement benefit	Mr. Ghulam Hussain, Ex-Employee	Karachi
Toyota Corolla	939	736	203	232	Retirement benefit	Mr. Gulzar Ahmed, Ex-Employee	R.Y. Khan
Toyota Corolla	995	995	-	97	Retirement benefit	Mr. Imtiaz Mughal, Ex-Employee	Khairpur
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Irfan Ahmed Mir, Employee	Lahore
Toyota Corolla	924	924	-	289	Bank Policy	Mr. Irfan Akhtar Khan, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Irfan Johar, Employee	Lahore
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Jaffar Bukhari, Employee	Lahore
Toyota Corolla	939	829	110	113	Retirement benefit	Mr. Khalid Niaz Khawaja, Ex-Employee	Lahore
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Khan Afsar Jadoon, Employee	Abbottabad
Suzuki Cultus	535	535	-	194	Bank Policy	Mr. M Abdullah, Employee	Karachi
Suzuki Cultus	520	520	-	190	Bank Policy	Mr. M Ali Manji, Employee	Karachi
Toyota Corolla	939	407	532	563	Retirement benefit	Mr. M Ashraf Toor, Ex-Employee	Sukkur
Suzuki Cultus	604	604	-	99	Retirement benefit	Mr. M Aslam Shah, Ex-Employee	Peshawar

Annexure - IV

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
	----- (Rupees '000) -----						
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. M Salman Khan, Employee	Karachi
Toyota Corolla	939	782	157	188	Retirement benefit	Mr. M Shams Izhar, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. M Usman, Employee	Hyderabad
Toyota Corolla	939	516	423	416	Retirement benefit	Mr. M. Hanif Wadiwala, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. M. Ismail Abdullah, Employee	Karachi
Suzuki Cultus	609	325	284	323	Tender	Mr. M. Nasir Khan	Lahore
Suzuki Cultus	535	535	-	328	Tender	Mr. M. Nasir Khan	Karachi
Toyota Corolla	929	929	-	563	Tender	Mr. M. Nasir Khan	Karachi
Toyota Corolla	844	844	-	483	Tender	Mr. M. Nasir Khan	Lahore
Suzuki Khyber	398	398	-	242	Tender	Mr. M. Nasir Khan	Karachi
Suzuki Khyber	368	368	-	216	Tender	Mr. M. Nasir Khan	Karachi
Toyota Corolla	924	924	-	289	Bank Policy	Mr. M. Tariq Mirza, Employee	Sargodha
Honda Civic	1,285	1,285	-	441	Bank Policy	Mr. Mohammad Aftab Manzoor, President	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Muhammad Ashfaq Siddiqui, Employee	Karachi
Suzuki Cultus	604	604	-	60	Retirement benefit	Mr. Muhammad Mursalin, Ex-Employee	Karachi
Toyota Corolla	939	516	423	426	Retirement benefit	Mr. Muhammad Saleem, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Muhammad Shahid, Employee	Islamabad
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Muhammad Siddiq, Employee	Abbottabad
Suzuki Cultus	604	443	161	168	Retirement benefit	Mr. Muhammad Zakarya Khan, Ex-Employee	Lahore
Suzuki Cultus	609	264	345	365	Retirement benefit	Mr. Mukhtar Ahmed, Ex-Employee	Karachi
Toyota Corolla	939	407	532	563	Retirement benefit	Mr. Mukhtar Hussain, Ex-Employee	Karachi
Honda Civic	963	450	513	527	Retirement benefit	Mr. Mumtaz H. Chaudry, Ex-Employee	Peshawar
Toyota Corolla	939	626	313	327	Retirement benefit	Mr. Mumtaz H. Chaudry, Ex-Employee	Peshawar
Toyota Corolla	939	782	157	188	Retirement benefit	Mr. Murtaza Y. Rizvi, Ex-Employee	Karachi
Toyota Corolla	924	924	-	375	Bank Policy	Mr. N.A. Qazi, Employee	Islamabad
Suzuki Cultus	609	447	162	168	Retirement benefit	Mr. Najam-ud-Din, Ex-Employee	Karachi
Suzuki Khyber	368	368	-	225	Tender	Mr. Najam-ud-Din	Lahore
Honda M.Cycle	74	74	-	22	Tender	Mr. Najam-ud-Din	Lahore
Yamaha M.Cycle	68	68	-	19	Tender	Mr. Najam-ud-Din	Lahore
Yamaha M.Cycle	68	68	-	17	Tender	Mr. Najam-ud-Din	Lahore
Yamaha M.Cycle	68	68	-	17	Tender	Mr. Najam-ud-Din	Lahore
Honda Civic	925	925	-	299	Bank Policy	Mr. Nisar A. Shaikh, Employee	Sukkur
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Pervaiz Akhtar, Employee	Rawalpindi
Toyota Corolla	924	924	-	289	Bank Policy	Mr. Pervaiz Akhtar, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Pervaiz Zia, Employee	Karachi
Suzuki Cultus	605	535	70	207	Bank Policy	Mr. Rafique Ahmed, Employee	Karachi
Suzuki Cultus	604	523	81	121	Retirement benefit	Mr. Rao M. Islam, Ex-Employee	Bahawalpur
Toyota Corolla	924	924	-	289	Bank Policy	Mr. Riaz Hamdani, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. S. Moinuddin, Employee	Karachi
Toyota Corolla	829	829	-	577	Tender	Mr. S. Riaz Ahmed	Karachi
Toyota Corolla	809	809	-	577	Tender	Mr. S. Riaz Ahmed	Karachi
Toyota Corolla	809	809	-	571	Tender	Mr. S. Riaz Ahmed	Karachi
Toyota Corolla	739	739	-	586	Tender	Mr. S. Riaz Ahmed	Karachi
Toyota Corolla	689	689	-	563	Tender	Mr. S. Riaz Ahmed	Karachi
Suzuki Photohar	678	678	-	316	Tender	Mr. S. Riaz Ahmed	Karachi
Suzuki Photohar	678	678	-	361	Tender	Mr. S. Riaz Ahmed	Karachi
Suzuki Margalla	333	333	-	266	Tender	Mr. S. Riaz Ahmed	Karachi
Suzuki Cultus	609	477	132	130	Retirement benefit	Mr. S.M. Masood, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Saadi Insha, Employee	Karachi
Suzuki Cultus	599	599	-	60	Retirement benefit	Mr. Saeed Ahmed, Ex-Employee	Karachi
Suzuki Cultus	609	477	132	171	Retirement benefit	Mr. Safdar Iqbal Razzak, Ex-Employee	Islamabad
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Saleem Baig, Employee	Karachi
Suzuki Cultus	604	604	-	60	Retirement benefit	Mr. Saleem Mamon, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Salman Arshad, Employee	Lahore
Toyota Corolla	939	548	391	405	Retirement benefit	Mr. Sh. Muhammad Arif, Ex-Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Sh. Tahir Iqbal, Employee	Lahore
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Shah Habib Aalam, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Shahid Ghani Khan, Employee	Quetta

Annexure - IV

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
	----- (Rupees '000) -----						
Suzuki Cultus	604	292	312	335	Retirement benefit	Mr. Shakir Ali, Ex-Employee	Lahore
Suzuki Cultus	604	594	10	60	Retirement benefit	Mr. Shamsul Islam Khan, Ex-Employee	Karachi
Suzuki Cultus	609	599	10	407	Tender	Mr. Sultan Hassan Khan	Karachi
Suzuki Cultus	604	604	-	392	Tender	Mr. Sultan Hassan Khan	Karachi
Suzuki Cultus	604	604	-	347	Tender	Mr. Sultan Hassan Khan	Karachi
Suzuki Cultus	520	520	-	332	Tender	Mr. Sultan Hassan Khan	Karachi
Suzuki Cultus	609	447	162	171	Retirement benefit	Mr. Syed Ayub Ali, Ex-Employee	Rohri
Suzuki Cultus	520	520	-	190	Bank Policy	Mr. Tariq Masood, Employee	Lahore
Toyota Corolla	939	548	391	383	Retirement benefit	Mr. Umar Aboo Bakar, Ex-Employee	Karachi
Toyota Corolla	939	438	501	563	Retirement benefit	Mr. Zafar Hameed Khan, Ex-Employee	Karachi
Suzuki Cultus	609	457	152	420	Retirement benefit	Mr. Zahid Hussain, Ex-Employee	Faisalabad
Suzuki Cultus	520	520	-	190	Bank Policy	Mr. Ayaz A. Jaskani, Employee	Lahore
Honda Civic	925	925	-	299	Bank Policy	Mr. Javed Iqbal Bhatti, Employee	Karachi
Toyota Corolla	939	376	563	579	Retirement benefit	Mr. Kaleem ur Rehman, Ex-Employee	Karachi
Toyota Corolla	1,169	935	234	298	Retirement benefit	Mr. Musaddiq Ejaz, Ex-Employee	Karachi
Honda Civic	995	995	-	314	Bank Policy	Mr. Tahir Hassan Qureshi, Employee	Lahore
Suzuki Cultus	604	604	-	60	Retirement benefit	Mr. Younis Umer Khanani, Ex-Employee	Karachi
Toyota Corolla	939	673	266	282	Retirement benefit	Mr. Zahir-ul-Hassan Usmani, Ex-Employee	Hyderabad
Toyota Corolla	969	969	-	647	Tender	Mrs. Rubina Ahmed	Lahore
Toyota Corolla	929	929	-	642	Tender	Mrs. Rubina Ahmed	Lahore
Suzuki Cultus	604	604	-	470	Tender	Mrs. Rubina Ahmed	Lahore
Suzuki Cultus	520	520	-	443	Tender	Mrs. Rubina Ahmed	Lahore
Suzuki Cultus	604	604	-	207	Bank Policy	Mrs. Shamsul Nisa Masood, Employee	Karachi
Suzuki Cultus	604	604	-	207	Bank Policy	Mr. Rana Anis Aftab, Employee	Lahore
Suzuki Cultus	604	262	342	362	Retirement benefit	Mr. Saeed A.Qureshi, Ex-Employee	Karachi
	98,130	83,842	14,288	41,117			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	19,850	19,787	63	11,629			
Land and buildings							
Premises at 2nd Floor Textile Plaza Karachi	36,357	1,817	34,540	24,609	Tender	M/S Tata Textile Mills	Karachi
Premises at 5th Floor Textile Plaza Karachi	3,912	196	3,716	3,129	Tender	M/S Tata Textile Mills	Karachi
	40,269	2,013	38,256	27,738			
2006	187,646	129,952	57,694	82,597			
2005	270,952	121,584	149,368	127,254			

Annexure - V

Summarised detail of the valuation of owned properties all over Pakistan (refer note 11.2.1)

City	Land	Building (Rupees '000)	Total
Karachi	1,540,274	1,365,361	2,905,635
Hyderabad	49,721	33,123	82,844
Sukkur	45,306	13,397	58,703
Moro	1,500	1,400	2,900
Nausheroferoz	350	400	750
Mirpurkhas	6,853	8,756	15,609
Larkana	7,000	6,500	13,500
Shadadpur	1,200	1,000	2,200
Gawadar	3,065	3,244	6,309
Jhang	2,794	636	3,430
Quetta	92,525	24,553	117,078
Islamabad	421,937	123,382	545,319
Rawalpindi	104,372	46,394	150,766
Lahore	1,074,896	268,931	1,343,827
Kasur	5,152	3,196	8,348
Faisalabad	195,497	62,337	257,834
Gujrat	19,909	9,734	29,643
Gujranwala	12,136	8,414	20,550
Wazirabad	7,150	5,426	12,576
Muridke	7,500	487	7,987
Hafizabad	3,600	3,341	6,941
Sargodha	23,074	10,756	33,830
Okara	10,907	14,714	25,621
Sheikhupura	12,800	8,856	21,656
Vehari	3,630	2,236	5,866
Sialkot	16,924	9,465	26,389
Sahiwal	9,956	10,040	19,996
Chakwal	590	1,306	1,896
Azad Kashmir	55,159	19,387	74,546
Peshawar	65,564	16,391	81,955
Haripur	20,500	13,000	33,500
Dir	3,484	3,739	7,223
Mingora	13,797	10,822	24,619
Sawabi	65	-	65
Multan	28,578	2,680	31,258
Rahim Yar Khan	5,000	6,538	11,538
Sadiqabad	7,020	1,800	8,820
Haroonabad	7,042	2,400	9,442
Chistian	4,000	1,350	5,350
Khanpur	4,839	665	5,504
Bahawalpur	3,056	10,708	13,764
D.G. Khan	7,995	10,908	18,903
Shujabad	1,920	2,824	4,744
Grand Total	3,908,637	2,150,597	6,059,234

Branch Network Sector-wise position of Circles/Regions as on December 31, 2006

COMMERCIAL BANKING - LAHORE OFFICE		585
Lahore East		61
01.	Lahore East	29
02.	Sahiwal	32
Lahore West		72
03.	Lahore City	25
04.	Lahore West	22
05.	Sheikhupura	25
Faisalabad		58
06.	Faisalabad Central	28
07.	Faisalabad City	30
Gujranwala		83
08.	Gujranwala	28
09.	Gujrat	28
10.	Sialkot	27
Islamabad		83
11.	Islamabad	19
12.	Rawalpindi	24
13.	Chakwal	23
14.	Jhelum	17
Sargodha		82
15.	Jhang	28
16.	Mianwali	27
17.	Sargodha	27
Peshawar		64
18.	Kohat	19
19.	Mardan	23
20.	Peshawar	22
Abbottabad		82
21.	Abbottabad	23
22.	Attock	26
23.	Muzaffarabad A.K.	16
24.	Swat	17
WHOLESALE BANKING GROUP		11
01.	Corporate Office South - Karachi	03
02.	Corporate Office Central - Lahore	05
03.	Regional Office North - Islamabad	03
ISLAMIC BANKING		06
01.	Karachi	01
02.	Lahore	01
03.	Multan	01
04.	Hyderabad	01
05.	Faisalabad	01
06.	Islamabad	01

COMMERCIAL BANKING - KARACHI OFFICE		386
Karachi East		51
01.	Karachi East	25
02.	Karachi North	26
Karachi West		42
03.	Karachi South	18
04.	Karachi West	24
Karachi Central		17
05.	Karachi Central	17
Hyderabad		58
06.	Hyderabad	31
07.	Nawabshah	27
Sukkur		52
08.	Larkana	26
09.	Sukkur	26
Quetta		34
10.	Quetta	34
Bahawalpur		54
11.	Bahawalpur	27
12.	Rahim Yar Khan	27
Multan		78
13.	Dera Ghazi Khan	28
14.	Multan	29
15.	Vehari	21

SUMMARY

GROUP	REGIONS	CIRCLES	NO. OF BRANCHES
Commercial Banking - Lahore Office	24	8	585
Commercial Banking - Karachi Office	15	8	386
Wholesale Banking Group	3	2	11
Islamic Banking	1	-	6
TOTAL DOMESTIC	43	18	988
Overseas*			5
EPZ			1
TOTAL			994

PROVINCE-WISE

	NO. OF BRANCHES
Punjab	613
Sindh	224
NWFP	105
Balochistan	35
Azad Jammu & Kashmir	11

TOTAL DOMESTIC	988
Overseas*	5
EPZ	1
TOTAL	994

*Sri Lanka : 1. Colombo Main 2. Pettah 3. Maradana 4. Wellawatte
Bahrain : 5. MCB - OBU Bahrain

Pattern of shareholding as of December 31, 2006

No. of Shareholders	Having		Shares Held	Percentage
	From	To		
18131	1	100	697,472	0.1276
14365	101	500	3,881,221	0.7104
10365	501	1000	7,626,377	1.3959
2043	1001	5000	4,197,826	0.7683
246	5001	10000	1,744,715	0.3193
85	10001	15000	1,030,926	0.1887
44	15001	20000	771,998	0.1413
33	20001	25000	758,408	0.1388
21	25001	30000	588,133	0.1076
18	30001	35000	578,920	0.1059
16	35001	40000	597,692	0.1094
6	40001	45000	255,638	0.0467
14	45001	50000	679,692	0.1244
10	50001	55000	529,744	0.0969
6	55001	60000	357,040	0.0653
3	60001	65000	190,771	0.0349
4	65001	70000	271,738	0.0497
5	70001	75000	363,703	0.0665
1	75001	80000	79,300	0.0145
2	80001	85000	162,573	0.0297
4	85001	90000	356,627	0.0652
3	90001	95000	280,471	0.0513
6	95001	100000	598,532	0.1095
2	100001	105000	205,183	0.0375
1	105001	110000	106,600	0.0195
1	110001	115000	114,900	0.0210
2	115001	120000	231,394	0.0423
2	125001	130000	259,472	0.0474
1	130001	135000	132,947	0.0243
1	135001	140000	140,000	0.0256
3	140001	145000	431,000	0.0788
4	145001	150000	600,000	0.1098
2	150001	155000	307,446	0.0562
5	165001	170000	839,200	0.1536
3	170001	175000	512,089	0.0937
1	180001	185000	180,300	0.0330
3	185001	190000	561,681	0.1028
2	190001	195000	384,989	0.0704
2	195001	200000	397,157	0.0726
5	200001	205000	1,011,780	0.1851
1	205001	210000	208,500	0.0381
1	210001	215000	210,500	0.0385
2	215001	220000	434,000	0.0794
3	220001	225000	670,471	0.1227
2	225001	230000	457,800	0.0837

No. of Shareholders	Having		Shares Held	Percentage
	From	To		
1	230001	235000	231,600	0.0423
1	235001	240000	238,900	0.0437
2	240001	245000	486,557	0.0890
2	250001	255000	504,950	0.0924
2	260001	265000	525,600	0.0962
1	265001	270000	267,206	0.0489
1	295001	300000	300,000	0.0549
1	305001	310000	306,803	0.0561
1	310001	315000	313,000	0.0572
1	320001	325000	325,000	0.0594
2	325001	330000	656,000	0.1200
1	330001	335000	330,600	0.0605
1	335001	340000	336,400	0.0615
1	340001	345000	345,000	0.0631
1	345001	350000	350,000	0.0640
1	355001	360000	359,400	0.0657
1	370001	375000	370,457	0.0678
1	385001	390000	386,026	0.0706
1	390001	395000	390,900	0.0715
1	395001	400000	395,544	0.0724
1	410001	415000	410,500	0.0751
1	415001	420000	415,106	0.0759
6	420001	425000	2,534,748	0.4639
2	425001	430000	854,431	0.1563
1	450001	455000	450,002	0.0823
1	490001	495000	493,149	0.0902
1	510001	515000	513,380	0.0939
1	565001	570000	569,500	0.1042
1	590001	595000	592,400	0.1084
1	615001	620000	616,900	0.1129
1	620001	625000	624,900	0.1143
2	625001	630000	1,256,931	0.2300
3	630001	635000	1,901,064	0.3479
1	650001	655000	653,431	0.1196
1	665001	670000	666,700	0.1220
1	700001	705000	704,605	0.1289
1	800001	805000	802,268	0.1468
4	840001	845000	3,379,672	0.6186
1	845001	850000	849,000	0.1554
1	855001	860000	860,000	0.1574
4	930001	935000	3,730,004	0.6827
1	945001	950000	950,000	0.1738
1	1040001	1045000	1,044,500	0.1911
1	1070001	1075000	1,075,000	0.1967
1	1125001	1130000	1,128,800	0.2066
1	1165001	1170000	1,169,751	0.2141
1	1170001	1175000	1,174,604	0.2149

No. of Shareholders	Having		Shareshares Held	Percentage
	From	To		
4	1175001	1180000	4,705,023	0.8612
1	1195001	1200000	1,198,649	0.2194
1	1295001	1300000	1,298,599	0.2376
1	1305001	1310000	1,305,700	0.2389
1	1410001	1415000	1,410,104	0.2581
2	1420001	1425000	2,842,392	0.5202
1	1505001	1510000	1,509,890	0.2763
1	1620001	1625000	1,621,464	0.2967
1	1815001	1820000	1,817,000	0.3325
5	1890001	1895000	9,473,962	1.7341
1	2020001	2025000	2,020,458	0.3698
1	2185001	2190000	2,187,916	0.4004
1	2190001	2195000	2,190,131	0.4008
1	2245001	2250000	2,248,910	0.4116
6	2350001	2355000	14,117,048	2.5839
1	2590001	2595000	2,594,610	0.4749
1	2660001	2665000	2,661,636	0.4871
1	3045001	3050000	3,046,252	0.5575
1	3075001	3080000	3,075,341	0.5629
1	3150001	3155000	3,153,231	0.5771
2	3320001	3325000	6,643,182	1.2159
1	3490001	3495000	3,492,522	0.6392
1	3850001	3855000	3,852,783	0.7052
1	4150001	4155000	4,153,000	0.7601
1	4185001	4190000	4,189,986	0.7669
1	4895001	4900000	4,898,000	0.8965
1	5175001	5180000	5,176,719	0.9475
1	7590001	7595000	7,590,282	1.3893
1	7870001	7875000	7,874,919	1.4414
1	7880001	7885000	7,884,506	1.4431
1	10625001	10630000	10,628,360	1.9454
1	10940001	10945000	10,944,360	2.0032
1	13870001	13875000	13,874,738	2.5396
1	16320001	16325000	16,320,346	2.9872
1	16430001	16435000	16,431,692	3.0076
1	17625001	17630000	17,626,600	3.2263
1	19880001	19885000	19,880,998	3.6390
1	22080001	22085000	22,083,699	4.0422
1	22695001	22700000	22,695,325	4.1541
1	23130001	23135000	23,132,431	4.2341
1	24510001	24515000	24,511,162	4.4865
1	24930001	24935000	24,934,846	4.5640
1	25435001	25440000	25,436,018	4.6558
1	29585001	29590000	29,588,400	5.4158
1	31875001	31880000	31,875,975	5.8345
1	44290001	44295000	44,290,310	8.1069
45606			546,327,690	100.0000

Categories of Shareholders as of December 31, 2006

PARTICULARS	SHAREHOLDING	PERCENTAGE
DIRECTORS, CEO & CHILDREN	26,307,879	4.8154
ASSOCIATED COMPANIES	39,283,895	7.1905
NIT & ICP	35,503	0.0065
BANKS, DFI & NBF	9,495,456	1.7381
INSURANCE COMPANIES	34,335,421	6.2848
MODARABAS & MUTUAL FUNDS	10,809,942	1.9787
PUBLIC SECTOR COS. & CORP.	102,168,189	18.7009
GENERAL PUBLIC (LOCAL)	146,796,853	26.8697
GENERAL PUBLIC (FOREIGN)	1,995,956	0.3653
OTHERS	76,067,413	13.9234
FOREIGN COMPANIES	99,031,183	18.1267
COMPANY TOTAL	<u>546,327,690</u>	<u>100.0000</u>

Notice of Annual General Meeting

Notice is hereby given that 59th Annual General Meeting of the members of MCB BANK LIMITED will be held at Hotel Holiday Inn, G-6, Civic Centre, Islamabad on Wednesday, March 28, 2007 at 3:00 p.m. to transact the following business:

1. To confirm the minutes of the Extra-ordinary General Meeting held on August 15, 2006.
2. To receive, consider and adopt the audited accounts of MCB Bank Ltd & consolidated accounts of MCB Bank Ltd and its subsidiaries for the year ended 31st December 2006 together with the Directors' and Auditors' report thereon including post facto approval of remuneration of Rs. 1.434 million to Chairman reported at note 39 of annual report, as required under SBP Prudential Regulation.
3. To approve as recommended by directors Cash Dividend @ 15% i.e. Rs.1.50 per share and 15% in the form of Bonus Shares in addition to 60% (20% each 1st, 2nd & 3rd quarters) interim cash dividends already paid.
4. To approve that in the event of any member holding shares which were not an exact multiple of his/her entitlement, the Directors be authorized to sell such entitlements in the Stock Market and to pay the proceeds of sale when realized to any recognized charitable institution.
5. To appoint auditors namely M/s KPMG Taseer Hadi & Co., Chartered Accountants and M/s Riaz Ahmad & Co., Chartered Accountants and fix their remuneration.

Special Business

6. To consider and if deemed fit pass the following special resolutions:

RESOLVED that the authorized share capital of the bank be and is hereby increased from Rs.6,500 million to Rs.10,000 million.

FURTHER RESOLVED that the Memorandum and Articles of Association of the bank be amended in the following manner:

In clause 5 of the Memorandum of Association and Article 4 of the Articles of Association the figure of Rs.6,500,000,000 and 650,000,000 ordinary shares be substituted by Rs.10,000,000,000 and 1,000,000,000 ordinary shares respectively.

Statement required under section 160(1)(b) of the Companies Ordinance, 1984 is attached with this notice.

7. Any other business with the permission of the Chair.

By order of the Board

Islamabad: February 23, 2007.

ABDUS S. SAMI
Secretary

Note:

1. The share transfer books of the Bank will remain closed from March 20, 2007 to March 28, 2007 (both days inclusive) for entitlement of cash dividend and bonus shares to those members whose name appear on the register of members as at the close of business on March 19, 2007.
2. 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 bank or not.
3. Members whose shares are deposited with Central Depository Company of Pakistan Limited are requested to bring their original Computerized National Identity Cards (CNIC) along with 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, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi not less than 48 hours before the time of meeting.

4. Members are requested to promptly notify M/s. THK Associates (Pvt.) Limited of any change in their addresses to ensure delivery of mail.

Statement under Section 160(1)(b) of the Companies Ordinance, 1984:

The present authorized share capital of the bank is Rs.6,500 million. It is proposed to increase the authorized capital to Rs.10,000 million in order to facilitate further issue of shares as and when deemed necessary.



**MCB Bank Limited
and Subsidiary Companies**

Consolidated
Accounts





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, 2006.

The profit before and after taxation, available for appropriation together with appropriation is as under:

	(Rupees '000)
Profit before taxation	18,930,813
Taxation	6,389,934
Profit after taxation	12,540,879
Share of profit attributable to minority interest	(3)
	12,540,876
Un-appropriated profit brought forward	5,339,402
Transfer from surplus on revaluation of fixed assets (net of tax)	32,166
	5,371,568
Profit available for appropriation	17,912,444
Appropriation:	
Statutory Reserve	1,214,240
General Reserve	6,000,000
Issue of Bonus Shares - December 2005	853,065
Final Dividend - December 2005	426,533
Interim Cash Dividend - March 2006	1,023,679
Interim Cash Dividend - June 2006	1,023,679
Interim Cash Dividend - September 2006	1,092,655
	11,633,851
	6,278,593

Pattern of shareholding

The pattern of shareholding as at December 31, 2006 is annexed with the financial statements of MCB Bank Limited.

Earning per share

The Consolidated financial statements reflect Rs. 36.48 and Rs. 24.17 pre-tax and after tax basic earning per share respectively for the year under review and its computation has been shown in notes 33 and 34 to the financial statements.

On behalf of Directors

Mansha
Mian Mohammad Mansha
Chairman

Dated: February 23, 2007

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 as at December 31, 2006 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 five branches audited by auditors abroad. The financial statements of subsidiary company MNET Services (Private) Limited were audited by KPMG Taseer Hadi & Co., the financial statements of subsidiary companies Muslim Commercial Financial Services (Private) Limited and MCB Asset Management Company Limited were audited by Riaz Ahmad & Co., while the financial statements of subsidiary company MCB Trade Services Limited were audited by another firm of auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such a company, is based solely on the report of other auditors. The consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2006 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.

The corresponding figures presented are based on the consolidated financial statements of the Bank as of December 31, 2005 and which were audited by M/s A.F. Ferguson & Co., Chartered Accountants and M/s Riaz Ahmad & Co., Chartered Accountants whose report dated February 24, 2006 expressed an unqualified opinion on those statements.


KPMG TASEER HADI & CO.
Chartered Accountants
Karachi

Dated: February 23, 2007


RIAZ AHMAD & CO.
Chartered Accountants
Karachi

Balance Sheet as at December 31, 2006

	Note	2006	2005 Restated (Rupees '000)
Assets			
Cash and balances with treasury banks	6	32,465,976	23,665,549
Balances with other banks	7	6,649,659	1,519,195
Lendings to financial institutions	8	21,081,800	9,998,828
Investments - net	9	64,450,761	70,356,782
Advances - net	10	198,236,682	180,322,753
Operating fixed assets	11	9,073,276	8,182,454
Deferred tax assets - net	12	174,886	192,362
Other assets - net	13	11,044,909	5,473,691
		343,177,949	299,711,614
Liabilities			
Bills payable	15	7,089,679	8,536,674
Borrowings	16	23,943,476	27,377,502
Deposits and other accounts	17	257,185,110	229,336,579
Sub-ordinated loan	18	1,597,440	1,598,080
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	19	11,177,125	8,189,541
		300,992,830	275,038,376
Net assets		42,185,119	24,673,238
Represented by:			
Share capital	20	5,463,276	4,265,327
Reserves	21	24,662,446	9,054,940
Unappropriated profit		6,278,593	5,339,402
		36,404,315	18,659,669
Minority Interest		52	29
		36,404,367	18,659,698
Surplus on revaluation of assets - net of tax	22	5,780,752	6,013,540
		42,185,119	24,673,238
Contingencies and commitments	23		

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



Mohammad Aftab Manzoor
President and Chief Executive

Shahzad Saleem
Director

Aftab Ahmad Khan
Director

Dr. Muhammad Yaqub
Director

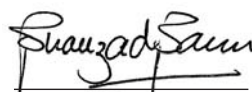
Profit and Loss Account for the year ended December 31, 2006

	Note	2006	2005 Restated (Rupees '000)
Mark-up / return / interest earned	25	25,784,853	17,757,540
Mark-up / return / interest expensed	26	4,509,146	2,781,434
Net mark-up / interest income		21,275,707	14,976,106
Provision / (reversal) of provision for diminution in the value of investments	9.3	121,197	(98,982)
Provision against loans and advances	10.4.2	1,014,540	1,242,153
Bad debts written off directly	10.5.1	47,000	1,184
		1,182,737	1,144,355
Net mark-up / interest income after provisions		20,092,970	13,831,751
Non-mark-up / interest income			
Fee, commission and brokerage income		2,325,171	2,452,507
Income earned as trustees to various funds		483	10,199
Dividend income		746,276	442,122
Income from dealing in foreign currencies		692,010	531,455
Gain on sale of securities - net	27	605,865	866,112
Unrealised gain on revaluation of investments classified as 'held for trading'		-	1,634
Other income - net	28	577,703	1,418,853
Total non-mark-up / interest income		4,947,508	5,722,882
		25,040,478	19,554,633
Non-mark-up / interest expenses			
Administrative expenses	29	6,505,576	6,456,975
Other provision / (reversal)	13.2	11,411	(72,740)
Other charges	30	66,708	178,841
Total non-mark-up / interest expenses		6,583,695	6,563,076
Share of profit from associated undertaking		474,030	349,019
Extra ordinary / unusual item		-	-
Profit before taxation		18,930,813	13,340,576
Taxation - Current year		5,709,140	4,615,843
- Prior years		593,906	(149,274)
- Deferred		61,213	(365,737)
Share of tax of associate		25,675	25,357
	31	6,389,934	4,126,189
Profit after taxation		12,540,879	9,214,387
Profit attributable to minority interest		(3)	(1)
Profit attributable to the ordinary shareholders		12,540,876	9,214,386
Unappropriated profit brought forward		5,339,402	559,559
Transfer from surplus on revaluation of fixed assets - net of tax		32,166	83,749
		5,371,568	643,308
Profit available for appropriation		17,912,444	9,857,694
Basic and diluted earnings per share - after tax	34	24.17	18.00

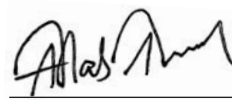
The annexed notes 1 to 46 and Annexure I to V form an integral part of these financial statements.



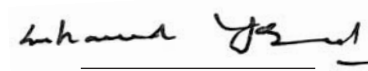
Mohammad Aftab Manzoor
President and Chief Executive



Shahzad Saleem
Director



Aftab Ahmad Khan
Director



Dr. Muhammad Yaqub
Director

Cash Flow Statement for the year ended December 31, 2006

Cash flows from operating activities

Profit before taxation

Less: Share of profit in associated undertaking and dividend income

Adjustments for non-cash charges

Depreciation

Amortisation

Provision against loans and advances

Provision / (reversal of provision) for diminution in the value of investments

Provision / (reversal of provision) for diminution in the value of other assets

Bad debts written off directly

Operating fixed assets written off

Gain on disposal of non-banking asset

(Gain) / loss on disposal of fixed assets

Surplus on revaluation of 'held for trading' securities

(Increase) / decrease in operating assets

Lendings to financial institutions

Advances - net

Other assets - net

Increase / (decrease) in operating liabilities

Bills payable

Borrowings

Deposits

Other liabilities

Income tax paid

Net cash flows from operating activities

Note	2006 (Rupees '000)	2005 Restated (Rupees '000)
	18,930,813	13,340,576
	(1,220,306)	(791,141)
	17,710,507	12,549,435
11.2	556,617	575,538
11.3	121,285	60,113
10.4.2	1,014,540	1,242,153
9.3	121,197	(98,982)
13.2	11,411	(72,740)
10.5.1	47,000	1,184
	60,452	-
	-	(24,664)
28 & 30	(24,903)	22,114
9.5	1,634	(1,634)
	1,909,233	1,703,082
	19,619,740	14,252,517
	(11,082,972)	966,469
	(18,975,469)	(44,248,317)
	(5,534,026)	(2,264,550)
	(35,592,467)	(45,546,398)
	(1,446,995)	969,990
	(3,434,026)	19,786,638
	27,848,531	8,272,661
	1,109,230	979,201
	24,076,740	30,008,490
	8,104,013	(1,285,391)
	(4,885,972)	(1,156,172)
	3,218,041	(2,441,563)

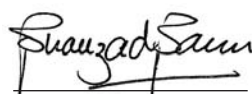
Cash Flow Statement for the year ended December 31, 2006

	Note	2006	2005 Restated (Rupees '000)
Cash flows from investing activities			
Net investments in 'available for sale' securities		(13,324,992)	(20,301,953)
Net investments in 'held to maturity' securities		19,336,261	18,278,483
Net investments in 'held for trading' securities		66,056	(66,056)
Dividends received		789,143	586,028
Investments in operating fixed assets		(1,851,235)	(1,029,307)
Sale proceeds of non-banking asset		-	589,676
Sale proceeds of property and equipment disposed off		82,597	127,254
Net cash flows from investing activities		5,097,830	(1,815,875)
Cash flows from financing activities			
Redemption of subordinated loan		(640)	(640)
Proceeds from issue of Global Depository Receipts (net of expenses)		8,739,218	-
Proceeds from issue of shares to minority interest		20	-
Proceeds from issue of right shares		-	1,390,868
Dividend paid		(3,122,510)	(1,545,483)
Net cash flows from financing activities		5,616,088	(155,255)
Exchange differences on translation of the net investment in foreign branches		(1,068)	3,805
Increase / (decrease) in cash and cash equivalents		13,930,891	(4,408,888)
Cash and cash equivalents at beginning of the year		25,251,386	29,599,978
Effects of exchange rate changes on cash and cash equivalents		(66,642)	(6,346)
		25,184,744	29,593,632
Cash and cash equivalents at end of the year	35	39,115,635	25,184,744

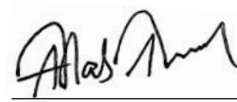
The annexed notes 1 to 46 and Annexure I to V form an integral part of these financial statements.



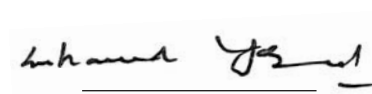
Mohammad Aftab Manzoor
President and Chief Executive



Shahzad Saleem
Director



Aftab Ahmad Khan
Director



Dr. Muhammad Yaqub
Director

Statement of Changes in Equity for the year ended December 31, 2006

	Attributable to shareholders of the bank									Total
	Share capital	Capital Reserves			Revenue Reserves			Subtotal	Minority Interest	
		Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve	Unappropriated profit			
	(Rupees '000)									
Balance as at December 31, 2004- as previously reported	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 - note 5.12										
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	-	(337,180)	-	-	-	337,180	-	-	-
Balance as at December 31, 2004 - restated	3,371,800	473,673	-	(56,354)	3,107,054	1,800,000	559,559	9,255,732	28	9,255,760
Transferred to reserve for issuance of bonus shares	-	-	337,180	-	-	-	(337,180)	-	-	-
Issuance of bonus shares	337,180	-	(337,180)	-	-	-	-	-	-	-
Changes in equity for 2005										
Profit after taxation for the year ended December 31, 2005	-	-	-	-	-	-	9,214,387	9,214,387	-	9,214,387
Profit attributable to minority interest	-	-	-	-	-	-	(1)	(1)	1	-
Profit after tax for the year ended December 31, 2005 attributable to the ordinary share holders of the Group	-	-	-	-	-	-	9,214,386	9,214,386	1	9,214,387
Transferred from surplus on revaluation of fixed assets to unappropriated 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
Net income recognised directly in equity	-	-	-	3,805	-	-	83,749	87,554	-	87,554
Total recognised income and expense for the year ended December 31, 2005	-	-	-	3,805	-	-	9,298,135	9,301,940	1	9,301,941
Transferred to general reserve	-	-	-	-	-	2,000,000	(2,000,000)	-	-	-
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)
Issuance of right shares	556,347	834,521	-	-	-	-	-	1,390,868	-	1,390,868
Balance as at December 31, 2005 - Restated	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 to reserve for issuance of bonus shares	-	-	853,065	-	-	-	(853,065)	-	-	-
Issuance of bonus shares	853,065	-	(853,065)	-	-	-	-	-	-	-

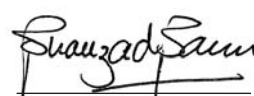
Statement of Changes in Equity for the year ended December 31, 2006

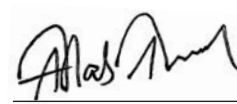
	Attributable to shareholders of the bank									
	Share capital	Capital Reserves			Revenue Reserves			Subtotal	Minority Interest	Total
		Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve	Unappropriated profit			
(Rupees '000)										
Changes in equity for 2006										
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	-	12,540,879	12,540,879	-	12,540,879
Profit attributable to minority interest	-	-	-	-	-	-	(3)	(3)	3	-
Profit after tax for the year ended December 31, 2006 attributable to the ordinary share holders of the Group	-	-	-	-	-	-	12,540,876	12,540,876	3	12,540,879
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	32,166	32,166	-	32,166
Exchange differences on translation of net investment in foreign branches	-	-	-	(1,068)	-	-	-	(1,068)	-	(1,068)
Net income recognised directly in equity	-	-	-	(1,068)	-	-	32,166	31,098	-	31,098
Total recognised income and expense for the year ended December 31, 2006	-	-	-	(1,068)	-	-	12,573,042	12,571,974	3	12,571,977
Transferred to statutory reserve	-	-	-	-	1,214,240	-	(1,214,240)	-	-	-
Final cash dividend - December 2005	-	-	-	-	-	-	(426,533)	(426,533)	-	(426,533)
Interim cash dividend - March 2006	-	-	-	-	-	-	(1,023,679)	(1,023,679)	-	(1,023,679)
Interim cash dividend - June 2006	-	-	-	-	-	-	(1,023,679)	(1,023,679)	-	(1,023,679)
Interim cash dividend - September 2006	-	-	-	-	-	-	(1,092,655)	(1,092,655)	-	(1,092,655)
Transferred to general reserve	-	-	-	-	-	6,000,000	(6,000,000)	-	-	-
Issuance of Global Depository Receipts (GDRs) - note 20.3	344,884	8,760,054	-	-	-	-	-	9,104,938	-	9,104,938
GDRs issuance expense - note 21.1	-	(365,720)	-	-	-	-	-	(365,720)	-	(365,720)
Issue of share to minority interest	-	-	-	-	-	-	-	-	20	20
Balance as at December 31, 2006	5,463,276	9,702,528	-	(53,617)	5,213,535	9,800,000	6,278,593	36,404,315	52	36,404,367

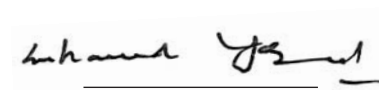
For details of dividend declaration and appropriations, refer note 45.4 to these financial statements.

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


 Mohammad Aftab Manzoor
 President and Chief Executive


 Shahzad Saleem
 Director


 Aftab Ahmad Khan
 Director


 Dr. Muhammad Yaqub
 Director



Notes to the Consolidated Financial Statements for the year ended December 31, 2006

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited

Percentage of
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 | 100.00 |
| - MCB Asset Management Company Limited | 99.99 |

MCB Bank Limited (holding company)

MCB Bank Limited (the 'Bank') 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.

During the year, the Bank was admitted to the Official List of the UK Listing Authority and London Stock Exchange Professional Securities Market for trading of Global Depositary Receipts (GDR's) issued by the Bank. These GDR's are also eligible for trading on the International Order Book (IOB) system of the London Stock Exchange. Trading in the GDR's on the London Stock Exchange had commenced on October 18, 2006. Refer note 20.3 for further detail.

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 988 branches including 6 Islamic banking branches (2005: 947 branches including 5 Islamic banking branches) within Pakistan and 6 (2005: 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 will be to float, administer and manage modaraba funds and modarabas under Modaraba Companies & Modaraba (Flotation and Control) Ordinance 1980. The company's registered office is situated at Karachi, Sind.

The company also acts as a trustee of certain 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)

The company was incorporated in Pakistan under the Companies Ordinance 1984 on September 14, 2005 as a public limited company. The registered office and principal place of business of the company is located at 8th Floor, Tecno City, Corporate Tower, Hasrat Mohani Road, Karachi.

The company is registered as an asset management company under the Non-Banking Finance Corporation (Establishment and Regulation) Rules, 2003 to carry on the business of Asset Management Company under the said rules.

The principal activity of the company includes asset management, investment advisory, portfolio management, equity research and underwriting. The company is in course of floating two mutual funds.

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 intra bank transactions/balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to MCB Bank Limited financial statements.

For the purpose of translation to US Dollar, the rates of Rs. 60.910 and Rs. 59.714 per US Dollar have been used for December 31, 2006 and December 31, 2005 respectively.

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.

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.

During 2005, Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard - 1 issued by Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transactions undertaken by a bank, effective for financial periods beginning on or after January 01, 2006. The standard has not been adopted by stand-alone Islamic branches of conventional banks pending resolution of certain issues, e.g., invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Bank's Association has taken up the matter with the State Bank of Pakistan.

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

The following standards, amendments and interpretations of approved accounting standards effective for accounting period beginning on or after January 01, 2007 are either not relevant to the Group's operations or are not expected to have significant impact on the Group's financial statements other than certain increased disclosures in certain cases:

IAS - 1 Presentation of Financial Statements- Amendments Relating to Capital Disclosures
IFRS - 2 Share Based Payments
IFRS - 3 Business Combinations
IFRS - 5 Non-Current Assets Held for Sale and Discontinued Operations
IFRS - 6 Exploration for and Evaluation of Mineral Resources
IFRIC - 8 Scope of IFRS 2 Share Based Payments
IFRIC - 9 Reassessment of embedded derivatives
IFRIC - 10 Interim Financial Reporting and Impairment
IFRIC - 11 Group and Treasury Share Transactions
IFRIC - 12 Services Concession Arrangements

4. BASIS OF MEASUREMENT

- 4.1** These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts and 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.
- 4.2** The financial statements are presented in Pakistan Rupees, which is the Group's functional and presentation currency. The amounts are rounded to nearest thousand Rupees.
- 4.3 Critical accounting estimates and judgments**

The preparation of financial statements are in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

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

b) Provision against advances

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

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.4.3 and 10.4.4.

c) Impairment of 'available for sale' equity investments

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

d) Taxation

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

e) Fair value of derivatives

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

f) Depreciation, amortisation and revaluation of operating fixed assets

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

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in these financial statements (note 37) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- a) The consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of an associate accounted for under the equity basis of accounting.
- b) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries disposed off. 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, 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.

- c) Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter for the post-acquisition change in the Group's share of net assets of the associate. The cumulative post-acquisition movements are adjusted in the carrying amount of the investment. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group's share in an associate has been accounted for on the basis of the audited financial statements for the year ended December 31, 2006.
- d) 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.

5.2 Investments

The Group classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the 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 the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in associates (which qualify for accounting under International Accounting Standard (IAS) 28, "Investment in Associates"), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities 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', which are then carried at cost less provision for diminution, 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.

5.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not 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 a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions 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 Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as financial leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments including any guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

5.5 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortised, 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 operating fixed assets 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 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

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

Surplus on revaluation of 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.

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

5.6 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 assets are amortised over its estimated useful lives over which economic benefits are expected to flow to the Group. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

5.7 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. 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.

5.8 Staff retirement benefits

MCB 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
- 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 01, 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 the completion of qualifying period of service. 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.

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

MNET Services (Private) Limited (subsidiary company)

The company operates an unfunded gratuity scheme for its eligible employees. Provision is made annually on the basis of the last drawn basic salaries of eligible employees and the number of completed years of service.

5.9 Employees' compensated absences

MCB Bank Limited (holding company)

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

5.10 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / 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. 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 securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

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

5.11 Provisions

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

5.12 Dividend distribution and appropriations

During the year, the Group changed its accounting policy pertaining to the recognition of dividend (including bonus dividend) and other appropriations (except appropriations which are required by law) declared / approved subsequent to the balance sheet date. As per the new policy, dividend declared and other appropriations (other than appropriations required by law) approved subsequent to the balance sheet date are considered as non-adjusting events and are not recorded in the financial statements. Previously, such dividend declarations and appropriations were treated as adjusting events in the financial statements of the Group and were recorded as appropriations in the financial statements. The new policy is in accordance with the requirements of International Accounting Standard (IAS) 10 dealing with "Events after the Balance Sheet Date" and also complies with the requirements set out in Circular number 06-2006 dated June 19, 2006 issued by the Institute of Chartered Accountants of Pakistan. The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment specified in International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change in accounting policy, the impact on these financial statements would have been as follows:

	31 December 2006	31 December 2005 (Rupees '000)	31 December 2004
General reserve would have been higher by	-	3,500,000	-
Reserve for issue of bonus shares would have been higher by	819,491	853,065	337,180
Unappropriated profit would have been lower by	1,638,982	4,779,598	337,180
Other liabilities would have been higher by	819,491	426,533	-

The effect of change in accounting policy has been reflected in the statement of changes in equity and other liabilities. However, the change in accounting policy has not resulted in any change in the profit for the current and previous years.

5.13 Foreign currencies

5.13.1 Foreign currency transactions

Transactions in foreign currencies (other than the results of operations of foreign operations discussed in note 5.13.2) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupees 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.

5.13.2 Foreign operations

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

5.13.3 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 branches, which are taken to the capital reserve (exchange translation reserve).

5.13.4 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.

5.14 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 the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of the countries where the branches operate.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognised as income when these are realised.
- 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 branches of the Group operate.
- Premium on foreign currency options and commission income is recognised on a time proportion basis.
- Dividend income is recognised when the Group's right to receive dividend is established.
- Profit / loss on sale of investments is credited / charged to profit and loss account currently.

5.15 Operating leases

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

5.16 Cash and cash equivalents

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

5.17 Financial instruments

5.17.1 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, deposits, sub-ordinated debts 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.

5.17.2 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 their fair value using valuation techniques. All derivative financial instruments are carried as assets when the 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 currently.

5.17.3 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.

5.18 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

5.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. the Group's primary format of reporting is based on business segments.

5.19.1 Business segment

Corporate Financing

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

Trading and Sales

It includes fixed income, equity, foreign exchanges commodities, lendings to financial institutions, repos and brokerage debt.

Retail and Consumer Banking

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

Commercial Banking

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

Asset Management

It includes asset management, investment advisory, portfolio management and equity research.

5.19.2 Geographical segments

The Bank operates in four geographic regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2006 (Rupees '000)	2005
In hand - local currency	6.1	6,654,824	4,943,189
- foreign currencies		733,261	544,809
In transit - local currency		559,178	575,694
With State Bank of Pakistan (SBP) in:	6.2	19,907,420	12,958,433
Local currency current account		-	460
Local currency deposit account	6.3	1,893,759	1,901,621
Foreign currency deposit account			
With other central banks in foreign currency current account	6.2	69,212	193,088
With National Bank of Pakistan in local currency current account		2,648,322	2,548,255
		<u>32,465,976</u>	<u>23,665,549</u>

6.1 This includes national prize bonds amounting to Rs. 54.164 million (2005: Rs. 47.799 million).

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

6.3 These include balance of Rs. 1,420.32 million (2005: Rs. 1,426.22 million) which carry interest rate of 4.35% per annum (2005: 3.29% per annum).

7. BALANCES WITH OTHER BANKS

	Note	2006 (Rupees '000)	2005
Inside Pakistan			
- deposit account		72,642	53,150
Outside Pakistan			
- current account	7.1	4,046,021	917,900
- deposit account		2,530,996	548,145
		<u>6,649,659</u>	<u>1,519,195</u>

7.1 Balances with other banks outside Pakistan in deposit account carry interest rates ranging from 5.31% to 6.11% per annum (2005: 4.5% to 4.7% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2006 (Rupees '000)	2005
In local currency			
Call money lendings	8.1	9,050,000	8,650,000
Repurchase agreement lendings	8.2	12,031,800	1,348,828
		<u>21,081,800</u>	<u>9,998,828</u>

8.1 These carry mark-up rates ranging from 10% to 12% per annum (2005: 7.35% to 9.75% per annum).

8.2 Securities held as collateral against lendings to financial institutions

	2006			2005		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees '000)					
Market Treasury Bills	5,396,800	-	5,396,800	848,828	-	848,828
Pakistan Investment Bonds	6,635,000	-	6,635,000	500,000	-	500,000
	<u>12,031,800</u>	<u>-</u>	<u>12,031,800</u>	<u>1,348,828</u>	<u>-</u>	<u>1,348,828</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2006 amounted to Rs. 12,456 million (2005: Rs. 1,393 million). These carry mark-up rates ranging from 8.3% to 9.6% per annum (2005: 8% to 8.65% per annum).

9. INVESTMENTS - NET

9.1 Investments by types

	Note / Annexure	2006 Held by bank Given as collateral Total	2005 Held by bank Given as collateral Total
		(Rupees '000)	(Rupees '000)
Held for trading securities			
- Shares in listed companies	9.5	-	66,056
Available-for-sale securities			
- Market Treasury Bills	9.6	25,574,416	19,605,074
- Pakistan Investment Bonds	9.6	1,352,350	2,039,818
- Shares in listed companies, mutual funds and modarabas	Annexure I (note 1)	5,936,718	5,042,072
- Shares in unlisted companies	9.7 & Annexure I (note 2)	537,012	443,369
- NIT units		5,253	83
- Listed Term Finance Certificates (TFCs)	Annexure I (note 3)	1,450,659	1,173,320
		34,856,408	28,303,736
Held-to-maturity securities			
- Market Treasury Bills	9.6	-	7,872,469
- Pakistan Investment Bonds	9.6	2,439,089	2,467,983
- Federal Government Securities	Annexure I (note 4)	825,719	992,861
- Provincial Government Securities		118	118
- Government Compensation Bonds	Annexure I (note 4)	870,771	870,771
- Sukuk Bonds	Annexure I (note 4)	1,573,478	759,767
- Euro Bonds	Annexure I (note 4)	3,019,135	2,971,758
- Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	2,387,836	1,876,119
- Certificates of Investment	Annexure I (note 5)	3,550,000	1,500,000
		14,666,146	19,311,846
Associates			
Adamjee Insurance Company Limited	Annexure I (note 6)	2,259,550	1,869,045
First Women Bank Limited	9.8	63,300	63,300
	9.12	2,322,850	1,932,345
Investments at cost			
Less: Provision for diminution in the value of investments	9.3	51,845,404	49,613,983
		(363,019)	(547,424)
Investments (net of provisions)			
Surplus / (deficit) on revaluation of available for sale securities - net	22.2	51,482,385	49,066,559
		1,685,026	(3,764)
Surplus on revaluation of 'held for trading' securities - net	9.5	-	1,634
Investments at revalued amounts - net of provisions			
		53,167,411	50,838,315

	Note / Annexure	2006 (Rupees '000)	2005
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.6	36,872,804	46,999,774
- Pakistan Investment Bonds	9.6	3,791,439	4,507,801
- Federal Government Securities	Annexure I (note 4)	825,719	992,861
- Government Compensation Bonds	Annexure I (note 4)	870,771	870,771
- Euro Bonds	Annexure I (note 4)	3,019,135	2,971,758
- Sukuk Bonds	Annexure I (note 4)	1,573,478	759,767
Provincial Government Securities		118	118
Associated Undertakings	9.8, 9.12 & Annexure I (note 6)	2,322,850	1,932,345
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	5,875,116	5,042,658
- Unlisted companies / funds	9.7 & Annexure I (note 2)	437,012	443,369
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	61,602	65,470
- Unlisted Companies	Annexure I (note 2)	100,000	-
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	Annexure I (note 3)	1,450,659	1,173,320
- Unlisted Term Finance Certificates	Annexure I (note 3)	1,946,344	1,271,631
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	441,492	604,488
- Certificates of Investment	Annexure I (note 5)	3,550,000	1,500,000
Other Investments:			
- NIT Units		5,253	83
Total investments at cost		63,143,792	69,136,214
Less: Provision for diminution in the value of investments	9.3	(363,019)	(547,424)
Investments (net of provisions)		62,780,773	68,588,790
Add: Surplus on revaluation of available for sale securities - net	22.2	1,669,988	1,766,358
Surplus on revaluation of held for trading securities - net	9.5	-	1,634
Investments at revalued amounts - net of provisions		64,450,761	70,356,782
9.3 Particulars of provision			
Opening balance		547,424	695,976
Charge / (reversal) during the year		121,197	(98,982)
Investment written off against provision		(305,602)	(49,570)
Closing balance		363,019	547,424
9.3.1 Particulars of provision in respect of Type and Segment			
Available-for-sale securities			
Listed shares / Certificates / Units		96,747	197,325
Unlisted shares		65,957	100,687
		162,704	298,012
Held-to-maturity securities			
TFCs, Debentures, Bonds and Participation Term Certificates		200,315	207,799
Associates		-	41,613
		363,019	547,424

9.4 Quality of Available for sale securities

	Market value/ carrying value for unlisted investments (Rupees '000)	2006 Credit rating		Rated by	Market value/ carrying value for unlisted investments (Rupees '000)	2005 Credit Rating		Rated by
		Long Term	Short Term			Long Term	Short Term	
Market Treasury Bills	36,832,900	(Unrated - Government Securities)			24,406,446	(Unrated - Government Securities)		
Pakistan Investment Bonds	1,350,985	(Unrated - Government Securities)			2,056,445	(Unrated - Government Securities)		
Listed Term Finance Certificates								
Askari Commercial Bank Limited	201,799	AA	(Unrated)	PACRA	201,880	AA	(Unrated)	PACRA
Azgard Nine Limited	99,960	A+	(Unrated)	JCRVIS	100,000	A+	(Unrated)	JCRVIS
Bank Al-Habib Limited	99,920	AA-	(Unrated)	PACRA	99,960	AA-	(Unrated)	PACRA
Bank Alfalah Limited	248,486	AA-	(Unrated)	PACRA	248,581	AA-	(Unrated)	PACRA
United Bank Limited	284,890	AA-	(Unrated)	JCRVIS	-	-	-	-
Allied Bank Limited	117,020	A	(Unrated)	JCRVIS	-	-	-	-
First Dawood Investment Bank Limited	34,374	AA-	(Unrated)	PACRA	34,375	AA-	(Unrated)	PACRA
Hira Textile Mills Limited	49,910	A	(Unrated)	JCRVIS	49,930	A	(Unrated)	JCRVIS
Jahangir Siddiqui & Company Limited	149,764	AA+	(Unrated)	PACRA	199,800	AA+	(Unrated)	PACRA
Pakistan Services Limited	8,870	A	(Unrated)	JCRVIS	13,305	A-	(Unrated)	JCRVIS
Reliance Weaving Mills Limited	-	-	-	-	14,100	A-	(Unrated)	JCRVIS
Soneri Bank Limited	149,910	A+	(Unrated)	PACRA	149,970	A+	(Unrated)	PACRA
SPV Securetel Limited	-	-	-	-	1,367	-----	(Unrated)-----	-----
Sui Southern Gas Company Limited	12,567	AA	(Unrated)	PACRA	73,342	AA	(Unrated)	PACRA
	1,457,470				1,186,610			
Shares in Listed Companies / Certificates / Units								
AKD Opportunity Fund	4,765	-----	(Unrated)-----	-----	-	-	-	-
Al-Ghazi Tractors Limited	14,683	-----	(Unrated)-----	-----	13,238	-----	(Unrated)-----	-----
Allied Bank Limited	47,311	A+	A1+	JCRVIS	29,497	A+	A1+	JCRVIS
Al-Meezan Mutual Fund	14,090	5 Star	(Unrated)	PACRA	20,790	-----	(Unrated)-----	-----
Askari Commercial Bank Limited	136,487	AA+	A1+	PACRA	11,412	AA+	A1+	PACRA
Atlas Income Fund	64,179	4 Star	(Unrated)	PACRA	57,718	-----	(Unrated)-----	-----
Atlas Islamic Fund	10,000	-----	(Unrated)-----	-----	-	-	-	-
Atlas Stock Market Fund	15,314	4 Star	(Unrated)	PACRA	14,148	-----	(Unrated)-----	-----
Azgard Nine Limited - preference shares	8,122	A	A1	PACRA	18,951	A	A1	PACRA
Baig Spinning Mills Limited	1,385	-----	(Unrated)-----	-----	3,707	-----	(Unrated)-----	-----
Bank Alfalah Limited	8,012	AA	A1+	PACRA	-	-	-	-
Bank Al-Habib Limited	32,191	AA	A1+	PACRA	17,357	AA	A1+	PACRA
The Bank of Punjab	70,656	AA	A1+	PACRA	33,296	AA	A1+	PACRA
Bawany Sugar Mills Limited	76	-----	(Unrated)-----	-----	-	-	-	-
BOC Pakistan Limited	3,163	-----	(Unrated)-----	-----	-	-	-	-
Brothers Textile Mills Limited	211	-----	(Unrated)-----	-----	-	-	-	-
BSJS Balanced Fund Limited	6,170	4 Star	(Unrated)	PACRA	7,536	AA(f)	(Unrated)	PACRA
Century Papers Mills Limited	16,741	-----	(Unrated)-----	-----	15,725	-----	(Unrated)-----	-----
Colony Mills Limited	2	-----	(Unrated)-----	-----	-	-	-	-
EFU General Insurance Company Limited	175,943	AA	(Unrated)	JCRVIS	72,569	AA	(Unrated)	JCRVIS
EFU Life Insurance Company Limited	3,894	-----	(Unrated)-----	-----	-	-	-	-
Engro Chemical Pakistan Limited	76,565	AA	A1+	PACRA	92,024	AA-	A1+	PACRA
Escorts Investment Bank Limited	1,146	A	A1	JCRVIS	-	-	-	-
Fauji Fertilizer Company Limited	719,673	-----	(Unrated)-----	-----	871,332	-----	(Unrated)-----	-----
Fauji Fertilizer Bin Qasim Company Limited	2,856	-----	(Unrated)-----	-----	-	-	-	-
Fauji Cement Company Limited	395	-----	(Unrated)-----	-----	-	-	-	-
Faysal Bank Limited	7,295	AA	A1+	PACRA	-	-	-	-
First Al - Noor Modaraba	22,891	BBB	A3	JCRVIS	37,966	BBB	A3	JCRVIS
First Investec Modaraba	27	-----	(Unrated)-----	-----	-	-	-	-
Glaxo Smith Pakistan Limited	19,860	-----	(Unrated)-----	-----	18,747	-----	(Unrated)-----	-----
Habib Metropolitan Bank Limited	5,227	AA+	A1+	PACRA	-	-	-	-
Honda Atlas Cars Limited	9,192	-----	(Unrated)-----	-----	12,767	-----	(Unrated)-----	-----
Hub Power Company Limited	735,869	-----	(Unrated)-----	-----	642,468	-----	(Unrated)-----	-----
IGI Insurance Limited	3,728	AA	(Unrated)	PACRA	1,948	AA	(Unrated)	PACRA
Balance carried forward	2,238,119				1,993,196			



	Market value/ carrying value for unlisted investments (Rupees '000)	2006 Credit rating		Rated by	Market value/ carrying value for unlisted investments (Rupees '000)	2005 Credit Rating		Rated by
		Long Term	Short Term			Long Term	Short Term	
Balance brought forward	2,238,119				1,993,196			
Indus Motors Limited	55,575	-----	(Unrated)-----		43,852	-----	(Unrated)-----	
Khurshid Spinning Mills Limited	33	-----	(Unrated)-----		-	-	-	-
Kohinoor Energy Limited	1,382	-----	(Unrated)-----		1,532	-----	(Unrated)-----	
Kohinoor Industries Limited	604	-----	(Unrated)-----		-	-	-	-
Kot Addu Power Company Limited	127,163	-----	(Unrated)-----		143,046	-----	(Unrated)-----	
Lucky Cement Limited	2,199	-----	(Unrated)-----		-	-	-	-
Masood Textile Mills Limited - preference shares	50,000	-----	(Unrated)-----		50,000	-----	(Unrated)-----	
Meezan Balanced Fund	8,600	5 Star	(Unrated)	PACRA	9,750	-----	(Unrated)-----	
Meezan Islamic Fund	29,705	MFR 5 STAR	(Unrated)	JCRVIS	75,270	-----	(Unrated)-----	
Mehr Dastagir Textile Mills Limited	8,893	-----	(Unrated)-----		12,778	-----	(Unrated)-----	
Millat Tractors Limited	186,256	-----	(Unrated)-----		195,326	-----	(Unrated)-----	
Mirza Sugars Limited	77	-----	(Unrated)-----		-	-	-	-
Mohammad Farooq Textile Mills Limited	138	-----	(Unrated)-----		-	-	-	-
National Bank of Pakistan	161,066	AAA	A1+	JCRVIS	21,640	AAA	A1+	JCRVIS
Oil & Gas Development Corporation Limited	54,352	-----	(Unrated)-----		20,657	-----	(Unrated)-----	
Orix Leasing Limited	5,410	AA+	A1+	PACRA	6,447	AA+	A1+	PACRA
Pakistan Industrial Credit and Investment Corporation Limited	-	-	-	-	38,880	AA	A1+	PACRA
PICIC Investment Fund	1,192	-----	(Unrated)-----		-	-	-	-
Packages Limited	43,102	AA	A1+	PACRA	64,528	AA	A1+	PACRA
Pakistan Capital Market Fund	496	5 Star	(Unrated)	PACRA	148	-----	(Unrated)-----	
Pakistan Oilfields Limited	323,924	-----	(Unrated)-----		218,648	-----	(Unrated)-----	
Pakistan Reinsurance Company Limited	12,870	-----	(Unrated)-----		-	-	-	-
Pakistan Petroleum Limited	76,908	-----	(Unrated)-----		4,205	-----	(Unrated)-----	
Pakistan Premier Fund	1,058	5 Star	(Unrated)	PACRA	-	-	-	-
Pakistan PTA Limited	216	-----	(Unrated)-----		-	-	-	-
Pakistan State Oil Company Limited	254,782	AAA	A1+	PACRA	229,276	AAA	A1+	PACRA
Pakistan Synthetics Limited	100	-----	(Unrated)-----		-	-	-	-
Pakistan Telecommunication Company Limited	138,692	-----	(Unrated)-----		108,475	-----	(Unrated)-----	
PICIC Commercial Bank Limited	905	A+	A1	JCRVIS	-	-	-	-
PICIC Growth Fund	12,371	MFR 4 STAR	(Unrated)	JCRVIS	3,088	-----	(Unrated)-----	
Prime Commercial Bank Limited	1,725	A+	A1	PACRA	-	-	-	-
Redco Textiles Limited	350	-----	(Unrated)-----		1,250	-----	(Unrated)-----	
Rupali Polyester Limited	22,423	-----	(Unrated)-----		29,404	-----	(Unrated)-----	
Sakrand Sugar Limited	187	-----	(Unrated)-----		-	-	-	-
Saudi Pak Commercial Bank Limited	217	A-	A-2	JCRVIS	-	-	-	-
Standard Chartered Modaraba	3,599	AA+	A1+	PACRA	4,649	AA+	A1+	PACRA
* Sui Northern Gas Pipelines Limited	3,126,238	AA-	A1+	PACRA	3,015,925	AA-	A1+	PACRA
Taj Textile Mills Limited	1	-----	(Unrated)-----		-	-	-	-
Thal Limited	49,350	-----	(Unrated)-----		47,738	-----	(Unrated)-----	
Tripack Films Limited	404	A+	A1	PACRA	-	-	-	-
* Trust Security & Brokerage Limited	1,680	-----	(Unrated)-----		2,430	-----	(Unrated)-----	
Unilever Pakistan Limited	45,600	-----	(Unrated)-----		40,470	-----	(Unrated)-----	
Unit Trust of Pakistan	73,724	5 Star	(Unrated)	PACRA	89,424	AA(f)	(Unrated)	PACRA
United Bank Limited	389,875	AA	A1+	JCRVIS	94,703	AA	A1+	JCRVIS
UTP Growth Fund	1,843	-----	(Unrated)-----		-	-	-	-
UTP Large Capital Fund (ABAMCO Composite Fund)	31,202	-----	(Unrated)-----		37,245	-----	(Unrated)-----	
WorldCall Telecom Limited	30	A+	A1	PACRA	-	-	-	-
Yousuf Weaving Mills Limited	75	-----	(Unrated)-----		-	-	-	-
	7,544,711				6,603,980			
Shares in Un-listed Companies								
* Khushhali Bank Limited	300,000	A-	A-1	JCRVIS	300,000	-----	(Unrated)-----	
* Equity Participation Fund	1,500	-----	(Unrated)-----		1,500	-----	(Unrated)-----	
* Investment Corporation of Pakistan	22,824	AA	A1+	PACRA	-	-	-	-
* National Investment Trust Limited	100	-----	(Unrated)-----		100	-----	(Unrated)-----	
* Pakistan Agricultural Storage and Services Corporation	2,500	-----	(Unrated)-----		2,500	-----	(Unrated)-----	
* SME Bank Limited (Formerly Small Business Finance Corporation)	10,106	BBB	A2	JCRVIS	10,106	BBB	A-2	JCRVIS
First Capital Investment (Private) Limited	2,500	AM4+	(Unrated)	PACRA	-	-	-	-
Balance carried forward	339,530				314,206			

	Market value/ carrying value for unlisted investments (Rupees '000)	2006			Market value/ carrying value for unlisted investments (Rupees '000)	2005		
		Credit rating	Long Term	Short Term		Credit Rating	Long Term	Short Term
				Rated by				Rated by
Balance brought forward	339,530				314,206			
Musarrat Textile Mills Limited (de-listed)	-	-	-	-	804	-----	(Unrated)	-----
Pak Asian Fund	11,500	-----	(Unrated)	-----	11,500	-----	(Unrated)	-----
Ayaz Textiles Mills Limited	-	-	-	-	113	-----	(Unrated)	-----
* JS ABAMCO Limited	-	-	-	-	9,121	-----	(Unrated)	-----
* Arabian Sea Country Club	4,920	-----	(Unrated)	-----	-	-	-	-
* Central Depository Company Limited	10,000	-----	(Unrated)	-----	4,810	-----	(Unrated)	-----
* National Institutional Facilitation Technologies (Private) Limited	1,527	-----	(Unrated)	-----	1,527	-----	(Unrated)	-----
Society for Worldwide Inter Fund Transfer (SWIFT)	2,993	-----	(Unrated)	-----	-	-	-	-
Fazal Cloth Mills Limited - Preference Share	100,000	-----	(Unrated)	-----	-	-	-	-
Lanka Clearing (Private) Limited	567	-----	(Unrated)	-----	585	-----	(Unrated)	-----
Credit Information Bureau of Sri Lanka	17	-----	(Unrated)	-----	18	-----	(Unrated)	-----
	471,054				342,684			
Other Investment								
N.I.T. Units	4,960	4 Star	(Unrated)	PACRA	103	AA	(Unrated)	PACRA
	<u>47,662,080</u>				<u>34,596,268</u>			

* These are the strategic investments of the Group.

9.5 Unrealised gain on revaluation of investments classified as 'held for trading' - net

Investee Company	Unrealised gain as on December 31,		Cost as at December 31,	
	2006	2005	2006	2005
	----- (Rupees '000) -----			
National Bank of Pakistan	-	96	-	19,849
Pakistan Oilfield Limited	-	47	-	4,233
Lucky Cement Limited	-	671	-	10,320
Maple Leaf Cement Limited	-	60	-	2,921
United Bank Limited	-	47	-	3,290
Engro Chemical Pakistan Limited	-	(10)	-	4,164
Pakistan State Oil Limited	-	(78)	-	8,414
Union Bank Limited	-	88	-	2,184
Bank Alfalah Limited	-	817	-	8,402
Pakistan Reinsurance Company Limited	-	(104)	-	2,279
	<u>-</u>	<u>1,634</u>	<u>-</u>	<u>66,056</u>

9.6 'Available for sale' Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan (SBP). The market value of Pakistan Investment Bonds classified as 'held to maturity' as at December 31, 2006 amounted to Rs. 1,978.22 million (2005: Market Treasury Bills Rs. 22,552.82 million and Pakistan Investment Bonds Rs. 2,042.62 million).

9.7 This includes the Group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs. 300 million (2005: 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 Limited, shall not be used to pay any dividend to the members, and shall be utilized to promote the objectives of Khushhali Bank Limited. Currently proposal for relevant amendments in the Khushhali Bank Ordinance, 2000 is under the consideration of the Government of Pakistan.

9.8 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, 2006 in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'. The market value of investment in Adamjee Insurance Company Limited as at December 31, 2006 amounted to Rs. 4,481.877 million (2005: Rs. 3,296.847 million).

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

	2006 (Rupees '000)	2005
Opening Balance	1,869,045	1,041,800
Share of profit for the year before tax	474,030	349,019
Dividend received	(62,568)	(36,097)
Share of tax	(25,675)	(25,357)
	385,787	287,565
Share of unrealized surplus on investment	4,718	539,680
Closing Balance	2,259,550	1,869,045

9.9 At December 31, 2006 market value of quoted investments was Rs. 53,858.431 million (2005: Rs. 62,433.508 million) while the book value of unquoted investments was Rs. 12,711.323 million (2005: Rs. 8,968.826 million).

9.10 Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2005: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan Limited against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2005: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account. Further Euro Bonds issued by Government of Pakistan amounting to US Dollar 29 million (2005: US Dollar 29 million) / Rs. 1,766.39 million (2005: Rs. 1,731.71 million) (carrying value) are earmarked by Mashreqbank PSC against the Bank's borrowings.

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

9.12 The Group's investment in First Women Bank Limited is being carried at cost and have not been accounted for under the equity method as the Group does not have significant influence over the entity.

10. ADVANCES - NET

	Note	2006 (Rupees '000)	2005
Loans, cash credits, running finances, etc.			
In Pakistan		189,472,034	174,625,232
Outside Pakistan		5,172,803	3,755,036
		194,644,837	178,380,268
Net investment in finance lease	10.2		
In Pakistan		6,080,333	3,897,184
Outside Pakistan		85,865	93,330
		6,166,198	3,990,514
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,761,803	2,386,952
Payable outside Pakistan		4,272,188	3,381,943
		6,033,991	5,768,895
Advances - gross		206,845,026	188,139,677
Provision against advances	10.4		
Specific provision		(5,953,234)	(5,534,376)
General provision	10.4.3	(2,277,467)	(2,098,053)
General provision against consumer loans	10.4.4	(373,823)	(180,554)
General provision for potential lease losses (in Sri Lanka operations)		(3,820)	(3,941)
		(8,608,344)	(7,816,924)
Advances - net of provision		198,236,682	180,322,753

	2006 (Rupees '000)	2005
10.1 Particulars of advances (Gross)		
10.1.1 In local currency	193,483,876	177,647,743
In foreign currencies	13,361,150	10,491,934
	<u>206,845,026</u>	<u>188,139,677</u>
10.1.2 Short-term	144,593,011	135,405,747
Long-term	62,252,015	52,733,930
	<u>206,845,026</u>	<u>188,139,677</u>

10.2 Net investment in finance lease

	2006				2005			
	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	2,207,155	3,870,278	55,599	6,133,032	1,120,527	2,793,440	19,852	3,933,819
Guaranteed residual value	874,230	389,307	5,014	1,268,551	56,664	733,127	15,135	804,926
Minimum lease payments	3,081,385	4,259,585	60,613	7,401,583	1,177,191	3,526,567	34,987	4,738,745
Finance charge for future periods	(379,929)	(839,762)	(15,694)	(1,235,385)	(274,238)	(471,975)	(2,018)	(748,231)
Present value of minimum lease payments	<u>2,701,456</u>	<u>3,419,823</u>	<u>44,919</u>	<u>6,166,198</u>	<u>902,953</u>	<u>3,054,592</u>	<u>32,969</u>	<u>3,990,514</u>

10.3 Advances include Rs. 8,570.813 million (2005: Rs. 8,395.989 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2006								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees '000)								
Other Assets Especially Mentioned (OAEM)	10.3.1	87,699	-	87,699	-	-	-	-	-	-
Substandard		487,306	6,927	494,233	108,247	1,731	109,978	108,247	1,731	109,978
Doubtful		475,072	-	475,072	231,032	-	231,032	231,032	-	231,032
Loss		4,837,290	2,676,519	7,513,809	4,665,896	946,328	5,612,224	4,665,896	946,328	5,612,224
		<u>5,887,367</u>	<u>2,683,446</u>	<u>8,570,813</u>	<u>5,005,175</u>	<u>948,059</u>	<u>5,953,234</u>	<u>5,005,175</u>	<u>948,059</u>	<u>5,953,234</u>
		2005								
Category of Classification		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees '000)								
Other Assets Especially Mentioned (OAEM)	10.3.1	52,005	-	52,005	-	-	-	-	-	-
Substandard		318,976	-	318,976	76,968	-	76,968	76,968	-	76,968
Doubtful		276,214	-	276,214	124,660	-	124,660	124,660	-	124,660
Loss		5,070,235	2,678,559	7,748,794	4,384,380	948,368	5,332,748	4,384,380	948,368	5,332,748
		<u>5,717,430</u>	<u>2,678,559</u>	<u>8,395,989</u>	<u>4,586,008</u>	<u>948,368</u>	<u>5,534,376</u>	<u>4,586,008</u>	<u>948,368</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 State Bank of Pakistan.

10.4 Particulars of provision against advances

	Note	2006				Total
		Specific	General	General provision against consumer loans (Rupees '000)	Leasing (general)	
Opening balance		5,534,376	2,098,053	180,554	3,941	7,816,924
Exchange adjustments		17,278	-	-	(121)	17,157
Provision made during the year	10.4.2	641,857	179,414	193,269	-	1,014,540
Transfer		-	-	-	-	-
Amounts written off	10.5.1	641,857 (240,277)	179,414 -	193,269 -	-	1,014,540 (240,277)
Closing balance		5,953,234	2,277,467	373,823	3,820	8,608,344

	Note	2005				Total
		Specific	General	General provision against consumer loans (Rupees '000)	Leasing (general)	
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	10.4.2	1,878 (104,476)	1,166,122 104,476	74,153 -	-	1,242,153 -
Transfer		-	-	-	-	-
Amounts written off	10.5.1	(102,598) (121,950)	1,270,598 -	74,153 -	-	1,242,153 (121,950)
Closing balance		5,534,376	2,098,053	180,554	3,941	7,816,924

10.4.1 Particulars of provisions against advances

	2006			2005		
	Specific	General (total)	Total	Specific	General (total)	Total
	(Rupees '000)					
In local currency	5,033,470	2,651,290	7,684,760	4,633,891	2,278,607	6,912,498
In foreign currencies	919,764	3,820	923,584	900,485	3,941	904,426
	5,953,234	2,655,110	8,608,344	5,534,376	2,282,548	7,816,924

		Note	2006 (Rupees '000)	2005 (Rupees '000)
10.4.2 The following amounts have been charged to the profit and loss account:				
Specific provision			641,857	1,878
General provision		10.4.3	179,414	1,166,122
General provision against consumer loans		10.4.4	193,269	74,153
			1,014,540	1,242,153

10.4.3 General provision against advances represents provision maintained at around 1% of gross advances of MCB Bank Limited.

10.4.4 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.

10.5	Particulars of write offs:	Note	2006 (Rupees '000)	2005
10.5.1	Against provisions Directly charged to the profit and loss account	10.4	240,277 47,000	121,950 1,184
			<u>287,277</u>	<u>123,134</u>
10.5.2	Write offs of Rs. 500,000 and above Write offs of below Rs. 500,000	10.5.3	282,613 4,664	122,656 478
			<u>287,277</u>	<u>123,134</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, 2006 is given at Annexure - III to MCB Bank Limited financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

10.6 Particulars of advances to directors, associated companies, etc.

	Note	2006 (Rupees '000)	2005
Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		3,083,682	3,192,771
Loans granted during the year		659,589	1,698,064
Repayments		(593,721)	(1,807,153)
Balance at end of the year		<u>3,149,550</u>	<u>3,083,682</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		1,297,320	-
Loans granted during the year		2,062,460	1,377,007
Repayments		(1,119,742)	(79,687)
Balance at end of the year		<u>2,240,038</u>	<u>1,297,320</u>
		<u>5,389,588</u>	<u>4,381,002</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	952,505	570,259
Property and equipment	11.2	7,748,773	7,363,157
Intangible asset	11.3	371,998	249,038
		<u>9,073,276</u>	<u>8,182,454</u>

11.1 Capital work-in-progress

Civil works	418,328	281,546
Equipment	133,757	78,396
Advances against purchase of property	102,727	-
Advances to suppliers and Contractors	183,727	157,380
Others	113,966	52,937
	<u>952,505</u>	<u>570,259</u>

11.2 Property and equipment

Description	2006											Annual rate of depreciation/ estimated useful life
	Cost/ Revalued amount					Accumulated depreciation					Net book Value at December 31, 2006	
	At January 01, 2006	Additions/ (disposals)	Write-off	Adjustment /transfer out	At December 31, 2006	At January 01, 2006	Charge for the year/ (depreciation on disposals)	Write-off	Adjustment /transfer out	At December 31, 2006		
	----- (Rupees '000) -----											
Land - Freehold	3,858,796	110,316	-	** (70,454) (2,230)	3,896,428	-	-	-	-	-	3,896,428	-
Land - Leasehold	57,430	-	-	-	57,430	-	-	-	-	-	57,430	-
Buildings on freehold land	2,137,700	305,386 (40,269)	(49,779)	** (88,363) (3,925)	2,260,750	80,420	59,013 (2,013)	-	(411) (196)	136,813	2,123,937	50 years
Buildings on leasehold land	56,521	1,015	-	-	57,536	16,518	1,477	-	-	17,995	39,541	10 to 50 years
Furniture and fixtures	1,087,369	65,563 (29,397)	(47,925)	*(519,849)	555,761	823,170	29,126 (24,310)	(37,374)	*(519,849)	270,763	284,998	10% to 33%
Computers and office equipments	2,535,880	521,417	-	-	3,057,297	1,662,161	376,601	-	-	2,038,762	1,018,535	20% to 33%
Vehicles	513,773	221,047 (117,980)	(122)	*(20,931)	595,787	302,043	90,400 (103,629)	-	*(20,931)	267,883	327,904	20% to 25%
	10,247,469	1,224,744 (187,646)	(97,826)	(699,597) (6,155)	10,480,989	2,884,312	556,617 (129,952)	(37,374)	(541,191) (196)	2,732,216	7,748,773	

* In the previous year, the management had initiated a detailed exercise to centralise the fixed assets records of the Bank. Based on this exercise fully depreciated fixed assets (which are not in the Bank's use), have been adjusted. There is no net effect in the profit and loss account. The exercise is expected to complete in year 2007.

** This includes reversal of revaluation surplus of Rs. 152.709 million (2005: Rs. 39.045 million) to write down the related assets to their expected realisable value. There is no net effect in the profit and loss account.

Description	2005										Net book value at December 31, 2005	Annual rate of depreciation
	Cost/ Revalued amount					Accumulated depreciation						
	At January 01, 2005	Additions/ (disposals)	Adjustment	transfer out	At December 31, 2005	At January 01, 2005	Charge for the year/ (depreciation on disposals)	Adjustment	At December 31, 2005			
	(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		

In the current year (2006), buildings have been split between building on freehold land and leasehold land. Further, furniture, office equipment and computer have been split between furniture & fixtures and computer and office equipments. However, the figures for 2005 cannot be so split due to impracticability.

- 11.2.1** The domestic properties (land and buildings) of MCB Bank Limited 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 (total revalued amount being Rs. 6,059.233 million - refer Annexure V to MCB Bank Limited financial statements for the details of locations, etc.). The details of revalued amounts (net of depreciation and disposals subsequent to the above valuation date) are as follows:

(Rupees '000)

Total revalued amount of land	3,730,669
Total revalued amount of buildings	1,847,828

Had the land and buildings not been revalued, the total carrying amounts as at December 31, 2006 would have been as follows:

(Rupees '000)

Land	578,509
Buildings	1,309,550

- 11.2.2** International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" requires the review of the residual value of assets, useful lives and depreciation method at each financial year-end. Accordingly, the management has revised the depreciation rates used to allocate the depreciable amount of buildings from the previous rates ranging between 2.5% to 5%, to the remaining expected useful lives of the buildings. The management believes that the above charge reflects a more appropriate allocation of the depreciable amounts of buildings over their estimated useful lives. The above change in accounting estimate has been recognised in the current year in accordance with the requirements of International Accounting Standard (IAS) 8 "Accounting Policies, Change in accounting Estimates and Errors". Had there been no such change, the profit before taxation for the year would have been lower by Rs. 34.281 million and the carrying value of operating fixed assets would have been lower by the same amount.

- 11.2.3** The gross carrying amount of fully depreciated assets that are still in use are as follows:

(Rupees '000)

Furniture and fixtures	9,113
Computer and office equipment	786,388
Vehicles	115,789

- 11.2.4** The carrying amount of properties held for disposal are as follows:

(Rupees '000)

Property at Empress Market, Karachi	36
Property at MCHS Military Road, Sukkur	5,979
Property at New Garden Town, Lahore	4,007
Property at Peshawar Cantt, Peshawar	20,461
Property at Quetta Cantt, Quetta	6,622

- 11.2.5** Details of disposal of operating fixed assets

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

11.3 Intangible asset

Description	Cost		2006 Accumulated amortisation			Net book Value at December 31, 2006	Annual rate of amortisation %
	At January 01, 2006	Additions	At December 31, 2006	At January 01, 2006	Amortisation for the year	At December 31, 2006	
				(Rupees '000)			
Computer software (note 11.3.1)	309,151	244,245	553,396	60,113	121,285	181,398	33.33
	309,151	244,245	553,396	60,113	121,285	181,398	371,998

Description	2005						Annual rate of amortisation %
	Cost		Accumulated amortisation			Net book Value at December 31, 2005	
	At January 01, 2005	Additions	At December 31, 2005	At January 01, 2005	Amortisation for the year		
	(Rupees '000)						
Computer software (note 11.3.1)	-	309,151	309,151	-	60,113	60,113	33.33
	-	309,151	309,151	-	60,113	60,113	249,038

11.3.1 This includes Bank's operating software with carrying value of Rs. 174.898 million (2005: Rs. 249.038 million).

12. DEFERRED TAX ASSETS - net

12.1 The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	22.1	(188,398)	(238,881)
Accelerated tax depreciation		(257,368)	(212,730)
		(445,766)	(451,611)
Deductible temporary differences on:			
Surplus on revaluation of securities	22.2	14,343	3,620
Provision for contributory benevolent scheme		92,589	107,526
Provision for gratuity scheme		638	395
Provision for employees' compensated absences		5,060	77,315
Provision for post retirement medical benefits		505,208	455,117
Others		2,814	-
		620,652	643,973
		174,886	192,362

13. OTHER ASSETS - NET

Income / mark-up accrued on advances and investments - local currency	13.4	4,020,038	2,483,170
Income / mark-up accrued on advances and investments - foreign currencies		221,999	166,523
Other advances, deposits, advance rent and prepayments		777,070	158,637
Compensation for delayed income tax refunds		44,802	62,048
Branch Adjustment Account		238,096	-
Unrealised gain on derivative financial instruments	13.3	75,403	147,207
Non-banking assets acquired in satisfaction of claims	13.1	492,431	122,610
Stationery and stamps on hand		52,610	42,700
Prepaid exchange risk fee		139	235
Receivable from the pension fund	37.3	4,881,483	1,973,998
Others		756,528	820,842
		11,560,599	5,977,970
Less: Provision held against other assets	13.2	515,690	504,279
		11,044,909	5,473,691

13.1 The market value of non-banking assets of Rs. 363.862 million (after provision) as per the valuation report dated December 31, 2006 amounted to Rs. 386.835 million (2005: Based on valuation as of December 15, 2004 Rs. 131.76 million).

13.2 Provision against other assets

	2006 (Rupees '000)	2005
Opening balance	504,279	577,019
Charge for the year	15,410	27,529
Reversal during the year	(3,999)	(100,269)
	11,411	(72,740)
Closing balance	515,690	504,279

Contract / Notional amount	Unrealised loss
2006	2005
2006	2005
(Rupees '000)	(Rupees '000)

13.3 Derivative financial instruments

Unrealised gain on:				
Interest rate swaps	1,772,750	1,583,759	24,794	18,044
Forward exchange contracts	49,214,776	16,269,722	50,609	129,163
	50,987,526	17,853,481	75,403	147,207

13.4 This includes mark-up receivable from the pension fund and provident fund amounting to Rs. 55.695 million and Rs. 11.580 million respectively.

14. CONTINGENT ASSETS

There were no contingent assets of the Group as at December 31, 2006 and December 31, 2005.

15. BILLS PAYABLE

	Note	2006 (Rupees '000)	2005
In Pakistan		7,075,421	8,510,322
Outside Pakistan		14,258	26,352
		7,089,679	8,536,674

16. BORROWINGS

In Pakistan		20,304,629	24,693,569
Outside Pakistan		3,638,847	2,683,933
		23,943,476	27,377,502

16.1 Particulars of borrowings with respect to currencies

In local currency		20,304,629	24,693,569
In foreign currencies		3,638,847	2,683,933
		23,943,476	27,377,502

16.2 Details of borrowings (secured / unsecured)

Secured

Borrowings from State Bank of Pakistan			
Export refinance scheme	16.3 & 16.5	6,727,670	4,980,519
Locally manufactured machinery		-	-
Long term financing - export oriented products scheme	16.4 & 16.5	2,313,030	-
		9,040,700	4,980,519
Borrowings from other financial institutions	16.6	2,932,817	1,970,562
Repurchase agreement borrowings	16.7	11,263,929	19,473,049
		23,237,446	26,424,130

	2006	2005
	(Rupees '000)	
Unsecured		
Overdrawn nostro accounts	617,027	494,007
Call borrowings	89,003	459,365
	706,030	953,372
	<u>23,943,476</u>	<u>27,377,502</u>

- 16.3** MCB Bank Limited has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.
- 16.4** The amount is due to SBP and have been obtained for providing long term finance to customers for export oriented products. As per the agreements with SBP, MCB Bank Limited 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.
- 16.5** Borrowings from SBP under the export refinance schemes are secured against MCB Bank Limited's cash and security held by the SBP.
- 16.6** This represents short term loans by an overseas branch of MCB Bank Limited and carry mark-up rates ranging between 5.5% to 6% per annum (2005: 2.6% to 4.6% per annum), maturing during 2007. These are secured against Euro bonds of Rs. 1,766.39 million (2005: Rs. 1,731.71 million).
- 16.7** These carry mark-up rates ranging between 8.0% to 9.4% per annum (2005: 6.25% to 8.65% per annum) and are secured against Government securities of carrying value of Rs. 11,298.39 million (2005: Rs. 19,522.23 million). These are repayable by March, 2007.

17. DEPOSITS AND OTHER ACCOUNTS

	2006	2005
	(Rupees '000)	
Customers		
Fixed deposits	33,296,703	13,292,621
Savings deposits	136,613,835	137,067,311
Current accounts - non remunerative	81,640,625	74,325,943
Margin accounts	2,447,944	2,568,306
Others	4,336	41,396
	<u>254,003,443</u>	<u>227,295,577</u>
Financial institutions		
Remunerative deposits	249,506	183,338
Non-remunerative deposits	2,932,161	1,857,664
	<u>3,181,667</u>	<u>2,041,002</u>
	<u>257,185,110</u>	<u>229,336,579</u>
17.1 Particulars of deposits		
In local currency	243,217,321	217,008,487
In foreign currencies	13,967,789	12,328,092
	<u>257,185,110</u>	<u>229,336,579</u>

- 17.2** Deposits include deposits from related parties amounting to Rs. 855.785 million (2005: Rs. 1,061.821 million).

18. SUB-ORDINATED LOAN -UNSECURED (Non - participatory)

	Mark-up payable	Mark-up payment period	Mark-up not yet due (Rupees in million)	2006 (Rupees '000)	2005 (Rupees '000)
Listed Term Finance Certificates	Semi-annually	2003-2008	177.579	<u>1,597,440</u>	<u>1,598,080</u>

The above liability is subordinated as to the 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 State Bank of Pakistan. 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 redemptions will commence from the 54th month of the issue in the following manner:

Month	Redemption (Rupees '000)
February, 2007	638,976
August, 2007	479,232
February, 2008	479,232
	<u>1,597,440</u>

19. OTHER LIABILITIES

	Note	2006	2005 Restated (Rupees '000)
Mark-up / return / interest payable in local currency		1,883,620	1,413,498
Mark-up / return / interest payable in foreign currencies		122,854	78,853
Accrued expenses		600,441	642,248
Unclaimed dividend		510,275	66,239
Staff welfare fund		87,054	101,024
Unrealised loss on derivative financial instruments	19.1	31,137	101,996
Provision for employees' compensated absences	37.3	1,023,683	856,213
Provision for post retirement medical benefits	37.3	1,443,450	1,300,336
Provision for employees' contributory benevolent scheme	37.3	264,542	307,216
Provision for gratuity	37.13	1,824	1,066
Security deposits received in respect of finance lease		1,273,642	789,173
Taxation (provision less payments)		2,368,477	934,159
Retention money		24,774	30,185
Insurance payable against consumer assets		368,511	284,840
Branch adjustment account		-	63,283
Others		1,172,841	1,219,212
		<u>11,177,125</u>	<u>8,189,541</u>

Contract / Notional amount	Unrealised loss
2006	2005
2006	2005
----- (Rupees '000) -----	

19.1 Derivative financial instruments

Unrealised loss on:				
Interest rate swaps	1,450,735	1,228,319	26,777	10,222
Forward exchange contracts	42,495,024	13,243,226	4,360	91,774
	<u>43,945,759</u>	<u>14,471,545</u>	<u>31,137</u>	<u>101,996</u>

20. SHARE CAPITAL

20.1 Authorised Capital

2006 (Number of shares)	2005		2006 (Rupees '000)	2005
<u>650,000,000</u>	<u>650,000,000</u>	Ordinary shares of Rs 10 each	<u>6,500,000</u>	<u>6,500,000</u>

20.2 Issued, subscribed and paid-up capital

						2006 (Rupees '000)		2005
2006			2005					
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total			
------(Number of shares)-----								
162,765,395	263,767,347	426,532,742	107,130,690	230,049,344	337,180,034	Opening balance	4,265,327	3,371,800
*34,488,400	85,306,548	119,794,948	55,634,705	33,718,003	89,352,708	Shares issued during the year	1,197,949	893,527
197,253,795	349,073,895	546,327,690	162,765,395	263,767,347	426,532,742	Closing balance	5,463,276	4,265,327

*Represents the shares equivalent Global Depository Receipts issued during the year, as discussed in note 20.3.

- 20.3** During the year, MCB Bank Limited (the Bank) was admitted to the Official List of the UK Listing Authority and to the London Stock Exchange Professional Securities Market for trading of Global Depository Receipts (GDRs) issued by the Bank. The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S Securities Act of 1933 and an offering outside the United States in reliance on Regulation S. The Bank has issued 8,622,100 GDRs each representing four ordinary equity shares at an offer price of US\$ 17.3970 per GDR (total receipt being US\$ 149.999 million). Accordingly, based on an exchange rate of Rs. 60.70 = US\$ 1.00 (which was the exchange rate on the date of the final offering circular relating to the GDR issue made by the Bank), 34,488,400 ordinary equity shares of nominal value of Rs. 10 each of the Bank were issued at a premium of Rs. 254 per ordinary equity share (total premium amount being Rs. 8,760.054 million).

The net proceeds from the issue of GDRs are being utilized for general corporate purposes. Holders of GDRs are entitled, subject to the provisions of the Deposit Agreement, to receive dividend, if any and rank pari passu with other equity shareholders in respect of dividend. However, the holder of GDR have no voting rights or other direct rights of shareholders with respect to the equity shares underlying such GDRs. Subject to the terms and restrictions wet out in the offering circular dated October 11, 2006, the deposited equity shares in respect of which the GDRs were issued may be withdrawn from the depository facility. Upon withdrawal, the holders will rank pari passu with other equity shareholders in respect of dividend, voting and other direct rights of shareholders. As at December 31, 2006, 4.900 million of the deposited equity shares had been withdrawn from the depository facility.

20.4 Number of shares of MCB Bank Limited held by the related parties as at December 31, are as follows:

	2006 (Number of shares)	2005
Siddiqsons Denim Mills Limited	24,934,855	21,604,630
Din Leather (Private) Limited	3,404,680	2,837,234
Adamjee Insurance Company Limited	10,944,360	4,043,200
MCB Bank Limited Pension Fund	44,290,310	37,471,092
MCB Bank Limited Provident Fund (Pakistan staff)	23,132,431	19,277,026
	106,706,636	85,233,182

21. RESERVES

	Note	2006 (Rupees '000)	2005 Restated (Rupees '000)
Share premium	21.1	9,702,528	1,308,194
Exchange translation reserve		(53,617)	(52,549)
Statutory reserve	21.2	5,213,535	3,999,295
General reserve		9,800,000	3,800,000
		24,662,446	9,054,940

- 21.1** This includes premium of Rs. 254 per share received on the issuance of 8,622,100 GDRs equivalent to 34,488,400 shares of MCB Bank Limited (refer note 20.3), net of issuance expenses of Rs. 365.720 million.

- 21.2** Statutory reserves represent amount set aside by MCB Bank Limited as per the requirements of section 21 of the Banking Companies Ordinance 1962.

22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

	Note	2006 (Rupees '000)	2005
Surplus arising on revaluation (net of tax) of:			
- fixed assets	22.1	3,502,039	3,653,898
- available-for-sale securities	22.2	1,684,331	1,769,978
Share of unrealized surplus on investment of an associated undertaking - net	22.3	594,382	589,664
		5,780,752	6,013,540

22.1 Surplus on revaluation of fixed assets-net of tax

	2006 (Rupees '000)	2005
Surplus on revaluation of fixed assets as at January 01	3,892,779	4,039,160
Reversal of revaluation surplus during the year	(152,709)	(39,045)
Surplus realised on disposal of revalued properties - net of deferred tax	(23,000)	(64,564)
Related deferred tax liability	(12,532)	(11,829)
	(35,532)	(76,393)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(9,166)	(19,185)
Related deferred tax liability	(4,935)	(11,758)
	(14,101)	(30,943)
Surplus on revaluation of fixed assets as at December 31	3,690,437	3,892,779
Less: Related deferred tax liability on:		
Revaluation as at January 01	238,881	261,088
Reversal of deferred tax liability	(33,016)	1,380
Disposal of revalued properties during the year transferred to profit and loss account	(12,532)	(11,829)
Incremental depreciation charged during the year transferred to profit and loss account	(4,935)	(11,758)
	188,398	238,881
	3,502,039	3,653,898

22.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax

Federal Government Securities		
- Market Treasury Bills	(39,904)	(22,814)
- Pakistan Investment Bonds	(1,365)	16,627
Listed Securities		
- Shares / Certificates / Units	1,704,446	1,759,212
- Term Finance Certificates	6,811	13,333
	1,711,257	1,772,545
	1,669,988	1,766,358
Add: Related deferred tax asset	14,343	3,620
	1,684,331	1,769,978

As per the Income Tax Ordinance, 2001, gain on sale of listed shares, etc. is exempt from taxation up to the tax year ending on June 30, 2007 (accounting year ended December 31, 2006). However, the Government of Pakistan has announced the deferment of taxation beyond the above indicated tax / accounting year. Accordingly, no provision for deferred taxation amounting to Rs. 598.940 million on the revaluation surplus on listed securities has been recognised in these financial statements.

- 22.3** As indicated in note 22.2 above, the Government of Pakistan has announced the deferment of taxation of gain on sale of listed shares, etc., beyond the tax year ending June 30, 2007 (audit year December 31, 2006). Accordingly the Group has not recognised deferred tax liability of Rs. 208.033 million as its share of surplus on revaluation of listed securities held by the investee company.

23. CONTINGENCIES AND COMMITMENTS**23.1 Transaction-related contingent liabilities**

	2006 (Rupees '000)	2005
Guarantees in favour of:		
Government	3,810,101	3,864,070
Banks and financial institutions	13,441	37,673
Others	2,570,648	1,901,102
Suppliers' credit / payee guarantee	1,605,942	1,428,642
	8,000,132	7,231,487

		2006 (Rupees '000)	2005
23.2 Trade-related contingent liabilities		42,035,977	39,189,177
23.3 Other contingencies			
Claims against the Group not acknowledged as debts		197,848	492,420
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.			
23.5 Commitments in respect of forward foreign exchange contracts	Note	2006 (Rupees '000)	2005
Purchase		41,288,941	13,243,226
Sale		50,420,861	16,263,722
		91,709,802	29,506,948
23.6 Commitments in respect of forward lending		1,853,461	-
23.7 Commitments for the acquisition of fixed assets		1,400,787	587,242
23.8 Other commitments			
Cross currency swaps (notional amount)	24.1 & 24.2	95,000	-
Fx Options (notional amount)	24.1		
- Purchase		155,641	303,767
- Sale		155,641	303,767
Interest rate swaps (notional amount)	24.1	3,223,235	2,812,078
Forward outright sale of Government Securities		5,107,030	-
Outright purchase of Government Securities from the SBP		6,942,230	-
23.9 Taxation			
The income tax assessments of MCB Bank Limited (the Bank) have been finalised up to and including the Tax Year 2006. For the Tax Years 2005 & 2006, the department has amended the assessments on certain issues against which the Bank has filed appeal before Commissioner (Appeals). 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 vide its order dated September 08, 2005 has decided the matter in favour of the Bank resulting in the deletion of additional tax liability against which the department has filed appeal before the Income Tax Appellate Tribunal (ITAT). The management and Bank's legal counsel are of the view that the issues will be decided in the Bank's favour as and when these are taken up by the appellate authorities and therefore no extra provision is required in the accounts. Total disallowances for the assessment years 1994-95 to 1997-98 on account of interest in suspense amounted to Rs. 722.682 million out of which 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 MCB Bank Limited 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 tax 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.			
23.10	Share of tax related contingency of an associated company at December 31, 2006 amounted to Rs.15.667 million (2005: Rs. 15.667 million).		

24. DERIVATIVE INSTRUMENTS

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

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

Other Objectives include:

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

In light of the above the Bank is actively marketing interest rate risk and FX risk management tools, including:

- Foreign exchange contracts
- Interest Rate Swaps
- Third Currency FX options
- Currency Swaps.

Risk management is performed at:

- Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.
- Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

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

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

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risk associated with such transactions are minimal. However, the risk management system is capable of generating risk numbers for options (i.e. Delta, Gamma, Vega, Theta and Rho).

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has notional limits (both for the portfolio and the counterparty). The Group is in process of finalizing other risk limits, including value at risk limits.

24.1 Product Analysis

Counter parties	2006					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal * (Rupees '000)
With Banks for						
Hedging	1	95,000	2	1,772,500	7	155,641
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	1	95,000	6	1,450,735	7	155,641
Total						
Hedging	1	95,000	2	1,772,500	7	155,641
Market Making	1	95,000	6	1,450,735	7	155,641
Counter parties	2005					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal (Rupees '000)	No. of Contracts	Notional Principal * (Rupees '000)
With Banks for						
Hedging	-	-	1	1,492,850	5	303,767
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	5	1,319,228	5	303,767
Total						
Hedging	-	-	1	1,492,850	5	303,767
Market Making	-	-	5	1,319,228	5	303,767

* At the exchange rate prevailing at the end of the reporting period.

24.2 Maturity Analysis

Remaining Maturity	No. of Contracts	Notional Principal	2006		
			Negative	Mark to Market Positive	Net
			(Rupees '000)		
Interest Rate Swaps					
1 to 2 Year	4	800,735	(11,222)	-	(11,222)
2 to 3 Years	2	1,922,750	(4,711)	7,490	2,779
3 to 5 Years	2	500,000	(10,844)	17,305	6,461
			2005		
			Negative	Mark to Market Positive	Net
			(Rupees '000)		
Interest Rate Swaps					
2 to 3 Years	4	919,228	(8,539)	826	(7,713)
3 to 5 Years	2	1,892,850	(1,683)	17,218	15,535
			2006		
			Negative	Mark to Market Positive	Net
			(Rupees '000)		
Cross Currency Swaps					
3 to 5 Years	2	190,000	-	-	-

Contracts for the cross currency swaps were agreed before the year-end with execution date being subsequent to the year-end.

24.3 The FX Options are due for maturity in January, 2007.

25. MARK-UP / RETURN / INTEREST EARNED

	2006	2005
	(Rupees '000)	
On loans and advances to:		
Customers	19,151,535	12,086,305
Financial institutions	86,455	82,495
	19,237,990	12,168,800
On investments in:		
Available for sale securities	3,911,514	4,300,641
Held to maturity securities	1,025,963	643,328
	4,937,477	4,943,969
On deposits with financial institutions	82,445	45,613
On securities purchased under resale agreements	689,962	261,478
On money at call	589,536	156,864
Others	247,443	180,816
	25,784,853	17,757,540

26. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	2,890,908	1,566,920
Securities sold under repurchase agreements	555,542	463,498
Other short-term borrowings	518,534	337,784
Sub-ordinated loan	187,726	188,158
Discount, commission and brokerage	297,010	211,446
Others	59,426	13,628
	4,509,146	2,781,434

27. GAIN ON SALE OF SECURITIES - net	Note	2006 (Rupees '000)	2005
Federal Government Securities			
Market Treasury Bills		686	206
Pakistan Investment Bonds		6,089	54,670
Other Federal Government Securities		2,350	-
Shares / certificates / units			
- Listed		562,650	811,236
- Un-Listed		36,009	-
Term Finance Certificates		350	-
Others		(2,269)	-
		<u>605,865</u>	<u>866,112</u>
28. OTHER INCOME - net			
Rent on property / lockers		53,435	42,886
Net profit on sale of property and equipment		24,903	-
Gain on sale of non-banking assets		-	24,664
Exchange income on import / export bills purchased / negotiated		60,732	55,477
Bad debts recovered		51,872	54,906
Compensation for delayed income tax refunds	28.1	44,802	340,598
Liability no longer required written back		-	495,234
Others		341,959	405,088
		<u>577,703</u>	<u>1,418,853</u>
28.1 This represents claim of MCB 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 certain assessment years between 1992-93 to 2002-03 and tax years 2003 and 2004 (2005: assessment years 1992-93 to 2002-03 and tax year 2004). This compensation has been calculated at the rate of 6% per annum (2005: 6% to 15% 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.			
29. ADMINISTRATIVE EXPENSES	Note	2006 (Rupees '000)	2005
Salaries and allowances		4,658,373	4,613,594
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	37.8	(2,907,485)	(2,069,468)
- Post retirement medical benefits	37.8	471,812	703,754
- Employees' contributory benevolent scheme	37.8	142,896	72,873
- Employees' compensated absences	37.8	373,913	255,007
- Gratuity Scheme	37.13	757	548
		(1,918,107)	(1,037,286)
Contributions to defined contribution plan - provident fund	38	98,951	102,128
Non-executive directors' fees		140	112
Rent, taxes, insurance, electricity		672,985	603,449
Legal and professional charges		152,401	106,793
Communications		199,378	21,366
Repairs and maintenance		336,032	188,938
Stationery and printing		223,529	173,319
Advertisement and publicity		165,474	210,250
Cash transportation charges		166,394	125,137
Instrument clearing charges		84,631	74,270
Donations	29.1	-	30,059
Auditors' remuneration	29.2	11,531	10,700
Depreciation	11.2	556,617	575,538
Amortisation of intangible asset	11.3	121,285	60,113
Staff welfare fund		-	12,513
Traveling, conveyance and fuel		279,801	256,619

	Note	2006 (Rupees '000)	2005
Subscription		20,288	19,407
Entertainment		43,284	39,938
Staff retrenchment cost	29.3	443,655	-
Others		188,934	270,018
		<u>6,505,576</u>	<u>6,456,975</u>

29.1 No donations were made by the Group during the year.

29.2 Auditors' remuneration

	KPMG Taseer Hadi & Co.	2006 Riaz Ahmad & Co.	Total	A.F. Ferguson & Co.	2005 Riaz Ahmad & Co.	Total
	(Rupees '000)					
Audit fee of the Bank	1,650	1,650	3,300	1,500	1,500	3,000
Fee for the audit of branches	1,400	1,350	2,750	1,310	1,260	2,570
Fee for the audit of subsidiaries	50	185	235	40	40	80
Fee for audit of an overseas subsidiary	-	-	391	-	-	270
Fee for audit of overseas branches	-	-	1,039	-	-	878
Special certifications, etc.	1,180	1,180	2,360	1,355	1,245	2,600
Out-of-pocket expenses	695	761	1,456	652	650	1,302
	<u>4,975</u>	<u>5,126</u>	<u>11,531</u>	<u>4,857</u>	<u>4,695</u>	<u>10,700</u>

29.3 Staff Retrenchment Cost

During the year 689 employees in the non-clerical staff cadre of MCB Bank Limited were retrenched with effect from June 01, 2006. The Bank has incurred an expense of Rs. 443.655 million, in addition to payments under the staff retirement funds.

30. OTHER CHARGES

	2006 (Rupees '000)	2005
Provision against fraud and forgeries	3,748	119,412
Net loss on disposal of fixed assets	-	22,114
Fixed assets written off	60,452	-
Penalties imposed by State Bank of Pakistan	2,048	24,815
Others	460	12,500
	<u>66,708</u>	<u>178,841</u>

31. TAXATION

For the year
Current
Deferred

Prior years
Current
Deferred

Share of tax of associate

5,709,140	4,615,843
42,127	(167,123)
<u>5,751,267</u>	<u>4,448,720</u>
593,906	(149,274)
19,086	(198,614)
<u>612,992</u>	<u>(347,888)</u>
25,675	25,357
<u>6,389,934</u>	<u>4,126,189</u>

31.1 Relationship between tax expense and accounting profit

	2006 (Rupees '000)	2005
Accounting profit for the year	18,930,813	13,340,576
Tax rate	35%	38%
Tax on income	6,625,785	5,069,418
Tax effect on separate block of income	(244,875)	(153,123)
Tax effect of permanent differences	(624,708)	(455,817)
Tax effect of prior years provisions / reversals	612,992	(347,888)
Reversal of deferred tax liability on incremental depreciation	(4,935)	(11,758)
Share of tax of an associated undertaking	25,675	25,357
Tax charge for the year	6,389,934	4,126,189

32. CREDIT RATING

PACRA through its notification in May 2006, has assigned long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2005: through its notification in May 2005, has assigned long term credit rating of AA [double A] and short-term credit rating of A1+ [A one plus] to the Bank).

33. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX (including minority interest)

Note	2006 (Rupees '000)	2005
	18,930,813	13,340,576

The minority interest (net of tax) included above amounting to Rs. 0.003 million (2005: Rs. 0.001 million).

(Number of shares)

Weighted average number of shares outstanding during the year	518,925,900	511,839,242
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(Rupees)

Basic and diluted earnings per share - pre tax	36.48	26.06
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34. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX (after minority interest)

(Rupees '000)

Profit after taxation attributable to the ordinary shareholders	12,540,876	9,214,387
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(Number of shares)

Weighted average number of shares outstanding during the year	518,925,900	511,839,242
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(Rupees)

Basic and diluted earnings per share - after tax	24.17	18.00
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35. CASH AND CASH EQUIVALENTS

(Rupees '000)

Cash and balances with treasury banks	6	32,465,976	23,665,549
Balances with other banks	7	6,649,659	1,519,195
		39,115,635	25,184,744

36. STAFF STRENGTH

(Number)

Permanent	9,035	9,377
Temporary/on contractual basis	175	298
Group's own staff strength at the end of the year	9,210	9,675
Outsourced	5,753	2,963
	14,963	12,638

37. DEFINED BENEFIT PLANS AND OTHER BENEFITS

A) MCB Bank Limited

37.1 General description

The Bank operates the following retirement benefits for its employees:

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

37.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employees' compensated absences were carried out as at December 31, 2006. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006 (%)	2005 (%)	2006 (%)	2005 (%)	2006 (%)	2005 (%)	2006 (%)	2005 (%)
Valuation discount rate	9	9	9	9	9	9	9	9
Expected rate of return on plan assets	9	9	9	9	-	-	-	-
Salary increase rate	7	7	7	7	7	7	7	7
Indexation in pension	-	-	-	-	-	-	-	-
Medical cost inflation rate	-	-	-	-	5	5	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

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

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

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2006	2005	2006	2005	2006	2005	2006	2005
		(Rupees '000)							
Present value of defined benefit obligations	37.5	4,752,693	5,503,819	332,677	407,569	1,345,357	1,456,392	1,023,683	856,213
Fair value of plan assets	37.6	(14,810,557)	(10,554,024)	(20,650)	(18,976)	-	-	-	-
Net actuarial gains / (losses) not recognised		5,176,381	3,076,207	(47,485)	(81,377)	(36,737)	(91,259)	-	-
Unrecognised negative past service cost		-	-	-	-	134,830	187,047	-	-
Unrecognised transitional liability		-	-	-	-	-	(160,575)	-	-
Unrecognised past service cost		-	-	-	-	-	(91,269)	-	-
Net (receivable) / payable recognised as at the year-end		(4,881,483)	(1,973,998)	264,542	307,216	1,443,450	1,300,336	1,023,683	856,213

The effect of increase of one percentage point and the effect of a decrease of one percentage point in the medical trend rates on the percent value of medical obligation at December 31, 2006 would be Rs. 732.097 million (2005: Rs. 714.962 million) and Rs. 549.226 million (2005: Rs. 536.371 million) respectively.

37.4 Movement in balance (receivable) / payable

Opening balance of (receivable) / payable		(1,973,998)	(732,720)	307,216	344,151	1,300,336	713,630	856,213	603,624
Expense recognised	37.8	(2,907,485)	(2,069,468)	142,896	72,873	471,812	703,754	373,913	255,007
Refunds / (contributions) during the year		-	-	-	-	-	-	-	-
- Employees' contribution		-	-	15,141	30,428	-	-	-	-
- Bank's contribution / benefits paid		-	828,190	(200,711)	(140,236)	(328,698)	(117,048)	(206,443)	(2,418)
Closing balance of (receivable) / payable		(4,881,483)	(1,973,998)	264,542	307,216	1,443,450	1,300,336	1,023,683	856,213

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006	2005	2006	2005	2006	2005	2006	2005
(Rupees '000)								
37.5 Reconciliation of the present value of the defined benefit obligations								
Present value of obligation as at January 01,	5,503,819	6,542,624	407,569	362,104	1,456,392	1,121,548	856,213	603,624
Current service cost	53,091	57,654	14,638	8,106	20,715	36,618	373,913	255,007
Interest cost	261,339	170,690	36,681	25,347	131,076	78,508	-	-
Benefits paid	(1,231,616)	(1,228,374)	(200,712)	(109,808)	(328,698)	(117,049)	(206,443)	(2,418)
Past service cost - vested	-	-	-	-	-	525,063	-	-
Past service cost - non-vested	-	-	-	-	-	91,269	-	-
Negative past service cost - vested	-	-	-	-	-	(124,131)	-	-
Negative past service cost - non-vested	-	-	-	-	-	(168,537)	-	-
Retrenchment loss	220,380	-	84,683	-	102,025	-	-	-
Curtailment gain	-	(170,657)	-	-	-	-	-	-
Actuarial (gains) / losses	(54,320)	131,882	(10,182)	121,820	(36,153)	13,103	-	-
Present value of obligation as at December 31,	<u>4,752,693</u>	<u>5,503,819</u>	<u>332,677</u>	<u>407,569</u>	<u>1,345,357</u>	<u>1,456,392</u>	<u>1,023,683</u>	<u>856,213</u>

37.6 Changes in fair values of plan assets

Net assets as at January 01,	10,554,024	7,034,175	18,976	18,126	-	-	-	-
Expected return on plan assets	1,066,621	562,734	1,708	1,269	-	-	-	-
Interest on borrowing from MCB	-	-	-	-	-	-	-	-
Bank Limited - Main Branch	(212,517)	(116,759)	-	-	-	-	-	-
Contributions - Bank	-	(828,189)	185,571	109,808	-	-	-	-
Contributions - Employees	-	-	15,141	-	-	-	-	-
Benefits paid	(1,231,616)	(1,228,374)	(200,712)	(109,808)	-	-	-	-
Actuarial gain / (loss)	4,634,045	5,130,437	(34)	(419)	-	-	-	-
Net assets as at December 31, 37.10	<u>14,810,557</u>	<u>10,554,024</u>	<u>20,650</u>	<u>18,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

37.7 Fair value of the Bank's shares held by the Pension Fund as at December 31, 2006 amounted to Rs. 10,899.845 million (2005: Rs. 6,287.649 million).

37.8 Charge for defined benefit plans and other benefits

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

Current service cost	53,091	57,654	14,638	8,106	20,715	36,618	373,913	255,007
Interest cost	261,339	170,690	36,681	25,347	131,076	78,508	-	-
Expected return on plan assets	(1,066,621)	(562,734)	(1,708)	(1,269)	-	-	-	-
Interest on borrowing from MCB	-	-	-	-	-	-	-	-
Bank Limited - Main Branch	212,517	116,759	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(2,588,191)	(1,585,796)	23,743	40,689	18,369	45,629	-	-
Contributions employees	-	-	(15,141)	-	-	-	-	-
Retrenchment loss recognised	220,380	-	84,683	-	102,025	-	-	-
Amortisation of transitional liability	-	-	-	-	160,575	-	-	-
Recognised past service cost	-	-	-	-	91,269	525,063	-	-
Recognised negative past service cost	-	-	-	-	(52,217)	(142,641)	-	-
Recognised transitional liability	-	-	-	-	-	160,577	-	-
Curtailment gain	-	(266,041)	-	-	-	-	-	-
	<u>(2,907,485)</u>	<u>(2,069,468)</u>	<u>142,896</u>	<u>72,873</u>	<u>471,812</u>	<u>703,754</u>	<u>373,913</u>	<u>255,007</u>

The effect of increase of one percentage point and the effect of a decrease of one percentage point in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 11.712 million (2005: Rs. 12.473 million) and Rs. 7.282 million (2005: Rs. 7.755 million) respectively.

37.9 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2006	2005	2006	2005	2006	2005	2006	2005
(Rupees in '000)								
Actual return on plan assets	<u>5,700,666</u>	<u>5,693,171</u>	<u>1,674</u>	<u>850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

37.10 Composition of fair value of plan assets

	Approved Pension Fund				Employees' contributory benevolent scheme			
	2006		2005		2006		2005	
	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)	Fair value (Rupees '000)	Percentage (%)
Defense saving certificates	5,164,914	30.82	4,965,982	41.90	20,650	100	18,976	100
Listed equity shares	11,563,955	68.99	6,876,214	58.02	-	-	-	-
Cash and bank balances	31,899	0.19	9,148	0.08	-	-	-	-
Fair value of plan total assets	16,760,768	100	11,851,344	100	20,650	100	18,976	100
Borrowing	(1,950,211)		(1,297,320)		-		-	
Fair value of plan net assets	14,810,557		10,554,024		20,650		18,976	

37.11 Other relevant details of above funds are as follows:

37.11.1 Pension Fund

	2006	2005	2004	2003	2002
	(Rupees '000)				
Present value of defined benefit obligation	4,752,693	5,503,819	6,542,624	6,190,017	6,298,197
Fair value of plan assets	(14,810,557)	(10,554,024)	(7,034,175)	(6,996,518)	(5,856,280)
	(10,057,864)	(5,050,205)	(491,551)	(806,501)	441,917
Actuarial gain / (loss) on obligation					
Experience adjustment	54,320	(304,748)	(141,338)	40,950	(1,173,228)
Assumptions gain / (loss)	-	172,866	-	(194,418)	(197,816)
	54,320	(131,882)	(141,338)	(153,468)	(1,371,044)
Actuarial gain / (loss) on assets					
Experience adjustment	4,634,045	5,268,939	(254,840)	729,547	(544,027)
Assumptions gain / (loss)	-	(138,502)	-	208,192	654,127
	4,634,045	5,130,437	(254,840)	937,739	110,100

37.11.2 Employees' Contributory Benevolent Scheme

Present value of defined benefit obligation	332,677	407,569	362,104	355,177	403,447
Fair value of plan assets	(20,650)	(18,976)	(18,126)	(16,938)	(29,822)
	312,027	388,593	343,978	338,239	373,625
Actuarial gain / (loss) on obligation					
Experience adjustment	10,182	(228,823)	(22,609)	49,270	155,223
Assumptions gain / (loss)	-	107,003	-	-	(155,223)
	10,182	(121,820)	(22,609)	49,270	-
Actuarial gain / (loss) on assets					
Experience adjustment	(34)	(1)	2	(14,972)	(1,727)
Assumptions gain / (loss)	-	(418)	-	-	1,727
	(34)	(419)	2	(14,972)	-

37.11.3 Post Retirement Medical Benefits

Present value of defined benefit obligation	1,345,357	1,456,392	1,121,548	1,108,068	1,494,710
Fair value of plan assets	-	-	-	-	-
	1,345,357	1,456,392	1,121,548	1,108,068	1,494,710
Actuarial gain / (loss) on obligation					
Experience adjustment	36,153	8,743	-	27,994	(560,851)
Assumptions gain / (loss)	-	(21,846)	-	-	44,841
	36,153	(13,103)	-	27,994	(516,010)
Actuarial gain / (loss) on assets					
	-	-	-	-	-

37.11.4 Compensated absences

	2006	2005	2004	2003	2002
	(Rupees '000)				
Present value of defined benefit obligation	1,023,683	856,213	603,624	607,314	441,000
Fair value of plan assets	-	-	-	-	-
	<u>1,023,683</u>	<u>856,213</u>	<u>603,624</u>	<u>607,314</u>	<u>441,000</u>
Actuarial gain / (loss) on obligation	-	-	-	-	-
Actuarial gain / (loss) on assets	-	-	-	-	-

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

B) MNET Services (Private) Limited

37.13 The company operates an unfunded gratuity scheme for its eligible employees. Provision is made annually on the basis of the last drawn basic salaries of eligible employees and the number of completed years of service.

38. DEFINED CONTRIBUTION PLAN**38.1 MCB Bank Limited**

MCB Bank Limited operates an approved contributory provident fund for 4,977 (2005: 5,625) employees where contributions are made by the Bank and employees at 8.33% per annum (2005: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 98.789 million (2005: Rs. 102.128 million) in respect of this fund.

MCB Bank Limited also operates an approved non-contributory provident fund for 2,876 (2005: 3,673) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2005: 12% per annum) of the basic salary.

38.2 MCB Asset Management Company Limited (Subsidiary Company)

MCB Asset Management Company has plans to form a recognized contributory provident fund for the permanent employees of the company. Currently the company and the permanent employee has made contribution at 8.33% per annum of the basic salary towards this fund. The contribution made by the Company i.e. Rs. 0.162 million and the employee i.e. Rs. 0.162 million will be transferred to the recognized contributory provident fund soon after its formation.

39. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	(Rupees '000)					
Fees	-	-	140	112	-	-
Managerial remuneration	8,028	7,650	1,434	1,434	351,351	264,027
Bonus and other benefits	7,845	3,626	-	-	258,072	119,140
Retirement benefits	669	637	-	-	29,267	21,993
Rent and house maintenance	3,852	3,683	-	-	158,108	118,812
Utilities	803	765	-	-	35,135	26,403
Medical	356	183	-	-	18,774	15,127
Conveyance	497	223	-	-	63,861	45,980
	<u>22,050</u>	<u>16,767</u>	<u>1,574</u>	<u>1,546</u>	<u>914,568</u>	<u>611,482</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>429</u>	<u>329</u>

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

The particular in this note does not include the particulars of Chief Executive and Executives employed by the subsidiary companies.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular 14 dated September 24, 2004. The fair value of these investments amounts to Rs. 1,978 million (2005: Rs. 24,595 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 5.4 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 44.4.1 and 44.3 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

41. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Eliminations	Total
	(Rupees '000)						
2006							
Total income	130,976	8,691,951	12,884,893	9,848,867	18,523	(368,819)	31,206,391
Total expenses	(40,144)	(1,542,942)	(10,210,545)	(833,986)	(16,780)	368,819	(12,275,578)
Income tax expense	-	-	-	-	-	-	(6,389,934)
Net income	<u>90,832</u>	<u>7,149,009</u>	<u>2,674,348</u>	<u>9,014,881</u>	<u>1,743</u>	<u>-</u>	<u>12,540,879</u>
Segment assets - (Gross)	17,479	96,134,148	134,595,165	112,244,842	298,109	(286,680)	343,003,063
Deferred tax assets	-	-	-	-	-	-	174,886
Total assets	<u>17,479</u>	<u>96,134,148</u>	<u>134,595,165</u>	<u>112,244,842</u>	<u>298,109</u>	<u>(286,680)</u>	<u>343,177,949</u>
Segment non performing loans	-	-	5,711,301	2,859,512	-	-	8,570,813
Segment specific provision required	-	-	4,911,425	1,041,809	-	-	5,953,234
Segment liabilities	11,768	3,649,058	274,024,714	21,224,208	1,285	(286,680)	298,624,353
Provision for taxation	-	-	-	-	-	-	2,368,477
Total liabilities - net	<u>11,768</u>	<u>3,649,058</u>	<u>274,024,714</u>	<u>21,224,208</u>	<u>1,285</u>	<u>(286,680)</u>	<u>300,992,830</u>
Segment return on assets (ROA) (%)	-	7.44%	1.99%	8.03%	0.58%	-	3.66%
Segment cost of fund (%)	-	7.71%	1.42%	7.46%	-	-	1.47%
2005							
Total income	161,997	7,416,620	9,723,787	6,354,174	-	172,863	23,829,441
Total expenses	(35,545)	(856,643)	(8,489,744)	(934,070)	-	(172,863)	(10,488,865)
Income tax expense	-	-	-	-	-	-	(4,126,189)
Net income	<u>126,452</u>	<u>6,559,977</u>	<u>1,234,043</u>	<u>5,420,104</u>	<u>-</u>	<u>-</u>	<u>9,214,387</u>
Segment assets - (Gross)	47,821	68,570,928	125,670,594	105,241,827	-	(11,918)	299,519,252
Deferred tax assets	-	-	-	-	-	-	192,362
Total assets	<u>47,821</u>	<u>68,570,928</u>	<u>125,670,594</u>	<u>105,241,827</u>	<u>-</u>	<u>(11,918)</u>	<u>299,711,614</u>
Segment non performing loans	-	-	5,576,783	2,819,206	-	-	8,395,989
Segment specific provision required	-	-	4,445,361	1,089,015	-	-	5,534,376
Segment liabilities	(1,018)	1,822,491	254,537,510	17,757,152	-	(11,918)	274,104,217
Provision for taxation	-	-	-	-	-	-	934,159
Total liabilities - net	<u>(1,018)</u>	<u>1,822,491</u>	<u>254,537,510</u>	<u>17,757,152</u>	<u>-</u>	<u>(11,918)</u>	<u>275,038,376</u>
Segment return on assets (ROA) (%)	-	9.57%	0.98%	5.15%	-	-	3.08%
Segment cost of fund (%)	-	5.38%	0.72%	5.28%	-	-	0.92%

42. 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) and companies with common directors. The details of investment in associated undertaking are stated in Annexure I 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 noted 39 and Annexure IV to these financial statements.

	Directors		Associated companies		Other related parties	
	2006	2005	2006	2005	2006	2005
(Rupees '000)						
A. Balances						
Deposits						
Deposits at beginning of the year	61,996	2,030	785,634	227,631	214,191	270,074
Deposits received during the year	572,767	697,586	33,568,048	7,274,635	17,714,493	23,107,364
Deposits repaid during the year	(615,664)	(637,620)	(33,831,041)	(6,716,632)	(17,614,639)	(23,163,247)
Deposits at end of the year	<u>19,099</u>	<u>61,996</u>	<u>522,641</u>	<u>785,634</u>	<u>314,045</u>	<u>214,191</u>
Mark-up expense on deposits	16	27	35,684	851	121	145
Mark-up rates on deposits range from 0.1% to 6.75% (2005: 0.1% to 6.75%) per annum.						
Advances (secured)						
Balance at beginning of the year	-	-	-	-	1,297,320	-
Loans granted during the year	-	-	-	-	2,062,460	1,377,007
Repayments received during the year	-	-	-	-	(1,119,742)	(79,687)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,240,038</u>	<u>1,297,320</u>
Income on advances					<u>257,354</u>	
Profit rates on advances to Pension Fund at 6 month KIBOR + 0.3% and to the Provident Fund at 6 month KIBOR + 0.3%. At December 31, 2006, interest receivable from the above funds amounted to Rs. 67.275 million.						
B. Other transactions (including profit and loss related transactions)						
Associates						
Adamjee Insurance Company Limited						
- Insurance premium paid - net of refund	-	-	71,673	75,443	-	-
- Insurance claim settled	-	-	23,664	60,106	-	-
- Rent income received	-	-	2,197	1,825	-	-
- Dividend received	-	-	62,568	36,097	-	-
- Share of profit - Net of tax under equity basis of accounting	-	-	448,355	323,662	-	-
- Share of surplus on revaluation of investments	-	-	4,718	539,680	-	-
Other related parties						
MCB Employees Security System and Services (Private) Limited						
- Security guard expenses	-	-	-	-	87,767	74,346
MCB Employees Foundation						
- Service expenses	-	-	-	-	15,488	14,023
- Cash sorting expenses	-	-	-	-	6,465	3,115
- Cash in transit expenses	-	-	-	-	3,452	3,638
Others						
Dividend income	-	-	-	-	102,220	13,421
Proceeds from sale of vehicles to the executives	-	-	-	-	1,678	8,059
Gain on sale of vehicles to the executives	-	-	-	-	898	790
Remuneration of key management personnel (other than directors)	-	-	-	-	145,674	91,029
Other miscellaneous expenses	-	-	-	-	58,609	52,941

The details of director's compensations are given in note 39 to these financial statements.

43. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy is as follows:

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Regulatory Capital Base			
Tier I Capital			
Shareholders capital		5,463,276	4,265,327
Reserves (excluding exchange translation reserve)		24,716,063	13,460,554
Minority Interest		52	29
Unappropriated profits		6,278,593	559,804
		<u>36,457,984</u>	<u>18,285,714</u>
Less: Adjustments	43.9	<u>(89,148)</u>	<u>(75,781)</u>
Total Tier I Capital		<u>36,368,836</u>	<u>18,209,933</u>
Tier II Capital			
Subordinated debt (up to 50% of total Tier I Capital)	43.1	95,846	1,182,579
General provisions subject to 1.25% of total risk weighted assets		2,655,110	2,101,994
Foreign exchange translation reserves		(53,617)	(52,549)
Revaluation reserve (up to 50%)		2,890,377	3,001,839
Total Tier II Capital		<u>5,587,716</u>	<u>6,233,863</u>
Eligible Tier III Capital			
		-	-
Total Regulatory Capital	(a)	<u>41,956,552</u>	<u>24,443,796</u>
Risk-Weighted Exposures			
	Note	2006 Book Value Risk Adjusted Value	2005 Book Value Risk Adjusted Value
----- (Rupees '000) -----			
Credit Risk			
Balance Sheet Items:			
Cash and other liquid assets	43.2	39,115,635 1,859,596	25,188,032 814,148
Money at call		21,081,800 1,810,000	9,998,828 1,730,000
Investments	43.3	64,450,761 14,976,482	70,289,092 10,640,019
Loans and advances	43.4	189,057,318 151,247,339	171,378,282 136,917,795
Fixed assets		9,073,276 9,073,276	8,182,454 8,182,454
Other assets	43.5	11,219,795 11,022,778	5,658,782 5,513,856
		<u>333,998,585</u> <u>189,989,471</u>	<u>290,695,470</u> <u>163,798,272</u>
Off Balance Sheet items:			
Loan repayment guarantees	43.6	8,217,622 6,857,274	6,655,425 6,622,413
Stand by letters of credit	43.7	39,997,162 19,998,580	37,833,683 18,916,841
Outstanding foreign exchange contracts - market related	43.8	86,499,132 421,430	27,294,626 207,677
		<u>134,713,916</u> <u>27,277,284</u>	<u>71,783,734</u> <u>25,746,931</u>
Credit risk-weighted exposures		217,266,755	189,545,203
Market Risk			
General market risk		143,425	74,469
Specific market risk		-	5,415
Foreign exchange risk		20,875	40,940
Total capital charge on market risk		<u>164,300</u>	<u>120,824</u>
Market risk-weighted exposures (total capital charge x 12.5)		<u>2,053,750</u>	<u>1,510,300</u>
Total Risk-Weighted exposures	(b)	<u>219,320,505</u>	<u>191,055,503</u>
Capital Adequacy Ratio [(a) / (b) x 100]		<u>19.13%</u>	<u>12.79%</u>

- 43.1** The liability against term finance certificates amounting to Rs. 1,597.440 million is subordinated as to the payment of principal and profit to all other indebtedness of the Bank (including deposits). The major redemption will commence from 54th month of the issue in the following manner:

Month of issue	Redemption (Rupees '000)
February, 2007	638,976
August, 2007	479,232
February, 2008	479,232

For the purpose of inclusion of subordinated loan in supplementary capital, a discount of 100% and 80% has been applied on the amount that will be redeemed in 1 year and 2 years time, respectively.

- 43.2** Balances with other banks includes balances with National Bank of Pakistan in local currency current account amounting to Rs. 2,648.322 million (2005: Rs. 2,548.255 million) classified under cash and balances with treasury banks in these financial statements.
- 43.3** Investments exclude investment in held-for- trading portfolio amounting to Rs. Nil (2005: Rs. 67.690 million).
- 43.4** Advances secured against government securities / own deposits / cash margin amounting to Rs. 11,844.474 million (2005: Rs. 11,046.465 million) have been deducted from gross advances. Advances are gross of general provision amounting to Rs. 2,665.110 million (2005: Rs. 2,101.994 million). This provision has been added to supplementary capital.
- 43.5** Other assets include deferred tax asset - net amounting to Rs. 174.886 million (2005: Rs. 192.362 million).
- 43.6** Cash margin amounting to Rs. 813.378 million (2005: Rs. 774.746 million) have been deducted from loan repayment guarantees.
- 43.7** Cash margin amounting to Rs. 858.262 million (2005: Rs. 809.436 million) have been deducted from standby letters of credit.
- 43.8** Forward foreign exchange contracts with maturity of less than or equal to 14 days from the original maturity amounting to Rs. 8,624.154 million have been excluded from the above.
- 43.9** The adjustments to Tier I capital represents net deductions for goodwill on acquisition of an associate and deficit on revaluation of available for sale securities (net of deferred tax).
- 43.10** The figures for the year ended December 31, 2005 are based on the returns prepared by the Bank and filed with the State Bank of Pakistan for that year and accordingly are based on the consolidated financial statements prepared for the year then ended.

44. RISK MANAGEMENT

The wide variety of Bank's businesses necessitates a risk management system to identify, measure, monitor and manage risks effectively. Bank's risk management framework is based on three pillars; risk principles, organizational structures and prudent risk measurement and monitoring processes which are closely aligned with the activities of the Bank so as to ensure that risks are kept within an acceptable level.

Risk Management Organization

The Bank risk management function is independent of the business areas. Based on the State Bank of Pakistan's (SBP) guidelines and Bank for International Settlement's Frameworks, the bank has constituted a Risk Management Committee (RMC), developed an elaborate risk identification measurement and management framework and has also reorganized 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.

The head of risk management is a member of risk management & management committees of the Bank and is responsible for credit, market and operational risk management activities within the Bank in close coordination with respective business areas. To ensure independence, head of risk management is directly reporting to the RMC.

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

- Identify, measure, monitor and mitigate risk while ensuring that risk / reward relationship is maintained at an optimal level.
- Ensure that the business conducted is consistent with the risk appetite of the Bank.
- Formulate and implement risk policies, procedures and methodology in coordination with business areas.
- Conduct periodic reviews to ensure that the risks are within acceptable parameters, and
- Develop & implement risk management infrastructure & systems that are appropriate for each area and flexible to cater risk emanating from changing banking environment.
- The most important risk that Bank 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 risks are outlined below:

44.1 Credit Risk

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

- Consistent standards are applied for credit decision processes.
- The approval of credit limits for counter parties and the management of individual credit exposures are subject to credit review.
- Every extension of credit or material change to a credit facility (such as tenor, collateral structure or major covenants) to counter party requires credit approval and independent review at the appropriate levels.
- The Bank assigns credit approval authorities to individuals according to their qualifications, experience and training and the management reviews these periodically. The approval process is checked through independent review by Risk Management Group (RMG), and post- fact by the audit function.

In addition, the below listed initiatives have been initiated by the Bank for enhancement of risk management capabilities:

- Development of risk based credit MIS
- Exposure and Collateral related database is being beefed up as per Basel II requirements
- Credit Administration role being revitalized and Credit Risk Control (CRC) roll out plan being implemented
- Automation of CRC function is being planned in line with the roll out of the Bank's core banking application.
- Establishment of portfolio management function
- Up-dation of credit manual to provide comprehensive guidelines for credit process and to adopt latest development in credit risk management practices.

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

Concentration of credit and deposits

Out of the total financial assets of Rs. 325,731 million (2005: Rs. 287,189 million) the financial assets which are subject to credit risk amounting to Rs. 325,723 million (2005: Rs. 287,183 million). To manage credit risk the Group applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 46,953 million (2005: Rs. 57,103 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 21,870 million (2005: Rs. 15,054 million) are held by the Group with the State Bank of Pakistan and central banks of other countries.

44.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

44.1.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Agriculture, forestry, hunting and fishing	1,889,845	0.91	32,900,524	12.79	2,228,461	1.39
Mining and quarrying	389,106	0.19	348,899	0.14	112,220	0.07
Textile	28,932,854	13.99	1,989,420	0.77	8,668,281	5.39
Chemical and pharmaceuticals	4,993,570	2.41	1,353,387	0.53	5,938,173	3.69
Cement	6,609,300	3.20	228,468	0.09	3,310,583	2.06
Sugar	6,054,687	2.93	407,092	0.16	21,317	0.01
Footwear and leather garments	1,561,433	0.75	240,342	0.09	635,504	0.40
Automobile and transportation equipment	738,737	0.36	286,083	0.11	837,143	0.52
Electronics and electrical appliances	2,330,500	1.13	48,081	0.02	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water, sanitary	3,153,770	1.52	1,444,291	0.56	4,029,755	2.50
Exports / imports	21,419,484	10.36	34,013,464	13.23	6,121,691	3.81
Transport, storage and communication	17,293,669	8.36	1,969,668	0.77	5,892,594	3.66
Financial	15,157,725	7.33	1,410,952	0.55	117,338,576	72.94
Insurance	204,077	0.10	487	0.00	-	-
Services	4,508,695	2.18	3,168,557	1.23	-	-
Individuals	20,767,887	10.04	121,616,467	47.29	-	-
Others	70,839,687	34.24	55,758,928	21.67	5,742,486	3.56
	<u>206,845,026</u>	<u>100.00</u>	<u>257,185,110</u>	<u>100.00</u>	<u>160,876,784</u>	<u>100.00</u>

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Agriculture, forestry, hunting and fishing	1,157,264	0.62	25,512,459	11.12	1,030,140	1.28
Mining and quarrying	316,903	0.17	259,768	0.11	53,271	0.07
Textile	29,826,500	15.85	1,567,238	0.68	7,495,840	9.32
Chemical and pharmaceuticals	4,489,650	2.39	896,670	0.39	4,583,660	5.70
Cement	7,585,796	4.03	232,408	0.10	1,841,490	2.29
Sugar	6,208,734	3.30	518,997	0.23	279,620	0.35
Footwear and leather garments	1,633,249	0.87	216,167	0.09	682,932	0.85
Automobile and transportation equipment	845,772	0.45	310,653	0.14	1,465,506	1.82
Electronics and electrical appliances	1,961,384	1.04	127,209	0.06	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water, sanitary	7,951,656	4.23	588,797	0.26	5,114,732	6.36
Wholesale and retail trade	31,294,496	16.63	-	-	6,965,470	8.66
Exports / imports	-	-	31,152,855	13.58	-	-
Transport, storage and communication	18,368,862	9.76	1,696,019	0.74	2,534,520	3.15
Financial	3,613,687	1.92	2,037,258	0.89	46,520,090	57.84
Insurance	640,764	0.34	900	0.00	-	-
Services	4,357,571	2.32	1,395,417	0.61	-	-
Individuals	14,546,682	7.73	113,439,811	49.46	-	-
Others	53,340,707	28.35	49,383,953	21.54	1,859,615	2.31
	<u>188,139,677</u>	<u>100.00</u>	<u>229,336,579</u>	<u>100.00</u>	<u>80,426,886</u>	<u>100.00</u>

44.1.1.2 Segment by sector

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Public / Government	27,704,174	13.39	7,264,482	2.82	41,788,324	25.98
Private	179,140,852	86.61	249,920,628	97.18	119,088,460	74.02
	<u>206,845,026</u>	<u>100.00</u>	<u>257,185,110</u>	<u>100.00</u>	<u>160,876,784</u>	<u>100.00</u>

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)	(Rupees '000)	Percent (%)
Public / Government	23,498,289	12.49	6,515,291	2.84	15,936,337	19.81
Private	164,641,388	87.51	222,821,288	97.16	64,490,549	80.19
	<u>188,139,677</u>	<u>100.00</u>	<u>229,336,579</u>	<u>100.00</u>	<u>80,426,886</u>	<u>100.00</u>

44.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2006		2005	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	----- (Rupees '000) -----			
Agriculture, forestry, hunting and fishing	319,684	118,003	221,386	152,459
Mining and quarrying	4,238	4,238	7,607	1,248
Textile	1,087,981	1,020,228	1,342,004	1,018,724
Chemical and pharmaceuticals	32,720	32,720	43,867	35,837
Cement	750	750	750	750
Sugar	36,398	36,398	43,020	43,020
Footwear and leather garments	92,500	87,629	124,089	106,371
Automobile and transportation equipment	44,903	43,405	56,896	56,896
Electronics and electrical appliances	303,162	275,670	145,420	140,401
Construction	159,747	154,601	214,372	179,878
Power (electricity), gas, water, sanitary	1,935	1,839	2,903	2,903
Wholesale and retail trade	3,949,587	2,012,221	3,662,243	1,776,218
Exports / imports	421,130	369,771	472,421	340,662
Transport, storage and communication	27,408	25,913	23,181	20,940
Financial	65,243	65,243	67,840	66,095
Insurance	-	-	-	-
Services	167,651	89,656	160,140	95,344
Individuals	261,553	179,773	210,961	141,310
Others	1,594,223	1,435,176	1,596,889	1,355,320
	<u>8,570,813</u>	<u>5,953,234</u>	<u>8,395,989</u>	<u>5,534,376</u>

44.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	52,633	-	52,633	-
Private	8,518,180	5,953,234	8,343,356	5,534,376
	<u>8,570,813</u>	<u>5,953,234</u>	<u>8,395,989</u>	<u>5,534,376</u>

44.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- (Rupees '000) -----			
Pakistan	18,656,062	335,018,687	41,926,255	160,184,454
Asia Pacific (including South Asia)	116,989	2,950,536	101,102	692,330
Middle East	157,762	5,208,726	157,762	-
	<u>18,930,813</u>	<u>343,177,949</u>	<u>42,185,119</u>	<u>160,876,784</u>
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- (Rupees '000) -----			
Pakistan	13,073,040	293,371,074	24,408,534	79,543,450
Asia Pacific (including South Asia)	84,933	2,376,167	82,101	883,436
Middle East	182,603	3,964,373	182,603	-
	<u>13,340,576</u>	<u>299,711,614</u>	<u>24,673,238</u>	<u>80,426,886</u>

Total assets employed include intra group items of Rs. nil (2005: nil).

44.2 Market Risk Management

The Bank is exposed to interest rate risk, foreign exchange risk and equity price risk. The Bank is using in-house and vendor based solutions for calculating mark to market value of its positions, and generating VaR (value at risk) and sensitivity numbers. Besides conventional methods, the Bank is using VaR for market risk assessment of assets booked by treasury and capital market groups. For calculating VaR numbers, of conventional products, the Bank is using variance covariance methodology, while for derivatives and structured products monte carlo simulations is used.

Further stress testing of both banking and trading books are performed in line with SBP guidelines.

The Bank is exposed to interest rate risk both in trading and banking books. Presently the market risk reporting system is generating risk numbers of Government securities held by the Bank's treasury. The risk management system generates daily reports based upon the marked to market value of these assets. These reports provide risk numbers i.e. duration, PVB and VaR on individual security basis. The system also generates summarised reports on portfolio basis. These reports are presented to the senior management for review on daily basis.

44.2.1 Foreign Exchange Risk Management

Main objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank lies within the defined risk appetite (10% of the paid up capital). Daily reports are generated to evaluate the exposure in different currencies. Further risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on daily basis.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	------(Rupees '000)-----			
Pakistan Rupee	317,036,010	284,344,003	6,086,875	38,778,882
United States Dollar	23,199,818	13,638,027	(7,191,418)	2,370,373
Pound Sterling	555,830	1,197,433	17,304	(624,299)
Japanese Yen	23,809	120,878	113,102	16,033
Euro	617,960	1,014,993	(54,068)	(451,101)
Other currencies	1,744,522	677,496	1,028,205	2,095,231
	<u>343,177,949</u>	<u>300,992,830</u>	<u>-</u>	<u>42,185,119</u>

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	------(Rupees '000)-----			
Pakistan Rupee	280,340,045	259,827,478	180,165	20,692,732
United States Dollar	16,048,924	12,177,561	(1,458,960)	2,412,403
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>299,711,614</u>	<u>275,038,376</u>	<u>-</u>	<u>24,673,238</u>

44.2.2 Equity Price Risk

Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis.

44.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

			2006									
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Not exposed to Yield/ Interest Risk
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
			(Rupees '000)									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35%	32,465,976	1,420,319	-	-	-	-	-	-	-	-	31,045,657
Balances with other banks	5.77%	6,649,659	2,426,426	-	-	121,820	-	-	-	55,392	-	4,046,021
Lendings to financial institutions	9.13%	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-	-
Investments - net	9.22%	62,127,910	7,636,492	1,791,960	11,713,325	19,433,349	178,700	499,162	7,652,449	4,216,642	113,816	8,892,015
Advances - net	10.10%	198,236,682	3,025,142	40,581,465	31,722,976	60,657,162	35,630,922	13,810,539	10,920,665	1,864,789	23,022	-
Other assets - net	-	5,169,099	-	-	-	-	-	-	-	-	-	5,169,099
		325,731,126	25,905,179	50,358,425	45,136,301	80,212,331	35,809,622	14,309,701	18,573,114	6,136,823	136,838	49,152,792
Liabilities												
Bills payable	-	7,089,679	-	-	-	-	-	-	-	-	-	7,089,679
Borrowings	5.56%	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-	-
Deposits and other accounts	1.17%	257,185,110	138,030,461	7,949,863	6,229,354	7,688,296	2,840,110	1,333,264	4,286,583	1,788,431	-	87,038,748
Subordinated loan	11.75%-15.75%	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-	-
Other liabilities	-	6,074,825	-	-	-	-	-	-	-	-	-	6,074,825
		295,890,530	152,911,035	13,027,565	8,359,822	8,347,438	3,320,110	1,333,264	4,286,583	4,101,461	-	100,203,252
On-balance sheet gap		29,840,596	(127,005,856)	37,330,860	36,776,479	71,864,893	32,489,512	12,976,437	14,286,531	2,035,362	136,838	(51,050,460)
Off-balance sheet financial instruments												
Forward lendings	-	1,853,461	1,853,461	-	-	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	6,942,230	-	-	-	-	-	-	-	-	-	6,942,230
Foreign exchange contracts:												
- Purchase	-	41,288,941	16,883,524	21,223,894	2,160,021	1,021,502	-	-	-	-	-	-
Interest rate swaps	-	3,223,485	-	-	-	-	800,735	1,922,750	500,000	-	-	-
		53,308,117	18,736,985	21,223,894	2,160,021	1,021,502	800,735	1,922,750	500,000	-	-	6,942,230
Foreign exchange contracts:												
- Sale	-	50,420,861	13,876,815	9,573,175	20,298,836	6,672,035	-	-	-	-	-	-
Outright sale - Govt. securities	-	5,107,030	-	-	-	-	-	-	-	-	-	5,107,030
		55,527,891	13,876,815	9,573,175	20,298,836	6,672,035	-	-	-	-	-	5,107,030
Off-balance sheet gap		(2,219,774)	4,860,170	11,650,719	(18,138,815)	(5,650,533)	800,735	1,922,750	500,000	-	-	1,835,200
Total yield / interest risk sensitivity gap			(122,145,686)	48,981,579	18,637,664	66,214,360	33,290,247	14,899,187	14,786,531	2,035,362	136,838	
Cumulative yield / interest risk sensitivity gap			(122,145,686)	(73,164,107)	(54,526,443)	11,687,917	44,978,164	59,877,351	74,663,882	76,699,244	76,836,082	

44.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

			2005									
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Not exposed to Yield/ Interest Risk
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
			(Rupees '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%	1,519,195	593,732	-	-	-	-	-	53,150	-	-	872,313
Lendings to financial institutions	5.11%	9,998,828	9,998,828	-	-	-	-	-	-	-	-	-
Investments - net	7.59%	68,424,437	8,410,339	1,973,549	12,900,300	21,402,636	196,809	549,745	8,427,914	4,643,937	125,350	9,793,858
Advances - net	7.75%	180,322,753	843,595	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,829	-
Other assets - net	-	3,258,738	-	-	-	-	-	-	-	-	-	3,258,738
		287,189,500	21,272,710	36,548,610	49,325,655	77,219,783	29,157,240	11,901,933	18,371,274	7,050,874	177,179	36,164,242
Liabilities												
Bills payable	-	8,536,674	-	-	-	-	-	-	-	-	-	8,536,674
Borrowings	3.92%	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-	-
Deposits and other accounts	0.69%	229,336,579	138,951,917	181,660	2,096,008	43,100	3,151,726	703,750	3,430,546	1,419,268	-	79,358,604
Subordinated loan	11.75% to 15.75%	1,598,080	-	320	-	320	1,119,360	478,080	-	-	-	-
Other liabilities	-	4,728,268	-	-	-	-	-	-	-	-	-	4,728,268
		271,577,103	163,042,276	3,469,123	2,096,008	43,420	4,271,086	1,181,830	3,430,546	1,419,268	-	92,623,546
On-balance sheet gap		15,612,397	(141,769,566)	33,079,487	47,229,647	77,176,363	24,886,154	10,720,103	14,940,728	5,631,606	177,179	(56,459,304)
Off-balance sheet financial instruments												
Foreign exchange contracts												
- Purchase	-	13,243,226	6,317,021	3,087,365	3,623,655	215,185	-	-	-	-	-	-
Interest rate swaps	-	2,812,078	-	-	-	-	-	919,228	1,892,850	-	-	-
		16,055,304	6,317,021	3,087,365	3,623,655	215,185	-	919,228	1,892,850	-	-	-
Foreign exchange contracts:												
- Sale	-	16,263,722	6,836,080	3,340,803	5,330,258	756,581	-	-	-	-	-	-
		16,263,722	6,836,080	3,340,803	5,330,258	756,581	-	-	-	-	-	-
Off-balance sheet gap		(208,418)	(519,059)	(253,438)	(1,706,603)	(541,396)	-	919,228	1,892,850	-	-	-
Total yield / interest risk sensitivity gap			(142,288,625)	32,826,049	45,523,044	76,634,967	24,886,154	11,639,331	16,833,578	5,631,606	177,179	
Cumulative yield / interest risk sensitivity gap			(142,288,625)	(109,462,576)	(63,939,532)	12,695,435	37,581,589	49,220,920	66,054,498	71,686,104	71,863,283	

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.

Reconciliation to total assets	2006 (Rupees '000)	2005 (Rupees '000)	Reconciliation to total liabilities	2006 (Rupees '000)	2005 (Rupees '000)
Balance as per balance sheet	343,177,949	299,711,614	Balance as per balance sheet	300,992,830	275,038,376
Less: Non-financial assets			Less: Non-financial liabilities		
Investment	2,322,851	1,932,345	Other liabilities	5,102,300	3,461,273
Operating fixed assets	9,073,276	8,182,454			
Deferred tax assets	174,886	192,362			
Other assets	5,875,810	2,214,953			
	17,446,823	12,522,114			
Total financial assets	325,731,126	287,189,500	Total financial liabilities	295,890,530	271,577,103

44.4 Liquidity Risk

It is the policy of the Bank to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet all the obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitments made. The Bank manages liquidity risk in three stages:

- Balance sheet management;
- Liquidity management; and
- Intraday liquidity management.

Balance sheet management

Balance sheet management is the practice of reviewing the actual and planned strategic growth of business and its impact from a balance sheet integrity and sustainability perspective. As such the goal is to identify any risks arising from structural imbalances and concentrations, and seek to alter plans in order to avoid these developing into a liquidity problem.

Liquidity management

Liquidity management is the day to day practice of ensuring that the Bank is able to meet all its payment obligations as they fall due without having to sell assets or borrow funds at short notice at adverse market prices. While primarily focused on the management of cash flows, the Bank maintains a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flow for meeting liquidity requirements.

Intraday liquidity management

Intraday liquidity is the practice of ensuring that the Bank has sufficient cash during the day to make payments through the local payment system. In this respect, the Bank maintains cash balances from which payments are made or generate cash balances through the receipt of payments due or from borrowings or the outright sale or pledging of qualifying securities with the State Bank of Pakistan.

44.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Group

	2006									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	----- (Rupees '000) -----									
Assets										
Cash and balances with treasury banks	32,465,976	32,465,976	-	-	-	-	-	-	-	-
Balances with other banks	6,649,659	6,472,447	-	-	121,820	-	-	-	55,392	-
Lendings to financial institutions	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-
Investments - net	64,450,761	8,311,287	7,053,609	11,733,902	19,453,516	619,665	795,144	11,710,574	4,640,755	132,309
Advances - net	198,236,682	3,025,142	40,581,465	31,722,976	60,657,162	35,630,922	13,810,539	10,920,665	1,864,789	23,022
Operating fixed assets	9,073,276	76,219	160,047	309,398	1,092,854	743,057	504,613	236,098	438,554	5,512,436
Deferred tax assets	620,652	-	532	-	2,613	120,931	181,217	302,814	1,800	10,745
Other assets - net	11,044,909	5,734,420	664,312	480,562	44,802	630,000	3,490,813	-	-	-
	<u>343,623,715</u>	<u>67,482,291</u>	<u>56,444,965</u>	<u>45,946,838</u>	<u>81,372,767</u>	<u>37,744,575</u>	<u>18,782,326</u>	<u>23,170,151</u>	<u>7,001,290</u>	<u>5,678,512</u>
Liabilities										
Bills payable	7,089,679	7,089,679	-	-	-	-	-	-	-	-
Borrowings	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-
Deposits and other accounts	257,185,110	225,069,209	7,949,863	6,229,354	7,688,296	2,840,110	1,333,264	4,286,583	1,788,431	-
Subordinated loan	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-
Deferred tax liabilities	445,766	1,052	2,101	3,152	20,650	12,609	12,609	25,219	47,920	320,454
Other liabilities	11,177,125	3,375,493	623,301	460,994	2,878,406	498,190	501,349	1,023,194	954,932	861,266
	<u>301,438,596</u>	<u>250,416,007</u>	<u>13,652,967</u>	<u>8,823,968</u>	<u>11,246,494</u>	<u>3,830,909</u>	<u>1,847,222</u>	<u>5,334,996</u>	<u>5,104,313</u>	<u>1,181,720</u>
Net assets	<u>42,185,119</u>	<u>(182,933,716)</u>	<u>42,791,998</u>	<u>37,122,870</u>	<u>70,126,273</u>	<u>33,913,666</u>	<u>16,935,104</u>	<u>17,835,155</u>	<u>1,896,977</u>	<u>4,496,792</u>
Share capital	5,463,276									
Reserves	24,662,446									
Unappropriated profit	6,278,593									
	<u>36,404,315</u>									
Minority Interest	52									
	<u>36,404,367</u>									
Surplus on revaluation of assets - net of tax	5,780,752									
	<u>42,185,119</u>									

The above maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: Disclosure in the financial statements of banks and similar financial institutions based on contractual maturities. The maturity profile disclosed in note 44.4.2 includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of these deposits.

44.4.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Group

	2005									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees '000)									
Assets										
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-	-	-	-	-	-
Balances with other banks	1,519,195	1,466,045	-	-	-	-	-	53,150	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-	-	-	-	-	-
Investments - net	70,356,782	12,374,743	6,507,635	11,303,636	22,743,386	568,727	1,156,839	9,765,268	5,936,548	-
Advances - net	180,322,753	843,596	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,828
Operating fixed assets	8,182,454	52,971	105,942	158,913	888,085	635,651	575,160	165,184	412,960	5,187,588
Deferred tax assets - net	192,362	-	-	-	-	38,393	57,590	96,379	-	-
Other assets - net	5,473,691	3,358,447	39,599	39,599	62,048	761,250	630,000	582,748	-	-
	299,711,614	51,760,179	41,228,237	47,927,503	79,510,666	30,964,452	13,771,777	20,552,939	8,756,445	5,239,416
Liabilities										
Bills payable	8,536,674	8,536,674	-	-	-	-	-	-	-	-
Borrowings	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-
Deposits and other accounts	229,336,579	218,310,521	181,660	2,096,008	43,100	3,151,726	703,750	3,430,546	1,419,268	-
Subordinated loan	1,598,080	-	320	-	320	1,118,208	479,232	-	-	-
Other liabilities	8,189,541	2,495,235	617,122	427,910	1,377,232	217,498	217,498	1,590,029	1,247,017	-
	275,038,376	253,432,789	4,086,245	2,523,918	1,420,652	4,487,432	1,400,480	5,020,575	2,666,285	-
	24,673,238	(201,672,610)	37,141,992	45,403,585	78,090,014	26,477,020	12,371,297	15,532,364	6,090,160	5,239,416
Net assets										
Share capital	4,265,327									
Reserves	9,054,940									
Unappropriated profit	5,339,402									
	18,659,669									
Minority Interest	29									
	18,659,698									
Surplus on revaluation of assets - net of tax	6,013,540									
	24,673,238									

The above maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: Disclosure in the financial statements of banks and similar financial institutions based on contractual maturities. The maturity profile disclosed in note 44.4.2 includes maturities of current and saving deposits determined by the Assets and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of these deposits.

44.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Group

		2006									
		Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
		(Rupees '000)									
Assets											
Cash and balances with treasury banks	32,465,976	32,465,976	-	-	-	-	-	-	-	-	-
Balances with other banks	6,649,659	6,472,447	-	-	121,820	-	-	-	-	55,392	-
Lendings to financial institutions	21,081,800	11,396,800	7,985,000	1,700,000	-	-	-	-	-	-	-
Investments - net	64,450,761	8,311,287	7,053,609	11,733,902	19,453,516	619,665	795,144	11,710,574	4,640,755	132,309	
Advances - net	198,236,682	3,025,142	40,581,465	31,722,976	60,657,162	35,630,922	13,810,539	10,920,665	1,864,789	23,022	
Operating fixed assets	9,073,276	76,219	160,047	309,398	1,092,854	743,057	504,613	236,118	438,534	5,512,436	
Deferred tax assets	620,652	-	532	-	2,613	120,931	181,217	302,814	1,800	10,745	
Other assets - net	11,044,909	5,734,420	664,312	480,562	44,802	630,000	3,490,813	-	-	-	
	343,623,715	67,482,291	56,444,965	45,946,838	81,372,767	37,744,575	18,782,326	23,170,171	7,001,270	5,678,512	
Liabilities											
Bills payable	7,089,679	7,089,679	-	-	-	-	-	-	-	-	
Borrowings	23,943,476	14,880,574	4,440,262	2,130,468	179,142	-	-	-	2,313,030	-	
Deposits and other accounts	257,185,110	26,061,555	32,830,618	69,044,623	70,503,565	19,999,771	14,019,057	14,112,370	6,262,298	4,351,253	
Subordinated loan	1,597,440	-	637,440	-	480,000	480,000	-	-	-	-	
Deferred tax liabilities	445,766	1,052	2,101	3,152	20,650	12,609	12,609	25,219	47,920	320,454	
Other liabilities	11,177,125	3,375,493	623,301	460,994	2,878,406	498,190	501,349	1,023,194	954,932	861,266	
	301,438,596	51,408,353	38,533,722	71,639,237	74,061,763	20,990,570	14,533,015	15,160,783	9,578,180	5,532,973	
Net assets	42,185,119	16,073,938	17,911,243	(25,692,399)	7,311,004	16,754,005	4,249,311	8,009,388	(2,576,910)	145,539	
Share capital	5,463,276										
Reserves	24,662,446										
Unappropriated profit	6,278,593										
	36,404,315										
Minority Interest	52										
	36,404,367										
Surplus on revaluation of assets - net of tax	5,780,752										
	42,185,119										

Refer the sub-note to note 44.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

44.4.2 Maturities of Assets and Liabilities - Based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Group

2005										
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
----- (Rupees '000) -----										
Assets										
Cash and balances with treasury banks	23,665,549	23,665,549	-	-	-	-	-	-	-	-
Balances with other banks	1,519,195	1,466,045	-	-	-	-	53,150	-	-	-
Lendings to financial institutions	9,998,828	9,998,828	-	-	-	-	-	-	-	-
Investments - net	70,356,782	12,374,743	6,507,635	11,303,636	22,743,386	568,727	1,156,839	9,765,268	5,936,548	-
Advances - net	180,322,753	843,596	34,575,061	36,425,355	55,817,147	28,960,431	11,352,188	9,890,210	2,406,937	51,828
Operating fixed assets	8,182,454	52,971	105,942	158,913	888,085	635,651	575,160	165,184	412,960	5,187,588
Deferred tax assets - net	192,362	-	-	-	-	38,393	57,590	96,379	-	-
Other assets - net	5,473,691	3,358,447	39,599	39,599	62,048	761,250	630,000	582,748	-	-
	<u>299,711,614</u>	<u>51,760,179</u>	<u>41,228,237</u>	<u>47,927,503</u>	<u>79,510,666</u>	<u>30,964,452</u>	<u>13,771,777</u>	<u>20,552,939</u>	<u>8,756,445</u>	<u>5,239,416</u>
Liabilities										
Bills payable	8,536,674	8,536,674	-	-	-	-	-	-	-	-
Borrowings	27,377,502	24,090,359	3,287,143	-	-	-	-	-	-	-
Deposits and other accounts	229,336,579	26,256,795	24,737,187	63,110,853	61,057,945	19,173,036	12,598,380	12,888,503	5,545,949	3,967,931
Subordinated loan	1,598,080	-	320	-	320	1,118,208	479,232	-	-	-
Other liabilities	8,189,541	2,495,235	617,122	427,910	1,377,232	217,498	217,498	1,590,029	1,247,017	-
	<u>275,038,376</u>	<u>61,379,063</u>	<u>28,641,772</u>	<u>63,538,763</u>	<u>62,435,497</u>	<u>20,508,742</u>	<u>13,295,110</u>	<u>14,478,532</u>	<u>6,792,966</u>	<u>3,967,931</u>
Net assets	<u>24,673,238</u>	<u>(9,618,884)</u>	<u>12,586,465</u>	<u>(15,611,260)</u>	<u>17,075,169</u>	<u>10,455,710</u>	<u>476,667</u>	<u>6,074,407</u>	<u>1,963,479</u>	<u>1,271,485</u>
Share capital	4,265,327									
Reserves	9,054,940									
Unappropriated profit	5,339,402									
	<u>18,659,669</u>									
Minority Interest	29									
	<u>18,659,698</u>									
Surplus on revaluation of assets - net of tax	6,013,540									
	<u>24,673,238</u>									

Refer the sub-note to note 44.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

44.5 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The Bank has an operational risk policy approved by Board of Directors. Operational risk, is presently in state of evolution. The policy among other aspects focuses on measuring operational risk through establishing systems for maintaining operational loss database, identifying and monitoring key risk indicators, setting operational risk tolerance levels, etc.

The Bank is in the process of developing and documenting a detailed operational risk framework. The purpose of framework is to guide the implementation of operational risk policy. The framework aims at laying out clearly defined roles and responsibilities of individuals / units across different functions of the Bank that would be involved in performing various operational risk management tasks.

45. GENERAL AND NON-ADJUSTING EVENT

45.1 Revised format of annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements prepared by banks for periods commencing from January 01, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect to business activities and capital adequacy and expended disclosures in respect of the Group's derivatives instruments and risk management.

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

- Other income receivable of Rs. 145.565 million have been clubbed with income / markup accrued on advance and investments - local currency.
- Branch adjustment account in other liabilities has been reduced by amount of Rs. 39.527 million and allocated to different heads within other liabilities and other assets as well.
- Unrealised gain / (loss) on forward exchange contracts have been grossed up to Rs. 147.207 million on the asset side and Rs. 101.996 million on the liability side, instead of a net unrealised gain on the asset side amounting to Rs. 45.211 million.
- Compensation on delayed tax refund amounting to Rs. 340.598 million has been reclassified from extraordinary item to other income.

45.3 Comparative information have also been restated to comply with the change in accounting policy as disclosed in note 5.11 to the financial statements.

45.4 Non-adjusting event

The Board of Directors in its meeting held on February 23, 2007 has announced a final cash dividend in respect of the year ended December 31, 2006 of Rs. 1.50 per share (2005: Re. 1.00 per share) and bonus shares 15% (2005: 20%). In addition, the Board of Directors has also approved the transfer to general reserve from unappropriated profit amounting to Rs. nil (2005: Rs. 3,500 million). These financial statements for the year ended December 31, 2006 do not include the effect of these appropriations which will be accounted for subsequent to the year-end.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on February 23, 2007.




 Mohammad Aftab Manzoor
 President and Chief Executive


 Shahzad Saleem
 Director


 Aftab Ahmad Khan
 Director


 Dr. Muhammad Yaqub
 Director

Annexure - I

1. Particulars of investments in listed companies, mutual funds and modarabas (refer note 9) - available for sale

Investee entities	Note	Number of ordinary and preference shares/ certificates/units held	Paid-up value per share/certificate/ unit	Total paid-up / nominal value	Balance as at December 31, 2006
					------(Rupees '000)-----
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					61,602
Fully Paid-up Ordinary Shares					
Al-Ghazi Tractors Limited		67,200	5	336	6,651
Allied Bank Limited		506,000	10	5,060	40,836
Askari Commercial Bank Limited		1,300,495	10	13,005	125,443
Baig Spinning Mills Limited		390,230	10	3,902	3,512
Bank Alfalah Limited		191,667	10	1,917	9,561
Bank Al-Habib Limited		469,941	10	4,699	15,756
The Bank of Punjab		697,834	10	6,978	55,578
Bawany Sugar Mills Limited		10,600	10	106	58
BOC Pakistan Limited		22,409	10	224	3,106
Brother Textile Mills Limited		84,263	10	843	249
Century Papers Mills Limited		398,600	10	3,986	17,657
Colony Mills Limited		181	10	2	2
EFU General Insurance Company Limited		792,535	10	7,925	67,675
EFU Life Insurance Company Limited		16,228	10	162	1,979
Engro Chemical Pakistan Limited		453,047	10	4,530	51,383
Escorts Investment Bank Limited		84,229	10	842	1,424
Fauji Cement Limited		26,188	10	262	550
Fauji Fertilizer Bin Qasim Limited		100,174	10	1,002	2,865
Fauji Fertilizer Company Limited		6,818,316	10	68,183	601,703
Faysal Bank Limited		120,575	10	1,206	8,036
Glaxo Smith Pakistan Limited		125,818	10	1,258	4,936
Habib Metropolitan Bank Limited		72,600	10	726	5,304
Honda Atlas Cars Limited		161,550	10	1,616	5,529
Hub Power Company Limited		27,254,425	10	272,544	661,568
IGI Insurance Limited		9,343	10	93	601
Indus Motors Limited		285,000	10	2,850	31,030
Khurshid Spinning Mills Limited		20,400	10	204	43
Kohinoor Energy Limited		55,500	10	555	1,580
Kohinoor Industries Limited		55,627	10	556	743
Kot Addu Power Company Limited		3,124,400	10	31,244	141,668
Lucky Cement Limited		36,714	10	367	3,855
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		660,483	10	6,605	111,956
Mirza Sugars Limited		27,475	10	275	80
Mohammad Farooq Textile Limited		24,371	10	244	152
National Bank of Pakistan		718,241	10	7,182	164,133
Oil & Gas Development Corporation Limited		473,865	10	4,739	59,294
Orix Leasing Limited		220,800	10	2,208	5,025
PICIC Commercial Bank Limited		26,906	10	269	974
Packages Limited		205,248	10	2,052	25,489
Pakistan Oilfields Limited		926,159	10	9,262	307,727
Pakistan Reinsurance Limited		110,000	10	1,100	16,521
Pakistan Petroleum Limited		331,500	10	3,315	68,223
Pakistan PTA Limited		44,156	10	442	258
Pakistan State Oil Company Limited		866,607	10	8,666	254,021
Pakistan Synthetics Limited		14,230	10	142	121
Prime Commercial Bank Limited		35,529	10	355	2,110
Pakistan Telecommunication Company Limited		3,130,731	10	31,307	122,901

Annexure - I

Investee entities

	Number of ordinary and preference shares/ certificates/units held	Paid-up value per share/certificate/ unit	Total paid-up / nominal value	Balance as at December 31, 2006
				------(Rupees '000)-----
Redco Textiles Limited	175,000	10	1,750	1,750
Rupali Polyester Limited	658,545	10	6,585	46,476
Sakrand Sugar Limited	59,300	10	593	178
Saudi Pak Commercial Bank Limited	12,821	10	128	236
Sui Northern Gas Pipelines Limited	47,728,822	10	477,288	2,205,252
Taj Textile Mills Limited	400	10	4	1
Thal Limited	300,000	5	1,500	20,080
Tripack Films Limited	7,500	10	75	512
Trust Security & Brokerage Limited	300,000	10	3,000	3,000
United Bank Limited	2,539,900	10	25,399	278,620
Unilever Pakistan Limited	22,800	50	1,140	21,365
Worldcall Telecom Limited	2,753	10	28	32
Yousuf Weaving Mills Limited	13,638	10	136	91
				5,603,628

Fully Paid-up Ordinary Certificates / Units of Mutual Funds

AKD Opportunity Fund	100,000	50	5,000	5,000
Al-Meezan Mutual Fund	1,096,526	10	10,965	9,204
Atlas Income Fund	122,357	500	61,179	50,000
Atlas Islamic Fund	20,000	500	10,000	10,000
Atlas Stock Market Fund	27,729	500	13,865	10,000
BSJS Balanced Fund Limited	541,245	10	5,412	4,662
Meezan Balanced Fund	1,000,000	10	10,000	10,000
Meezan Islamic Fund	500,000	50	25,000	13,051
Pakistan Capital Market Fund	43,080	10	431	490
Pakistan Premier Fund Limited	81,360	10	814	1,041
PICIC Growth Fund Limited	439,481	10	4,395	16,972
PICIC Investment Fund Limited	82,229	10	822	1,233
Unit Trust of Pakistan	10,000	5000	50,000	30,154
UTP Growth Fund	141,741	10	1,417	1,949
UTP Large Capital Fund	3,900,000	10	39,000	39,000
				202,756

Fully Paid-up Modaraba Certificates

Name of Management Company

First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,583,270	10	55,833	60,934
Standard Chartered Modaraba	Standard Chartered Services of Pakistan (Private) Limited	236,775	10	2,368	7,784
First Investec Modaraba	-	13,825	10	138	14
					68,732
Carrying value (before revaluation and provision)					5,936,718
Provision for diminution in value of investments					(96,747)
Surplus on revaluation of securities					1,704,740
Carrying value as at December 31, 2006					7,544,711

- 1.1** These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs.10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

Annexure - I

2. Particulars of investments held in unlisted companies - (refer note 9) - available for sale

Company Name	Percentage of Holding (%)	Number of Shares held	Carrying value as at December 31, 2006 (Rupees '000)	Net asset value of total investment		Name of the Chief Executive
				(Rupees '000)	Based on audited financial statements as at	
Shareholding more than 10%						
Fully Paid-up Preference Shares						
Fazal Cloth Mills Limited (2.2)	24.00	10,000,000	100,000	-	-	Mr. Sheikh Naseem Ahmed
Fully Paid-up Ordinary Shares / Certificates / Units						
Pak Asian Fund Limited	10.22	1,150,000	11,500	18,973	June 30, 2006	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60	300	300,000	307,779	December 31, 2005	Mr. Ghalib Nishtar
Central Depository Company Limited	10.00	2,015,000	10,000	84,671	June 30, 2006	Mr. Mohammad Hanif Jakhura
First Capital Investment Limited	13.15	250,000	2,500	2,748	June 30, 2006	Mr. Mohammad Faisal Potrik
			324,000			
Shareholding up to 10%						
Fully Paid-up Ordinary Shares / Certificates / Units						
Equity Participation Fund		15,000	1,500	8,256	June 30, 2006	Mr. Jamil Nasim
National Institutional Facilitation Technologies (Private) Limited		662,584	1,527	29,912	June 30, 2006	Mr. Muzaffar Mahmood Khan
National Investment Trust Limited		52,800	100	*134,993	June 30, 2006	Mr. Tariq Iqbal Khan
SME Bank Limited (Formerly Small Business Finance Corporation)		1,490,619	10,106	22,192	December 31, 2005	Mr. Mansur Khan
Pakistan Agricultural Storage and Services Corporation		2,500	2,500	*(223,158)	March 31, 2006	Major General Muhammad Iqbal Khan
Society for Worldwide Inter Fund Transfer (SWIFT)		31	2,993	4,945	December 31, 2005	Mr. Leonard H. Schrank
Lanka Clearing (Private) Limited		100,000	567	Not available	Not available	Mr. Sarath De Silva
Credit Information Bureau of Sri Lanka		300	17	Not available	Not available	Mr. N.P.H. Amarasena
			19,310			
			443,310			

2.1 The above excludes shares of companies which are fully provided for in these financial statements. All the above companies are incorporated in Pakistan, except for Lanka Clearing (Private) Limited, Credit Information Bureau of Sri Lanka and SWIFT.

2.2 These carry dividend rate of 6 months KIBOR + 2.5%. The percentage of holding disclosed is in proportion to the preference share paid-up capital.

* Increase in share capital consequent to the issuance of bonus shares after the balance sheet date has been taken in the determination of net asset value disclosed above.

Annexure - I

3. Particulars of investments in Term Finance Certificates - (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total paid up value (before redemption) ----- (Rupees) -----	Profit	Principal redemption	Balance as at December 31, 2006 (Rupees '000)	Name of Chief Executive
LISTED TERM FINANCE CERTIFICATES - available for sale							
Allied Bank Limited	23,404	5,000	117,020,000	6 months KIBOR + 1.9% p.a.	0.24% of principal redeemable in the first 72 months and the remaining principal in 4 semi-annual installments of 24.94% each of the issue amount starting from the 78th month from December 2006.	117,020	Mr. Khalid A. Sherwani
Askari Commercial Bank Limited - issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from February 2005.	99,940	Mr. Shaharyar Ahmad
- issue no. II	19,992	5,000	99,960,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from October 2005.	99,860	--do--
	39,992		199,960,000				
Azgard Nine Limited	20,000	5,000	100,000,000	6 months KIBOR + 2.4% p.a.	In 10 installments starting from the 30th month from September 2005.	99,960	Mr. Ahmed H. Sheikh
Bank Al Habib Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.02% of total issue in equal installments in first 78 months and the remaining in 3 equal semi-annuals installment from the 84th month from July 2004.	99,920	Mr. Abbas D. Habib
Bank Alfalah Limited - issue no. II	10,000	5,000	50,000,000	6 months KIBOR + 1.5% p.a.	0.25% of principal in the first 78 months and remaining principal in 3 semi-annual installments of 33.25% each of the issue amount starting from the 84th month from November 2004.	49,962	Mr. Muhammad Saleem Akhtar
- issue no. III	39,720	5,000	198,600,000	6 months KIBOR + 1.5% p.a.	0.25% of the principal in the first 78 months and remaining in 3 semi annual installments of 33.25% each starting from the 84th month from November 2005.	198,524	--do--
	49,720		248,600,000				
First Dawood Investment Bank Limited - issue no. II	6,250	5,000	31,250,000	SBP Discount Rate + 1.75% p.a.	After 5 years from July 2002 to redeem the TFC in whole or in part at the face value.	31,250	Mr. Rafique Dawood
Hira Textile Mills Limited	9,988	5,000	49,940,000	6 months KIBOR + 2.5% p.a.	In 6 semi annual installments after a grace period of 24 months from March 2005.	49,910	Mr. Nadeem Aslam Butt
Jahangir Siddiqui and Company Limited	39,968	5,000	199,840,000	Base rate + 1.5% p.a., (base rate is the cut-off yield of the last successful 5-year PIB auction by SBP)	In 4 equal semi-annual installments from the 42nd month from April 2003.	149,764	Mr. Munaf Ibrahim
Pakistan Services Limited	20,000	5,000	100,000,000	SBP Discount Rate + 2.25% p.a.	In 7 equal semi-annual installments and will commence from the 24th month from November 2003 after a grace period of 18 months.	8,529	Mr. Murtaza Hashwani
Soneri Bank Limited	30,000	5,000	150,000,000	6 months KIBOR + 1.6% p.a.	In 4 semi annual equal installments starting from the 78th month from May 2005.	149,910	Mr. Safar Ali K. Lakhani
Sui Southern Gas Company Limited - issue no. II	13,500	5,000	67,500,000	SBP Discount Rate + 1.10% p.a.	In 6 equal semi annual installments from 2005 to 2007.	11,220	Mr. Munawar Baseer Ahmad (MD)
United Bank Limited - issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	284,890	Mr. Atif R. Bokhari
Carrying value before revaluation						1,450,659	
Add: Revaluation surplus						6,811	
Carrying value of listed TFCs (revalued amount)						1,457,470	
UN-LISTED TERM FINANCE CERTIFICATES - held to maturity							
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	279,720	Mr. Munaf Ibrahim
Pak Kuwait Investment Company (Private) Limited	100,000	5,000	500,000,000	3 months KIBOR + 1.25% p.a.	In 5 equal semi-annual installments commencing from the 36th month from June 2005.	500,000	Mr. Istaqbal Mehdi (M.D.)
Pakistan Mobile Corporation Limited	100,000	5,000	500,000,000	6 months KIBOR + 1.6% p.a.	In 5 equal semi-annual installments starting from the 36th month from March 2004.	500,000	Mr. Zuhair A. Khaliq
Reliance Export (Private) Limited	50	10,000,000	500,000,000	6 months KIBOR + 2.5% p.a.	Redemption will commence from the 18th month from July 2005.	500,000	Mr. Fawad Ahmed Mukhtar
Carrying value of unlisted TFCs						1,779,720	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

Annexure - I

4. Details of Bonds and Federal Government Securities (refer note 9) - held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount ('000)	Carrying value as at December 31, 2006 (Rupees '000)
	Principal	Interest				
Federal Government Securities						
Government of Pakistan	Yearly	Yearly	Barclays Bank's 3 months USD LIBOR +1%	US\$	8,147	496,246
Government of Sri Lanka Treasury Bonds	At maturity	Half-yearly	11.75%	SLRs	365,684	207,306
Sri Lanka Development Bonds	At maturity	Half-yearly	6.55%	SLRs	215,500	122,167
					589,331	825,719
Government Compensation Bonds						
Heavy Mechanical Complex	At maturity	Yearly	6.00%	PKR	-	27,224
Public Sector Enterprises Bonds (PSE-89)	At maturity	Yearly	6.00%	PKR	-	556,990
Public Sector Enterprises Bonds (PSE-90)	At maturity	Yearly	9.00%	PKR	-	286,557
					-	870,771
Sukuk Bonds						
Government Sukuk Bonds	At maturity	Half-yearly	6 Month LIBOR+2.2%	US\$	12,699	773,478
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR	-	800,000
					12,699	1,573,478
Euro Bonds						
Euro Bonds - OBU Bahrain	At maturity	Half-yearly	6.75%	US\$	48,061	2,927,405
Euro Bonds - Sri Lanka	At maturity	Half-yearly	6.75%	US\$	1,506	91,730
					49,567	3,019,135
Government of Pakistan guaranteed bond						
* Rice Export Corporation of Pakistan	Yearly	Half-yearly	15.00%	PKR	-	310,504
					-	310,504

* The above excludes bonds, which are fully provided for in these financial statements.

5. Details of certificates of investment (refer note 9) - held to maturity in local currency

Company Name	Carrying value at December 31, 2006 (Rupees ‘000)	Profit rate (%)	Maturity date
Pak Libya Holding Company Limited	500,000	11.3	March 2007
Pak Kuwait Investment Company Limited	1,750,000	10.7 & 10.75	February 2007
Saudi Pak Commercial Bank Limited	250,000	10.75	January 2007
Pak Oman Investment Company Limited	500,000	10.75	January 2007
Pakistan Industrial Credit Investment Corporation Limited	500,000	11	January 2007
First Dawood Investment Bank Limited	50,000	12.05	February 2007
	3,550,000		

Annexure - I

6. Summarised financial information of associated undertakings (refer note 9)

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

Name of associated undertaking	Country of incorporation	Assets	Liabilities	Net assets	Revenue	Profit	% of interest held
(Rupees '000)							
2006							
First Women Bank Limited (unaudited based on September 30, 2006)	Pakistan	8,232,447	7,401,926	830,521	360,263 *	105,752	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2006)	Pakistan	10,567,871	7,068,793	3,499,078	3,899,013 **	1,287,706	29.13%
		<u>18,800,318</u>	<u>14,470,719</u>	<u>4,329,599</u>	<u>4,259,276</u>	<u>1,393,458</u>	
December 2005							
First Women Bank Limited	Pakistan	10,503,234	9,776,545	726,689	436,835 *	133,601	26.78%
Adamjee Insurance Company Limited	Pakistan	9,182,380	6,880,132	2,302,248	3,997,327 **	1,163,246	29.13%
		<u>19,685,614</u>	<u>16,656,677</u>	<u>3,028,937</u>	<u>4,434,162</u>	<u>1,296,847</u>	

* Represents net mark-up / interest income

** Represents net premium revenue

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
59th Annual General Meeting of the Company to be held on Wednesday, March 28, 2007 at 3:00 p.m. at Hotel Holiday Inn, G-6, Civic Centre,
Islamabad and at any adjournment thereof.

As witness my/our hand this _____ day of _____ 2007.

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, State Life Building No. 3, Dr. Ziauddin Ahmed 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.



Principal Office:

MCB Bank Ltd.

MCB Tower, I.I. Chundrigar Road, Karachi. UAN (021)111-000-111 PABX (021)2635460 Website: www.mcb.com.pk