



Bank for Life

annual report
2011 
MCB





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VISION

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





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





Strategic Objectives

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





Bank for *Dreams!*

We believe that without dreams and imagination, reality will cease to exist. After all, it is the dreams and ambitions of our customers that encourages, inspires and motivates us to improve our services so we can serve our customers better. Our dream is to make sure that the dreams of our customers see the light of success.





Bank for *Hope!*

We believe and understand that the world is going through a radical phase of transformation. Being efficient alone is not enough, financial institutions are now required to act, behave and plan intelligently. To match their customers' needs, requirements and hopes, financial institutions must now undergo through a rapid evolutionary process and present their customers with strategies and solutions that are proactive and interactive in addressing their financial priorities.





We believe and acknowledge that our customers deserve the highest level of professional care and courtesy. We are very well aware that our customers have the freedom to choose and we take pride in knowing that they chose us as their preferred financial institution. Honouring the trust they have put in us, we strive to resolve their issues in the shortest span of time and according to their best level of satisfaction.





We believe that a business that does not grow with time will eventually fail and vanish under the sands of history. We understand that stability in business can only be achieved through consistent growth and that is why we have designed our innovative financial solutions to help our customers scale new heights of success and prosperity.





Bank for *Success!*

We believe in creating new and previously undiscovered venues of opportunities for our customers by empowering them with better financial advice and customized financial solutions. We want to see our customers write their own success stories and we will help them transform their ideas into achievements through our dedicated services.





CORE VALUES

Integrity

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

Innovation

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

Excellence

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

Customer Centricity

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

Respect

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





AWARDS

2011	CFA Association Pakistan:	Most Stable Bank of the Year
2011	CFA Association Pakistan:	Best Bank of the Year
2011	Euromoney:	Best Bank in Pakistan
2011	ICAP / ICMAP:	BCR Award 2010 - Banking Sector
2011	SAFA:	Joint 2nd Runner-up for BCR 2010
2010	The Asian Banker:	Strongest Bank in Pakistan
2010	The Asian Banker:	Leadership Achievement Award
2010	MMT:	Best Bank Led MMT Service
2010	ICAP / ICMAP:	BCR Award 2009 - Banking Sector
2010	SAFA:	Certificate of Merit Award for BCR 2009
2009	Asiamoney:	Best Domestic Bank in Pakistan
2009	The Asset:	Best Domestic Bank in Pakistan
2008	Euromoney:	Best Bank in Asia
2008	Euromoney:	Best Bank in Pakistan
2008	Asiamoney:	Best Domestic Bank in Pakistan
2006	Asiamoney:	Best Domestic Bank in Pakistan
2006	Euromoney:	Best Bank in Pakistan
2005	Asiamoney:	Best Domestic Bank in Pakistan
2005	Euromoney:	Best Bank in Pakistan
2004	Euromoney:	Best Bank in Pakistan
2004	Asiamoney:	Best Domestic Bank in Pakistan
2003	Euromoney:	Best Bank in Pakistan
2001	Euromoney:	Best Bank in Pakistan
2000	Euromoney:	Best Bank in Pakistan



Products and Services

Current Account

MCB Bank offers a variety of current accounts to cater to the everyday transactional needs of various customers. These accounts ensure ease and freedom to bank from any of the 1100+ branches across the country. The different accounts include: the Basic Banking Account that has no minimum balance; Business Account offering free online transactions, Demand Drafts, Pay Orders and lots more to meet the day to day business requirements; Current Life Account which offers the security of life insurance free of cost; and for all others, the conventional Current Account.

Savings Account

MCB Bank offers a wide array of savings products that suit short term growth & transactional needs. Our savings accounts offer attractive profit rates as well as flexibility to transact. Savings Xtra is targeted for customers having Rs. 5 million + deposit, 365 Gold offers profit rate on daily balance while PLS savings has a lower minimum balance requirement. In addition, two unique products: Smart Savings and Savings Maximizer are special saving accounts run solely via debit cards and other remote banking channels, offering a very competitive rate to both high and low end savers.

Term Deposits

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

MCB Online Banking

MCB has a fast growing network of 1100+ online branches in the country providing customers real-time online transaction facilities.

MCB MNET

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

MCB Cash Management

Cash Management provides a wide range of value added services to large corporations through its vast network of online branches. Our structured and customized products enable our customers to realize their sales proceeds swiftly from all over the country, supported by real-time MIS. Cash Management also provides payment solutions through MCB network and through third parties and customized solutions for dividend payouts.

MCB Channel Financing

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

MCB Local Rupee Drawing Arrangement

Transaction Banking Department at MCB, provides Local Rupee Drawing Arrangement, a product for small banks and financial institutions to use our vast branch network platform to make payments in areas where their own branch network does not exist, thus extending their reach nationwide.

MCB Home Remittance

MCB Home Remittance provides a seamless inflow of foreign remittances credited in the beneficiary's account within minutes. Cash payments can also be made at our designated branches on behalf of XpressMoney, Samba (SpeedCashNow), MoneyGram and Maybank Money Express Malaysia, along with cash payments from other correspondents from all over the world under the brand name of "MCB Fast & Easy".

MCB Corporate Financing

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

MCB Project & Structured Finance

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

MCB Syndicated Loans and Debt Capital Markets

It involves arrangement, underwriting and placement services for significant financing requirements by large corporate and institutional clients to other financial institutions or through the debt capital markets.

MCB Quasi Equity / Hybrid Instruments

It structures and places a category of debt that has some characteristics of equity such as being unsecured, subordinated or with a potential equity upside.

MCB Equity Capital Raising

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

MCB Advisory Services

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

MCB Islamic Banking

With the help of Shariah specialists, lawyers and professional commercial bankers, MCB Islamic Banking provides Riba Free and Shariah Compliant products and services both on the liability and asset side of the statement of financial position to various customers of all demographic segments with its presence in a growing number of cities. MCB's Islamic Banking products are available to cater the need of Working Capital, Capital Expenditures, International/Local trade and consumer's requirements.

MCB Agri Products

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

MCB Home Remittance



Har Pal Mehfoz



Products and Services

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

MCB Privilege

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

MCB Salary Club

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

MCB Investment Services

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

MCB Visa Credit Card

MCB offers a complete suite of Classic, Gold and Platinum Visa Credit Cards focusing on providing, superior services, travel privileges & shopping pleasure. It also offers comprehensive insurance & installment plans, reward points and SMS alerts that give a different feel to the world of credit cards.

These unique features include i-revolve, which makes variable mark-up rate available to customers allowing them to repay at affordable rates.

MCB Car4U

MCB Car4U not only gets you a car of your own choice but is also affordable with competitive mark-up, flexible conditions, easy processing and above all, no hidden costs.

MCB Instant Finance

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

MCB Visa Debit Card

MCB Visa Debit Card is Pakistan's first chip-based debit card. With global acceptance at over 1.5 million merchants worldwide, the MCB Visa Debit Card allows the customers to enjoy unmatched convenience, enhanced security and round-the-clock accessibility to their funds. The MCB Visa Debit Card also offers innovative promotional schemes designed to reward our customers every time they use the card at a Point of Sale (POS) for shopping, dining, fuel, traveling etc.

MCB Rupee Travelers Cheque

MCB Rupee Travelers Cheque is the best and safest alternate way of carrying cash. It can be used by travelers, businessmen or by the general public in meeting their day to day cash

requirements while they travel. It is a safe and secure way to make payments because it gives the purchaser security that even if the cheque is lost it can be refunded. Unlike other modes of fund/ remittance transfer which can only be drawn at a particular branch and can be encashed only at that branch, MCB Rupee Travelers Cheque can be encashed at any of our branches across the nation.

MCB ATMs

MCB has one of the nation's largest ATM networks with 650+ ATMs covering 110 cities across the country and still growing. MCB ATMs give you a 24-hours convenience of cash withdrawal, mini-statement, utility bill payments, mobile top-ups, funds transfer services and much more.

MCB Mobile ATM

Through our MCB Mobile ATM we allow for convenient world class banking services. Our innovative MCB Mobile ATM van ensures that we offer our services wherever you are, be it concerts, fairs or any other occasion/special event.

MCB Lockers

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

MCB SMS Banking

Banking at your finger tips: SMS anytime to get information regarding balance, mini statements once you are registered for the service.

MCB Full-Day Banking

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

MCB Bancassurance

Combining the best of banking and insurance solutions, MCB Bancassurance has created a one-stop shop for all your financial and insurance needs. Whether you want to save for your child's education or marriage, for the security of dignity after retirement or gaining maximum return on savings, MCB Bancassurance has a plan for you. You can also buy instant insurance coverage through your mobile without any medical assessment.

MCB Call Centre

The simplest way to bank is with the new enhanced 24/7 MCB Call Centre, which blends innovation and convenience to provide banking services that go beyond expectations. MCB Call Centre enables you to manage your VISA Credit & ATM/Debit Cards, confirm account balances & view last 6 transactions, pay utility/mobile phone & MCB Visa Credit Card bills, top-up your mobile, transfer money within MCB network accounts and register complaints. Most importantly it provides you with our very own banking consultant to discuss your financial needs and requirements. Simply call at 111-000-622 and we'll do the rest.

MCB Mobile

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

MCB Virtual Banking

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

Corporate Information



Board of Directors

Mian Mohammad Mansha Chairman	(Non-Executive Director)
S.M. Muneer Vice Chairman	(Non-Executive Director)
Tariq Rafi	(Non-Executive Director)
Shahzad Saleem	(Non-Executive Director)
Sarmad Amin	(Non-Executive Director)
Dato' Mohammed Hussein	(Non-Executive Director)
Dato' Seri Ismail Shahudin	(Non-Executive Director)
Mian Raza Mansha	(Non-Executive Director)
Mian Umer Mansha	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Manzar Mushtaq	(Non-Executive Director)
Ahmad Alman Aslam	(Non-Executive Director)
M.U.A. Usmani President & Chief Executive Officer	(Executive Director)

Audit Committee

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

Chief Financial Officer

Salman Zafar Siddiqi

Company Secretary

Abdus S. Sami

Auditors

A. F. Ferguson & Co.
Chartered Accountants

Legal Advisors

Khalid Anwer & Co.
Advocates & Legal Consultants

Registered Office

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

Principal Office

MCB House, 15 Main Gulberg, Lahore.
UAN: (042) 111-000-111
PABX: (042) 36041998-9
Website: www.mcb.com.pk
Email: info@mcb.com.pk • investor.relations@mcb.com.pk

Shares Registrar

M/s. THK Associates (Pvt.) Ltd., State Life Building No. 3,
Dr. Ziauddin Ahmed Road, Karachi.

Board of Directors





Directors' Profile



Mian Mohammad Mansha
Chairman

Mr. Mansha holds diverse and major business interests in Textiles, Banking, Insurance, Cement, Power, and Aviation. Under the umbrella of textiles, Nishat Mills is the largest textile group of Pakistan. He has served as the Chairman of MCB since its privatization in 1991. In 2004, he was presented with Pakistan's civil award, the Sitara-e-Imtiaz, for his contributions to industrial development. He is a member of Board of Shalamar Medical & Dental College and also serves as the Director of Punjab Board of Investment & Trade (PBIT), and Engineering Management Foundation (FASAT). In addition, he is the Chairman on the Board of Punjab Coal Mining Company and recently has become a Board Member of the Commonwealth Business Council. He was a member of the International Advisory Board at Babson College, Boston, USA.



S. M. Muneer
Vice Chairman

With experience in sectors ranging from tanneries, textiles and leather garments, Mr. Muneer is a consummate industrialist. He has been awarded with The Best Export Performance trophy by the Federation of Pakistan Chamber of Commerce & Industry (FPCCI), the Gold Medallion Award from the International Export Association, UK and Best Businessman of the Year Award from FPCCI. In addition, he has received the Sitara-e-Isaar and the Sitara-e-Imtiaz in 2006 and 2007 respectively by the President of Pakistan. His contributions and achievements go beyond the economic sphere into the education sector as well. He was awarded an Honorary PhD degree by the Governor of Sindh and is also a member of the Board of Directors of CBM and Greenwich College, Karachi and the Director of Shaukat Khanum Cancer Hospital, Lahore. Mr. S.M. Muneer is the Chairman of Chiniot Anjuman Islamia running many hospitals, maternity homes, schools & colleges in Karachi, Faisalabad and Chiniot.



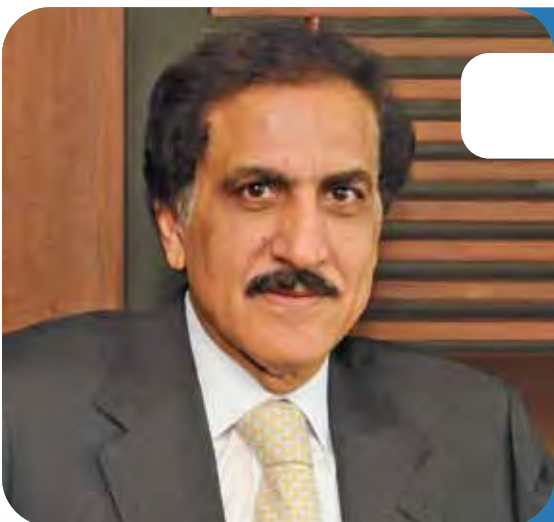
Tariq Rafi
Director

Mr. Tariq Rafi is the Chairman of Siddiqsons Group and is recipient of the coveted civil award Sitara-e-Imtiaz and the Best Businessman year award. He is also the Honorary Counsel General of Republic of Serbia. At MCB, he is on the board since privatization of the bank and presently is the Chairman of the Audit Committee and Member of the Risk Management & Portfolio Review Committee and Member of the Committee on Physical Planning and Contingency Arrangements and IT Committee. He is also a director on the Board of CDC as MCB nominee.



Shahzad Saleem
Director

Mr. Shahzad Saleem has been an active member of the Board since 1995; he has served on various committees of the Board including risk management, Human Resource and Business Strategy. He is also the Chief Executive of Nishat Chunian Ltd and Chairman of Nishat Chunian Power Ltd. He has completed his MBA from the Lahore University of Management Sciences in 1989.



Sarmad Amin
Director

Mr. Amin has 32 years of business experience in the fields of Construction, Electrical Manufacturing and Textiles. He serves on the board of M/s. Samin Textiles Limited, AREVA T&D Pakistan (Pvt.) Limited and MNET Services (Pvt.) Ltd. At MCB, he is the Chairman of the Committee on Physical Planning and Contingency Arrangements and a member of the Risk Management & Portfolio Review Committee and SBP Report Compliance Monitoring Committee.

Directors' Profile



Dato' Mohammed Hussein
Director

Dato' Mohammed Hussein, joined the MCB Board as an Independent Non-Executive Director in August 2008. He is currently a member of the Audit Committee and the Business Strategy & Development Committee. His experience in the financial sector include 31 years with the Maybank Group where he held various senior management positions including Deputy President and Chief Financial Officer until he retired in 2008. Presently he also sits on the board of a number of companies listed on the Stock Exchange in Malaysia and Singapore, several government-linked institutions in Malaysia and is also a non-Executive Chairman at Bank Pembangunan Malaysia.



Dato' Seri Ismail Shahudin
Director

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



Mian Raza Mansha
Director

Mr. Raza Mansha is Chairman of IT Committee and Member of Business Strategy & Development Committee, Human Resource Committee. In addition, he is a director of various businesses including D.G. Khan Cement Co. Ltd and Sui Northern Gas Pipeline Limited (SNGPL).



Mian Umer Mansha
Director

Mr. Umer Mansha was elected as a Director to the MCB Board in November 1997 and served till September 2007. He was re-elected as a Director at MCB in the 61st AGM held on March 27, 2009. Presently, he is the Chairman of the Risk Management & Portfolio Review Committee and is a member of the Business Strategy & Development Committee and Physical Planning and Contingency Arrangements at MCB. In addition, he is the chairman of the Board of Adamjee Insurance Company and a director of the Pakistan Business Council. He is a board member for various other businesses.



Aftab Ahmed Khan
Director

Mr. Aftab Ahmad Khan is a fellow Chartered Accountant of the Institute of Chartered Accountants of Pakistan. Mr. Aftab Ahmad Khan has over 49 years of diversified professional experience in various sectors. Presently he is the Chairman of Lahore Stock Exchange. He serves on the board of various organizations i.e. Commercial Banking, Textile, Paper, Energy, Hotel and Tourism sectors. He has also served on the Punjab Industrial Development Board and in Public sector organizations such as Ghee, Sugar and Rice Mills. At MCB he is a member of the Audit Committee, IT Committee and Write-off and Waiver Committee.



Manzar Mushtaq
Director

Manzar Mushtaq's dynamic & intellectual personality is a manifestation of his successful academic & professional endeavors. Mr. Mushtaq completed his secondary education from Lahore American School & moved to Clark University, USA for his undergraduate program with majors in Political Sciences & International Relations. He has over 11 years of experience in Financial and Insurance Sector. He started his career in a multinational bank. Later, he joined Security General Insurance as Marketing Head for Lahore region. He rose rapidly through the ranks to be appointed as General Manager & soon thereafter becoming Chief Executive Officer. Mr. Manzar Mushtaq was appointed the Managing Director & CEO of Adamjee Insurance Company Limited on 23rd March 2011. At MCB he is a member of Risk Management and Portfolio Review Committee.

Directors' Profile



Ahmad Alman Aslam
Director

Mr. Aslam has over 36 years of professional experience in investment banking, corporate finance and advisory services. He is currently a managing partner of Ahmad Alman Aslam and Associates, an enterprise engaged in investment banking. Mr. Aslam started his career with Citibank in 1975 and continued with Citibank for 28 years, serving in various capacities. He was the Managing Director, based out of New York, responsible for all debt issued by borrowers. Mr. Aslam has also served as an Advisor to EMP Washington. In Pakistan he has served on the boards of the State Bank of Pakistan, OGDC, Adamjee Insurance, the Bank of Punjab, and the Private Power and Infrastructure Board. He currently serves on the boards of IGI Asset Management, Punjab Small Industries Corporation, and Punjab Coal Mining Company. Mr. Aslam has a Masters in Business Administration from Punjab University and attended the program for Management Development at Harvard University, Cambridge.



M.U.A. Usmani
President / CEO

Mr. MUA Usmani has over 47 years of diverse national and international experience in Corporate, Treasury & FX, Capital Markets, Compliance, Trade Finance, Loan Administration (CAD), and Financial Institutions. Having started his career with American Express Bank, Pakistan in 1963, he worked in various capacities before moving to Dubai as Vice President and Manager Correspondent Banking, Gulf and Pakistan. He also served as Acting Country Head of American Express Bank, Pakistan. Later, he joined Deutsche Bank, Pakistan in 1993 as Chief Manager and later promoted to Director Global Markets & General Manager Treasury. His role covered both Treasury & Financial Institution for two years and subsequently evolved to focus on Treasury & Financial Institutions as General Manager Treasury & FI till 1998. During his career with these two foreign banks, Mr. Usmani was deputed on special assignments in New York, London and Frankfurt. He joined MCB Bank in 1999 as Group Head Treasury & FX and Capital Markets. Subsequently, he was assigned the responsibility of Compliance, FI and International & Overseas Branches and retired on December 21, 2006. He rejoined MCB in January 2009 as Group Head, Treasury & FX and was recently appointed as President / CEO of MCB Bank Limited in June 2010. He also enjoyed the privilege of being a member of SBP's DRAFT Committee on Foreign Exchange headed by the Country Head, Grindlays Bank along with the Executive Director SBP and was also member of Process Improvement Team (LC) at American Express, New York. Mr. Usmani is also Associate Member of IISP and has attended various courses on different subjects worldwide.

Board Committees

Audit Committee

Meetings held (5)

Members

1. Tariq Rafi - Chairman
2. Dato' Mohammed Hussein
3. Dato' Seri Ismail Shahudin
4. Aftab Ahmad Khan
5. Ahmad Alman Aslam

Terms of Reference

The Terms of Reference of the Audit Committee include determination of suitable measures to ensure safeguard of the Bank's assets; review of the Bank's financial results prior to their approval by the Board of Directors and publication thereof, focusing in particular on major judgmental areas, significant audit adjustments, the going concern assumption, changes in accounting policies and practices, compliance with applicable accounting standards and statutory requirements; receiving and reviewing records of related party transactions including those transactions that have not been carried out at an arm's length; determination of adequacy and effectiveness of internal control system including financial and operational controls, accounting system and reporting structure; reviewing statement on internal control systems by the Bank prior to approval thereof by the Board of Directors; reviewing scope and extent of internal audit function; ensuring adequacy of resources at internal audit including appropriateness of placement thereof; considering significant findings of internal investigations including management's response thereto; making recommendations to the Board of Directors for the appointment of the external auditors, agree on the audit fees, review the scope of work, consider resignation / removal of auditors and hold occasional meetings with the auditors to discuss their findings; reviewing Management Letter issued by external auditors and management's response thereto; ensuring co-ordination between external and internal auditors; monitoring significant violations of relevant statutory requirements, adopted best corporate governance practices and internal policies and procedures of the Bank; establishing special projects or other investigations specified by the Board of Directors and considering remittance of any matter to the external auditors or any other external body; maintaining free and open communication between employees and the committee for receipt, retention and processing of complaints on accounting and auditing matters including suspicious and fraudulent activity; considering any other issue or matter as may be assigned by the Board of Directors.

Human Resource Committee

Meetings held (6)

Members

1. Mian Mohammad Mansha - Chairman
2. Ahmad Alman Aslam
3. Mian Raza Mansha
4. M.U.A. Usmani

Terms of Reference

The main tasks of the Human Resource Committee are ensuring review of existing policies and revision in these policies as deemed necessary, proper classification and reclassification of employees' pay scales, job description and methods of periodical reviews, development of in-house expertise, approval and revision of organizational setup, setup of latest criterions for recruitment, training and performance appraisals and effective management of information systems to monitor implementation of policies as approved by the Board.

Risk Management and Portfolio Review Committee

Meetings held (4)

Members

1. Mian Umer Mansha - Chairman
2. Sarmad Amin
3. Manzar Mushtaq
4. M.U.A. Usmani

Terms of Reference

Main terms of the RM & PR Committee are review of risk management strategies, development of risk management policies and portfolio management parameters, approval and monitoring of limits in respect of credit, market and liquidity risks, monitoring of progress towards Basel II, carrying surveillance functions on behalf of the Board, monitoring of Bank's portfolio and approval of policy framework to be followed by the management for lending operations, write-offs, restructuring and rescheduling.

Business Strategy and Development Committee

Meetings held (4)

Members

1. Mian Mohammad Mansha - Chairman
2. S. M. Muneer
3. Dato' Mohammed Hussein
4. Dato' Seri Ismail Shahudin
5. Mian Raza Mansha
6. Mian Umer Mansha
7. Ahmad Alman Aslam
8. M.U.A. Usmani

Terms of Reference

Major tasks include review and development of 'Vision & Mission' statements and 'Core Values' for the bank, development of Bank's initiatives relating to business philosophy and acquisition, strategic investment and divestment, capital raising exercise, strategic alliances and brand management, in particular review the policy initiatives, business organization, overseas expansion plans and contingency planning relating to business realignment, devising short, medium and long term business plans and policies based on strategy, future direction and milestones set by the Board and monitoring the progress of the key strategy initiatives undertaken by the Bank.

SBP Report Compliance Monitoring Committee

Meeting held (3)

Members

1. S.M. Muneer - Chairman
2. Sarmad Amin
3. Ahmad Alman Aslam
4. M.U.A. Usmani

Terms of Reference

Review of six monthly reports prepared by the Compliance Group routed through the President on actions taken, on the recommendations and observations of SBP in its Annual Inspection Report, guiding the management in matters pertaining to compliance of SBP's observations, liaison between the Board and the Management with a view to ensure compliance pertaining to the SBP's observations; and making recommendations to the Board, if necessary, for taking decisions on expedient and appropriate disposal of observations of SBP Inspection Report.

Committee on Physical Planning and Contingency Arrangements

Meetings held* (5)

Members

1. Sarmad Amin - Chairman
2. S. M. Muneer
3. Tariq Rafi
4. Mian Umer Mansha
5. M.U.A. Usmani

Terms of Reference

Development of an overall plan for physical infrastructure and contingency arrangements for the bank, review and monitoring of all work in progress based on physical planning, monitoring and recommending to the Board the building plans, master development agreements & contingency arrangements and review of the administrative structures & plans in place to ensure the ongoing health and safety of utilities and physical assets, including land & buildings and recommend, as appropriate, changes in plans arising from this review.

IT Committee

Meetings held * (5)

Members

1. Raza Mansha - Chairman
2. Aftab Ahmad Khan
3. Tariq Rafi
4. M.U.A. Usmani

Terms of Reference

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

Write-off and Waiver Committee

Members

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

Terms of Reference

To review and approve write off & waiver cases on behalf of the Board of Directors and submit cases of write off & waiver for post facto ratification by the Board.

* PPITSCA was split in IT Committee and Physical Planning and Contingency Arrangement Committee in March 2011. Prior to the split, 2 meetings of PPITSCA were held dated January 24, 2011 and March 21, 2011

Organizational Structure



Management Committee



Standing, Left to Right:

- Adnan Zaki • Muhtashim Ashai • Raheel Ijaz • Laqa Sarwar • Muhammad Ramzan • Ahmad Kareem
- Mohammed Nauman Chughtai • Ali Mubashir Kazmi • Syed Rashid Rahman



Seated, Left to Right:

- Agha Saeed Khan • Ali Munir • M. U. A. Usmani • Imran Maqbool • Kamran Rasool • Salman Zafar Siddiqi

Management Committees

Management Committee

- | | |
|-----------------------------|------------------------------|
| 1. M.U.A. Usmani - Chairman | 8. Ali Mubashir Kazmi |
| 2. Ali Munir | 9. Muhtashim Ashai |
| 3. Mohammad Ramzan | 10. Imran Maqbool |
| 4. Agha Saeed Khan | 11. Laqa Sarwar |
| 5. Raheel Ijaz | 12. Salman Zafar Siddiqi |
| 6. Ahmad Kareem | 13. Syed Rashid Rahman |
| 7. Adnan Zaki | 14. Mohammed Nauman Chughtai |

Assets & Liabilities Committee

- | | |
|-----------------------------|------------------------------|
| 1. M.U.A. Usmani – Chairman | 6. Muhtashim Ashai |
| 2. Ali Munir | 7. Imran Maqbool |
| 3. Mohammad Ramzan | 8. Salman Zafar Siddiqi |
| 4. Agha Saeed Khan | 9. Syed Rashid Rahman |
| 5. Ali Mubashir Kazmi | 10. Mohammed Nauman Chughtai |

IT Steering Committee

- | | |
|-----------------------------|-------------------------|
| 1. M.U.A. Usmani - Chairman | 5. Adnan Zaki |
| 2. Agha Saeed Khan | 6. Salman Zafar Siddiqi |
| 3. Imran Maqbool | 7. Ali Mubashir Kazmi |
| 4. Ali Munir | |

Disciplinary Action Committee

- | | |
|----------------------------|-------------------|
| 1. Ahmed Kareem - Chairman | 4. Muhammad Qasim |
| 2. Agha Saeed Khan | 5. Usman Hassan |
| 3. Raheel Ijaz | 6. Laqa Sarwar |

Write-off Committee

- | | |
|-----------------------------|-----------------------------|
| 1. M.U.A. Usmani - Chairman | 6. Muhtashim Ashai |
| 2. Ali Munir | 7. Mohammed Nauman Chughtai |
| 3. Salman Zafar Siddiqi | 8. Laqa Sarwar |
| 4. Imran Maqbool | 9. Omair Safdar |
| 5. Ali Mubashir Kazmi | |

Investment Committee

- | | |
|-----------------------------|-------------------------|
| 1. M.U.A Usmani - Chairman | 5. Muhtashim Ashai |
| 2. Ali Munir | 6. Salman Zafar Siddiqi |
| 3. Muhammad Ramzan | 7. Ali Mubashir Kazmi |
| 4. Mohammed Nauman Chughtai | |

Purchase Committee

- | | |
|----------------------------|--------------------|
| 1. M.U.A Usmani - Chairman | 4. Agha Saeed Khan |
| 2. Salman Zafar Siddiqi | 5. Imran Maqbool |
| 3. Adnan Zaki | |

Other Senior Mangement



Kamran Zafar Muggo
Group Head Audit & RAR



Abdus s Sami
Company Secretary



Azfar Alam Nomani
Country Head Sri Lanka



Malik Abdul Waheed
Advisor to Chairman



Rahim A. Khanani
Head Special Projects

Entity Credit Rating

	NEW (June 2011)	PREVIOUS
Long Term	AA+	AA+
Short Term	A1+	A1+

Rated by PACRA

Corporate Profile of the Bank



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

Subsidiaries

MCB Financial Services Limited

Holding: 99.999%

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

MNET Services (Private) Limited

Holding: 99.95%

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

MCB Trade Services Limited

Holding: 100%

Profile: Provides agency services.

Arif Habib Investments Limited

Holding: 51.33%

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

“MCB Leasing” Closed Joint Stock Company, Azerbaijan

Holding: 95.00%

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

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

First Women Bank Limited

Holding: 26.78%

Adamjee Insurance Company Limited

Holding: 29.13%

Euronet Pakistan (Private) Limited

Holding: 30%

Chairman's Message



We at MCB Bank Limited believe we have a right to be more than satisfied with our performance in 2011. Without losing focus on our customers, we managed to end the year with record achievements in terms of growth and profits. Not content with our already high standards, we invested substantially in branch infrastructure and IT, continued to meet our responsibilities as good corporate citizens, and ended up providing good returns to our shareholders. We are proud of the fact that today, the MCB brand is synonymous with excellence, solid reliability and professionalism at par with the best in the industry globally.

I am not saying all this was easy. The year 2011 produced more than its share of difficulties. Economies financial systems and banks which were supposedly rock solid plunged into turmoil, but in contrast with the horror stories coming out of the banking world in general and Europe in particular, for us in MCB, 2011 was a year of achievement. The CFA Association of Pakistan honoured us with the " Best Bank of the Year " and the "Most Stable Bank of the Year " awards. We were declared " Best Bank in Pakistan " by Euromoney , while we were ranked Joint 2nd Runner up for best presented accounts 2010 in the Banking Sector by the South Asian Federation of Accountants. We also expanded our network and launched new products and services which were very well received in the market. In a nutshell, the outreach of the Bank and the quality of services provided have made MCB one of the most respected and formidable brands in the market.

When we speak of the global financial crisis in 2011, we must take comfort from the fact that banks in Pakistan generally remained protected and safe from its ill effects. Credit for this must be shared by the board of directors and managements of banks with the regulator, that is the State Bank of Pakistan. The vigilance exercised by the Central Bank and its focus on prudence and corporate integrity helped in keeping our banks in good shape. We therefore acknowledge the positive role of the regulator.

Developments in our region will throw up exciting new opportunities for our trade and industry as well as our banking institutions. The State Bank of Pakistan needs to help the banks to seize these opportunities to stimulate growth.

I wish MCB Bank continuing success in 2012 and beyond.

Mian Mohammad Mansha
Chairman

President's Review



We were prudent! We were vigilant! We improved! We delivered what we promised!

MCB Bank Limited is a strong brand and it continued to prove that for the financial year 2011 while complying with the standards set. It is not just a business for us; it is a Bank for LIFE! This ideology stems from our persistent customer confidence and our permanent intention to offer newer facilities and services to not just our customers but also to our employees.

Overall Strategy

MCB believes in organic and opportunistic growth, branding value through effective communication, business diversity through commendable and innovative product and service portfolio, creating equal serving of technological and human capital to rural and urban demographic platforms and rationalization of ethical behaviour and culture to enhance customer base and enable employee retention.

MCB's core focus;

To be the leading franchise

- Improve country wide network coverage
- Increase footprints into international markets
- Build strong goodwill
- Generate attractive profitability and financial soundness
- Ensure maximum shareholders return
- Risk management and adequacy of capital allocation
- Promote investor relations and transparency

Grow business

- Implement continuous change management to reflect modern business methods
- Set and communicate goals clearly down to operational level to achieve targets
- Provide financial solution through vast and innovative product menu
- Effective use of technology and human capital to improve service

Financial Strategy

MCB believes in investing in areas where promising returns can be ensured. Given the current economic setup, the emphasis of the banking industry has shifted into creating leverage for public and private setup. MCB, while keeping one of the lowest infection ratio in the industry ensures maximum coverage of low quality portfolio and has taken subjective measures to keep provision adequacy on the safer side.

Maximum return to its shareholders

MCB believes in meeting expected returns of its investors each year, as reflected by the healthy payout. MCB has maintained its stance to be the leader of the banking index, with highest market capitalisation that has helped the Bank translate itself into a brand being recognized and trusted globally.

People Management

- Reasonable budget and target allocation to businesses
- Provide monetary incentives
- Implementation of strong ethical and behavioural culture
- Enhance knowledge and awareness of corporate and social responsibility

Cost reduction and Income growth

- Enhance non-business income generating streams
- Centralised control on expense recording
- Improve yield through significant volumetric business growth

The year brought opportunities despite shaky economical and political environment. I am pleased to elaborate that the Bank focuses mainly on areas that bring prudence, risk aversion and appetite, delivers visible results and turns out beneficial for not just us but for our stakeholders as well, because 'you' keep us in business.

Technology is our key to outstretch our expansion. E-banking solutions play pivotal role for MCB and has allowed us to offer our services in high-tech form giving our customers liberty to use their account at their disposal without having to wait in queues or driving all the way to the branch. MCB remains pioneer in mobile banking services and the range of options on the menu are an all round convenience. For us, rural matters as much as urban and our balanced branch network creates opportunities and convenient banking solutions to the rural setups.

We are proud to be represented through our range of products and services on offer! Bancassurance set newer records by crossing the Rupees 1 billion benchmark in 2011 owing to the continuous determination to strengthening this product. Islamic Banking outperformed in terms of improved profitability and volumes with introduction of additional 11 products and expansion with 8 new branches. Privilege Banking, an elite setup, is a benchmark in the industry through means of its quality banking. Mobile Banking, our leading initiative, just keeps getting better and better through its range of services, be it paying utilities or MCB products, loading top-ups or making online donations. Our vast ATM network across Pakistan has one of the most effective run times enabling us to be at your service round the clock.

The overall financial performance of MCB has also been remarkable. Amongst the highs for the year, the profits increased by 20%, asset base by 15%, equity by 14%, and operationally the bank added 41 new branches and 183 new ATMs to its network. The combined value of business and financial performance resulted into a strong EPS of Rs. 23.23 with book value of Rs. 94.37 and payout of 56%.

The Bank also improved its KSE Top 25 Companies ranking and now stands proudly at No. 17. MCB is also one of the Top 1000 World Banks as per the criteria of The Banker.

I am proud to list the following honorable awards won by MCB Bank Limited during 2011;

- CFA Association of Pakistan award for 'Best Bank of the Year' and 'The Most Stable Bank of the Year'
- Best Bank in Pakistan' by Euromoney
- Best corporate report award under the Bank category for the second consecutive year by ICAP & ICMAP
- Joint 2nd runner-up for best presented accounts 2010 in the banking sector by South Asian Federation of Accountants

I rate 2011 as a year of improving quality, where;

- Compliance and risk mitigation remained our top agenda
- Improvements in information technology and branch infrastructure remained our priority
- Further centralisation and check and balances round the year to improve efficiency
- Branch and ATM network enhanced to outreach our customers
- Growth in Islamic Banking was achieved through launch of 11 more products
- From MCB to MCB-Bank for Life as an initiative for corporate branding and image building
- Enrichment of corporate and social responsibilities

The future of the banking industry is bright as banks continue to be the one stop resort for manifest financial solutions. Strict monetary policies and central bank's intervention is required to align the borrowing and lending requirements and to help improve credit and liquidity position in the country. Although the government reforms and the macro unrest as an additional consequence of global meltdown are subdued rationale of the state of this country, revival of deficit reduction, improved tax reforms and foreign investment can lay strengthening foundations in terms of fiscal reformation.

I extend heartiest congratulations to the Chairman, Board of Directors, foreign partners and the management for achieving another profitable and sustainable year. I would also like to thank the Bank's employees for their commitment to the Bank through all their hard work and especially the front desk officers and managers for meeting assigned targets.

I am delighted to have served this Bank for another year and it brings me pride to be representing one of the leading Banks in Pakistan. Going further, I hope that the new year brings added success and more opportunities for us to capture!



M.U.A. Usmani
President & CEO
MCB Bank Limited

Performance 2011

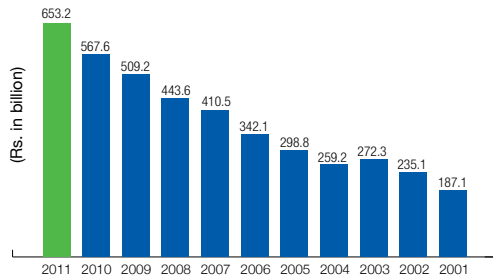
Profit before Tax	+20%	Profit after Tax	+15%
Non Markup income	+29%	Markup income	+21%
ROE	26.23%	ROA	3.18%
Deposits	491 Billion	CASA	81%
Investments	317 Billion	T-Bills & PIBs	+99 Billion
Market Capitalisation	113 Billion	Industry share	20%
New branches	41	New IB branches	8
New mobile customers	43,685	Debit Cards issued	54,798
Bancassurance premium	1 Billion	183 new ATMs	676
Cash Dividends	120%	CAR	21.79%

Highlights

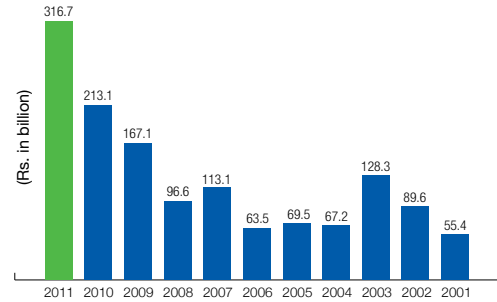
- Assets of the Bank increased by 15% to Rs. 653 billion with Rs. 103 billion increase in Investments and investment to deposit ratio improved from 49.39 % in 2010 to 64.47% in 2011
- Deposits increased to Rs. 491 billion with 16% increase in saving, 11% in current and 14% in fixed deposits. CASA maintained at 81% with Rs. 399 billion CASA base
- Gross advances came down to Rs. 248 billion as compared to Rs. 274 billion in 2010 and advances to deposit ratio (ADR) down from 63.55% in 2010 to 50.52% in 2011 mainly due to conversion of circular debt and commodity financing into investments
- Shareholders' Equity increased to Rs. 79 billion
- Profit after tax increased by 15% to Rs. 19.4 billion while profit before tax increased by 20% to Rs. 31.5 billion
- Markup income increased by 24% to Rs. 68.1 billion bringing net markup income to Rs. 44.5 billion with a net increase of 21%
- Rs. 8.1 billion recorded for non-markup income went up by Rs. 1.8 billion owing to 19% increase in fee and commission, 84% increase in dividend income and 79% increase in capital gains
- Controlled growth in administrative expenses in 2011 with a gross increase of 15% (excluding pension fund reversal)
- Yield on earning assets and cost of deposits increased by 126 bps and 39bps respectively over 2010
- Income from dealing in foreign currencies increased by 46% due to higher transaction volumes and opportunistic leveraging of higher market volatility
- Growth in NPLs by 8.64% in 2011 (2010: 5.62%, 2009: 27.2%)
- Coverage ratio improved from 77% in 2010 to 82% in 2011
- Capital adequacy ratio down from 22.01% in 2010 to 21.79% in 2011 due to increase in risk weighted assets by Rs. 46 billion
- Return on assets improved from 3.13% in 2010 to 3.18% in 2011
- Earnings per share increased to Rs.23.23 in 2011 as compared to Rs. 20.18 in 2010

Annual Trend 2001 - 2011

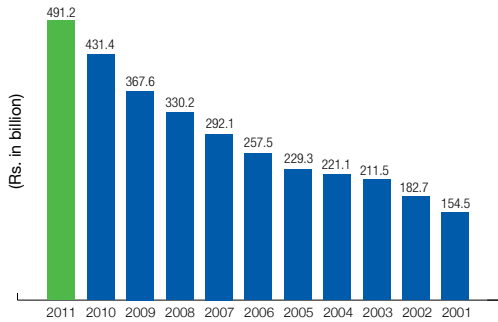
Total Assets
CAGR 13%



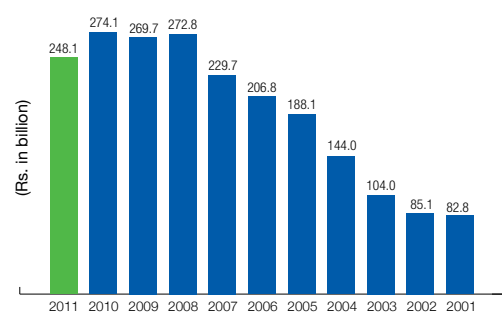
Investments
CAGR 19%



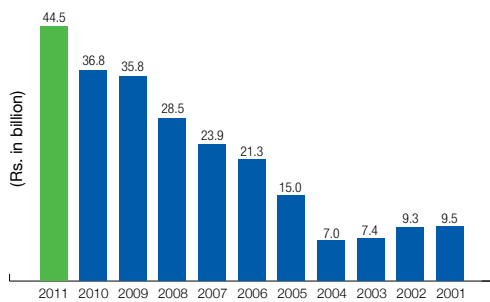
Deposits
CAGR 12%



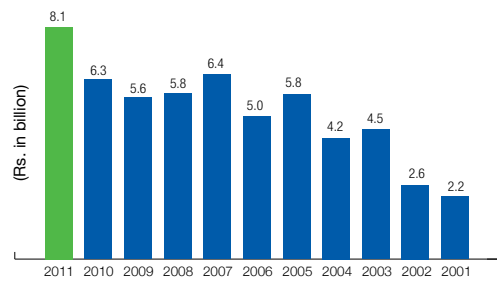
Gross Advances
CAGR 12%



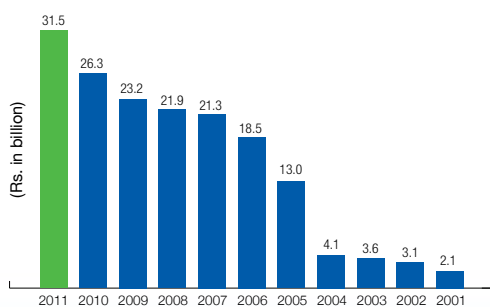
Fund Based Income
CAGR 17%



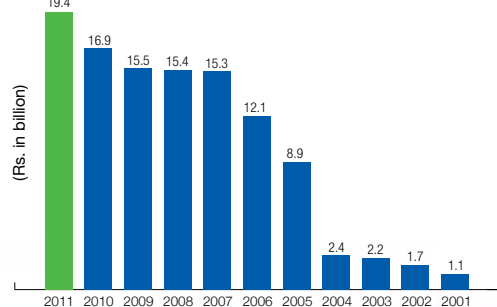
Non Markup Income
CAGR 14%



Profit Before Tax
CAGR 31%



Profit After Tax
CAGR 33%



Six Years' Financial Summary 2006 - 2011

		2011	2010	2009	2008	2007	2006
Profits & Loss account							
Mark-up/ return earned	Rs. Mln	68,147	54,821	51,616	40,044	31,787	25,778
Mark-up/ return expensed	" "	23,620	17,988	15,837	11,561	7,866	4,525
Fund based income	" "	44,526	36,834	35,779	28,483	23,921	21,253
Fee, Commission, brokerage & FX income	" "	6,373	5,310	4,409	4,537	3,891	3,573
Dividend and capital gains	" "	1,739	956	1,234	1,255	2,120	1,418
Total income	" "	52,639	43,099	41,422	34,275	30,369	26,244
Operating expenses	" "	16,987	13,160	10,801	8,365	6,000	6,549
Operating profit before tax and provision	" "	35,651	29,938	30,620	25,910	24,369	19,695
Provisions / write-offs	" "	4,168	3,685	7,465	4,042	3,061	1,194
Profit before tax	" "	31,483	26,253	23,155	21,868	21,308	18,501
Profit after tax	" "	19,425	16,873	15,495	15,375	15,266	12,142
Cash Dividends	" "	10,036	8,743	7,602	7,225	7,854	3,960
Bonus shares	" "	836	760	691	628	-	819
Statement of Financial Position							
Authorised capital	" "	10,000	10,000	10,000	10,000	10,000	6,500
Paid up capital	" "	8,362	7,602	6,911	6,283	6,283	5,463
Reserves	" "	42,186	40,163	38,386	36,769	34,001	24,662
Unappropriated Profit	" "	28,366	21,416	15,779	9,193	5,131	5,531
Shareholder's equity	" "	78,915	69,180	61,076	52,245	45,414	35,657
Surplus on revaluation of assets - net of tax	" "	9,887	10,024	8,664	6,191	9,706	5,188
Net Assets	" "	88,802	79,203	69,740	58,436	55,120	40,845
Total Assets	" "	653,233	567,553	509,224	443,616	410,486	342,108
Earning Assets	" "	569,209	494,605	444,188	380,187	343,173	292,638
Gross Advances	" "	248,135	274,144	269,722	272,847	229,733	206,847
Advances - net of provisions	" "	225,801	254,552	253,249	262,135	218,961	198,239
Non-Performing Loans (NPLs)	" "	26,665	24,544	23,239	18,269	10,725	8,571
Investments	" "	316,652	213,061	167,134	96,632	113,089	63,486
Total Liabilities	" "	564,431	488,349	439,484	385,180	355,366	301,264
Deposits & other accounts	" "	491,189	431,372	367,605	330,182	292,098	257,462
Current & Saving Deposits (CASA)	" "	399,687	351,298	304,953	268,501	259,896	224,165
Borrowings	" "	39,101	25,685	44,662	22,664	39,407	23,943
Interest bearing Liabilities	" "	362,843	305,902	283,369	240,470	232,398	194,363
Contingencies and Commitments	" "	165,014	136,246	119,922	266,251	213,317	160,843
Profitability Ratios							
Profit before tax ratio	%	46.20%	47.89%	44.86%	54.61%	67.03%	71.77%
Gross Yield on Average Earning Assets	" "	12.81%	11.68%	12.52%	11.07%	10.00%	9.31%
Gross Yield on Average Earning Assets (including dividend and capital gains)	" "	13.14%	11.88%	12.82%	11.42%	10.67%	9.83%
Gross Spread	" "	65.34%	67.19%	69.32%	71.13%	75.26%	82.44%
Non interest income to total income	" "	15.41%	14.54%	13.62%	16.90%	21.23%	19.02%
Return on average equity (ROE)	" "	26.23%	25.91%	27.35%	31.49%	37.66%	45.00%
Return on average assets (ROA)	" "	3.18%	3.13%	3.25%	3.60%	4.06%	3.79%
Return on Capital Employed (ROCE)	" "	26.23%	25.91%	27.35%	31.49%	37.22%	42.48%
Cost to income ratio	" "	32.27%	30.54%	26.08%	24.41%	19.76%	24.96%
Cost to income ratio (excluding pf reversal)	" "	36.43%	38.01%	35.55%	40.16%	38.75%	36.03%
Investment ratios							
Earnings per share (after tax)**	Rs.	23.23	20.18	18.53	18.39	18.26	14.52
Earnings per share (before tax)**	" "	37.65	31.39	27.69	26.15	25.48	22.12
Breakup value per share (excl. surplus on rev. of assets)**	" "	94.37	82.73	73.04	62.48	54.31	42.64
Net assets per share**	" "	106.19	94.71	83.40	69.88	65.91	48.84
Asset Quality and Liquidity ratios							
Gross Advances to deposits ratio	%	50.52%	63.55%	73.37%	82.64%	78.65%	80.34%
Net Advances to deposits ratio	" "	45.97%	59.01%	68.89%	79.39%	74.96%	77.00%
Investments to deposits ratio	" "	64.47%	49.39%	45.47%	29.27%	38.72%	24.66%
Weighted Average Cost of Deposits	" "	4.35%	3.96%	3.97%	3.03%	2.15%	1.19%

		2011	2010	2009	2008	2007	2006
CASA to total deposits	%	81.37%	81.44%	82.96%	81.32%	88.98%	87.07%
NPLs to Gross advances ratio	" "	10.75%	8.95%	8.62%	6.70%	4.67%	4.14%
Coverage Ratio (specific provision/ NPLs)	" "	82.02%	77.13%	67.47%	54.17%	68.31%	69.46%
Earning assets to total assets ratio	" "	87.14%	87.15%	87.23%	85.70%	83.60%	85.54%
Earning assets to Interest bearing Liabilities	Times	1.57	1.62	1.57	1.58	1.48	1.51
Deposits to shareholder equity	" "	6.22	6.24	6.02	6.32	6.43	7.22
Assets to Equity	" "	8.28	8.20	8.34	8.49	9.04	9.59
Risk Adequacy							
Tier I Capital	Rs. Mln	77,030	67,701	59,896	51,301	44,199	35,376
Total Eligible Capital	" "	82,014	72,856	64,357	54,235	53,470	40,667
Risk Weighted Assets (RWA)	" "	376,442	330,135	337,417	329,537	308,170	218,062
Tier I to RWA	%	20.46%	20.51%	17.75%	15.57%	14.34%	16.22%
RWA to total assets	" "	57.63%	58.17%	66.26%	74.28%	75.07%	63.74%
Capital Adequacy Ratio*	" "	21.79%	22.07%	19.07%	16.28%	16.73%	18.65%
Net Return on Average RWA	" "	5.50%	5.06%	4.65%	4.82%	5.80%	5.95%
Market Ratios							
Cash Dividend	%	120%	115%	110%	115%	125%	72.5%
Bonus Shares Issued	" "	10.00%	10.00%	10.00%	10.00%	-	15.00%
Dividend Yield ratio (based on cash dividend)	" "	8.92%	5.03%	5.01%	9.14%	3.13%	2.95%
Dividend Payout ratio	" "	55.97%	56.32%	53.52%	51.08%	51.45%	39.36%
Price to book value ratio (excl. intangible assets)	Times	1.43	2.78	3.02	2.02	2.40	5.87
Price to earning ratio	" "	5.79	11.33	11.86	6.84	21.91	16.95
Dividend cover ratio	" "	1.94	1.75	1.68	1.60	1.46	2.00
Share Information							
Market value per share - Dec 31	Rs.	134.60	228.54	219.68	125.81	399.95	246.10
High - during the year	" "	250.48	233.80	244.00	494.80	434.60	284.50
Low - during the year	" "	134.00	173.04	75.00	125.81	244.05	150.30
Market Capitalisation	Rs. Mln	112,557	173,740	151,822	79,044	251,279	134,451
Industry Share							
Deposits	%	8.72%	8.42%	8.50%	8.55%	9.74%	8.58%
Advances	" "	7.26%	7.85%	8.24%	8.63%	9.53%	8.58%
Total Assets	" "	8.76%	8.37%	8.52%	8.51%	10.12%	8.43%
Market Capitalisation	" "	20.40%	24.10%	22.35%	18.59%	17.50%	16.22%
Consolidated							
Total Assets	Rs. Mln	656,325	570,482	511,742	445,286	412,901	343,178
Shareholders' Equity	" "	81,527	71,228	63,120	54,121	47,338	36,404
Net Assets	" "	91,654	81,999	72,313	60,132	57,547	42,185
Profit before tax	" "	31,322	26,510	23,349	21,887	22,526	18,931
Profit after tax	" "	19,274	16,873	15,665	15,323	16,442	12,541
Return on Average Assets	%	3.14%	3.12%	3.27%	3.57%	4.35%	3.90%
Return on Average Equity	" "	25.24%	25.12%	26.72%	30.21%	39.27%	45.55%
Earnings per share**	Rs.	23.05	20.18	18.73	18.32	19.66	15
Breakup value per share (excl. surplus on rev. of assets) **	" "	97.49	85.18	75.48	64.72	56.66	43.52
Capital Adequacy Ratio*	%	21.88%	22.04%	19.10%	16.37%	16.69%	19.13%
Per Branch							
Gross Advances	Rs. Mln	211.54	242.18	249.51	257.40	223.91	208.10
Deposits	" "	418.75	381.07	340.06	311.49	284.70	259.02
CASA	" "	340.74	310.33	282.10	253.30	253.31	225.52
PBT	" "	26.84	23.19	21.42	20.63	20.77	18.61

Shares held by sponsors / directors / executives and associated companies is disclosed on Page # 272

* 2006 based on BASEL I framework

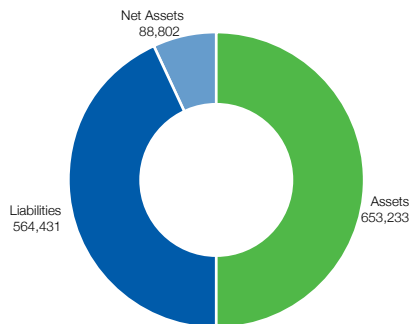
** Adjusted for prior years to reflect bonus shares issued during 2011

Six Years' Non Financial Summary 2006 - 2011

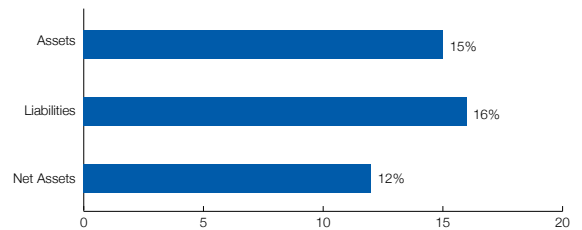
		2011	2010	2009	2008	2007	2006
No. of accounts	Absolute	4,687,993	4,239,487	3,893,531	3,915,009	3,902,140	4,350,245
No. of branches	"	1,173	1,132	1,081	1,060	1,026	994
No. of permanent employees	"	9,987	9,479	9,397	10,160	9,721	9,011
ATMs							
No. of ATMs	"	676	493	495	370	349	263
Total active smart/ debit card issued	"	1,242,271	1,144,403	1,490,887	1,283,430	1,107,231	944,084
No. of smart cards issued during the year	"	264,592	338,534	259,473	255,468	223,430	207,234
No. of debit cards issued (launched in 2011)	"	54,798	-	-	-	-	-
Credit Cards							
No. of new issuance	"	2,846	2,845	7,152	24,738	75,138	1,069
No. of customers	"	68,515	69,503	69,737	70,835	61,502	1,009
Total spend (transaction volume)	Rs. Mln	4,140	4,386	4,836	5,540	3,927	12
Virtual Banking							
No. of customers	Absolute	75,669	66,795	57,024	47,312	39,230	30,854
No. of transactions	"	741,818	663,411	458,985	612,359	358,360	224,360
Volume of transactions	Rs. Mln	9,333	5,379	7,296	10,818	4,483	3,250
Mobile Banking							
No. of customers	Absolute	149,057	105,372	53,182	-	-	-
No. of transactions - financial	"	501,876	437,870	102,021	-	-	-
No. of transactions - non-financial	"	2,139,421	1,857,001	1,278,687	-	-	-
Volume of transactions	Rs. Mln	5,647	3,104	525	-	-	-
Started in 2009							
Bancassurance							
No. of customers	Absolute	7,835	5,644	2,507	129	-	-
No. of policies	"	8,060	5,812	2,614	131	-	-
Bancassurance Revenue	Rs. Mln	1,160	683	247	9	-	-
Started in 2008							
Privilege Banking							
No. of accounts	Absolute	1,988	1,430	733	-	-	-
No. of customers	"	1,494	1,048	579	-	-	-
Started in 2009							
Trade							
Imports - volume	Rs. Mln	341,348	280,392	186,418	204,748	130,415	135,542
Exports - volume	"	149,603	121,870	88,321	85,623	64,976	60,725
Market share of total market trade	%	8.20%	8.03%	6.87%	7.28%	6.86%	7.44%
Volume of home remittance - MCB	USD Mln	1,242	898	560	365	313	188
Volume of home remittance - MCB	Rs. Mln	106,791	76,485	45,772	25,795	19,005	11,426
Home Remittance MCB Market Share	%	9.97%	9.29%	6.44%	5.20%	5.22%	4.47%

Graphical Presentation of Financial Statements

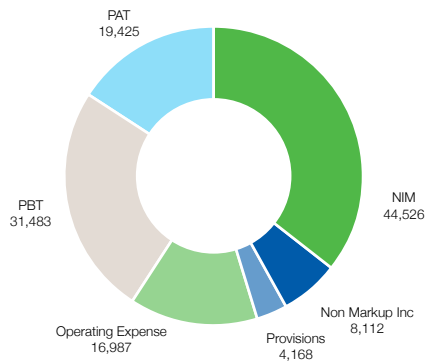
Statement of Financial Position
(Rs. in million)



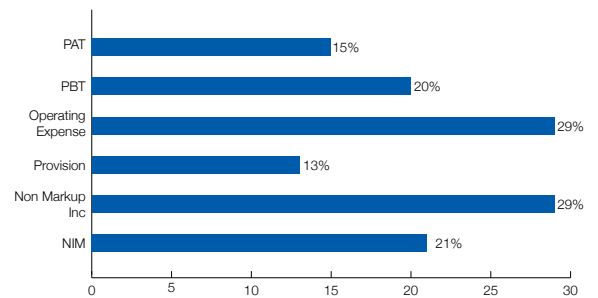
Variance from YE10



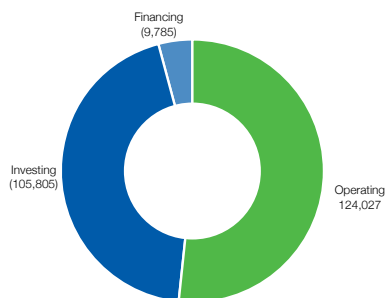
Profit and Loss
(Rs. in million)



Variance from FY10

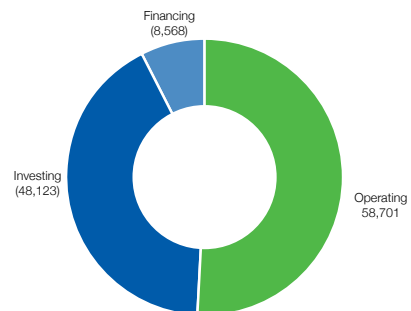


2011



Cash Flows
(Rs. in million)

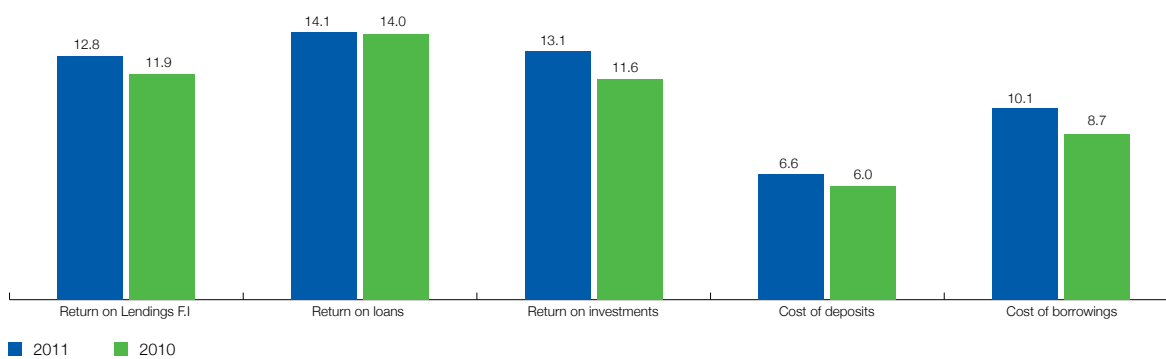
2010



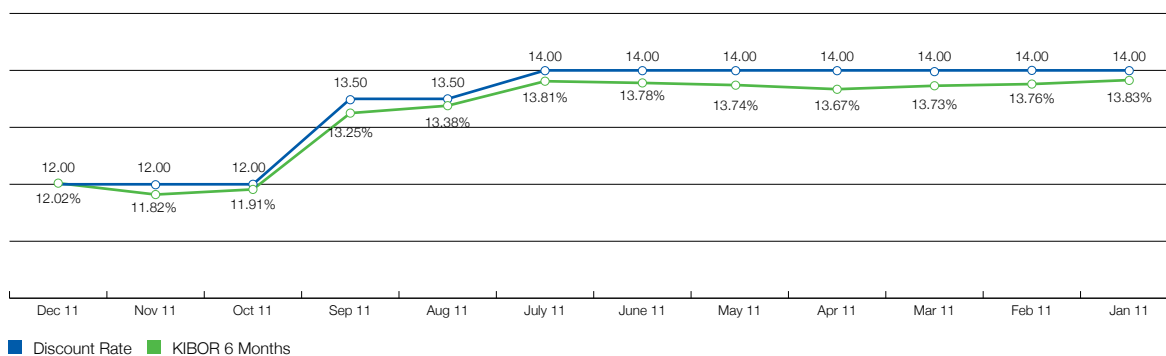
Key Interest Bearing Assets and Liabilities

	2011			2010		
	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)
Interest Earning Assets						
Lendings to Financial Institutions	8,014	12.8	1,030	13,994	11.9	1,669
Gross Advances (excluding NPLs)	240,038	14.1	33,770	235,211	14.0	32,816
Gross Investments (excluding equity investments)	252,554	13.1	33,120	174,499	11.6	20,320
Interest Bearing Liabilities						
Deposits (excluding current deposits)	304,117	6.6	20,083	261,830	6.0	15,806
Borrowings	27,633	10.1	2,786	17,481	8.7	1,525

Effective Interest Rate on Assets and Liabilities

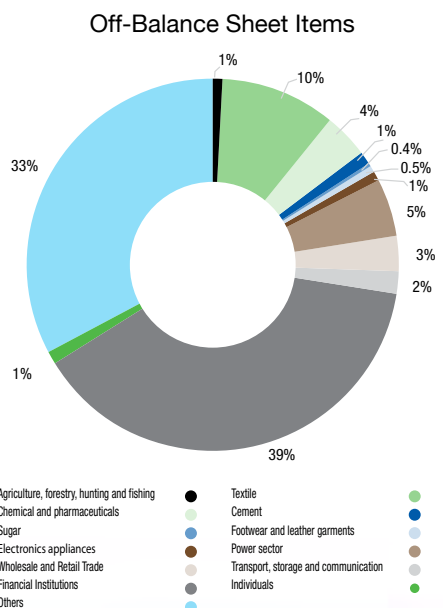
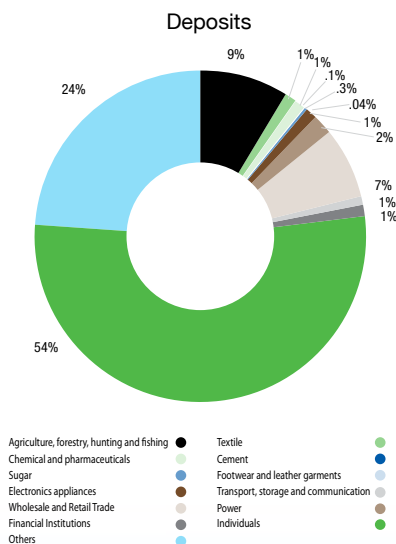
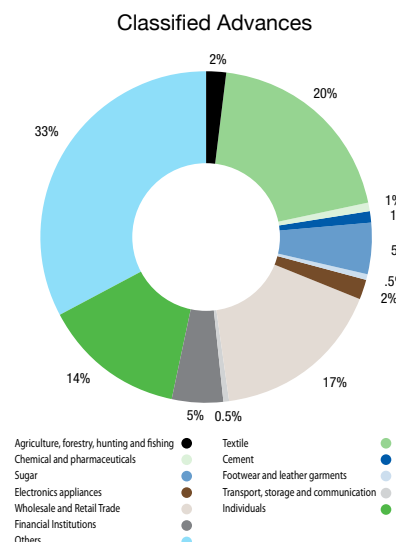
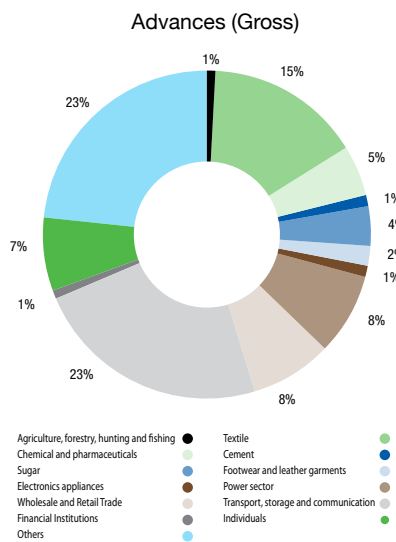


Discount Rate & KIBOR - 6 months



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

Segments by class of business	Advances (Gross)		Classified Advances		Deposits		Off-balance sheet items	
	Rs. In Mln	%	Rs. In Mln	%	Rs. In Mln	%	Rs. In Mln	%
Agriculture, forestry, hunting and fishing	2,774	1%	416	2%	44,978	9%	877	1%
Textile	37,394	15%	5,225	20%	2,733	1%	16,804	10%
Chemical and pharmaceuticals	13,430	5%	204	1%	2,657	1%	7,239	4%
Cement	2,391	1%	362	1%	420	0.1%	826	1%
Sugar	8,881	4%	1,266	5%	1,415	0.3%	632	0.4%
Footwear and leather garments	3,936	2%	127	0.5%	177	0.0%	821	0.5%
Transport and Electronics	3,436	1%	409	2%	2,987	1%	1,753	1%
Power sector	20,846	8%	0	0%	7,436	2%	8,769	5%
Wholesale and Retail Trade	20,129	8%	4,631	17%	32,262	7%	4,386	3%
Transport, storage and communication	56,787	23%	126	0.5%	3,715	1%	3,228	2%
Financial Institutions	3,445	1%	1,448	5%	5,840	1%	63,991	39%
Individuals	17,456	7%	3,625	14%	267,485	54%	1,338	1%
Others	57,229	23%	8,826	33%	119,085	24%	54,350	33%
Total	248,135	100%	26,665	100%	491,189	100%	165,014	100%



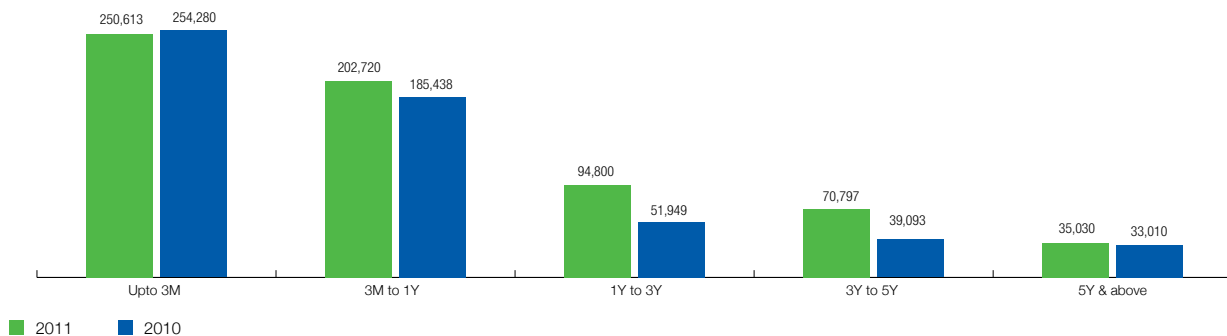
Maturities of Assets & Liabilities

(Rupees in Millions)

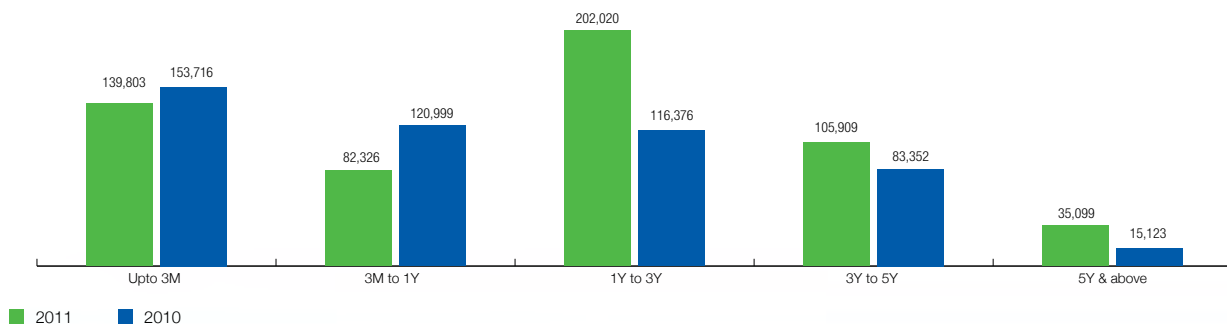
	Total	Upto 3M	3M to 1Y	1Y to 3Y	3Y to 5Y	5Y & above
Assets						
Cash and balances with treasury banks	53,122	53,122	-	-	-	-
Balances with other banks	2,281	2,281	-	-	-	-
Lendings to financial institutions	955	955	-	-	-	-
Investments - net	316,652	97,530	172,209	20,495	19,692	6,726
Advances - net	225,801	82,410	26,392	71,274	32,677	13,048
Operating fixed assets	22,008	341	1,024	2,731	2,731	15,181
Deferred tax assets	727	17	242	300	93	75
Other assets - net	32,414	13,957	2,853	-	15,604	-
	653,960	250,613	202,720	94,800	70,797	35,030
Liabilities						
Bills payable	9,467	9,467	-	-	-	-
Borrowings	39,101	30,767	6,736	1,598	-	-
Deposits and other accounts	491,189	88,662	71,373	197,633	99,999	33,522
Deferred tax liabilities	7,021	76	188	538	5,523	696
Other liabilities	18,379	10,831	4,029	2,251	387	881
	565,158	139,803	82,326	202,020	105,909	35,099
Net Assets	88,802	110,810	120,394	(107,220)	(35,112)	(69)

* Maturities of deposits are based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Bank

Assets (Rs. in million)



Liabilities (Rs. in million)

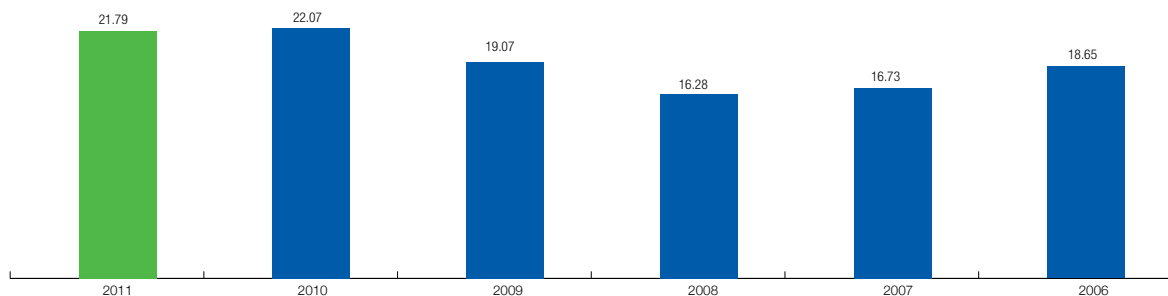


Capital Structure

(Rupees in Millions)

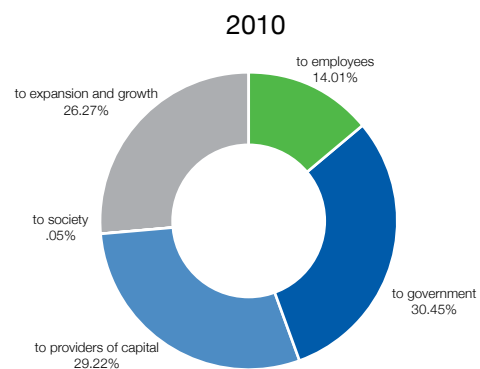
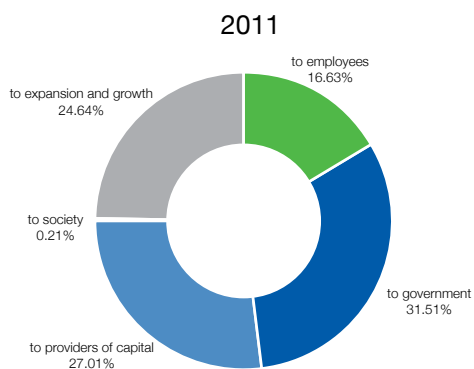
	2011	2010
Tier 1 Capital		
Share capital	8,362	7,602
Share premium	9,703	9,703
Reserves	32,057	30,114
Unappropriated profits	28,366	21,415
	78,488	68,834
Deductions:		
Book value of intangible and advances given for intangible	631	407
Other deductions	827	725
	1,458	1,133
Total Tier 1 capital	77,030	67,701
Tier 2 Capital		
General provisions subject to 1.25% of total risk weighted assets	464	662
Revaluation reserves up to 45%	4,824	4,865
Foreign exchange translation reserves	427	346
	5,715	5,873
Deductions:		
Other deductions	731	718
Total Tier 2 Capital	4,984	5,155
Total Regulatory Capital Base	82,014	72,856
Risk Weighted Assets (RWA)		
Credit Risk	246,113	237,636
Market Risk	45,693	19,423
Operational Risk	84,636	73,076
Total RWA	376,442	330,135
Capital Adequacy Ratio	21.79%	22.07%

Capital Adequacy Ratio (2006-2011)
(%)



Statement of Value Added

	2011 Rs. in Mln	%	2010 Rs. in Mln	%
Value Added				
Net interest income	44,526		36,834	
Non interest income	8,112		6,265	
Operating expenses excluding staff costs, depreciation, amortization, donations and WWF	(8,212)		(6,893)	
Provision against advances, investments & others	(4,168)		(3,685)	
Value added available for distribution	40,258		32,521	
Distribution of value added				
To employees				
Remuneration, provident fund and other benefits	8,886	22.07%	7,775	23.91%
Pension fund reversal	(2,189)	-5.44%	(3,220)	-9.90%
	6,696	16.63%	4,555	14.01%
To government				
Worker welfare fund	630	1.56%	525	1.61%
Income tax	12,058	29.95%	9,380	28.84%
	12,688	31.51%	9,905	30.45%
To providers of capital				
Cash dividends to shareholders	10,036	24.93%	8,743	26.88%
Bonus shares	836	2.08%	760	2.34%
	10,872	27.01%	9,503	29.22%
To Society				
Donations	84	0.21%	15	0.05%
To expansion and growth				
Depreciation	1,115		1,012	
Amortization	250		160	
Retained earnings	8,553		7,370	
	9,918	24.64%	8,543	26.27%
	40,258	100%	32,521	100%



Quarterly Performance - 2011 & 2010

(Rupees in Millions)

	2011				2010			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Profit & Loss Account								
Mark-up earned	18,533	16,771	16,882	15,960	14,580	13,845	13,295	13,101
Mark-up expensed	(6,929)	(6,076)	(5,578)	(5,037)	(4,728)	(4,560)	(4,330)	(4,369)
Net mark-up income	11,604	10,695	11,304	10,923	9,852	9,285	8,965	8,732
Provisions & write off	(1,439)	(299)	(1,248)	(1,183)	(1,621)	(10)	(1,052)	(1,002)
Non-mark-up income	2,035	1,924	2,145	2,008	1,674	1,600	1,591	1,400
Non-mark-up expenses	(4,882)	(4,318)	(3,875)	(3,912)	(3,015)	(3,724)	(3,543)	(2,879)
Profit before taxation	7,319	8,003	8,326	7,836	6,890	7,151	5,961	6,251
Taxation	(3,409)	(3,059)	(2,777)	(2,813)	(2,514)	(2,596)	(2,160)	(2,110)
Profit after taxation	3,910	4,944	5,548	5,023	4,377	4,554	3,801	4,141
Statement of Financial Position								
Assets								
Cash and balances with treasury banks	53,123	44,375	47,228	42,537	45,407	43,851	44,463	37,963
Balances with other banks	2,281	938	1,578	1,162	1,479	2,619	1,506	11,284
Lendings to financial institutions	955	35,690	8,849	1,025	4,402	9,865	16,530	5,460
Investments	316,652	309,398	260,204	250,242	213,061	207,794	179,515	157,032
Advances	225,801	241,562	259,974	259,056	254,552	228,577	245,058	242,215
Operating fixed assets	22,008	21,176	21,215	21,404	20,948	18,298	18,119	18,017
Other assets	32,413	32,385	31,125	29,271	27,706	28,481	26,911	25,554
	653,233	685,524	630,174	604,697	567,553	539,485	532,102	497,525
Liabilities								
Bills payable	9,467	6,680	7,848	9,627	10,266	8,844	5,370	6,564
Borrowings	39,100	86,621	17,523	29,670	25,685	14,052	13,379	11,455
Deposits and other accounts	491,189	482,938	496,206	462,301	431,372	422,272	419,270	391,565
Sub-ordinated loan	-	-	-	-	-	-	-	-
Deferred tax liabilities	18,380	5,918	5,547	5,121	4,934	3,988	3,705	3,421
Other liabilities	6,295	15,748	18,251	16,072	16,092	15,015	17,103	12,467
	564,431	597,905	545,374	522,791	488,349	464,172	458,827	425,472
Net assets	88,802	87,619	84,799	81,906	79,204	75,313	73,275	72,052
Represented by:								
Share capital	8,362	8,362	8,362	7,602	7,602	7,602	7,602	7,602
Reserves	42,186	41,792	41,262	41,430	40,163	39,730	39,223	38,798
Unappropriated profit	28,366	27,347	25,398	22,904	21,416	19,751	17,928	16,402
Surplus on revaluation of assets - net of tax	9,887	10,118	9,777	9,969	10,024	8,229	8,523	9,250
	88,802	87,619	84,799	81,906	79,204	75,313	73,275	72,052

Summary of Cash Flows

(Rupees in Millions)

	2011	2010	2009	2008	2007	2006
Cash flows from operating activities	124,027	58,701	78,148	2,032	61,899	3,541
Cash flows from investing activities	(105,805)	(48,123)	(70,369)	8,234	(51,616)	4,755
Cash flows from financing activities	(9,785)	(8,568)	(6,736)	(10,313)	(5,847)	5,616
Cash and cash equivalents at beginning of the year	46,886	44,785	43,674	43,491	39,043	25,132
Cash and cash equivalents at end of the year	55,404	46,886	44,785	43,674	43,491	39,043

Six Years' Vertical Analysis

Statement of Financial Position / Profit & Loss

	2011		2010		2009		2008		2007		2006	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	53,123	8%	45,407	8%	38,775	8%	39,631	9%	39,684	10%	32,466	9%
Balances with other banks	2,281	0.3%	1,479	0.3%	6,010	1%	4,043	1%	3,808	1%	6,577	2%
Lendings to financial institutions	955	0.1%	4,402	1%	3,000	1%	4,100	1%	1,051	0.3%	21,082	6%
Investments	316,652	48%	213,061	38%	167,134	33%	96,632	22%	113,089	28%	63,486	19%
Advances	225,801	35%	254,552	45%	253,249	50%	262,135	59%	218,961	53%	198,239	58%
Operating fixed assets	22,008	3%	20,948	4%	18,015	4%	17,264	4%	16,024	4%	9,054	3%
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	172	0.1%
Other assets	32,413	5%	27,706	5%	23,040	5%	19,810	4%	17,869	4%	11,031	3%
	653,233	100%	567,553	100%	509,224	100%	443,616	100%	410,486	100%	342,108	100%
Liabilities												
Bills payable	9,467	1%	10,266	2%	8,201	2%	10,551	2%	10,479	3%	7,090	2%
Borrowings	39,100	6%	25,685	5%	44,662	9%	22,664	5%	39,407	10%	23,943	7%
Deposits	491,189	75%	431,372	76%	367,605	72%	330,182	74%	292,098	71%	257,462	75%
Sub-ordinated loan	-	-	-	-	-	-	-	-	479	0.1%	1,597	0.5%
Deferred tax liabilities	6,295	1%	4,934	1%	3,197	1%	437	0%	1,180	0.3%	-	-
Other liabilities	18,380	3%	16,092	3%	15,819	3%	21,346	5%	11,722	3%	11,171	3%
	564,431	86%	488,349	86%	439,484	86%	385,180	87%	355,366	87%	301,264	88%
Net Assets	88,802	14%	79,204	14%	69,740	14%	58,436	13%	55,120	13%	40,844	12%
Represented by												
Share capital	8,362	1%	7,602	1%	6,911	1%	6,283	1%	6,283	2%	5,463	2%
Reserves	42,186	6%	40,163	7%	38,386	8%	36,769	8%	34,001	8%	24,662	7%
Unappropriated profit	28,366	4%	21,416	4%	15,779	3%	9,193	2%	5,131	1%	5,531	2%
Surplus on revaluation of assets - net of tax	9,887	2%	10,024	2%	8,664	2%	6,191	1%	9,706	2%	5,188	2%
	88,802	14%	79,204	14%	69,740	14%	58,436	13%	55,120	13%	40,844	12%
Profit & Loss Account												
Mark-up earned	68,147	89%	54,821	90%	51,616	90%	40,044	87%	31,787	84%	25,778	84%
Mark-up expensed	(23,620)	-31%	(17,988)	-29%	(15,837)	-28%	(11,561)	-25%	(7,866)	-21%	(4,525)	-15%
Net mark-up income	44,526	58%	36,834	60%	35,779	62%	28,483	62%	23,921	63%	21,253	69%
Provisions & write off	(4,168)	-5%	(3,685)	-6%	(7,465)	-13%	(4,042)	-9%	(3,061)	-8%	(1,194)	-4%
Net mark-up income after provisions	40,358	53%	33,149	54%	28,314	49%	24,441	53%	20,860	55%	20,059	65%
Non-mark-up income	8,112	11%	6,265	10%	5,643	10%	5,791	13%	6,448	17%	4,991	16%
Non-mark-up expenses	(16,987)	-22%	(13,160)	-22%	(10,801)	-19%	(8,365)	-18%	(6,000)	-16%	(6,549)	-21%
Profit before tax	31,483	41%	26,254	43%	23,155	40%	21,868	48%	21,308	56%	18,501	60%
Taxation	(12,058)	-16%	(9,380)	-15%	(7,660)	-13%	(6,493)	-14%	(6,042)	-16%	(6,358)	-21%
Profit after tax	19,425	25%	16,873	28%	15,495	27%	15,375	34%	15,266	40%	12,142	39%

Six Years' Horizontal Analysis

Statement of Financial Position / Profit & Loss

	2011	11 Vs 10	2010	10 Vs 09	2009	09 Vs 08	2008	08 Vs 07	2007	07 Vs 06	2006	06 Vs 05
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	53,123	17%	45,407	17%	38,775	-2%	39,631	0%	39,684	22%	32,466	37%
Balances with other banks	2,281	54%	1,479	-75%	6,010	49%	4,043	6%	3,808	-42%	6,577	348%
Lendings to financial institutions	955	-78%	4,402	47%	3,000	-27%	4,100	290%	1,051	-95%	21,082	111%
Investments	316,652	49%	213,061	27%	167,134	73%	96,632	-15%	113,089	78%	63,486	-9%
Advances	225,801	-11%	254,552	1%	253,249	-3%	262,135	20%	218,961	10%	198,239	10%
Operating fixed assets	22,008	5%	20,948	16%	18,015	4%	17,264	8%	16,024	77%	9,054	11%
Deferred tax assets	-	-	-	-	-	-	-	-	-	100%	172	-10%
Other assets	32,413	17%	27,706	20%	23,040	16%	19,810	11%	17,869	62%	11,031	102%
Total Assets	653,233	15%	567,553	11%	509,224	15%	443,616	8%	410,486	20%	342,108	15%
Liabilities												
Bills payable	9,467	-8%	10,266	25%	8,201	-22%	10,551	1%	10,479	48%	7,090	-17%
Borrowings	39,100	52%	25,685	-42%	44,662	97%	22,664	-42%	39,407	65%	23,943	-13%
Deposits and other accounts	491,189	14%	431,372	17%	367,605	11%	330,182	13%	292,098	13%	257,462	12%
Sub-ordinated loan	-	-	-	-	-	-	-	100%	479	-70%	1,597	-0.4%
Deferred tax liabilities	6,295	28%	4,934	54%	3,197	631%	437	-63%	1,180	-	-	-
Other liabilities	18,380	14%	16,092	2%	15,819	-26%	21,346	82%	11,722	5%	11,171	30%
Total Liabilities	564,431	16%	488,349	11%	439,484	14%	385,180	8%	355,366	18%	301,264	9%
Net Assets	88,802	12%	79,204	14%	69,740	19%	58,436	6%	55,120	35%	40,844	75%
Represented by:												
Share capital	8,362	10%	7,602	10%	6,911	10%	6,283	0%	6,283	15%	5,463	28%
Reserves	42,186	5%	40,163	5%	38,386	4%	36,769	8%	34,001	38%	24,662	84%
Unappropriated profit	28,366	32%	21,416	36%	15,779	72%	9,193	79%	5,131	-7%	5,531	2526%
Surplus on revaluation of assets - net of tax	9,887	-1%	10,024	16%	8,664	40%	6,191	-36%	9,706	87%	5,188	-4%
	88,802	12%	79,204	14%	69,740	19%	58,436	6%	55,120	35%	40,844	75%
Profit and Loss Account												
Mark-up earned	68,147	24%	54,821	6%	51,616	29%	40,044	26%	31,787	23%	25,778	45%
Mark-up expensed	(23,620)	31%	(17,988)	14%	(15,837)	37%	(11,561)	47%	(7,866)	74%	(4,525)	63%
Net mark-up income	44,526	21%	36,834	3%	35,779	26%	28,483	19%	23,921	13%	21,253	42%
Provisions & write off	(4,168)	13%	(3,685)	-51%	(7,465)	85%	(4,042)	32%	(3,061)	156%	(1,194)	11%
Net mark-up income after provisions	40,358	22%	33,148	17%	28,314	16%	24,441	17%	20,860	4%	20,059	44%
Non-mark-up income	8,112	29%	6,265	11%	5,643	-3%	5,791	-10%	6,448	29%	4,991	-13%
Non-mark-up expenses	(16,987)	29%	(13,160)	22%	(10,801)	29%	(8,365)	39%	(6,000)	-8%	(6,549)	-1%
Profit before taxation	31,483	20%	26,253	13%	23,155	6%	21,868	3%	21,308	15%	18,501	42%
Taxation	(12,058)	29%	(9,380)	22%	(7,660)	18%	(6,493)	7%	(6,042)	-5%	(6,358)	55%
Profit after taxation	19,425	15%	16,873	9%	15,495	1%	15,375	1%	15,265	26%	12,142	36%

Investments

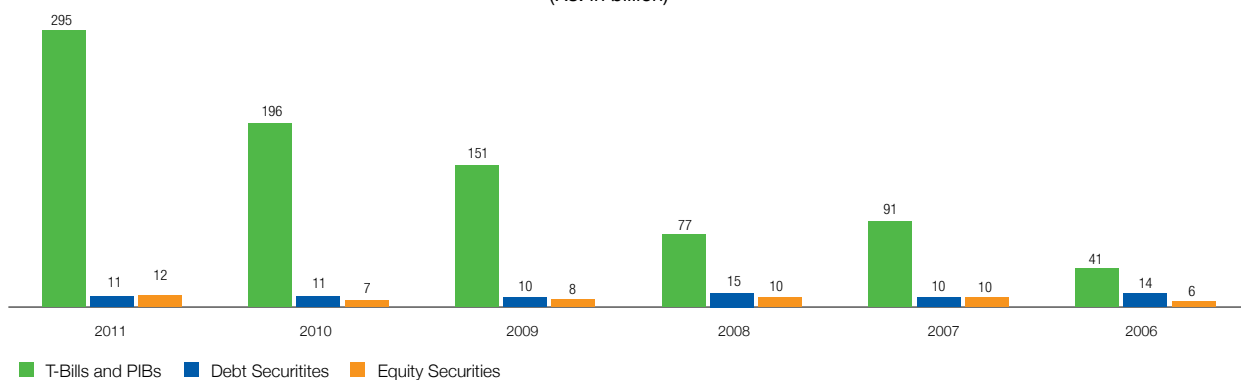
Top 10 listed equity holdings as on December 31, 2011

Company Name	Total shares / units (numbers)	Book Value (Rs. Mln)	Market Value (Rs. Mln)
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	77,461,673	4,000.0	3,966.8
Sui Northern Gas Pipelines Limited	50,115,263	2,205.3	787.3
Fauji Fertilizer Company Limited	10,200,000	1,016.8	1,525.3
Fauji Fertilizer bin Qassim	14,884,277	712.3	631.5
United Bank Limited	7,305,440	530.3	382.7
Pakistan Oilfields Limited	1,380,095	455.3	478.1
Allied Bank Limited	6,314,278	452.3	340.2
Pakistan Petroleum Limited	1,284,562	230.4	216.2
Bank Al-Habib Limited	7,732,335	214.7	220.6
Arif Habib Corporation Limited	1,682,862	214.0	43.6

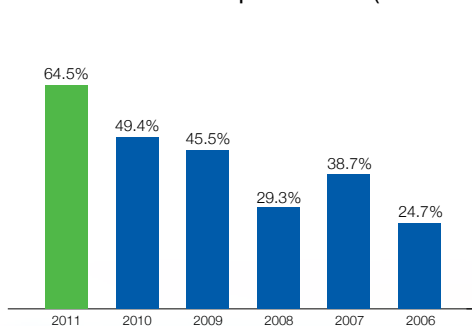
Investments in associates & subsidiaries

Company Name	Holding (%)	Total shares / units (numbers)	Book Value (Rs. Mln)
Associates			
Adamjee Insurance Company Limited	29.13%	36,033,693	943.6
First Women Bank Limited	26.78%	20,889,000	63.3
Euronet Pakistan (Pvt.) Limited	30.00%	52,521	52.5
Subsidiaries			
Arif Habib Investments Limited	51.33%	36,956,768	320.1
MNET Services Limited	99.95%	4,997,500	50.0
MCB Financial Services Limited	99.999%	2,750,000	27.5
MCB Trade Services Limited	100.00%	10,000.00	0.1
MCB Leasing Closed Joint Company Limited	95.00%	800,000	84.53

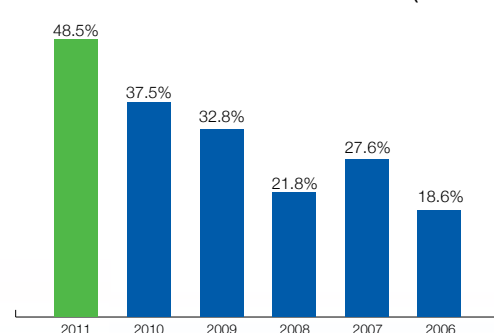
Category of Investments (2006-2011) (Rs. in billion)



Investments to Deposit Ratio (2006 - 2011)



Investment to Total Assets Ratio (2006-2011)

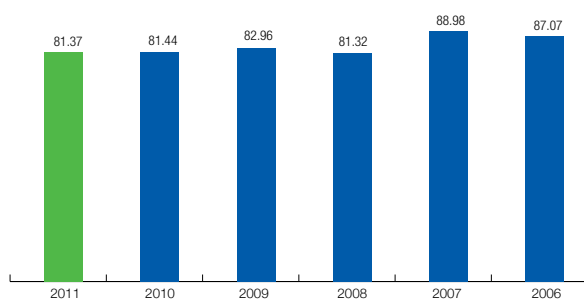


Deposits

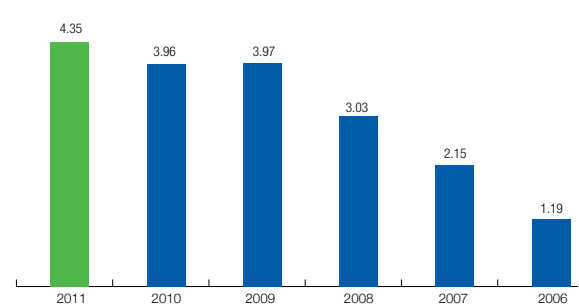
(Rs. in billion)

Groupwise Deposits	2011	2010	Variance	
			Amount	%
Commercial Branch Banking Group	459	404	55	14%
Corporate Banking Group	13	11	1	12%
Consumer Banking Group	5	3	1	47%
Islamic Banking Group	8	6	2	31%
Others	7	7	0.3	5%
Total Deposits	491	431	60	14%

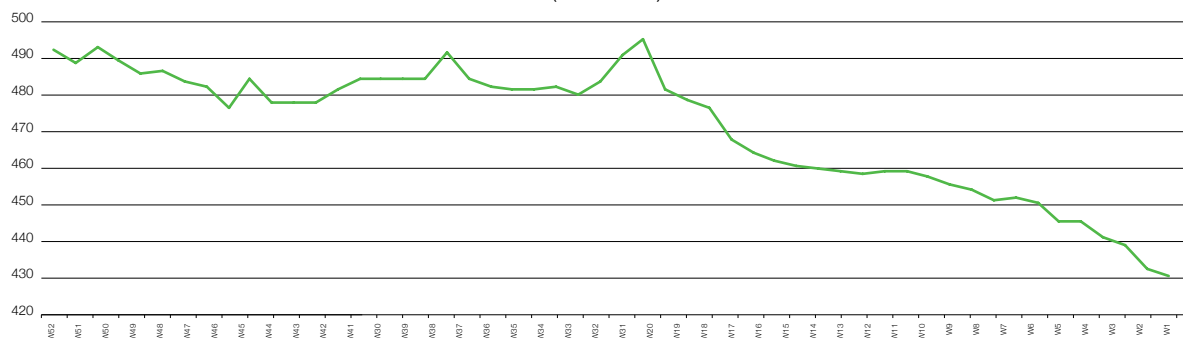
CASA to Total Deposit (2006-2011)
(%)



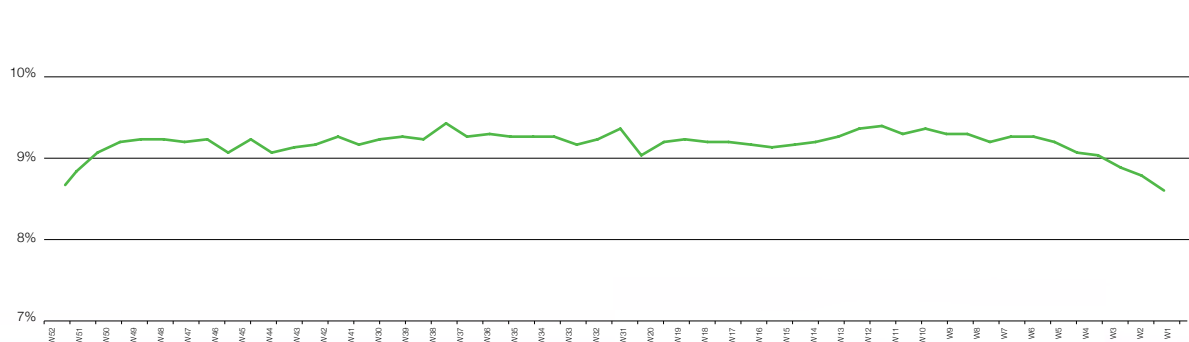
Weighted Average Cost of Deposits (2006-2011)
(%)



Weekly Trends of Deposits - 2011
(Rs. in billion)



MCB's Industry Share in Deposits - 2011

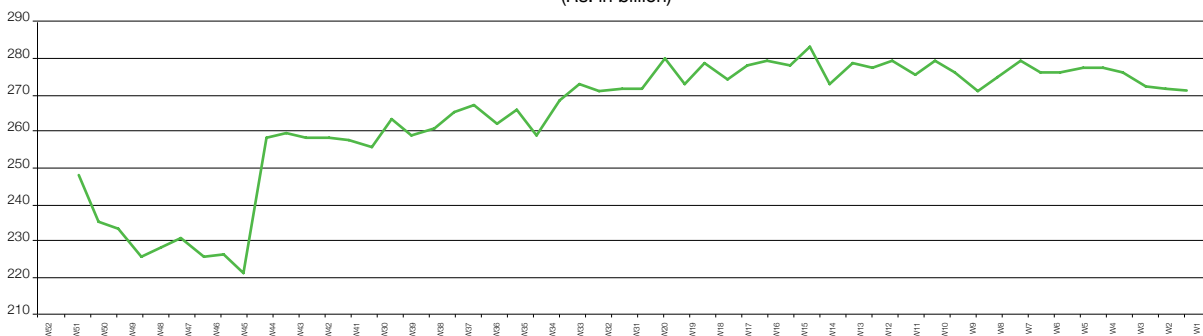


Advances

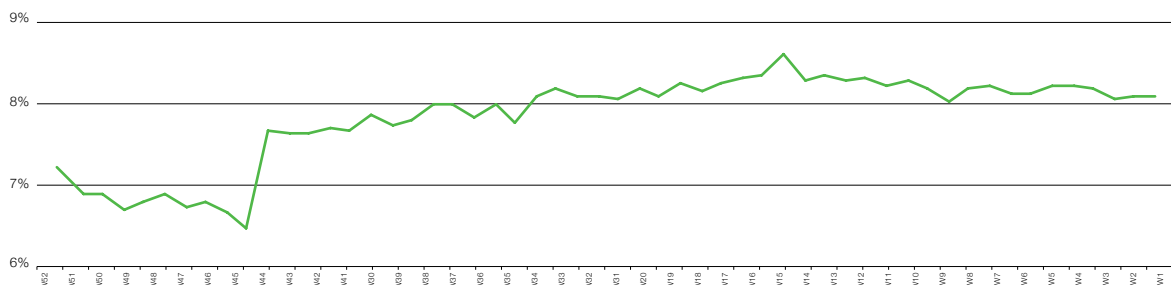
(Rs. in billion)

Groupwise Advances	2011	2010	Variance	
			Amount	%
Commercial Branch Banking	52	54	(2)	-4%
Corporate Banking Group	156	178	(21)	-12%
Consumer Banking Group	15	21	(6)	-28%
Islamic Banking Group	6	4	3	74%
Others	18	17	1	7%
Total Gross Advances	248	274	(26)	-9%

Weekly Trend of Gross Advances - 2011
(Rs. in billion)



MCB's Industry Share in Advances - 2011
(Rs. in billion)

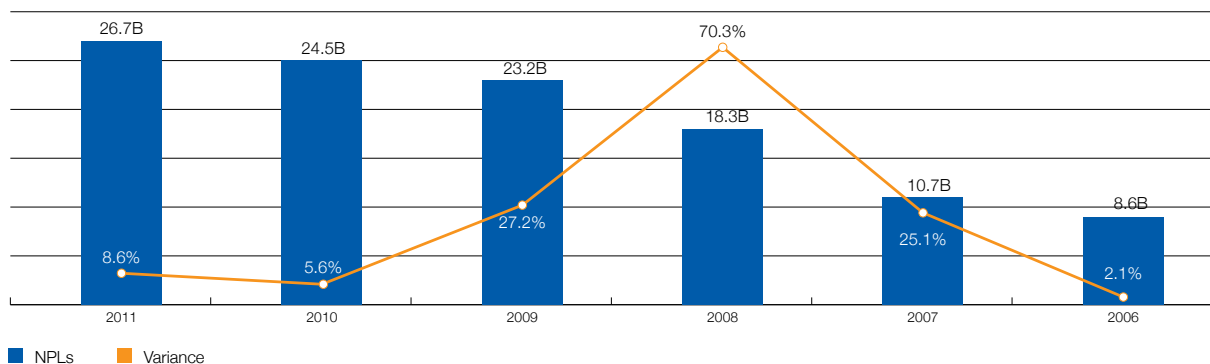


Non-Performing Loans

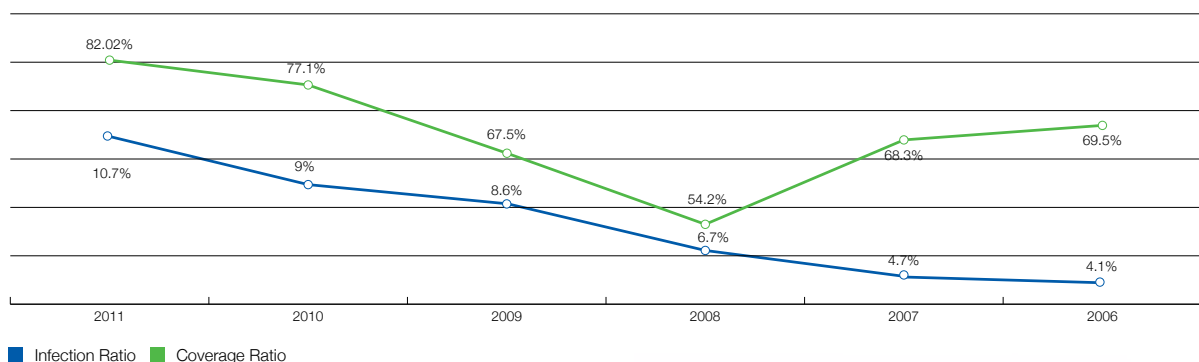
(Rs. in billion)

	2011		2010		Variance		2011
	NPLs	Provision held	NPLs	Provision held	NPLs	Provision held	Coverage
Categorywise							
OAEM	-	-	.1	-	-100%	-	-
Substandard	2.0	0.5	1.5	0.3	33%	32%	23%
Doubtful	0.3	0.1	2.1	1.0	-86%	-89%	39%
Loss	24.4	21.3	20.8	17.6	17%	21%	88%
	26.7	21.9	24.5	18.9	9%	16%	82%
Groupwise							
Commercial Branch Banking Group	8.3	8.1	6.9	5.8	21%	39%	97%
Consumer Banking Group	3.0	2.3	3.0	2.2	0%	6%	79%
Corporate Banking Group	4.9	3.6	3.4	2.6	41%	40%	75%
SAMG	6.1	6.1	7.1	7.1	-14%	-14%	100%
Islamic Banking Group	0.1	0.0	-	-	100%	-	22%
Overseas	4.3	1.7	4.1	1.3	4%	37%	40%
	26.7	21.9	24.5	18.9	9%	16%	82%

NPLs and Variance (2006-2011)



Infection and Coverage Ratios (2006-2011)

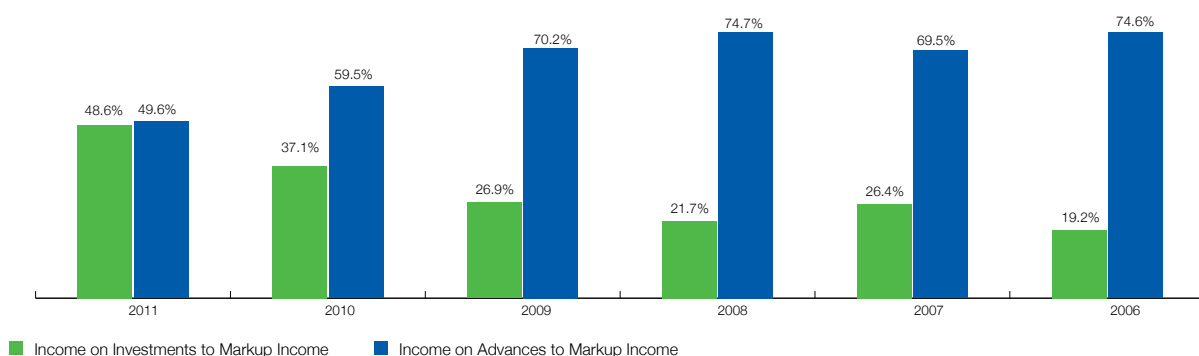


Markup & Non Markup Income

(Rs. in million)

	2011	2010	2009	2008	2007	2006
Markup Income						
Loans and advances	33,770	32,599	36,212	29,923	22,094	19,231
Investments	33,120	20,320	13,894	8,690	8,376	4,937
Deposits with financial institutions	12	16	133	110	134	82
Securities purchased under resale agreements	958	1,564	838	582	548	690
Money at call	72	105	336	402	292	590
Others	215	217	201	337	343	248
	68,147	54,821	51,616	40,044	31,787	25,778
Markup Expense						
Deposits	20,083	15,806	13,867	9,427	5,910	2,907
Securities under repurchase agreements	1,575	623	723	945	641	556
Other short-term borrowings	1,211	902	775	520	812	519
Discount, Commission and brokerage	662	554	449	443	319	297
Others	89	103	23	226	184	246
	23,620	17,988	15,837	11,561	7,866	4,525
Net Markup Income	44,526	36,834	35,779	28,483	23,921	21,253
Non-Markup Income						
Fee, commission and brokerage income	4,921	4,130	3,332	2,953	2,635	2,311
Dividend Income	1,003	544	460	618	632	812
Income from dealing in foreign currencies	921	632	341	728	693	692
Gain on sale of securities	736	412	774	637	1,488	606
Other income	531	548	736	856	563	571
	8,112	6,265	5,643	5,791	6,011	4,991

Markup Income from Advances & Investments (2006 - 2011)

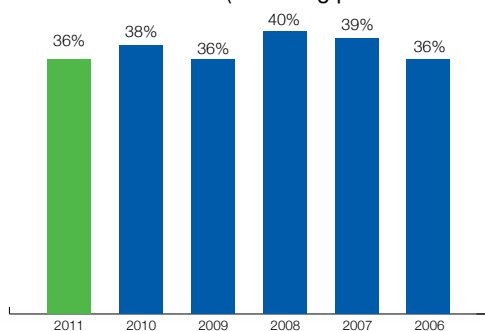


Administrative Expenses

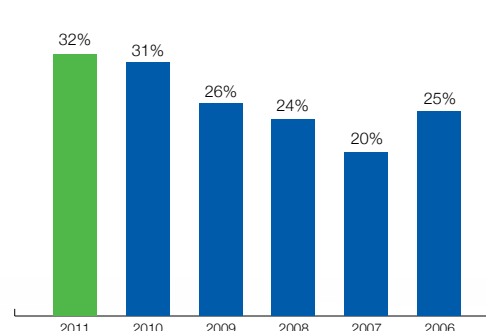
(Rs. in million)

	2011	2010	2009	2008	2007	2006
Personnel expenses						
Salaries and allowances	8,307	7,218	6,471	6,696	5,747	4,642
Contributions to defined contribution plan - provident fund	177	159	149	135	101	99
Post retirement medical benefits	170	136	130	99	145	472
Employees' contributory benevolent scheme	51	71	65	48	60	143
Employees' compensated absences	181	191	151	(76)	101	374
	8,886	7,775	6,966	6,903	6,154	5,729
Others Administrative expenses						
Rent, taxes, insurance, electricity	1,695	1,569	1,356	1,040	842	699
Legal and professional charges	187	222	240	202	306	151
Communications	936	842	995	844	656	199
Repairs and maintenance	949	681	534	506	377	336
Stationery and printing	385	363	330	327	265	223
Advertisement and publicity	427	232	215	197	363	165
Auditors' remuneration	25	15	15	16	12	11
Depreciation	1,115	1,012	909	815	599	555
Amortization of intangible asset	250	160	153	142	191	121
Travelling, conveyance and fuel	728	684	589	619	321	318
Entertainment	102	69	74	100	50	43
Training Expenses	46	58	47	96	65	30
Petty Capital items	56	64	49	103	209	8
Credit Card Related Expenses	129	129	58	64	68	18
Non-executive directors' fees	36	32	10	4	1	0
Cash transportation charges	450	403	516	399	362	166
Instrument clearing charges	198	166	137	113	102	85
Subscription	28	26	14	24	16	19
Donations	84	15	25	-	8	-
Others	1,063	877	799	431	226	514
	8,888	7,619	7,069	6,043	5,040	3,661
Administrative expenses (before PF reversal)	17,774	15,394	14,035	12,946	11,195	9,390
Pension fund reversal	(2,189)	(3,220)	(3,923)	(5,399)	(5,769)	(2,907)
Total Administrative expenses	15,585	12,174	10,111	7,547	5,426	6,483

Cost to Income ratio (excluding pension fund reversal)



Cost to Income ratio



Market Statistics of MCB's Share

	Share Price (Rs.)			GDRs (REG S)* USD	Free Float		Market Capitalisation	
	High	Low	Closing	Closing	Shares (‘000s)	%	Capital (Min)	Value (Min)

2011

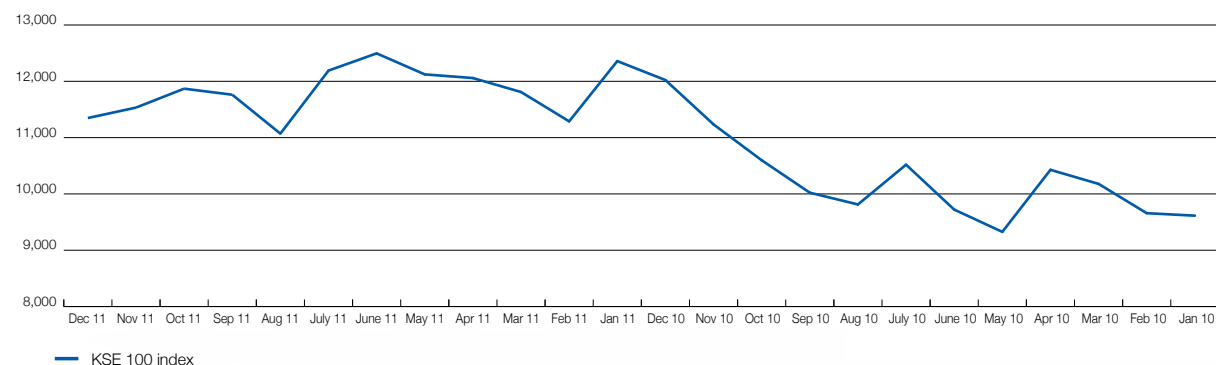
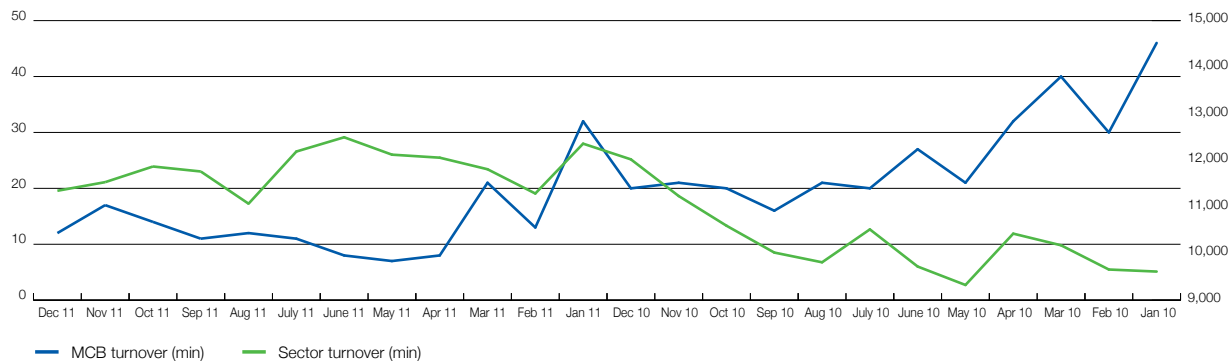
December 31, 2011	179.45	134.00	134.60	5.20	307,112	36.73%	8,362	112,557
September 30, 2011	206.70	161.61	173.27	5.10	305,548	36.54%	8,362	144,895
June 30, 2011	210.95	196.59	199.30	5.00	316,922	37.90%	8,362	166,662
March 31, 2011	250.48	192.20	207.54	4.90	276,789	36.41%	7,602	157,775

2010

December 31, 2010	230.15	187.26	228.54	5.20	276,577	36.38%	7,602	173,740
September 30, 2010	214.99	180.40	188.31	5.20	329,886	43.39%	7,602	143,156
June 30, 2010	221.49	173.04	194.19	5.20	328,757	43.25%	7,602	147,626
March 31, 2010	233.80	201.30	209.04	5.20	323,812	42.59%	7,602	158,915

* 1 GDR = 2 ordinary shares

Dividends & Bonus	2011		2010	
	(Mln)	%	(Mln)	%
Final cash dividend	2,509	30.0	2,281	30.0
3rd interim dividend	2,509	30.0	2,281	30.0
2nd interim dividend	2,509	30.0	2,281	30.0
1st interim dividend	2,509	30.0	1,901	25.0
Bonus	836	10.0	760	10.0



MCB Calendar

Calendar of Major Events

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

Financial Calendar

2011

1st Quarter Results issued on	April 26, 2011
2nd Quarter Results issued on	July 26, 2011
3rd Quarter Results issued on	October 25, 2011
Annual Results issued on	February 21, 2012
64th Annual General Meeting	Scheduled on March 27, 2012

2010

1st Quarter Results issued on	April 21, 2010
2nd Quarter Results issued on	August 05, 2010
3rd Quarter Results issued on	October 26, 2010
Annual Results issued on	February 10, 2011
63rd Annual General Meeting	March 31, 2011

2009

1st Quarter Results issued on	April 23, 2009
2nd Quarter Results issued on	August 08, 2009
3rd Quarter Results issued on	October 23, 2009
Annual Results issued on	February 25, 2010
62nd Annual General Meeting	March 26, 2010

2008

1st Quarter Results issued on	April 25, 2008
2nd Quarter Results issued on	August 22, 2008
3rd Quarter Results issued on	October 24, 2008
Annual Results issued on	February 16, 2009
61st Annual General Meeting	March 27, 2009

Directors' Report to the Members

I am pleased to place before you, on behalf of the Board of Directors, the 64th annual report of MCB Bank Limited for the year ended December 31, 2011.

Economy Review

The year in review, 2011, saw unprecedented volatility in the economies and financial markets across the world. The fragile economic recovery was threatened as a series of natural and manmade calamities hit across the world. Political instability, strained relationships with the U.S, increases in price of oil, gas and electricity including other input costs, and perhaps most importantly a severe energy shortage curtailed capacity growth and hampered foreign flows into the country. The country's fiscal deficit expanded as efforts to boost its revenue mobilization were limited by the government's inability to gather enough political support. The government's growing need to finance its deficit lead to higher borrowing from the banking system, which in turn, helped the double digit growth in money supply, leading to inflation averaging 12 percent in the calendar year. The external situation which, at least until the first half was a source of strength, deteriorated as lower exports widened the trade deficit, as external flows diminished. Pakistan continued to fall short of its economic potential, and the need for reorientation of macroeconomic and structural policies to stem near term risk to macroeconomic stability and to lay the foundation for durable and inclusive growth over the medium term, became more and more visible.

Going forward, 2012 will be full of challenges for the economy as there are considerable downside risks to the GDP and significant external account vulnerability. The country's external account will likely suffer as a widened trade deficit, miniscule FDI inflow and the upcoming deadline for foreign loan repayments will likely result in shrinkage of the country's liquid foreign exchange reserves causing the rupee to further depreciate this year. The government must work together with all of its stakeholders to take decisive action on broadening its revenue

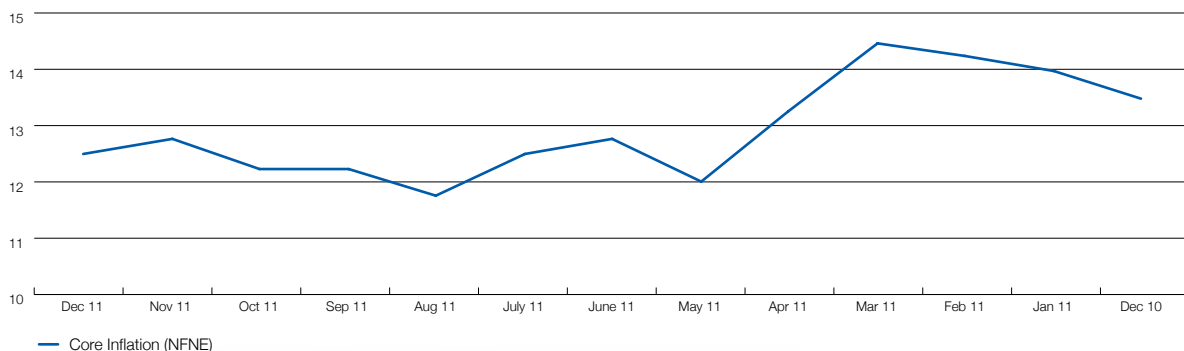
mobilization, restructuring of public sector enterprises and providing a solution to the incapacitating energy shortfall. Fiscal and monetary collaboration is required to balance the policies in place and to regain investor confidence. The resultant inflationary pressure may rest given the other external factors losing value at the international commodity markets. The tax revenue collection mechanism needs to be further strengthened alongwith more advanced measures to minimize major tax evasions. In short, it is anticipated that the same problems from 2011 will be carried forward in a more decamped way making the competition in the banking sector and the burden on consumers more difficult.

Business Segment Reviews

Wholesale Banking Group

Primary focus during 2011 was on the growth of fee based income via enhancement of trade and transaction banking volumes. Given the current economic conditions and market dynamics, there was limited growth opportunity seen in lending. During 2011, energy sector's circular debt of Rs. 35 billion was converted into T-Bills and PIBs that adversely impacted the loan book of the group. This was coupled with the reduction in discount rate that adversely impacted spreads, and led to strong price competition in the top tier corporate clients.

Increase in fee income resulted from 30% increase in Collections & Payments volumes, 40% increase in home remittance throughputs and 21% increase in trade volumes. Overseas operations also continued to show stable growth in the depressed global conditions and the Bank's operations in Sri Lanka, Bahrain and Export Processing Zone (EPZ) showed an increase of 18% and 5% in volumes of Advances and Deposits respectively.



The group's emphasis on fee income and transaction volumes is likely to continue in 2012, focusing on transaction banking and trade as the key volume drivers in expected exigent business conditions. Moreover focus would remain on active loan monitoring to protect the quality of the Bank's risk assets in the face of weaker macro environment.

Investment Banking

Investment Banking in MCB is segregated into two units of Debt and Capital Markets (DCM) & Syndications and Project Finance, Equity and Advisory Services. The Bank showed its commitment to support the economic growth of the country by investing in the infrastructure projects and also remained focused to provide tailored financial solutions including multi debt syndications. Major transactions during the year included the Bank's participation in syndicated long term multi-financing facilities of Rs. 7.2 billion for one of the leading telecom sector company of Pakistan through its DCM and Syndication unit with a participation of Rs. 1 billion. MCB also participated with Rs. 500 million in a syndicated term finance facility of Rs. 4 billion, and transaction was closed in just 80 days from the date of award of mandate.

Investment banking has also been involved in various transactions focusing on providing effective solutions through its PFE&A service unit to cater to the business needs of its clients of which a notable transaction during 2011 included Rs. 11 billion syndicated project finance facility for wind farm in Sind, in which MCB was also the Agent Bank for this non-recourse transaction with a participation of Rs. 1.8 billion. The group is also involved in a wind farm project, transaction of which is expected to achieve financial closure by 2012.

Transaction Banking Division

MCB Transaction Banking Division (TBD) provides a wide range of value added services to large corporate through MCB's vast network of real-time online branches. TBD's structured and customized Collections products enable companies to consolidate funds with access to MIS from all over the country. Dealers can also use MCB's web-portal to transfer funds from their accounts to their company's Collection Account. Our Payments facility, also with MIS facility helps process payrolls and other commercial payments through MCB's network. TBD's Utility Bills Collection System (UBCS) is an end to end real time processing agent for several utility companies. To facilitate small financial institutions, MCB's Rupee Drawing Arrangement (RDA) is a product with real time payment system for them to make payments in areas where their own branch network doesn't exist, thus extending their reach country wide. MCB is the emerging leader of Home Remittances, with a large network of remittance agent partners spread all over the globe, providing seamless inflow of foreign remittances. The Bank also encourages opening of Overseas Pakistanis' Accounts through our Motherland Account product.

TBD's performance over the past few years has been remarkable as it has consistently proved to capture market share in each business it chooses to operate in. Corporate Collections and Payments volumes have grown to an impressive Rs. 700+ billion in 2011 making MCB the No.1 Collections Bank. Home Remittance volumes, ranked third in the market, have also grown to Rs. 106 billion capturing 10% of Pakistan's Home Remittance volumes in 2011. Rupee Drawing Arrangement (RDAs) volume has grown to Rs. 71 billion in 2011.

The outlook for 2012 is positive as TBD is in the process of rolling out a new system, whereby customers will have access to enhanced features and real time reports at their finger tips. This will help the collections and payments, home remittance and RDA customers with enhanced operating platforms. TBD is also venturing towards extending its services towards large state institutions to facilitate modern and better cash management solutions sowing efficiencies which would result in improvement in their service output. The new system will also allow for Home Remittances to be instantly available at all 1150+ branches within minutes of funds remittance from abroad. The RDA business has been revamped and further automations are being brought in to bring about efficiency to the payment process. New banks and financial institutions were brought into the RDA business during 2011 and this strategy will continue in 2012 as well.

Trade Product Division

Mandated in 2008, Trade Products Division (TPD) was able to drive the Bank's trade to register a growth of 22% in volume terms and over 27% in related fee income and exchange income. Following continuous growth strategy of assisting businesses in trade sales and marketing, while leveraging on existing trade products and offering tailor made customized solutions, three new trade products were introduced by TPD during 2011 namely Avalization (Import), Avalization (Export) and Econ-LC.

The recent additions to product range by TPD through the process of customer-need-identification also did well in 2011, depicting an accelerated growth and acceptance level among trade customers resulting in incremental revenue focused business for the Bank. TPD's focus to build on "synergy" program with partner banks is also continuing and agreements have been signed with partner banks.

TPD is committed as per its mandate to take Bank's trade to new heights through the use of non-traditional transactions approach and to foster a culture by bringing a paradigm shift in the approach of the Bank's staff engaged in marketing and risk evaluation of trade transactions so that additional revenue emanating from the same transactions is identified and actively pursued for materialization. Other than extending usual support,

TPD's emphasis is more inclined to assist in structuring larger tick size transactions in a manner to increase yield from corporate deals which otherwise are being booked at fine pricing and transform associated individual risk into an institutionalized one.

Consumer Banking Group

Consumer Banking Group has been focusing on right mix of product and services in order to maximize profitability of the group by keeping risk under acceptable limit. This entails more focus towards non lending avenues such as Remote Banking, Bancassurance and Investment services.

CBG's most successful service, MCB Mobile (mobile banking), has been growing at a fast pace. The success of Remote Banking is evident by the fact that in a short span of time, it has over 145,000 customers of this service. The Bank optimized this service for Corporate Social Responsibility activities by joining hands with various NGOs including Shaukat Khanum Memorial Trust for quickest online donations.

The foot print of Privilege Banking which is focused on high-end customers has increased to six in 2011 with a target of almost doubling the foot print in year 2012. MCB Bancassurance business also crossed Rs. 1 billion premium mark in 2011 and is poised to grow rapidly in coming years. The Group's Investment Services business (selling investment products on behalf of Asset Management Companies) also showed impressive growth.

MCB is the only bank in Pakistan offering bill payments via all electronic channels (ATMs, Virtual Banking, MCB Mobile & Call Centre / Interactive Voice Response). The Bank has been licensed for branchless banking in July 2011. The continued commitment to be an active long-term player in the market was underlined with the launch of the Visa Debit Card, the first chip based debit card in Pakistan. Within the first 3 months of its commercial launch, the Bank has issued more than 50,000 debit cards. MCB's ATM network has expanded in 2011 by additional deployment of 183 new ATMs across the country. By this addition, the total reached to 676 ATMs and made it the largest ATM network of Pakistan. MCB is also planning to deploy Cheque & Cash Deposit Machines (CCDMs) in order to further facilitate the consumers. Pre Paid Card was launched for branch customers and packaged deals for contractual employees of companies are being offered through our unit of Institutional Sales.

Auto loans and Credit Cards remained core of our lending business and the Bank's focus remained on stabilizing lending portfolio before embarking on growth. In 2011, we also undertook review of internal policies and procedures to remove unnecessary bottlenecks in the approval process without compromising on our key controls and risk policies that led to improved performance in collection and recovery department.

This substantial improvement in Net Credit Loss (NCL) numbers was accompanied with placement of better controls through formation of Collection Operation Unit which carried out vigilance, monitoring of collection and recovery accounts.

Over all, Consumer Banking showed strong performance of all key indicators and this trend is expected to continue in coming years.

Commercial Branch Banking Group

Despite the macro-economic challenges, CBBG continued to make sustainable progress in 2011. Representing 93% of MCB's total deposits in 2011, a growth of 14% was contributed by CBBG over last year, with a net amount of Rs 54.89B added to the deposit base. A total of 33 branches were added to CBBG network bringing the number of branches to 1,138 while the Bank continued with its emphasis on low cost deposits.

Once again, CBBG achieved outstanding growth in its trade business with highest ever volume growth of over Rs. 156 billion during the year. A total of 786 new trade names were added in the 2011 that brought an incremental trade volume of Rs. 34 billion. CBBG has also been the largest contributor in the external exports of MCB. Net Mark up income and non Fund based income both showed remarkable increase of 28% and 24% over last year. CBBG contributed 80% of the total net markup income of MCB in 2011. Provisioning for the year was negative, reflecting aggressive recovery drive by the field staff. This was another good year for our Business Sarmaya portfolio, wherein there was a cash recovery of Rs 1.2 billion.

With management's focus on purchase of property for branches, CBBG has played an active role in 2011 in this regard. CBBG, on account of the size of its network, is the hub of most of the activities and transactions in MCB. It paid special focus to improve process and control implementation ensuring regulatory compliance as well as effective operational risk management. The group showed consistent and significant improvement in key operational areas resulting in improvement in internal self assessment ratings.

At operational front, Independent Operation Structure setup has helped in better compliance of regulatory and procedural requirements and efficient counter services for the customers. Moreover, review and monitoring processes at Group Office, Area Offices and Circle and Region levels has brought positive results and has improved quality aspects of daily working at branches and controlling offices significantly.

Special efforts have also been made to improve ATM management, Inter Branch Reconciliation, Data Cleansing and KYC and AML requirements for strengthening regulatory compliance in these areas as well as improving customers' experience with MCB.

Going forward in 2012, CBBG would prudently pursue growth in advances. Continued efforts shall be made towards sustaining the Bank's distinctively highest CASA deposits ratio. The group is hopeful of introducing new liability products to diversify demographic reach. For trade, the group will continue to pursue volume growth strategy in 2012. Accordingly, trade, cash management and cross sell of Bank's consumer products would be a focus area to build sustainable revenue growth and add new customers. Similarly, continued efforts shall be made towards strengthening our internal controls and customer service to leverage branch banking potential.

Islamic Banking Group

The Bank was the first conventional bank in Pakistan to open an Islamic banking branch in 2003. Since then Islamic Banking Group has increased this number to 22 dedicated branches in 2011 with continued focus on improved business volumes in 14 cities nationwide.

MCB Islamic banking is working as an independent group looking after its business and operational activities in accordance with Shariah guidelines. Along with the launch of Shariah compliant Bank Guarantee in early 2011 MCB IB is offering a wide variety of both liability and Asset based products like Murabaha, Ijarah (Equipment & car), Diminishing Musharka and Shariah compliant Letter of Credit etc.

MCB also focused on improvement of image of its Islamic Banking business in the industry. This objective was achieved through marketing & branding activities such as; launching of first TVC for Islamic Banking, branding of Shariah Compliant products and branches and comprehensive marketing campaigns.

In order to improve internal control and risks mitigation, Risk Management Guidelines for Islamic financing instruments have also been implemented. In 2011, the Cross Bank Transaction was successfully completed where Islamic Banking branches were made online with 250 commercial branches countrywide. Two comprehensive in-house trainings on Islamic Banking were conducted by the group covering the entire Islamic Banking staff.

Moving forward, MCB IB group shall open three more dedicated Islamic Banking branches in 2012 to increase its customer outreach as well as launching of new product variants to attract potential customers.

Special Assets Management Group

This year SAMG has posted an all time highest recovery figure, exceeding the previous year by 32%. The highlight of this historic performance reflects a substantial growth in recovery rate (from 13.67% during 2010 to 18.61% during 2011) and successful closure of a few chronic, complex and big ticket cases. This performance is considered even more pronounced as SAMG

was primarily tasked to realize recovery from hardcore defaulted loans. Achievement of this humongous task was orchestrated by SAMG through continuous focus on raising a team of remedial managers, building its capacity and incorporating requisite process improvement interventions, a vision envisaged and strategized during the past couple of years.

Owing to visibly dismal spiral of adverse economic activity and resultant melt down of business entities, infected portfolio of banking sector witnessed a substantial incremental growth during 2011. A reflection of this phenomenon has also been experienced by MCB, although its magnitude is less intense. Consequently it is eminent that MCB will continue to keep its focal thrust on remedial management function alive to realize the desired objective of sustained growth in recovery from defaulted credit in a speedy and efficient manner during 2012.

Treasury and FX Group

For the banking industry 2011 was marked by lackluster growth in advances while the deposits registered a significant increase which was the case for MCB too. This disparity between the growth in advances and deposits of the Bank resulted in a surge in the surplus liquidity making MCB one of the most liquid bank in the market. Treasury faced a major challenge in the form of optimal deployment of this liquidity without compromising the returns. This challenge was aggravated by the volatile interest rate scenario which prevailed throughout the year and the equivocal market sentiment only complicated the forecasting process. The group faced these challenges remarkably well. Over the course of the year the share of the Bank's financial assets being managed by the group grew to historically record levels. Treasury preformed this greater responsibility by prudent yet profitable management of its portfolio and contributed significantly to the Bank's top-line and bottom-lines by generating superior quality returns. The liquidity and flexibility provided to the Bank's balance sheet by the Treasury's portfolio places it in a very strong position to capitalize upon any shifts in the economic climate. The contributions of the group were not limited to the fixed income side of the equation. 2011 was a record year in terms of the non-markup income generated by Treasury, especially, the income from dealing in foreign exchange. This was achieved through strong client relationship and timely decision making.

Implementation of a state of the art treasury system is in progress. With the implementation of this new system the Group will be well equipped to undertake new businesses and introduce new products. This is in line with the Bank's strategic goals to become a one stop solution-provider to its diverse client base. The Group will continue to play a key role in further strengthening the goal congruence within the Bank by adhering to the spirit of teamwork.

Information Technology Group

Information technology group has greatly enabled the Bank's business strategies by excelling in 2011 through strengthening its technology platforms, deploying high availability servers and implementing robust processes for safe and reliable support services.

The bank faced the challenge of relocating its production services from Karachi to Lahore which ITG delivered successfully in 2011. Another major milestone of 2011 was the formal testing of core banking systems from a disaster recovery site; this supported our business continuity plans thereby minimizing the risk of customer services disruption. ITG further strengthened its policies and procedures in place to establish a stronger culture of security awareness. A successful launch of Visa Debit Card, Euronet Upgrade, IP Telephony and Voice Logging System also marked the high point for ITG in 2011.

Moving ahead, while supporting the fastest growing number of ATMs and branches, ITG will continue to deliver and undertake initiatives and projects for 2012 including PCI Compliance, Core Banking System Upgrade, Treasury System Replacement, and Internet Banking Upgrade.

Operations Group

Customer service, operational efficiency and strengthening of controls and compliance environment within the Bank remained the key priorities of Operations Group hence its focus continued on: process centralization covering expense processing of 100% offices and major expense lines covering 70%+ of Bank's administrative expenses and 58% additional branch coverage for end-to-end account opening; compliance with the COSO based internal control framework; integration of Switch Settlement Operations and Consumer Lending and Remote Banking Operations into Operations Group; and automated and seamless processing of inter-branch and Nostro account reconciliation through a new custom-built application.

With strong focus on a customer centric approach, the group established complaint management units in Wholesale banking branches of three major cities leading to a better customer experience. High level customer satisfaction was achieved through well trained Trade Services staff fully aware of the latest regulations. MCB remained an active member of International Chamber of Commerce (ICC) Banking Commission and made significant contribution towards revision of ICC's Publications such as URDG 758.

Major focus was put on improving Health, Safety, Environment and Business Continuity Management standards across the Bank. Infrastructure projects for 41 new branches and offices including renovation of buildings and 183 new ATMs were completed across the country.

As an agent of change, the group undertook major initiatives: implementation of Oracle procure-to-pay application, which is the first milestone towards the Bank's endeavor to implement electronic work-flow management system; Business Process Improvement in Global Transaction Banking processing and Consumer Operations; identification of unit cost of key processes in Wholesale banking branches; and operational support in implementation of the Euronet application upgrade project along with improved end-to-end processes for remote banking services. These will continue to effectively help MCB in improving customer service, cost efficiency and control in the long run.

Service Quality

The core objective of Service Quality is to strengthen the Bank's Service culture, competitiveness and infrastructure with emphasis on achieving an overall customer satisfaction level for which the Bank has launched distinctive improvement methodologies to achieve the fundamental business objectives of 'growing', 'deepening' and 'retaining' customer relationships. Monitoring and evaluation of service indicators is part of the same belief and measuring these is a regulatory requirement.

Service Quality has a dedicated Complaint Resolution Unit to address complaints received bank wide and accordingly assess training and improvement requirements at front level. Service Quality's Branch Banking Unit ensures development of long term customer relationships through customer-valued services and works towards increasing and retention of customer base through reduced turnaround time and process improvements.

In order to keep a strong hold on front desk processes within the Bank, Service Quality evolved several controllable measures based on the market practice. Against each measure, a tolerance level along with the timeline is set. Service Quality performs adhoc runs on branches to execute quality checks, conduct survey to gauge customer satisfaction level, ascertain functionality of facilities on offer and identify gaps in service position through mystery shoppers. A separate Consumer Banking Unit is monitoring turnaround times for Consumer Lending Products (Credit Cards/ Car4U etc.), Remote Banking products (ATM/ Call Center/ Mobile Banking etc.) and Bancassurance. The turn-around time for day to day activity and their performance against it is then presented to the management to ensure excellent service through fast delivery process.

To recognize and encourage the Bank's staff, Service Reward Award Program was initiated in June 2008 which includes monthly and quarterly service awards that enhances the motivational aspects to encourage active participation and increase competitiveness leading to better employee performance.

Compliance and Controls Group

The Bank is focused towards strengthening its systems, compliance and internal controls, procedures and culture for implementing approved policies by the Board to ensure quality business growth, reliable and timely information and stakeholders' satisfaction.

The Bank has implemented Internal Control Framework using the criteria established by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) to improve documenting, evaluating and testing of the design and operating effectiveness. The Bank is also promoting Self- assessment Culture by adopting a systematic approach for improvement in controls and process efficiency, infrastructure and applications alongwith automating and centralization of processes. To comply with the requirements of SBP Internal Control Guidelines and COSO Framework, 'Policy on Internal Control' and 'Risk and Controls Self-Assessment (RCSA) Framework' have been approved and the same has also been implemented to complement control awareness, attitude of self-assessment and timely resolution of operational inefficiencies of controls at all levels of the entity.

To identify, monitor, and follow-up for resolution of compliance and controls related gaps and lapses, Regional Compliance Officers (RCOs) structure is in place which involves onsite and offsite reviews of branches and provides relevant training to the staff, which included onsite review of 800+ branches and NBEs and offsite validation of 500+ branches. At the very onset of customer relationship, Customer Due Diligence (CDD) and Enhanced Due Diligence (where required) are in place to ensure Compliance Risk (AML and KYC) mitigation, coupled with a state of the art AML Monitoring system (MANTAS) that generates alerts based on predefined thresholds and rules. The Bank has also deployed a Name Filtering Solution that scans information of existing and new clients including an on-line module with the ability to scan all swift messages. This is to ensure that any individual and entity under sanctions is not able to use the Bank's channel to route their business.

CCG provides expert opinion and support to management and staff on compliance related matters, supports new Initiatives, products, procedures, services, etc. and maintains relationship with regulatory authorities to optimize risk-controls trade off.

Issues Tracking and Monitoring (ITAM) Committee structure holds periodic meetings with the goal to ensure that the issues (observations and recommendations by the internal auditors, external auditors and Regulators) are properly tracked, monitored and closed.

CCG imparted rigorous trainings on compliance and controls across the board in 2011. Various training sessions included 4200+ participants from different groups. Further, to create awareness and responsibility in staff and to assess their

knowledge, Compliance Knowledge Assessment System (CKAS), a web based test system is in place that covers regulatory regimes and the Bank's internal policies and procedures.

Audit and Risk Asset Review Group

Audit and RAR Group continued to strengthen its structure and processes whilst enhancing its vital support towards improvement in Bank's overall control environment. The focus remained in supporting the management in its endeavor to maximize quality value for all stakeholders. The group continued to extend its coverage to all critical areas of the Bank and added value to varied processes operating Bank wide. Being the first in its peers to achieve yet another milestone, MCB Bank is proud to successfully implement the Continuous Auditing mechanism. Audit efficiency as well as effectiveness has been ensured through relocation of resources as well as assigning critical tasks to personnel bearing related expertise.

Audit and RAR Group will continue with its efforts to increase its effectiveness through continuous professional development of its people, strengthening of applicable framework and introduction of advanced technological and functional solutions.

Human Resource Management Group

MCB's trust and conviction in its human assets being its biggest strength, the faith that it is the "people" who have created this golden legacy, makes it a forward looking organization for generations. HRMG throughout the year has made efforts to strengthen the areas of performance management, compensation, people development and improvising the service channels through automation. The HR policies were reviewed to ensure people centricity maintaining market competitiveness and the Bank's interest. Special attention was paid by HR in the hiring and people development to ensure smooth supply line of quality human resource at the grass root level to be nurtured and successively grown in the Bank's culture.

The Human Resource Group, for 2012, is focused on initiatives like people development, high quality talent induction, competitive and merit based performance management and facilitating the management in structuring a lean, efficient and high delivery organization.

Risk Management Group

Effective risk management is the cornerstone of MCB's philosophy which is aimed at adding value through optimizing risk and return. The Bank has successfully created a risk culture based on modern techniques that allows risk management and business units to increase shareholder value through a better understanding of the Bank and its customers. Field visits, interaction with regulator and clients help Risk Management Group update knowledge and information base.

The Group controls the review and administration of lending solutions offered to the Bank's clients through a dedicated team of experienced professionals. It also manages the three main areas of risk that are inherent to all activities of the Bank namely credit risk, market risk and operational risk. Risk Management and Portfolio Review Committee of the Board oversee these risks. In pursuit of sustainable growth, risk management function at MCB reviews and updates respective policies and procedures keeping in view the economic dynamics and regulatory changes.

In 2011, risk management at MCB pursued high standards and international best practices. The Bank enhanced risk management awareness both at the management and Board Level. The Bank upgraded its risk management function to align its long-term strategy in the field with lessons learned both internally and externally. During the year, the Bank remained within the risk appetite set by the Board and actively pursued higher quality of its asset base.

Credit Risk

Credit risk arises from our dealings with individuals, corporates, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. Purpose of credit risk function is to identify measure, manage, monitor and mitigate credit risk. Credit Review, Credit Risk Control and Credit Risk Management ensure that Bank's lending decisions are in line with the Bank's strategy, lending is done prudently, and that recoveries are actively monitored. The Bank has adopted standardized approach to measure Credit risk regulatory charge in compliance with SBP's Minimum Capital Requirements.

Market risk

Market risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates and Equity Prices. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign exchange and the Capital market groups. The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, ALCO, and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk Management framework ensures that the MCB's market risk exposure is actively measured managed and monitored. A number of tools including Value at Risk (VaR), Sensitivity Analysis and Stress Testing are used to assess the different components of market risk. A set of reasonable limits is in place to keep risks within the defined risk limits.

Operational Risk

Operational Risk is risk of loss resulting from an inadequacy or a failure ascribable to people, processes, systems or external events. Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all

areas of the Bank. Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

Going forward, MCB will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard depositors.

Liquidity Risk and Management

Liquidity represents the ability to fund assets and meet obligations as they become due. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that the Bank conducts. MCB Bank recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

ALCO has the responsibility for the formulation of overall strategy and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation. MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management.

Liquidity Management

MCB Bank's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management Policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management / Board members. MCB Bank also conducts liquidity risk analysis on regular basis. The Bank's liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of

funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. As per preliminary assessments, the Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio as per Basel III are well above the prescribed limits.

MCB Bank's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB Bank maintains a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management, the Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB Bank's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB Bank's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Capital Assessment and Adequacy

MCB maintains the highest Capital Adequacy Ratio (CAR) among peer banks. The reported capital of the Bank under Basel II on standalone basis was recorded at Rs. 82.013 Billion and is managed keeping in view the minimum 'Capital Adequacy Ratio' required by SBP through BSD Circular No. 30 dated November 25, 2008 and BSD Circular No.07 of 2009 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The paid up capital of MCB for the year ended December 31, 2011 stands at Rs. 8.3 Billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10% of the risk weighted exposure. The Bank's CAR as at December 31, 2011 stood at 21.79% of its risk weighted exposure. The Bank has complied with all externally imposed capital requirements throughout the year. Furthermore, there has been no material change in the Bank's management of capital during the year.

Financial Highlights

The year, 2011, ended positively for MCB. The Bank registered healthy growth in key areas of the business and was able to meet its financial targets under the current economic conditions.

Profit and Appropriation

The profit before and after taxation for the year ended December 31, 2011 together with appropriations is as under:

	(Rs. in Million)
Profit before taxation	31,483
Taxation	(12,058)
Profit after taxation	19,425
Un-appropriated Profit Brought Forward	21,415
Transfer from Surplus on Revaluation of Fixed Assets (net of tax)	36
	21,451
Profit Available for Appropriation	40,876
Appropriations	
Statutory Reserve	1,942
Final Cash Dividend – December 2010	2,281
Issue of Bonus Shares – December 2010	760
Interim Dividend – March 2011	2,509
Interim Dividend – June 2011	2,509
Interim Dividend – September 2011	2,509
Total Appropriations	12,509
Un-appropriated Profit Carried Forward	28,366

Dividends

The Board has recommended a final cash dividend @ 30% and bonus shares @10% for the year ended December 31, 2011. This is in addition to 90% interim cash dividend announced during the year. The effect of the recommendation is not reflected in the above appropriations.

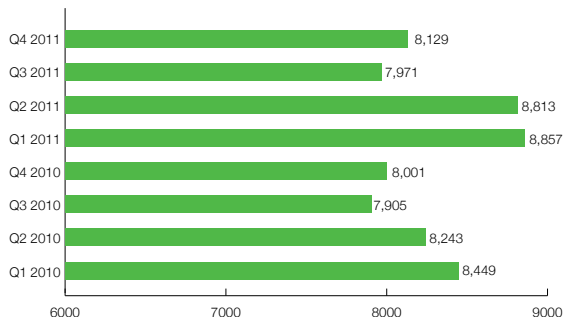
In addition to the financial analysis presented in the stakeholder's information section, detailed analysis of MCB Bank Limited's performance in comparison with the previous year is as follows:

Profitability

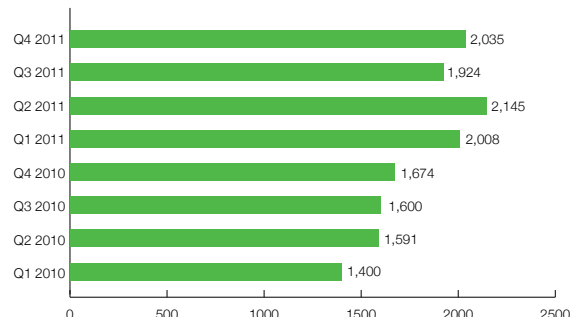
Profit before tax and after tax closed at Rs. 31 billion and Rs. 19 billion, registering a remarkable growth of 20% and 15% respectively. The net markup income increased considerably by Rs. 13 billion (24%) owing to Rs. 12.8 billion (63%) increase in markup on investments. Markup earned on loans also increased by Rs. 1.2 billion (4%) during the year to Rs. 34 billion.

On the other side, interest on deposits of the Bank increased by 27% resulting in a total increase of 31% in total markup expense. Significant addition was in interest on fixed deposits amounting to Rs. 2.8 billion based on the earning spread available to the Bank due to higher discount rates.

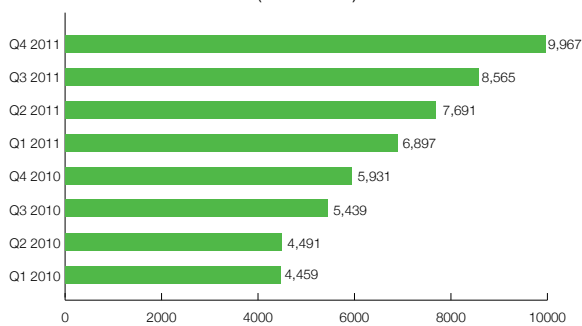
Markup Income on Advances (Rs. in Million)



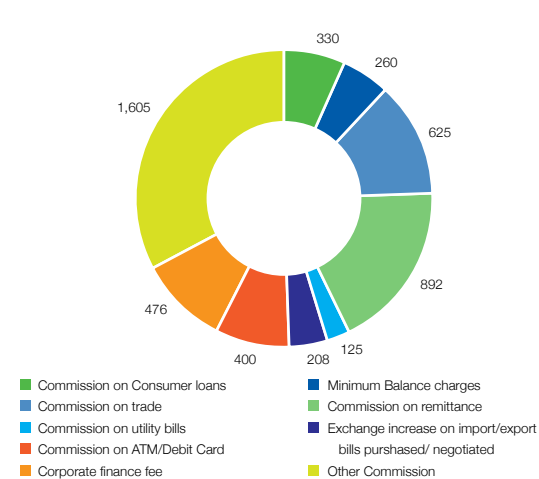
Non Markup Income (Rs. in Million)



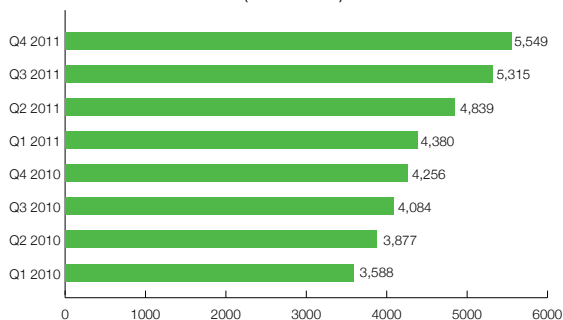
Markup Income on Investments (Rs. in Million)



Fee, Commission & Brokerage Income (Rs. in Million)



Markup Expense on Deposits (Rs. in Million)



nominally by 2% to Rs. 3.65 billion with an increase of Rs. 334 million in provision against investments and a reduction of Rs. 254 million in provision against loans.

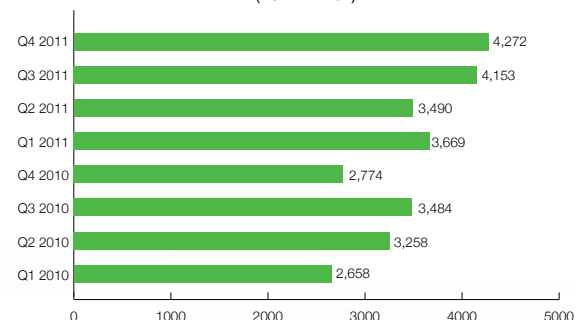
Operating expenses in 2011 were recorded at Rs. 17.5 billion increasing by 32% over last year. Administrative block (excluding pension fund reversal) increased by 15% resulting from prominent inflation-pushed expenses. Rent increased by Rs. 77 million, communications by Rs. 94 million (11%), travelling fuel and conveyance by Rs. 44 million (6%), cash transportation charges by Rs. 46 million (11%) and instrument clearing charges by Rs. 32 million (20%). The highest increase of Rs. 268 million (39%) in repairs and maintenance expenses is mainly attributable to

Non-markup income improved to Rs. 8 billion in 2011 from Rs. 6 billion in 2010, increasing by 29%. The percentage ratio of non-markup income to net revenue has improved over the year to 15.41% from 14.54% in 2010. Fee, commission and brokerage income of Rs. 4.9 billion continued to be the key factor to this increase and registered a growth of Rs. 792 million in 2011. Dividend income posted a healthy increase mainly on account of mutual fund investments made during the year. Capital gains registered a significant increase of 84% over 2010.

Major components of the increase in fee, commission and brokerage income were commission earned on remittances that increase by Rs. 218 million, rise in corporate finance fee of Rs. 107 million, and Rs. 112 million increase in commission on Bancassurance.

Provisions (excluding other provisions) for the year increased

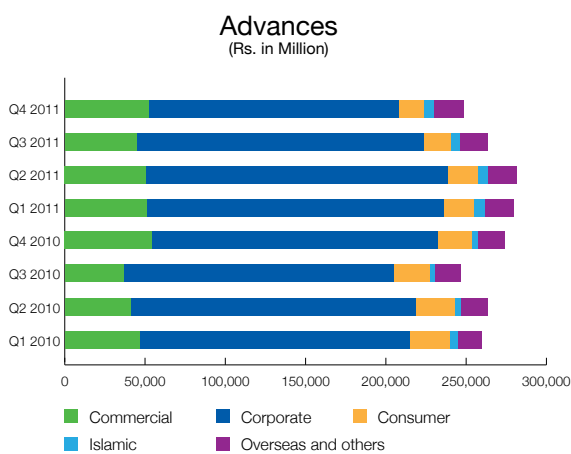
Administrative expenses (Rs. in Million)



expansion in the operational and technological network of the Bank. The increase in advertisement and publicity cost of Rs. 194 million (84%) is reflective of the added emphasis placed on brand and product marketing which is duly substantiated by the theme: Bank for Life. On the other side, the Bank was able to curtail its legal and professional charges by Rs. 28 million (13%). Training expenditure was decreased owing to more efficient in-house training sessions while petty capital expenses also decreased by Rs. 8 million (13%). Personnel expenses during the year increased by Rs. 1.1 billion (14%). The Bank reduced its outsource staff cost by Rs. 101 million (12%) while permanent staff costs increased by Rs. 807 million (16%). However, despite the inflationary pressures, the Bank remained within the budgetary limits assigned.

Statement of Financial Position

The Bank's total asset base strengthened with an increase of 15% to Rs. 654 billion. The increase was led by investments that rose to Rs. 316.65 billion increasing by Rs. 103.6 billion over 2010. Part of the said increase was due to the conversion of the circular debt / commodity financing exposure to risk free government securities amounting to Rs. 37 billion. The conversion also justifies the decrease of Rs. 26 billion in gross advances that closed at Rs. 248 billion.



Islamic Banking of MCB Bank Limited has gained considerable momentum and the advances in this group almost doubled in this year over 2010 with an increase of 74%. The said increase reflects the potential and strategic view of the Bank in the Islamic segment.

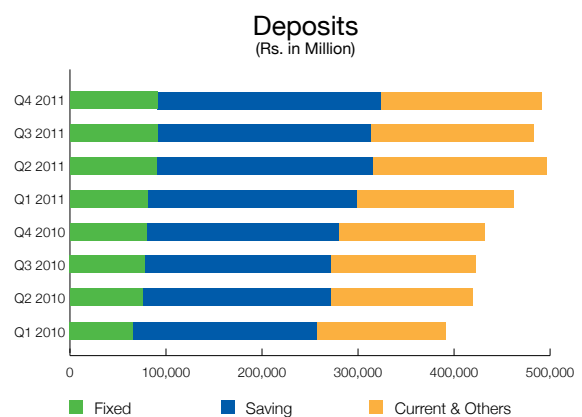
Being the main stream business line, MCB has its primary focus set at private sector lending, which registered an increase of Rs. 3.6 billion (2%) over 2010. The public sector lending on the other hand reduced significantly by Rs. 29.65 billion owing to the conversion scheme elaborated above. Based on the sectoral analysis of advances, major decrease was in power, followed by cement, transport and communication and textile. Owing to the overall macro-economic instability coupled with the conversion of advances to investments, the "Advances to Deposit" ratio of the Bank was reported at 50.52% as at December 31, 2011.

Non-performing loans during the year rose to Rs. 26.7 billion with an increase of 8.6% over 2010. This increase is attributable to Rs. 3.5 billion added to the loss category increasing the proportion to total NPLs from 85% to 91% in 2011. Major infection during the year was witnessed in the commercial and corporate group loans that increased by 21% and 41% respectively. However, reductions of 14% in SAMG and 0.4% in consumer NPLs were observed.

The infection ratio of the Bank now stands at 10.75% from 8.95% mainly on account of decrease in gross advances. The coverage ratio has improved to 82.02% from 77.13% reported last year. In addition to the requirements set by prudential regulations, the Bank carries unencumbered general provision amounting to Rs. 246 millions and has not taken the benefit of FSV (other than mortgage loans), depicting the conservative stance of the management. Our risk management functions have been strengthened to ensure reflection of quality credit on the books of the Bank. MCB's well below the industry's average infection ratio of approximately 15% and are determined to further improve the quality of loans.

Investments saw a tremendous increase of Rs. 103 billion closing at Rs. 316.65 billion. Major component remained investments in treasury bills (82% of net investments) that registered a growth of Rs. 70 billion (37%) over 2010. Increase in PIBs, owing to the conversion scheme was a robust 213% increase during the last quarter of 2011. The Bank reduced its debt securities exposure by a nominal of 1%, while the increase in equity securities investments was 67% over last year.

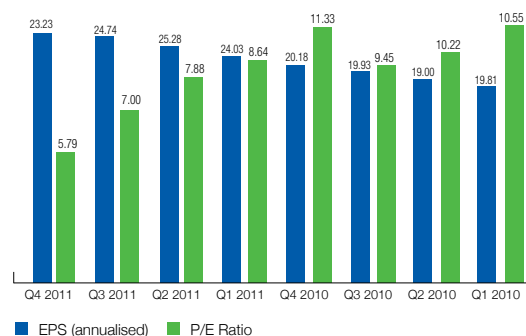
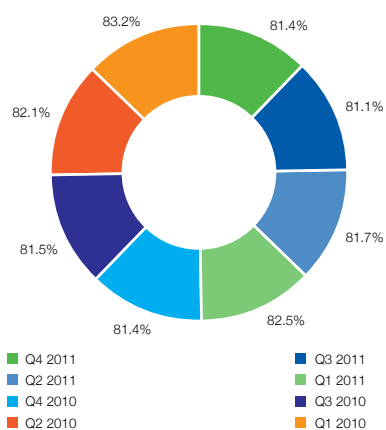
Deposits for the year closed at Rs. 491 billion with a healthy growth of 14% over 2010. Major increase was seen in savings deposits that grew by Rs. 32 billion (16%) over last year to Rs. 232 billion. This was followed by a Rs. 16 billion (11%) increase in current deposits that closed at Rs. 167 billion.



The Bank managed to maintain its CASA base at 81% ensuring competitive edge of lowest cost of deposits. Fixed deposits have continued to grow at a noticeable pace in 2011 and closed at Rs. 91 billion with an increase of Rs. 11 billion (14%).

The high concentration in CASA of 81% as opposed to industry statistics of around 65%-70% helps maintain the average cost of deposits much lower compared to the industry. Moreover the reported Capital Adequacy Ratio of 21.79% depicts the risk absorption capacity of the institution.

CASA to Total Deposits



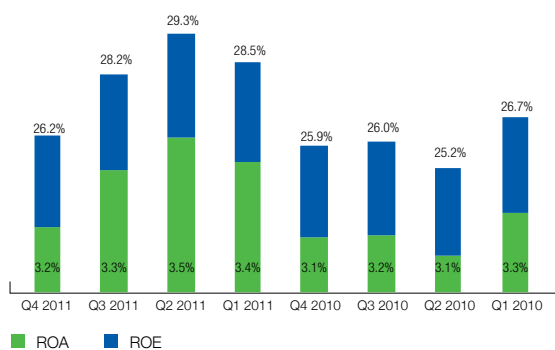
Competitive profitability and consistent growth translates into an EPS of Rs. 23.23 for the year 2011 compared to Rs. 20.18 in 2010. ROE improved to 26.23% in 2011 from 25.91% in 2010 while ROA also strengthened to 3.18% (2010: 3.13%). Book value per share (excluding surplus on revaluation of fixed assets) as of 2011 came to Rs. 94.37 which is a significantly higher than Rs. 82.73 in 2010.

Strong financial layout and significant business performances kept the Bank on the top in terms of profitability enabling the Bank to maintain its competitive ranking in the banking industry.

Market Performance

The equity market showed volatility during 2011 and KSE-100 index closed at 11,348 in 2011, 6% below 12,022 in 2010. The share price of the Bank's scrip on local stock exchanges continued to be the leader this year as well, with a highest price of Rs. 250.48 during the year. Market capitalization was recorded at Rs. 112.5 billion at year end 2011 which was comparatively lower than Rs. 174 billion last year, mainly on account of lower market value.

Although the volumes remained low on the index compared to previous year, MCB was the fourth highest trading scrip (by weight) in terms of market capitalization and the third highest scrip (by weight) in terms of free float market capitalization on KSE-100 for FY11.



Future Outlook

The economy remains under the politically influenced limelight and the effectiveness of the economy remains bleak given low chances of proper refinement of the current policies in place. Lack of foreign aids and inflows and the continued utilization of available funds under lack of proper administration tend to sketch a doubtful eye on the strength of liquid and foreign reserves and dissolves foreign confidence limiting progress of the economy. If the government does not fully enforce the no-more borrowing policy, there remains very less room for the poor sections of the economy to get their hands on these funds. The continued reliance of the financial institutions on the sovereign earnings puts international pressure on the reviews regarding quality of credit of the country and strategy direction and increases the sovereign risk. Transformation into better foreign relations, focused approach in improving the competitiveness of exports to build room for inflows, reducing the budget deficit and reformation of revenue generating streams need to be attended as priority agenda.

While the fiscal issues remain in progress, there is very little the central bank can do to improve the overall state of the financial system. The financial institutions remain susceptible to the limiting opportunities and weaknesses in the financial setup. Stability is required on an overall front to revive confidence in the

current affairs and eliminate undue subjugation on the political front.

MCB Bank's vision is central to meet the prevalent challenges and the results are reflective of healthy and sustained financial footing on the backdrop of sound customer base and their continued trust in us and the Bank's determination to isolate risk accumulation and try to reduce direct and indirect risk impacts. MCB businesses are set to grow further and among other initiatives in pipeline, MCB Lite will be launched in 2012 to strengthen our distinctive product portfolio. For MCB, strengthening further in core competitiveness remains the foremost agenda moving forward to ensure long term sustainability and maintain operational and financial success whilst continuing to contribute to the economy, management and employees, government and society.

Amalgamation of MCB AMC with AHIL

The scheme of amalgamation of MCB Asset Management Company Limited with and into Arif Habib Investments Limited was sanctioned by Securities and Exchange Commission of Pakistan (SECP) through its order dated June 10, 2011 with effect from June 27, 2011. After the close of business on June 27, 2011, the SECP issued another order under Section 484(2) of the Companies Ordinance, 1984 (the Extension Order) to extend the effective date from June 27, 2011 to July 30, 2011. Based upon legal advice, the Company filed a constitutional petition before the Honorable High Court of Sindh (the Court) on July 02, 2011 pleading that the amalgamation is a past and closed transaction and the Extension Order was illegal and not tenable under law. On July 04, 2011, the Court suspended the operation of the Extension Order till the disposal of the application. On the basis of the order of the Honorable High Court of Sindh dated July 04, 2011 and the legal advice regarding merits of the case, management strongly believes that the outcome of the petition would be in its favor.

Contribution towards the National Exchequer and economy

MCB Bank Limited is one of the leaders in contribution to the National Exchequer. The Bank paid Rs. 14.737 billion (2010: 11.657 billion) as income tax to Government treasury during 2011. Furthermore, the Bank contributed over Rs. 5 billion to the National Exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001.

Your Bank's contribution to the national economy by way of value addition was Rs. 40.258 billion, out of which Rs. 8.89 billion was

distributed to employees, Rs. 12.69 billion to Government and Rs. 10.87 billion to shareholders respectively.

Credit Rating

The Pakistan Credit Rating Agency (PACRA) maintained the long term entity credit rating of AA+ [double A plus] and short term rating of A1+ [A one plus], through its notification in 2011 (2010: AA+ [double A plus] and short term rating of A1+ [A one plus]).

Change in Board of Directors

In 2011, Mr. Muhammad Yaqub and Mr. Muhammad Ali Zeb resigned from their offices as directors of MCB Bank Limited and Mr. Ahmad Alman Aslam and Mr. Manzar Mushtaq joined the Board of Directors.

Pattern of shareholding

The pattern of shareholding as at December 31, 2011 is annexed with the report.

Six Year's Operating and Financial Data

The requisite information is presented in the stakeholder's section of this report.

Value of Investments of Provident and Pension Fund

- Value of investment including accrued income of provident and pension fund as at 30.06.2011 on the basis of audited accounts is:

Provident Fund Pak Staff	Rs. 13,533.94 million
Pension Fund Pak Staff	Rs. 18,261.21 million

Internal Control and Financial Reporting Framework

The Bank's internal control structure comprises of the Board of Directors, Senior Management, Risk Management Group, Compliance & Control Group, Financial Control Group, Self Assessment Process within business groups and Internal Audit. The Management is responsible for establishing and maintaining a system of adequate internal controls and procedures for implementing strategy and policies as approved by the Board of Directors, designed to provide reasonable assurance as to the integrity and reliability of those controls and reports produced there from; developing processes that identify, measure, monitor and control risks incurred by the Bank; maintaining an organizational structure that clearly assigns responsibilities, authority and reporting relationships; ensuring that delegated

responsibilities are effectively carried out; setting appropriate internal control policies; monitoring the adequacy and effectiveness of the internal control system through evaluation and validation by internal auditors who have been entrusted the supervisory function with respect review of internal controls, the internal auditors reporting significant findings directly to Audit Committee of the Board; and taking timely due cognizance of the observations / recommendations concerning the system of internal controls made by the internal auditors, external auditors and the regulators. In view of the above and based on its supervision the Management has evaluated the effectiveness of the Bank's internal controls that encompassed material matters and reports that the System of Internal Control is sound in design and has been effectively implemented and monitored for material aspects. Keeping in view the risk exposure and identification, evaluation and management of significant risks faced by the Bank and based on regular review of internal controls and reports on their soundness, improvements are brought about by the Management with the approval of Board of Directors in the internal controls and policies. These are being continually reviewed and updated not only to conform to and achieve full compliance with State Bank of Pakistan's Guidelines on Internal Controls, but also to conform, wherever feasible and practicable, with international best practices and good corporate governance models. However, it needs to be stated that systems are designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss. In making this assessment, the Bank used criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The Bank's assessment included documenting, evaluating and testing of the design and operating effectiveness of its Internal controls over Financial Reporting (ICFR). The Bank's Internal Controls over Financial Reporting include those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with approved accounting standards, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of Management and Directors of the Bank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements. Because of its inherent

limitations, Internal Controls over Financial Reporting may not prevent or detect mis-statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A separate Issues, Tracking and Monitoring (ITAM) Committee was formed in 2007 with all the Group Heads as part of it. Periodic ITAM meetings are being held with the goal to strengthen internal control processes and proactively identify and resolve identified issues. The Board of Directors has responsibility for ensuring that Management maintains an effective System of Internal Controls and for reviewing its effectiveness. The Bank has a System of Internal Controls which provides reasonable assurance in all material respects of efficient and effective operation of controls. Processes are in place for identifying, evaluating and managing the significant risks facing the Bank in accordance with the Risk Management Policy and Internal Control System and Audit Policy, as approved by the Board. The Board regularly reviews these processes through relevant Board Committees.

In line with improvement in other areas, particular emphasis has been laid on strengthening internal controls and revamping internal audit functions. The staff and professional strength of Internal Audit Group has been improved, its audit activities expanded and its autonomy enhanced. Audit Group has been revamped in terms of quality of staff and audit methodology. With the application of risk centric audit methodology through professional staff, the Audit Department will pave its way for the much desired strategic stature in the organization. The Audit Group is geared to meet the challenge of carrying out its role in Basel II implementation. It is further committed to continuous improvement through quality assurance, strengthen its IT Audit Capabilities and leverage technology for optimizing audit operations. The Audit Group now functionally reports to the Audit Committee and administratively to the Chairman of the Board. The Board intends to strengthen further the role of the Audit Group to act as eyes and ears of the Board to ensure integrity of the operations of the Bank.

Criteria to Evaluate Board's performance

The Board of Directors sets high standards for the Bank's officer and executives. Implicit in this philosophy is the importance of sound corporate governance. It is the duty of the Board of Directors to serve as a prudent fiduciary for shareholders and

to oversee the management of the Bank's business. To fulfill its responsibilities and to discharge its duty, the Board of Directors follows the procedures and standards that are set forth in Code of Corporate governance.

- The directors shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the Bank.
- 'Statement of Ethics and Business Practices' is prepared and circulated annually by its Board of Directors to establish a standard of conduct for directors and employees, which shall be signed by each director and employee in acknowledgement of his understanding and acceptance of the standard of conduct;
- The Board of Directors adopt a vision / mission statement and overall corporate strategy for the Bank and also formulate significant policies;
- The Board of Directors shall establish a system of sound internal control, effectively implemented at all levels within the Bank;
- The Board shall exercise its powers as required under the Code of Corporate Governance and Companies Ordinance 1984

The Directors are pleased to give the 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, changes in equity and comprehensive income
- Proper books of accounts of the Company have been maintained
- Appropriate accounting policies have been consistently applied
- The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure having material impact there from has been adequately disclosed

the system of internal control is sound in design and has been effectively implemented and monitored

- There is no 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 are made available in the Annual Report
- All the statutory liabilities, if any, have been adequately disclosed in the financial statements

Number of Board meetings held and attendance by each Director

- The Board met on 6 occasions and its meetings were attended by directors as under:

Name	Meetings Attended
Mian Mohammad Mansha	5
S.M Muneer	4
Tariq Rafi	6
Shahzad Saleem*	2
Sarmad Amin	4
Dr. Muhammad Yaqub**	3
Mian Raza Mansha	6
Dato' Mohammed Hussein	6
Aftab Ahmad Khan	6
Dato' Seri Ismail Shahudin	3
Mian Umer Mansha	5
Muhammad Ali Zeb***	2
Manzar Mushtaq	3
Ahmad Alman Aslam****	1
M U A Usmani	6

**Mr. Shahzad Saleem was unable to attend 4 out of 6 meetings due his frequent travelling abroad to accompany his father for the medical treatment. Leave of absence was granted to him by the Board.

**Dr. Muhammad Yaqub attended 3 Board meetings till his resignation on 16 July 2011.

***Mr. Muhammad Ali Zeb attended 2 Board meetings till his resignation on 07 April 2011. Upon receipt of SBP approval, Mr. Manzar Mushtaq was co-opted by the Board on 26 April 2011 who attended the last 3 meetings.

**** Upon receipt of SBP approval dated 25 October 2011, Mr. Ahmad Alman Aslam attended one Board meeting as he filled in casual vacancy created with the resignation of Dr. Muhammad Yaqub.

Pattern of Shareholding

The aggregate shares held by directors, their spouse and minor children along with other executives of the Bank as at December 31, 2011, are as follows;

Directors	Self	Spouse & Minor Children	Total
Mian Mohammad Mansha	5,887	4,826,490	4,832,377
S. M. Muneer	1,548	1,799,182	1,800,730
Tariq Rafi	24,048,736	4,293,836	28,342,572
Shahzad Saleem	679	-	679
Sarmad Amin	2,143	-	2,143
Ahmad Alman Aslam	500	-	500
Mian Raza Mansha	9,512,915	21,383,446	30,896,361
Mian Umer Mansha	24,031,840	-	24,031,840
Dato' Mohammed Hussein	8,165	-	8,165
Dato' Seri Ismail Shahudin	504	-	504
Aftab Ahmad Khan	689	-	689
Manzar Mushtaq	500	-	500
M.U.A. Usmani	2,698	-	2,698
Other Executives	10,566		10,566

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

Name	Purchase / sale / transfer
Dato' Mohammed Hussein	1,450 purchased
Dato' Seri Ismail Shahudin	504 purchased
Mr. Manzar Mushtaq	500 purchased
Mr. Ahmad Alman Aslam	500 purchased
Dr. Muhammad Yaqub	764 sold
Mrs. Saeeda Perveen	1,799,182 Gift received within the family
Mr. Tariq Rafi	20,760,660 Specie Dividend received from Siddiqsons Ltd
Mrs. Nighat Tariq	4,205,415 Specie Dividend received from Siddiqsons Ltd
Company Secretary	283 purchased

Auditors

The retiring auditor M/s A.F. Ferguson & Co. Chartered Accountants, being eligible for the next term have offered themselves for reappointment. Upon recommendation of the Audit Committee, the Board recommends appointment of M/s A.F. Ferguson & Co., Chartered Accountants, as the auditors for the year 2012.

Acknowledgements

The Board would like to thank the State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Ministry of Finance and Federal Board of Revenue for their cooperation, improved regulatory policies and governance framework and their continued effort to improve the banking sector and state of the economy. Our gratitude is also extended to the senior

management for their determination to achieve targeted milestones and to the business, support and operational staff for their contribution in materializing set goals.

On behalf of Directors,



Mian Mohammad Mansha
Chairman, MCB Bank Limited

February 21, 2012

Corporate Social Responsibility

General Overview

MCB is an organization that firmly believes in nurturing the various facets of life and helps to foster the growth of communities in which it operates. By initiating numerous projects and services that facilitate the wider community in a socially responsible way, MCB ensures sustainability of the greater environment and social well-being of employees as well as supporting national development and other areas of public interest.

MCB adheres to several key principles in order to streamline the efforts of sustaining and flourishing life in all aspects of operational and functional roles of practice. MCB advocates a culture of excellence, good governance, transparency, integrity and accountability. This is achieved by a commitment to prioritize controls and compliance, ensuring that all activities are carried out in accordance with prevailing regulations. We follow a strict Code of Ethics and Conduct, a mandatory document that acts as a guideline for employees when performing their duties. It also serves as a pertinent set of standards of good practice.

MCB is continuously involved in various projects to make both internal as well as external environments more harmonious in its everyday operations.

In its totality, MCB represents a specific, honour-bound commitment to serve its customers, employees, stakeholders and the larger community with integrity, commitment, understanding and social responsibility that is second to none. Through the implementation of a range of moral and ethical standards of practices and procedures, we ensure that every entity that is associated and partners with us adopts the same values and principles that help to build a better future for everyone involved. This only further helps to encourage us to foster the philosophy of 'Bank for Life', which encapsulates all that we do and all that we stand for.

We as an employer

Being an equal opportunity employer, at MCB we identify and nurture talent without any bias or limitation with regard to race, religion or belief, ethnic or national origin, disability, age, citizenship, gender, or marital and civil status. This impartiality produces a diverse and hard working group of employees and associates that tirelessly strive to innovate and contribute successfully with the belief that they are unique and have distinct skill-sets and talent. Creating such tolerant, conducive and healthy working conditions adds to the motivational framework that enhances employee satisfaction and growth. This stems from the equilibrium maintained by us showing that we are inclined to cultivate an effective and harmonious work environment.

Performance-based Pay Culture

Working on an incentive-based pay system helps to encourage competition and foster talent. At MCB we employ a pay-for-performance culture that credits employees on their commitment to excel at their given duties, and rewards them according to their capabilities. Through our KPI-based performance evaluation system, we can disseminate, align and measure deliverables from the leadership team to the front line managers making sure that all employees contribute to the overall objectives of the bank.. Thus, in order to prime our employees for an effective and efficient future, this manifestation of pay and work culture seeks to foster the personal and professional skills as well as the core competencies that each individual is remarkably proficient in. Therefore, rewarding performance on merit is a form of compensation that provides exceptional results in the context of organizational effectiveness and employee motivation.

Training and Education

The development of our employees in both the personal and professional disciplines of life is of particular importance to us as a socially responsible and respectful entity. We believe that by investing in the intellectual capacity of individuals, who create the framework of our organization, we lay the foundation for an ever prosperous and highly skilled workforce. Offering comprehensive technical training and development programmes to employees at all levels, MCB ensures that the potential abilities of those who work here are of the highest calibre. MCB believes that there is no shortage of talent in Pakistan.

Sustainability Report

Purpose

Along with upholding its social responsibilities and contributing to various sectors of the country, MCB understands the significance of building and maintaining industrial relations. Not only does MCB enjoy strong relations with its various partners and other organizations representing different walks of life, it also stands by them in times of need or in support of their cause. This also provides MCB an opportunity to make people aware

of these partnerships through the corporate branding carried out by the Bank at their events. MCB realises the importance of being a responsible entity and hence in order to streamline processes and to pay more attention to sufficient initiatives, a new Group for CSR and Security has been established.

Sustainability rests at the core of overall MCB vision and the Bank continued to make efforts to improve areas of market, social, operational, cultural and financial ideologies;

Rs. 14.7 Billion as income tax to Government Treasury and over Rs. 5 Billion contributed to the National Exchequer as WHT agent	427 branches in rural areas	26% ROE for shareholders	Rs. 571 million agriculture finance for farmers
246 Houses for flood affected areas	395,000 hours of overseas, ex-house and in-house training	Rs. 30,255 million finances for consumers & SMEs	One million LKR donation in Sri Lanka
Mandatory training of KYC & AML for all employees	Rs. 11 Billion Syndicate finance facility for Wind Farm in Sind	Another ESS conducted, 4.7 avg. complaint resolution within minimum TAT	Rs. 13 million expensed for plantation

Contributing to the real economy

Majority of the rural setup in Pakistan lacks necessary exposure to financial and modern services. MCB has 427 rural branches where we offer customized product menu to suit and meet the requirements of these people. MCB is committed in enhancing knowledge and understanding of banking business vis-à-vis spreading and exploring neglected regions of the country.

Access to finance

MCB continues to indulge its services to small and medium enterprises (SMEs) and this year again MCB made substantial progress in SME sector. Our agricultural portfolio also increased by 3% in 2011. Our focus remains on areas of heritage value to the country and with potential. Our rural urban distribution enables this goal to be materialized and we align this financing with prudent risk management policies.

Responsible selling and marketing

MCB's focus is on identifying market needs and meeting the same through the set of our vast product and service portfolio and introducing where there is a gap. This goes on to meet client specific needs and we achieve this through service quality initiatives and embed this requirement in overall banking business. Our corporate communication and investor relations divisions are there to let you know latest about MCB.

Customer satisfaction and service quality

MCB cares about its customers, which is depicted through its initiatives taken to learn and quantify customer's satisfaction on MCB's operational performance, devise measures to cater loopholes, and follow-up on the results of those initiatives. The Bank conducted an independent Employee Satisfaction Survey (ESS) to gauge employees' satisfaction at MCB and to strategize its business as well as human resource policies.

	2011	2010
Total Complaints Received	39,985	40,271
Average Complaints per 1,000 customers	8.5	9.5
Total Complaints Resolved	30,315	33,835
% of Complaints Resolved	77%	84%
Average Complaints resolved per 1,000 customers	6.47	7.98
Complaints resolved (Avg TAT)	4.68	3.71

Handling Risks

Fraudulent, market and credit risk cannot be eliminated however MCB has always been active in identifying and mitigating possible risks and losses through promulgation of policies and procedures to reduce possibility of such incidents. To achieve this, the compliance division of MCB devised tests to encourage awareness on areas specifically related to Know Your Customer

(KYC) and Anti-Money Laundering (AML), on a bank wide basis which is a mandatory requirement for all employees at MCB. MCB's risk management and credit risk and review divisions are well versed in latest methodologies designed for risk management.

Energy conservation and environment protection

Keeping its corporate social responsibility at the core, MCB strives to play its role in contributing towards the betterment of environment. From sponsoring events for the World Wildlife Fund (WWF) to making public service messages, it has also participated in the plantation process in Karachi.

The first such event that MCB sponsored was the Earth Day, an event organized by WWF, during which non-essential lights and other electrical appliances were turned off for an hour to raise awareness about the need to take action on climate change. In addition, MCB also aired several public service messages about pollution and made awareness flyers that were circulated in its branches. These messages were aimed at highlighting the importance of protecting the environment, current problems being faced and their solutions.

MCB has also taken initiative to control printing and electricity expenses to protect environment and save energy.

Electricity expenses

	2011	2010	Variance
Expenses (M)	530.285	477.527	Increase of 7.34%
Franchises	1,173	1,132	only despite tariff
Per franchise expenses	0.452m	0.422m	increase by more than 30%

Printing & stationery expenses

	2011	2010	Variance
Expenses (M)	385.384	362.691	2.5% owing to
Franchises	1,173	1,132	improved control on
Per franchise expenses	0.329m	0.320m	unnecessary printing to save environment.

Plantation

	2011	2010	Variance
Expenses	13.027m	9.216m	41.4% additional payment for maintenance of plants at branch/office premises

Decent Work Environment

MCB considers providing conducive, safe, harassment free, trustworthy and respectable work environment to all its employees as its prime responsibility. MCB not only believes this to be the basic right of an employee but also considers it to have direct contribution towards our collective success. The

Bank has developed various policies and processes to ensure that such employee rights are protected and non-compliance at any level is reprimanded. The Policies and Processes developed by the management equally protect and ensure that the rights of the Bank are equally well protected.

Equal Opportunity Employer

MCB's recruitment policies provides unbiased criteria for hiring people from any religion as long as they qualify for the professional criteria required by the Bank. Our culture at MCB also depicts a healthy, team based and cooperative environment. As of 2011, the Bank held a ratio of 93% male: 7% female ratio with approximately 1% of the employees from the minority population of the country.

Social

MCB believes in supporting events that encourage social integration and growth of the society.

Sports events that MCB sponsored this year include a Polo Match in Karachi, inter banks cricket tournament and the Punjab Rugby Match, World Cup final tournament and Pakistan Squash Federation. An event celebrating the birthday of Britain's Queen was sponsored by the Bank in Lahore, in which a number of delegations representing various embassies were present. MCB also sponsored an event that was headlined by the Karachi Union of Journalists. MCB also celebrated our momentous Independence Day on the 14th of August, by sponsoring an event organized by the Jashn-e-Azadi Committee.

a. Health

In an effort to support and promote health awareness, MCB has sponsored various health organizations, including various hospitals and health institutes.

MCB collaborated with the Pink Ribbon Foundation to hold seminars, along with making a public service message highlighting important factors related to Breast Cancer. Working with the Welfare Patient Care Society (WPCS), MCB played its role towards the betterment of reproductive health care in rural communities of Pakistan. The Bank also sponsored the Children's Cancer Foundation, which works for the treatment of children suffering from cancer. MCB has sponsored a fund raising event held at the Lahore Hospital Welfare Society as well.

b. Community investment and welfare schemes

MCB has readily assisted in many endeavours to combat poverty.

MCB built 246 houses for the 2010 flood victims in Muzaffargarh District, which was one of the largest private intervention done during the floods. This year MCB also sponsored Akhuwat, a micro non-interest finance organization that strives towards alleviating poverty. This is done through the process of empowering socially and economically marginalized families by providing them interest-free loans and capitalizing on their entrepreneurial potential through social guidance. MCB has also supported the Rotary Foundation of Karachi, which seeks to improve the lives of impoverished people by providing them food, shelter, and medical attention. Sponsorships were also made towards Children Cancer Foundation Pakistan Trust for the 'Family Carnival' event and Rotary Metropolitan Trust for a charity gala during the year.

c. Human Rights

MCB pays special attention to human rights and ensures that its policies reflect the interests of all its members and customers without any discrimination, especially those who require special attention.

In MCB, the environment at all branches and its services are maintained with utmost professionalism, instilling a feeling of mutual respect. Aiding in upholding the basic rights of the people of Pakistan, MCB also sponsored the Annual Awards 2011 Dinner for the Human Rights Society of Pakistan.

d. Education

Assisting the growth of education, MCB has taken part in various projects at different institutes.

MCB sponsored the catalogues printing of the National College of Arts and has also sponsored events at different universities, including the Institute of Business Administration (IBA) in Karachi. Besides sponsoring the Punjab Education Foundation, MCB has worked closely with the CARE Foundation by providing them financial aids. MCB also did a virtual classroom project with CISCO to promote a good standard of education to the less privileged children. In another effort to promote education of underprivileged children, the Bank assisted in collecting donations for Danish School Foundation and CARE Foundation.

We strive to build better us and better you!

MCB made donation of Rs. 84 million in 2011 to extend support towards special institutions that are working for the betterment of the society in Pakistan. The Bank registered profitable results, issued dividends and improved ranking and image to meet the requirements of its stakeholders.

Apart from external considerations, the Bank offers best suited environment for its employees. The Karachi tower and MCB office Lahore are state of the art facilities with modern working environments. The Bank makes reasonable efforts in providing healthy and proper facilities to all its branches, including branches in remote areas.

The monthly spot cash awards, monthly employee of the month, service team of the quarter, service team of the year and most successful branch's success story are some of the initiatives of the Bank to encourage and motivate its employees in addition to the performance based criteria for annual employee appraisal.

Inside the Bank, we have:

1. Strict access and timeliness controls
2. Hi-tech and state of the art working equipments
3. High security and protocol arrangements
4. Inside parking arrangements
5. Code of official and front-desk conduct
6. Operator assistance
7. Fire drills and data backup exercises
8. Service quality and monthly reward systems
9. Regular branch success story promotions
10. Internal job rotations and in-house hiring systems
11. Regular business news for employees
12. Monthly Trade Products and Compliance updates
13. Intranet portal for MCB management and data sharing networks
14. Performance based appraisals
15. Symbolised branches and IT and CMIS services across country

We allow training to explore and compare global ideologies!

Employees from branch and offices level were provided in-house and ex-house trainings organised round the year covering all the divisions of the Bank with an average of 42 hours per employee. 12 different overseas trainings held in Malaysia, Singapore, Qatar, Bahrain and Hong Kong were also approved during the

year covering auditing, operational fraud prevention, information technology and finance related topics.

We are one of the most active presences in town!

Apart from our name on the local and foreign exchanges, we ensure active participation in domestic and foreign conferences and trainings.

We are here to hear more about us!

The Bank also makes sure that viewpoints of the Bank and queries and complaints regarding the Bank are not just heard but are also responded to. We offer and welcome general public to reach the Bank in writing or on call through;

1. Registered 24/7 round the clock UAN 111 000 MCB (622) facility
2. E-mail addresses investor.relations@mcb.com.pk for investor, analysts, financial and business enquiries, meetings, conferences and any other technical details, info@mcb.com.pk for general and front desk quality and service feedback and complaints, vis-à-vis mailing address Service Quality Division, Complaint Resolution Unit, 20th Floor, MCB Tower, I.I Chundrigar Road, Karachi – 74000, Fax: 9221- 32270037
3. Online facility to reach us by filling in your details and reaching us regarding anything

Our network is vast!

The Bank has its presence in all the major cities in the country. Our network covers each city in convenient areas. We have 40:60 approximate ratio of rural and urban distribution within the country while we have outreach on a global level;

1. London Stock Exchange through the Bank's GDR listing
2. 6 branches in Sri Lanka;
3. Offshore Banking Unit Bahrain;
4. Representative Office Dubai;
5. Subsidiary in Hong Kong
6. Subsidiary in Azerbaijan
7. Malaysia through strategic partnership with Malayan Bank Berhad;

Investor Relations (IR)

A dedicated unit is at service to address analysts, shareholders, research agencies, corporate clients, whilst MCB's stakeholders that need technical and up to date information about MCB. IR represents itself on national as well as global forums through personal presence and is delighted to have been one the most active participants from the banking industry during 2011. The 2011 road show organized by Credit Suisse in London, quarterly

IR conference calls, annual IR briefing seminar, annual general meeting 2011 and recurring special sessions/ meetings with companies and potential clients have been some of the centric activities of IR. Apart from being just a regulatory requirement, IR capitalizes on the potential power of addressing queries in a timely and responsible manner. The Bank also sponsored a detailed article on promotion of the need for investor relations in Pakistan through SAFE (South Asian Federation of Exchanges) in local newspaper during 2011.

Associations and memberships

MCB believes in integration with other organizations in the banking field and gives special importance to upholding relations. MCB is a member of the Pakistan Banks' Association, which represents the overall Pakistan banking industry. Its main objective is to coordinate the efforts of the banking sector, sharing a common progressive vision of development with its members. The Bank has also sponsored events for the State Bank of Pakistan.

Indirect Economic Impact

An organization, through its repute builds name for the nation! MCB Bank Limited, having a name in the international market given the country's limited structural setup and having blur dominance on the map, is a proof of its continuous struggle to enhance the image of the Bank and Pakistan. We represent the country on numerous platforms around the globe and the response from international institutions has always been positive. We provide job opportunities on a national and international level through our presence. We encourage and groom our employees further through our culture, ethics policies and overall code of conduct to make them better citizens in professional life as well as in society.

Statement of Ethics and Business Practices

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

ABIDANCE OF LAWS / RULES

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

INTEGRITY

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

PROFESSIONALISM

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

provided in KYC & AML Procedures Handbook for Management and Staff.

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

CONFLICT OF INTEREST

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

Political Participation

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

Financial Interest

Not indulge in any of the following activities:

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

Gift, Favors Etc.

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

CONFIDENTIALITY

- Maintain the privacy and confidentiality (during the course of employment and after its termination for whatever reason), of all the information acquired during the course

of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefit of any individual(s).

- Not use for self gain, or for that of others either directly or indirectly, all inside information about Bank's customers / affairs including customer data, product manuals, confidential research work, technical processes, operating manuals, marketing plans and strategies and other confidential financial and business information of the Bank etc.
- Not trade in relevant investments or indulge in giving tips to another person or dealing on behalf of relatives, friends or any other third parties, whilst in possession of non-public price sensitive information.
- Not disclose that a suspicious transaction or related information is being reported for investigation to the customer or any irrelevant quarter.

Data Security

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

Communication/ Contact with Media

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

BUSINESS / WORK ETHICS

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

Personal Responsibility

- Demonstrate commitment to the code through words and actions.
- Be responsible for data relating to official responsibilities and to not alter / modify / amend Bank's record so as to

obtain any personal benefits, attempt which in doing so shall hold the person liable to disciplinary action as per Bank's policy.

- Safeguard as a personal responsibility, both the tangible and intangible assets of MCB and its customer(s) that are under personal control and to not use Bank's assets for personal benefits except where permitted by MCB.
- Not use any Bank facilities including a car or telephone to promote trade union activities, or carry weapons into Bank premises unless so authorized by the management, or to carry on trade union activities during office hours, or subject Bank officials to physical harassment or abuse.
- Not indulge in any kind of harassment or intimidation whether committed by or against any senior/ junior, co-worker, customer, vendor or visitor.
- Not use language, written or spoken in intra-office or communication(s) with individual(s) outside the office that may contain any statement or material that is offensive to others.
- Not engage in any discrimination against an individual's race, colour, religion, gender, age, marital status, sexual orientation or disability.

Punctuality

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

Dress Code

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

WORK ENVIRONMENT

- Help in maintaining a healthy and productive work environment to meet the responsibilities to fellow employees, customers and investors, and to not get engaged in the selling, manufacturing, distributing, using any illegal substance or getting under the influence of illegal drugs while on the job.

- Ensure strict adherence to all health and safety policies as may be implemented from time to time by the Bank.

Usage of Communication Tools

- Ensure strict adherence to the use of internet, emails and telephone provided by the Bank for professional use only.
- Never use the Bank's system to transmit or receive electronic images or text containing ethnic slurs, social epithets or any thing that might be construed as harassing, offensive or insulting to others.
- Never utilize Bank's system to disseminate any material detrimental to the ideology, sovereignty or integrity of Pakistan.
- Never utilize the Bank's system for supporting any terrorist activity within and/or outside Pakistan.

REPORTING AND ACCOUNTABILITY

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

Ensure facts are not misinterpreted pertaining to:

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

Statement of Compliance with Best Practices of Code of Corporate Governance for the year ended December 31, 2011

This statement is being presented to comply with the requirements of Code of Corporate Governance (the Code) contained in the requirement of listing regulations of Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present all the directors on the Board are non-executive except for President and CEO Mr. M.U.A. Usmani.
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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year two casual vacancies occurred on the Board, which was filled within the prescribed period.
5. The Bank has prepared a "Statement of Ethics and Business Practices" which has been signed by all the directors and employees of the Bank.
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.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met 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 and conditions of employment, have been approved by the Board. However no appointments have been made during the year.
10. The Board arranged orientation courses for its directors to apprise them of their duties and responsibilities.
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 annual report.
14. The Bank has complied with all the corporate and financial reporting requirements.
15. The Board has formed an audit committee. It comprises of five members, all of them 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 effective internal audit function. Personnel of Internal Audit Department are suitably qualified and are involved in the internal audit function on full time basis.
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. All material information required under the relevant rules have been provided to the Stock Exchanges and to the Securities and Exchange Commission of Pakistan within the prescribe time limit.
21. All related party transactions entered during the year were at arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors.
22. 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 21, 2012

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate /Commercial Banking issued by the State Bank of Pakistan, Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

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

Further, Sub-Regulation (xiii a) of Listing Regulation No.35 as notified by all the three stock exchanges on which the Bank is

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

We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the 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, 2011.

Lahore
Dated: February 21, 2012

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



MCB Bank Limited

Financial Statements for the year ended December 31, 2011



Auditors' Report to the Members

We have audited the annexed unconsolidated statement of financial position of MCB Bank Limited as at December 31, 2011 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifty branches which have been audited by us and eight branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these financial statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purpose of our audit;
- b) in our opinion:
 - i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2011 and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Other Matter

The financial statements of the bank for the year ended December 31, 2010 were audited by another firm of chartered accountants who expressed an unqualified opinion thereon vide their report dated February 10, 2011.

Statement of Financial Position

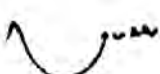
As at December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Assets			
Cash and balances with treasury banks	6	53,122,522	45,407,183
Balances with other banks	7	2,281,263	1,478,569
Lendings to financial institutions	8	955,087	4,401,781
Investments - net	9	316,651,613	213,060,882
Advances - net	10	225,801,259	254,551,589
Operating fixed assets	11	22,007,903	20,947,540
Deferred tax assets - net		-	-
Other assets - net	12	32,413,576	27,705,069
		653,233,223	567,552,613
Liabilities			
Bills payable	14	9,466,818	10,265,537
Borrowings	15	39,100,627	25,684,593
Deposits and other accounts	16	491,188,710	431,371,937
Sub-ordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	17	6,294,886	4,934,018
Other liabilities	18	18,379,700	16,092,319
		564,430,741	488,348,404
Net Assets		88,802,482	79,204,209
Represented by			
Share capital	19	8,362,365	7,602,150
Reserves	20	42,186,467	40,162,906
Unappropriated profit		28,366,171	21,414,955
		78,915,003	69,180,011
Surplus on revaluation of assets - net of tax	21	9,887,479	10,024,198
		88,802,482	79,204,209
Contingencies and commitments	22		

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Profit and Loss Account

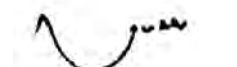
For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Mark-up / return / interest earned	24	68,146,588	54,821,296
Mark-up / return / interest expensed	25	23,620,274	17,987,767
Net mark-up / interest income		44,526,314	36,833,529
Provision for diminution in the value of investments - net	9.3	778,526	444,476
Provision against loans and advances - net	10.4.2	2,846,523	3,100,594
Bad debts written off directly	10.5.1	28,565	52,047
		3,653,614	3,597,117
Net mark-up / interest income after provisions		40,872,700	33,236,412
Non-mark-up / interest income			
Fee, commission and brokerage income		4,921,383	4,129,540
Dividend income		1,003,272	543,906
Income from dealing in foreign currencies		921,262	632,346
Gain on sale of securities - net	26	735,639	411,834
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	27	530,635	547,680
Total non-mark-up / interest income		8,112,191	6,265,306
		48,984,891	39,501,718
Non-mark-up / interest expenses			
Administrative expenses	28	15,584,687	12,173,942
Other provision - net	12.3	514,646	88,261
Other charges	29	1,402,379	986,440
Total non-mark-up / interest expenses		17,501,712	13,248,643
Extra ordinary / unusual item		-	-
Profit before taxation		31,483,179	26,253,075
Taxation - Current year		9,724,467	8,027,433
- Prior years		1,037,910	-
- Deferred		1,295,896	1,352,467
	30	12,058,273	9,379,900
Profit after taxation		19,424,906	16,873,175
Unappropriated profit brought forward		21,414,955	15,779,127
Transfer from surplus on revaluation of fixed assets - net of tax		35,788	21,792
		21,450,743	15,800,919
Profit available for appropriation		40,875,649	32,674,094
Basic and diluted earnings - after tax Rupees per share	33	23.23	20.18

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Statement of Comprehensive Income

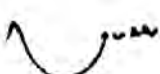
For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
Profit after tax for the year	19,424,906	16,873,175
Other comprehensive income		
Effect of translation of net investment in foreign branches	81,070	89,828
Comprehensive income transferred to equity	19,505,976	16,963,003
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	(35,958)	216,561
Deferred tax	(64,973)	(74,473)
	(100,931)	142,088
Total comprehensive income for the year	19,405,045	17,105,091

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Cash Flow Statement

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Cash flows from operating activities			
Profit before taxation		31,483,179	26,253,075
Less: Dividend income		(1,003,272)	(543,906)
		30,479,907	25,709,169
Adjustments for non-cash charges			
Depreciation	11.2	1,114,998	1,012,161
Amortization	11.3	250,400	160,352
Provision against loans and advances - net	10.4.2	2,846,523	3,100,594
Provision for diminution in the value of investments - net	9.3	778,526	444,476
Provision against other assets - net	12.3	514,646	88,261
Bad debts written off directly	10.5.1	28,565	52,047
Gain on disposal of fixed assets - net	27	(24,291)	(15,993)
		5,509,367	4,841,898
		35,989,274	30,551,067
(Increase) / decrease in operating assets			
Lendings to financial institutions		3,446,694	(1,401,781)
Net investments in 'held for trading' securities		-	-
Advances - net		25,875,242	(4,454,823)
Other assets - net		(1,764,929)	(2,246,347)
		27,557,007	(8,102,951)
Increase / (decrease) in operating liabilities			
Bills payable		(798,719)	2,064,447
Borrowings		13,416,034	(18,977,495)
Deposits and other accounts		59,816,773	63,767,226
Other liabilities		2,783,720	1,056,341
		75,217,808	47,910,519
		138,764,089	70,358,635
Income tax paid		(14,736,896)	(11,657,474)
Net cash flows from operating activities		124,027,193	58,701,161
Cash flows from investing activities			
Net investments in 'available for sale' securities		(107,698,843)	(47,515,913)
Net investments in 'held to maturity' securities		3,346,149	1,445,720
Investment in subsidiary company		-	(84,139)
Investment in associated undertaking		(52,521)	-
Dividends received		1,001,750	570,788
Investments in operating fixed assets		(2,446,649)	(2,572,251)
Sale proceeds of property and equipment disposed off		45,179	33,241
Net cash flows from investing activities		(105,804,935)	(48,122,554)
Cash flows from financing activities			
Dividend paid		(9,785,295)	(8,567,547)
Net cash flows from financing activities		(9,785,295)	(8,567,547)
Exchange differences on translation of the net investment in foreign branches		81,070	89,828
Increase in cash and cash equivalents		8,518,033	2,100,888
Cash and cash equivalents at beginning of the year		46,562,173	44,725,336
Effects of exchange rate changes on cash and cash equivalents		323,579	59,528
		46,885,752	44,784,864
Cash and cash equivalents at end of the year	34	55,403,785	46,885,752

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Statement of Changes in Equity

For the year ended December 31, 2011

	Capital Reserves				Revenue Reserves		Total	
	Share capital	Reserve for issue of bonus shares	Share premium	Exchange translation reserve	Statutory reserve	General reserve		Unappropriated profit
	(Rupees in '000)							
Balance as at December 31, 2009	6,911,045	-	9,702,528	256,151	9,827,081	18,600,000	15,779,127	61,075,932
Profit after taxation for the year ended December 31, 2010	-	-	-	-	-	-	16,873,175	16,873,175
Exchange differences on translation of net investment in foreign branches	-	-	-	89,828	-	-	-	89,828
Total comprehensive income for the year ended December 31, 2010	-	-	-	89,828	-	-	16,873,175	16,963,003
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	21,792	21,792
Transferred to statutory reserve	-	-	-	-	1,687,318	-	(1,687,318)	-
Transfer to reserve for issue of bonus shares	-	691,105	-	-	-	-	(691,105)	-
Issue of bonus shares - December 2009	691,105	(691,105)	-	-	-	-	-	-
Final cash dividend - December 2009	-	-	-	-	-	-	(2,418,877)	(2,418,877)
Interim cash dividend - March 2010	-	-	-	-	-	-	(1,900,549)	(1,900,549)
Interim cash dividend - June 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)
Interim cash dividend - September 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)
Balance as at December 31, 2010	7,602,150	-	9,702,528	345,979	11,514,399	18,600,000	21,414,955	69,180,011
Profit after taxation for the year ended December 31, 2011	-	-	-	-	-	-	19,424,906	19,424,906
Exchange differences on translation of net investment in foreign branches	-	-	-	81,070	-	-	-	81,070
Total comprehensive income for the year ended December 31, 2011	-	-	-	81,070	-	-	19,424,906	19,505,976
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	35,788	35,788
Transferred to statutory reserve	-	-	-	-	1,942,491	-	(1,942,491)	-
Transfer to reserve for issue of bonus shares	-	760,215	-	-	-	-	(760,215)	-
Issue of bonus shares - December 2010	760,215	(760,215)	-	-	-	-	-	-
Final cash dividend - December 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)
Interim cash dividend - March 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)
Interim cash dividend - June 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)
Interim cash dividend - September 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)
Balance as at December 31, 2011	8,362,365	-	9,702,528	427,049	13,456,890	18,600,000	28,366,171	78,915,003

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

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Notes to the Financial Statements

For the year ended December 31, 2011

1. STATUS AND NATURE OF BUSINESS

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2010: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB -15 Main Gulberg, Lahore, respectively. The Bank operates 1,165 branches including 22 Islamic banking branches (2010: 1,125 branches including 14 Islamic banking branches) within Pakistan and 8 branches (2010: 7 branches) outside the country (including the Karachi Export Processing Zone branch).

2. BASIS OF PRESENTATION

- 2.1 These financial statements represent separate financial statements of MCB Bank Limited. The consolidated financial statements of the Group are being issued separately.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- 2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.
- 2.4 For the purpose of translation, rates of Rs. 89.9457 per US Dollar (2010: Rs. 85.6367) and Rs. 0.7899 per LKR (2010: Rs.0.7718) have been used.

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International

Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

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

3.2

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2011:

- IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard classifies and simplifies the definition of a related party and removes the requirement for government - related entities to disclose details of all transactions with the government and other government - related entities. The revised standard does not have any significant effect on the Bank's financial Statements.
- Prepayments of minimum funding requirements (Amendment to IFRIC 14) - effective for annual periods beginning on or after January 1, 2011. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when the IFRIC 14 was issued, and the amendments correct this. The amendment is not expected to have any significant impact on banks financial statements.

Notes to the Financial Statements

For the year ended December 31, 2011

- Customer Loyalty Programmes (IFRIC 13) - effective for annual periods beginning on or after January 1, 2011. The interpretation clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of award credit that is not expected to be redeemed to customers. The amendment is not expected to have any significant impact on banks financial statements.
- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2012.

- IAS 27 Separate Financial Statements (2011) - effective for annual periods beginning on or after January 1, 2013. IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Bank.
- IAS 19 Employee Benefits (amended 2011) - effective for annual periods beginning on or after January 01, 2013. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. The Bank does not plan to adopt this change early and the extent of the impact has not been determined.

There are other new and amended standards and interpretations that are mandatory for the Bank's

accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments, 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 Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand.

4.3 Critical accounting estimates and judgments

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

a) Classification of investments

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

- Investments classified as 'held for trading', the Bank determines 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.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Bank reviews its loan portfolio to assess the

Notes to the Financial Statements

For the year ended December 31, 2011

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 investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

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

e) Fair value of derivatives

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

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits 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 36 for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Bank classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

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

c) Available for sale

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

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

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

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

Notes to the Financial Statements

For the year ended December 31, 2011

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

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

5.2 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.3 Advances

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

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

5.4 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost

or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount. Capital work-in-progress is stated at cost less accumulated impairment losses, if any. 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 land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

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

5.4.1 Intangible assets

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

Notes to the Financial Statements

For the year ended December 31, 2011

if appropriate, at each balance sheet date.

5.4.2 Leases (Ijarah)

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

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

5.5 Impairment

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

5.6 Staff retirement benefits

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

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and
 - contributory benevolent scheme
- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
- an approved pension fund.
- contributory benevolent fund.

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

- d) For executives and officers who joined the Bank on or after January 01, 2000 the Bank operates an approved contributory provident fund.
- e) Post retirement medical benefits to entitled employees. Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the projected unit credit method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service. 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.

5.7 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 recognized immediately.

5.8 Taxation

Current

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

Deferred

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

Notes to the Financial Statements

For the year ended December 31, 2011

financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

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

5.9 Provisions

Provisions are recognized when the 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.

5.10 Foreign currencies

5.10.1 Foreign currency transactions

Transactions in foreign currencies other than the results of foreign operations discussed in note 5.11.2 are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.10.2 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.

5.10.3 Translation gains and losses

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

5.10.4 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.

5.11 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of 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 recognized as income when these are realized.
- Unrealized 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.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.

Notes to the Financial Statements

For the year ended December 31, 2011

5.12 Operating leases

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

5.13 Cash and cash equivalents

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

5.14 Financial instruments

5.14.1 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 (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.14.2 Derivative financial instruments

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

5.14.3 Off setting

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

5.15 Share issuance cost

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

5.16 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.

5.16.1 Business segments

Corporate Finance

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

Trading and Sales

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

Retail and Consumer Banking

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

Commercial Banking

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

5.16.2 Geographical segments

The Bank operates in three geographic regions being:

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

5.17 Dividend distribution and appropriation

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

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
		(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	9,178,607	9,103,182
- foreign currencies		1,158,815	1,539,991
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	23,043,958	20,062,585
Foreign currency current account	6.3	43,029	34,673
Foreign currency deposit account	6.2	4,041,566	3,966,291
With other central banks in foreign currency current account	6.2	331,050	329,632
With National Bank of Pakistan in local currency current account		15,325,497	10,370,829
		<u>53,122,522</u>	<u>45,407,183</u>

6.1 This includes national prize bonds amounting to Rs. 95.889 million (2010: Rs. 67.097 million).

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

6.3 This represents US Dollar settlement account maintained with SBP.

	Note	2011	2010
		(Rupees in '000)	
7. BALANCES WITH OTHER BANKS			
Outside Pakistan			
- current account	7.1	1,654,924	1,074,315
- deposit account	7.2	626,339	404,254
		<u>2,281,263</u>	<u>1,478,569</u>

7.1 This includes balance of Euro 3.2 million frozen on account of restraining order issued by court.

7.2 Balances with other banks outside Pakistan in deposit account carry interest at the rate of 0.50% (2010: 0.55% to 3% per annum).

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
		(Rupees in '000)	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		-	1,500,000
Repurchase agreement lendings	8.2 & 8.3	955,087	2,901,781
		<u>955,087</u>	<u>4,401,781</u>
8.1 Particulars of lendings			
In local currency		907,693	4,391,754
In foreign currencies		47,394	10,027
		<u>955,087</u>	<u>4,401,781</u>

8.2 These carry mark up rates ranging from 7% to 11.90% per annum (2010 : 12.8% to 12.85%).

8.3 Securities held as collateral against lendings to financial institutions

	2011			2010		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	955,087	-	955,087	922,947	-	922,947
Pakistan Investment Bonds	-	-	-	1,978,834	-	1,978,834
	<u>955,087</u>	<u>-</u>	<u>955,087</u>	<u>2,901,781</u>	<u>-</u>	<u>2,901,781</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2011 amounted to Rs.914.027 million (2010: 2,922.541 million).

Notes to the Financial Statements

For the year ended December 31, 2011

9. INVESTMENTS – NET

9.1 Investments by types

Note / Annexure	2011			2010			
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
(Rupees in '000)							
Available-for-sale securities							
- Market Treasury Bills	9.4	232,284,116	24,306,386	256,590,502	174,114,758	11,840,440	185,955,198
- Pakistan Investment Bonds	9.4	33,994,184	-	33,994,184	4,764,252	-	4,764,252
- Shares in listed companies	9.4 & Annexure I (note 1)	7,832,951	-	7,832,951	6,680,635	-	6,680,635
- Units in open ended mutual fund	9.4 & Annexure I (note 1)	4,000,000	-	4,000,000	182,981	-	182,981
- Shares in unlisted companies	9.4 & Annexure I (note 2)	523,951	-	523,951	523,915	-	523,915
- NIT units		5,253	-	5,253	5,253	-	5,253
- Sukuk Bonds	9.4 & Annexure I (note 3)	4,100,000	-	4,100,000	2,100,000	-	2,100,000
- Term Finance Certificates (TFCs)	9.4 & Annexure I (note 3)	1,949,543	-	1,949,543	1,672,200	-	1,672,200
		284,689,998	24,306,386	308,996,384	190,043,994	11,840,440	201,884,434
Held-to-maturity securities							
- Market Treasury Bills	9.5	1,817,297	483,000	2,300,297	3,055,428	100,207	3,155,635
- Pakistan Investment Bonds	9.5	1,804,197	-	1,804,197	2,172,165	-	2,172,165
- Provincial Government Securities		118	-	118	118	-	118
- Sukuk Bonds	Annexure I (note 4)	1,231,964	-	1,231,964	1,427,762	-	1,427,762
- Euro Bonds	Annexure I (note 4)	1,542,470	-	1,542,470	1,446,590	-	1,446,590
- Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 3 & 4)	2,075,882	-	2,075,882	4,099,810	-	4,099,810
		8,471,928	483,000	8,954,928	12,201,873	100,207	12,302,080
Subsidiaries							
	Annexure I (note 5)						
- MNET Services (Private) Limited		49,975	-	49,975	49,975	-	49,975
- MCB Trade Services Limited		77	-	77	77	-	77
- Arif Habib Investments Limited	9.9	320,123	-	320,123	299,980	-	299,980
- MCB Leasing* Closed Joint Stock Company		84,533	-	84,533	84,533	-	84,533
- MCB Financial Services Limited		27,500	-	27,500	27,500	-	27,500
		482,208	-	482,208	462,065	-	462,065
Associates							
	Annexure I (note 6)						
- Adamjee Insurance Company Limited	9.6	943,600	-	943,600	943,600	-	943,600
- Euronet Pakistan (Private) Limited		52,521	-	52,521	-	-	-
- First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		1,059,421	-	1,059,421	1,006,900	-	1,006,900
Investments at cost							
		294,703,555	24,789,386	319,492,941	203,714,832	11,940,647	215,655,479
Less: Provision for diminution in value of investments	9.3	(3,327,065)	-	(3,327,065)	(3,116,292)	-	(3,116,292)
Investments (net of provisions)							
		291,376,490	24,789,386	316,165,876	200,598,540	11,940,647	212,539,187
Surplus / (Deficit) on revaluation of available for sale securities - net	21.2	472,254	13,483	485,737	534,095	(12,400)	521,695
Investments at revalued amounts - net of provisions							
		291,848,744	24,802,869	316,651,613	201,132,635	11,928,247	213,060,882

Notes to the Financial Statements

For the year ended December 31, 2011

	Note / Annexure	2011 (Rupees in '000)	2010
9.2 Investments by segments			
Federal Government Securities:			
Federal Government Securities:			
- Market Treasury Bills	9.4	256,590,502	185,955,198
- Pakistan Investment Bonds	9.4	35,798,381	6,936,417
- Euro Bonds	Annexure I (note 4)	1,542,470	1,446,590
- Sukuk Bonds	Annexure I (note 3 & 4)	4,500,000	2,500,000
- Unlisted Term Finance Certificate	Annexure I (note 3)	-	2,250,000
Overseas Government Securities			
- Market Treasury Bills - Sri Lanka		2,300,297	3,155,635
Provincial Government Securities			
		118	118
Subsidiaries and Associated Undertakings	9.6 & Annexure I (note 5 & 6)	1,541,629	1,468,965
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	7,771,349	6,619,033
- Unlisted companies / funds	Annexure I (note 2)	423,951	423,915
Units of Open Ended Mutual Funds	Annexure I (note 1)	4,000,000	182,981
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	61,602	61,602
- Unlisted Companies	Annexure I (note 2)	100,000	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	Annexure I (note 3)	3,064,783	1,672,200
- Unlisted Term Finance Certificates	Annexure I (note 3)	714,183	1,758,446
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	246,459	91,364
Other Investments:			
- Sukuk Bonds	Annexure I (note 4)	831,964	1,027,762
- NIT Units		5,253	5,253
Total investments at cost		319,492,941	215,655,479
Less: Provision for diminution in the value of investments	9.3	(3,327,065)	(3,116,292)
Investments (net of provisions)		316,165,876	212,539,187
Surplus on revaluation of available for sale securities - net	21.2	485,737	521,695
Investments at revalued amounts - net of provisions		316,651,613	213,060,882

Notes to the Financial Statements

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
9.3 Particulars of provision		
Opening balance	3,116,292	3,686,520
Charge during the year	786,923	458,070
Reversal made during the year	(8,397)	(13,594)
	778,526	444,476
Reversal on disposal of shares	(566,750)	(983,262)
Adjustments due to reclassification	-	(31,140)
Investment written off against provision	(1,003)	(302)
Closing balance	3,327,065	3,116,292
9.3.1 Particulars of provision in respect of Type and Segment		
Available-for-sale securities		
Listed shares / Certificates / Units	2,712,032	2,724,181
Unlisted shares	73,674	70,645
	2,785,706	2,794,826
Held-to-maturity securities		
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates	541,359	321,466
	3,327,065	3,116,292

9.4 Quality of 'available for sale' securities

	Note	2011		2010	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	256,558,203	Unrated	185,624,971	Unrated
Pakistan Investment Bonds	9.4.1	33,755,051	Unrated	4,435,059	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		255,740	AA-	253,473	AA-
Bank Alfalah Limited		501,600	AA-	505,153	AA-
United Bank Limited		758,654	AA	686,225	AA
Allied Bank Limited		231,294	AA-	146,252	AA-
NIB Bank limited		163,443	A+	-	A+
Pak Arab Fertilizers Limited		74,332	AA	97,000	AA
		1,985,063		1,688,103	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		13,532	Not available	14,881	Not available
Allied Bank Limited		340,150	AA & A1+	342,733	AA & A1+
Arif Habib Limited		1,111	Not available	2,038	Not available
Arif Habib Corporation Limited		43,603	Not available	38,079	Not available
Arif Habib Investments Limited		-	-	13,826	A & A1
Askari Bank Limited		49,211	AA & A1+	113,744	AA & A1+
Atlas Bank Limited		-	-	2,465	A- & A2
Attock Petroleum Limited		152,561	Not available	132,585	Not available
Attock Refinery Limited		17,224	AA & A1+	-	-
Azgard Nine Limited - preference shares		-	-	11,602	A+ & A1
Bank Alfalah Limited		-	-	3,382	AA & A1+
Bank Al-Habib Limited		220,604	AA+ & A1+	241,804	AA+ & A1+
Century Papers and Board Mills Limited		709	A+	919	A+

Notes to the Financial Statements

For the year ended December 31, 2011

Note	2011		2010	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Clariant Pakistan Limited	8,381	Not available	-	-
Fauji Fertilizer Bin Qasim Company Limited	631,540	Not available	192,955	Not available
Fauji Fertilizer Company Limited	1,525,308	Not available	1,090,321	Not available
First AI - Noor Modaraba	23,324	BBB & A-3	16,104	BBB & A-3
Glaxo Smithkline Pakistan Limited	37,389	Not available	42,743	Not available
Habib Bank Limited	94,715	AA+ & A-1+	66,428	AA+ & A-1+
Habib Metropolitan Bank Limited	21,585	AA+ & A-1+	33,628	AA+ & A-1+
Ibrahim Fiber Limited	3,245	AA- & A1+	1,264	A+ & A1
ICI Pakistan Limited	26,459	Not available	-	-
IGI Insurance Limited	18,502	AA	26,113	AA
Indus Motors Company Limited	5,541	Not available	6,824	Not available
International Industries Limited	13,111	Not available	20,645	Not available
Kohinoor Energy Limited	867	AA & A1+	1,198	Not available
Kot Addu Power Company Limited	826	AA+ & A-1+	57,220	Not available
Maple Leaf Cement Company Limited	-	-	11,002	BB & B
Masood Textile Mills Limited - preference shares	50,000	Not available	50,000	Not available
Mehr Dastagir Textile Mills Limited	3,234	Not available	3,234	Not available
Millat Tractors Limited	149,708	Not available	90,990	Not available
National Refinery Limited	64,378	AAA & A1+	-	-
Oil & Gas Development Company Limited	45,052	AAA & A-1+	5,213	AAA & A-1+
Packages Limited	3,301	AA & A1+	5,133	AA & A1+
Pakistan Cables Limited	1,367	Not available	2,342	Not available
Pakistan Oilfields Limited	478,134	Not available	155,823	Not available
Pakistan Petroleum Limited	216,217	Not available	124,802	Not available
Pakistan State Oil Company Limited	39,303	AA+ & A1+	-	-
Pakistan Telecommunication Company Limited	2,338	Not available	98,143	Not available
Pakistan Tobacco Company Limited	2,720	Not available	5,401	Not available
Rupali Polyester Limited	4,974	Not available	23,708	Not available
Rafhan Maize Products Limited	12,086	Not available	-	-
Samba Bank Limited	44,896	A+ & A-1	60,688	A & A-1
Soneri Bank Limited	17,300	AA- & A1+	32,766	AA- & A1+
Summit Bank Limited	1,170	A & A2	-	-
** Sui Northern Gas Pipelines Limited	787,311	AA & A1+	1,276,269	AA & A1+
The Bank of Punjab	-	-	63,011	AA- & A1+
* Trust Securities & Brokerage Limited	330	Not available	525	Not available
Unilever Pakistan Limited	289,906	Not available	145,106	Not available
Unilever Pakistan Foods Limited	677	Not available	-	-
United Bank Limited	382,733	AA+ & A-1+	475,389	AA+ & A-1+
Wateen Telecom Limited	9,114	Under review	28,994	A & A-2
Zulfiqar Industries Limited	1,007	Not available	1,707	Not available
	5,856,754		5,133,747	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	3,966,812	AM2	-	-
MCB Dynamic Allocation Fund	-	-	77,327	AM3+
MCB Dynamic Stock Fund	-	-	100,624	AM3+
	3,966,812		177,951	

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011		2010	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Shares in Un-listed Companies	9.4.2				
* Khushhali Bank Limited		300,000	A & A-1	300,000	A- & A-2
* National Investment Trust Limited		100	AM2	100	AM2
* SME Bank Limited		10,106	BBB & A-3	10,106	BBB & A-3
First Capital Investment (Private) Limited		2,500	AM4+	2,500	AM4+
Pak Asian Fund		11,500	Not available	11,500	Not available
* Arabian Sea Country Club		2,962	Not available	4,481	Not available
* Central Depository Company of Pakistan Limited		10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited		1,527	Not available	1,527	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)		1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited - preference share		100,000	A- & A2	100,000	A- & A2
* Next Capital Limited		8,240	Not available	9,752	Not available
Lanka Clearing (Private) Limited		790	Not available	772	Not available
Lanka Financial Services Bureau Limited		790	Not available	772	Not available
Credit Information Bureau of Srilanka		24	Not available	23	Not available
		450,277		453,271	
Other Investment					
Sukuk Bonds	9.4.1	4,121,390	Unrated	2,094,727	Unrated
N.I.T. Units		2,865	AM2	3,475	AM2
		<u>306,696,415</u>		<u>199,611,304</u>	

9.4.1 These are Government of Pakistan guaranteed securities.

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

* These are the strategic investments of the Bank.

** This includes 33.901 million shares valuing Rs. 532.591 million (2010: 32.287 million shares valuing Rs. 863.355 million) which are held as strategic investment by the Bank.

Notes to the Financial Statements

For the year ended December 31, 2011

- 9.5** “Available for sale” Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan. The market value of Pakistan Investment Bonds and Market Treasury Bills classified as ‘held to maturity’ as at December 31, 2011 amounted to Rs. 1,651.687 million and Rs. 2,300.297 million (2010: Pakistan Investment Bonds Rs. 1,848.956 million and Market Treasury Bills Rs. 3,155.635 million) respectively.
- 9.6** Investment of the Bank in Adamjee Insurance Company Limited is carried at cost amounting to Rs. 943.600 million (2010: Rs. 943.600 million) as at December 31, 2011. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2011 amounted to Rs. 1,675.927 million (2010: Rs. 3,152.948 million).
- 9.7** Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2010: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2010: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.
- 9.8** Information relating to investments in ordinary shares and preference shares of listed companies and unlisted companies required to be disclosed as part of the financial statements under BSD Circular No.04 of 2006 dated February 17, 2006, is given in Annexure “I”.
- 9.9** During the year MCB Assets Management Company amalgamated with Arif Habib Investments Limited, the Bank owns 51.33% holding in merged entity.
- 9.10** Certain approved / Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
10. ADVANCES – NET			
Loans, cash credits, running finances, etc.			
In Pakistan		223,963,444	250,419,923
Outside Pakistan		10,959,873	9,104,266
		234,923,317	259,524,189
Net investment in finance lease	10.2		
In Pakistan		1,226,014	2,333,616
Outside Pakistan		151,463	86,429
		1,377,477	2,420,045
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		722,522	1,274,149
Payable outside Pakistan		11,111,385	10,925,541
		11,833,907	12,199,690
Advances - gross		248,134,701	274,143,924
Provision against advances	10.4		
Specific provision	10.3	(21,869,401)	(18,930,571)
General provision	10.4.3	(248,135)	(274,144)
General provision against consumer loans	10.4.5	(198,340)	(357,352)
General provision for potential lease losses (in Sri Lanka operations)		(17,566)	(30,268)
		(22,333,442)	(19,592,335)
Advances - net of provision		225,801,259	254,551,589
10.1 Particulars of advances (gross)			
10.1.1 In local currency		222,581,371	249,684,875
In foreign currencies		25,553,330	24,459,049
		248,134,701	274,143,924
10.1.2 Short-term		186,363,648	192,749,318
Long-term		61,771,053	81,394,606
		248,134,701	274,143,924

10.2 Net investment in finance lease

	2011				2010			
	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 in '000)								
Lease rentals receivable	490,982	737,402	69,615	1,297,999	714,095	1,313,501	1,362	2,028,958
Guaranteed residual value	176,521	132,488	-	309,009	404,732	294,465	254	699,451
Minimum lease payments	667,503	869,890	69,615	1,607,008	1,118,827	1,607,966	1,616	2,728,409
Finance charge for future periods	(73,228)	(144,313)	(11,990)	(229,531)	(117,982)	(190,021)	(361)	(308,364)
Present value of minimum lease payments	594,275	725,577	57,625	1,377,477	1,000,845	1,417,945	1,255	2,420,045

Notes to the Financial Statements

For the year ended December 31, 2011

10.3 Advances include Rs. 26,664.873 million (2010: Rs. 24,543.807 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2011								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	-	-	-	-	-	-	-	-	-
Substandard		2,036,968	7,857	2,044,825	459,410	1,964	461,374	459,410	1,964	461,374
Doubtful		292,466	-	292,466	115,289	-	115,289	115,289	-	115,289
Loss		20,061,976	4,265,606	24,327,582	19,580,300	1,712,438	21,292,738	19,580,300	1,712,438	21,292,738
		<u>22,391,410</u>	<u>4,273,463</u>	<u>26,664,873</u>	<u>20,154,999</u>	<u>1,714,402</u>	<u>21,869,401</u>	<u>20,154,999</u>	<u>1,714,402</u>	<u>21,869,401</u>
Category of Classification	Note	2010								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	57,057	-	57,057	-	-	-	-	-	-
Substandard		1,539,019	864	1,539,883	349,703	216	349,919	349,703	216	349,919
Doubtful		2,139,457	2,755	2,142,212	1,014,758	1,377	1,016,135	1,014,758	1,377	1,016,135
Loss		16,688,531	4,116,124	20,804,655	16,310,419	1,254,098	17,564,517	16,310,419	1,254,098	17,564,517
		<u>20,424,064</u>	<u>4,119,743</u>	<u>24,543,807</u>	<u>17,674,880</u>	<u>1,255,691</u>	<u>18,930,571</u>	<u>17,674,880</u>	<u>1,255,691</u>	<u>18,930,571</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.

Note	2011				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
10.4 Particulars of provision against advances					
Opening balance	18,930,571	274,144	357,352	30,268	19,592,335
Exchange adjustments	4,523	-	-	-	4,523
Provision made during the year	6,371,637	-	-	-	6,371,637
Reversals	(3,327,391)	(26,009)	(159,012)	(12,702)	(3,525,114)
Amounts written off	3,044,246	(26,009)	(159,012)	(12,702)	2,846,523
	(109,939)	-	-	-	(109,939)
Closing balance	<u>21,869,401</u>	<u>248,135</u>	<u>198,340</u>	<u>17,566</u>	<u>22,333,442</u>
Note	2010				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
Opening balance	15,678,345	269,722	494,434	30,268	16,472,769
Exchange adjustments	20,890	-	-	-	20,890
Provision made during the year	5,989,585	4,422	-	-	5,994,007
Reversals	(2,756,331)	-	(137,082)	-	(2,893,413)
Amounts written off	3,233,254	4,422	(137,082)	-	3,100,594
	(1,918)	-	-	-	(1,918)
Closing balance	<u>18,930,571</u>	<u>274,144</u>	<u>357,352</u>	<u>30,268</u>	<u>19,592,335</u>

Notes to the Financial Statements

For the year ended December 31, 2011

	2011			2010		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.4.1 Particulars of provisions against advances						
In local currency	20,154,999	446,475	20,601,474	17,674,880	631,496	18,306,376
In foreign currencies	1,714,402	17,566	1,731,968	1,255,691	30,268	1,285,959
	<u>21,869,401</u>	<u>464,041</u>	<u>22,333,442</u>	<u>18,930,571</u>	<u>661,764</u>	<u>19,592,335</u>

	Note	2011	2010
		(Rupees in '000)	
10.4.2 The following amounts have been charged to the profit and loss account:			
Specific provision		3,044,246	3,233,254
General provision	10.4.3	(26,009)	4,422
General provision against consumer loans	10.4.5	(159,012)	(137,082)
General provision for potential lease losses (in Sri Lanka operations)		(12,702)	-
		<u>2,846,523</u>	<u>3,100,594</u>

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

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

10.4.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP.

	Note	2011	2010
		(Rupees in '000)	
10.5 Particulars of write offs:			
10.5.1 Against provisions	10.4	109,939	1,918
Directly charged to the profit and loss account		28,565	52,047
		<u>138,504</u>	<u>53,965</u>
10.5.2 Write offs of Rs. 500,000 and above	10.5.3	109,030	7,019
Write offs of below Rs. 500,000		29,474	46,946
		<u>138,504</u>	<u>53,965</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, 2011 is given at Annexure- III. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
10.6 Particulars of advances to directors, executives, associated companies, etc.			
Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		4,660,598	4,393,286
Loans granted during the year		955,974	1,426,017
Repayments		(1,437,535)	(1,158,705)
Balance at end of the year		4,179,037	4,660,598
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		167,022	53,735
Loans granted during the year		422,586	128,922
Repayments		(8,834)	(15,635)
Balance at end of the year		580,774	167,022
		4,759,811	4,827,620
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,594,094	2,040,246
Property and equipment	11.2	19,992,013	18,599,703
Intangible asset	11.3	421,796	307,591
		22,007,903	20,947,540
11.1 Capital work-in-progress			
Civil works		912,641	1,654,483
Advances to suppliers and contractors		308,946	194,751
Others		372,507	191,012
		1,594,094	2,040,246

Notes to the Financial Statements

For the year ended December 31, 2011

11.2 Property and equipment

Description	2011							
	Cost/ Revalued amount			Accumulated depreciation				
	At January 01, 2011	Additions / (disposals) / exchange and other adjustments	At December 31, 2011	At January 01, 2011	Charge for the year / (depreciation on disposals) / exchange and other adjustments	At December 31, 2011	Net book value at December 31, 2011	Annual rate of depreciation / estimated useful life
(Rupees in '000)								
Land - Freehold	10,381,400	406,723	10,788,123	-	-	-	10,788,123	-
Land - Leasehold	120,100	-	120,100	-	-	-	120,100	-
Buildings on freehold land	5,276,168	296,557	5,542,637	-	133,016	133,016	5,409,621	50 years
		(30,088)						
Buildings on leasehold land	161,983	111,717	307,012	67,896	52,089	120,908	186,104	3 to 50 years
		-			-			
Furniture and fixture	791,340	119,148	901,776	387,333	52,809	432,210	469,566	10% to 33%
		(9,566)			(8,472)			
		854			540			
Electrical, Computers and office Equipment	5,940,358	1,182,910	7,150,209	3,948,985	767,383	4,746,335	2,403,874	20% to 33%
		(49,448)			(46,047)			
		76,389			76,014			
Vehicles	578,171	28,372	562,237	285,102	74,241	325,743	236,494	20%
		(42,731)			(31,315)			
		(1,575)			(2,285)			
Ijarah Assets								
Assets held under Ijarah - Car	52,413	60,112	105,537	12,914	19,128	30,031	75,506	20%
		(6,988)			(2,011)			
Assets held under Ijarah - Equipment	-	318,957	318,957	-	16,332	16,332	302,625	20%
	23,301,933	2,524,496	25,796,588	4,702,230	1,114,998	5,804,575	19,992,013	
		(108,733)			(87,845)			
		78,892			75,192			

Description	2010										
	Cost/ Revalued amount				Accumulated depreciation						
	At January 01, 2010	Additions/ (disposals)	Revaluation surplus	Reversal due to revaluation	At December 31, 2010	At January 01, 2010 (depreciation on disposals)	Charge for the year / (depreciation on disposals)	Reversal due to revaluation	At December 31, 2010	Net book value at December 31, 2010	Annual rate of depreciation / estimated useful life
(Rupees in '000)											
Land - Freehold	9,719,130	61,451	600,819	-	10,381,400	-	-	-	-	10,381,400	-
Land - Leasehold	57,430	-	62,670	-	120,100	-	-	-	-	120,100	-
Buildings on freehold land	4,280,772	400,317	877,499	(282,420)	5,276,168	185,792	96,628	(282,420)	-	5,276,168	50 years
Buildings on leasehold land	76,230	76,587	9,166	-	161,983	28,854	39,042	-	67,896	94,087	3 to 50 years
Furniture and fixture	710,955	83,980	-	-	791,340	328,918	61,173	-	387,333	404,007	10% to 33%
		(3,595)					(2,758)				
Electrical, Computers and office Equipment	5,284,645	678,383	-	-	5,940,358	3,238,577	731,267	-	3,948,985	1,991,373	20% to 33%
		(22,670)					(20,859)				
Vehicles	541,845	88,869	-	-	578,171	248,725	74,320	-	285,102	293,069	20%
		(52,543)					(37,943)				
Ijarah Assets											
Assets held under Ijarah - Car	29,947	22,466	-	-	52,413	3,183	9,731	-	12,914	39,499	20%
	20,700,954	1,412,053	1,550,154	(282,420)	23,301,933	4,034,049	1,012,161	(282,420)	4,702,230	18,599,703	
		(78,808)					(61,560)				

Notes to the Financial Statements

For the year ended December 31, 2011

11.2.1 The land and buildings of the Bank were last revalued in December 2010 by independent valuers (Pee Dee Associates & Arch-e-Decon), valuation and engineering consultants, on the basis of market value. The information relating to location of revalued assets is given in Annexure V. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	10,501,500
Total revalued amount of buildings	5,329,945

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2011 would have been as follows:

	(Rupees in '000)
Land	2,911,186
Buildings	2,950,376

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

Furniture and fixture	2,316,130
Electrical, computers and office equipment	13,079
Vehicles	162,683
Intangible asset	785,040

11.2.3 Details of disposal of operating fixed assets

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

11.3 Intangible asset

Description	2011							
	Cost			Accumulated amortization			Net book value at December 31, 2011	Annual rate of amortization %
	At January 01, 2011	Additions	At December 31, 2011	At January 01, 2011	Amortization for the year	At December 31, 2011		
	(Rupees in '000)							
Computer software	1,135,944	364,605	1,500,549	828,353	250,400	1,078,753	421,796	33.33
	1,135,944	364,605	1,500,549	828,353	250,400	1,078,753	421,796	
Description	2010							
	Cost			Accumulated amortization			Net book value at December 31, 2010	Annual rate of amortization %
	At January 01, 2010	Additions	At December 31, 2010	At January 01, 2010	Amortization for the year	At December 31, 2010		
	(Rupees in '000)							
Computer software	916,243	219,701	1,135,944	668,001	160,352	828,353	307,591	33.33
	916,243	219,701	1,135,944	668,001	160,352	828,353	307,591	

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
12. OTHER ASSETS – NET			
Income / mark-up accrued on advances and investments - local currency		7,209,696	7,738,947
Income / mark-up accrued on advances and investments - foreign currencies		187,967	66,625
Advances, deposits, advance rent and other prepayments		1,094,899	757,246
Advance against future Murabaha		1,645,531	2,212,048
Advance taxation (payments less provisions)		5,990,472	2,533,770
Compensation for delayed income tax refunds		44,802	44,802
Branch adjustment account		-	153,857
Non-banking assets acquired in satisfaction of claims	12.1	994,504	1,155,832
Unrealised gain on derivative financial instruments	12.2	311,282	278,628
Stationery and stamps on hand		64,989	94,053
Prepaid exchange risk fee		537	233
Receivable from the pension fund	36.3	14,731,898	12,542,560
Others		1,426,686	894,743
		<u>33,703,263</u>	<u>28,473,344</u>
Less: Provision held against other assets	12.3	<u>1,289,687</u>	<u>768,275</u>
		<u>32,413,576</u>	<u>27,705,069</u>

12.1 The market value of non-banking assets with carrying value of Rs. 871.894 million (2010: Rs. 1,033.222 million) net of provision as per the valuation report dated December 31, 2011 amounted to Rs. 893.184 million (2010: Based on valuation as of December 31, 2010 Rs. 1,048.473 million).

12.2 Unrealised gain on derivative financial instruments

	Notional amount of contracts		Unrealised gain	
	2011	2010	2011	2010
(Rupees in '000)				
Unrealised gain on:				
Cross currency swaps	-	76,563	-	51
Forward exchange contracts	29,327,087	23,302,853	311,282	278,577
	<u>29,327,087</u>	<u>23,379,416</u>	<u>311,282</u>	<u>278,628</u>

	2011	2010
(Rupees in '000)		
12.3 Provision held against other assets		
Opening balance	768,275	583,953
Charge for the year	520,423	88,261
Reversal during the year	(5,777)	-
	<u>514,646</u>	<u>88,261</u>
Write off during the year	(18,286)	(111,409)
Exchange adjustments	25,052	207,470
Closing balance	<u>1,289,687</u>	<u>768,275</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2011 and December 31, 2010.

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
14. BILLS PAYABLE			
In Pakistan		9,435,321	10,218,142
Outside Pakistan		31,497	47,395
		<u>9,466,818</u>	<u>10,265,537</u>
15. BORROWINGS			
In Pakistan		37,397,843	24,324,510
Outside Pakistan		1,702,784	1,360,083
		<u>39,100,627</u>	<u>25,684,593</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		37,397,843	24,324,510
In foreign currencies		1,702,784	1,360,083
		<u>39,100,627</u>	<u>25,684,593</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	9,903,657	9,880,240
Long term financing facility	15.4 & 15.5	2,026,175	721,000
Long term financing - export oriented projects scheme	15.4 & 15.5	949,375	1,444,542
Financing Facility for Storage of Agricultural Produce		219,932	-
Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas		450	-
		<u>13,099,589</u>	<u>12,045,782</u>
Borrowings from other financial institution	15.6	293,113	618,163
Repurchase agreement borrowings	15.7	24,781,254	12,027,499
		<u>38,173,956</u>	<u>24,691,444</u>
Unsecured			
Call borrowings	15.8	816,139	449,860
Overdrawn nostro accounts		110,532	543,289
		<u>926,671</u>	<u>993,149</u>
		<u>39,100,627</u>	<u>25,684,593</u>
15.3	The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.4	The amount is due to SBP and has been obtained for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.5	Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP.		
15.6	These carry mark-up ranging from 2.80% to 9.50% per annum (2010: 2% to 3.15% per annum).		
15.7	These carry mark-up rates ranging from 6.30% to 12.50% per annum (2010: 12.75% to 14% per annum) and are secured against government securities of carrying value of Rs. 24,802.869 million (2010: Rs. 11,928.247 million). These are repayable by April, 2012.		
15.8	These carry mark-up ranging from 2.24% to 9.10% per annum (2010: 0.75% to 8.10% per annum). These are repayable by April, 2012.		

Notes to the Financial Statements

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	91,501,846	80,073,848
Saving deposits	225,920,953	196,015,213
Current accounts	161,680,596	144,545,488
Margin accounts	3,511,830	3,482,526
	482,615,225	424,117,075
Financial institutions		
Remunerative deposits	6,319,827	4,128,090
Non-remunerative deposits	2,253,658	3,126,772
	8,573,485	7,254,862
	491,188,710	431,371,937
16.1 Particulars of deposits		
In local currency	463,540,941	404,168,939
In foreign currencies	27,647,769	27,202,998
	491,188,710	431,371,937

16.2 Deposits include deposits from related parties amounting to Rs. 30,652.979 million (2010: Rs. 27,889.250 million).

	Note	2011	2010
		(Rupees in '000)	
17. DEFERRED TAX LIABILITY / (ASSET) – NET			
The details of the tax effect of taxable and deductible temporary differences are as follows:			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	782,977	802,248
Accelerated tax depreciation		1,033,028	839,989
Receivable from pension fund		5,156,165	4,389,896
Net investment in finance lease receivable		-	119,394
Surplus on revaluation of securities		49,393	-
		7,021,563	6,151,527
Deductible temporary differences on:			
Deficit on revaluation of securities	21.2	-	(15,580)
Provision for bad debts		(414,114)	(821,631)
Provision for contributory benevolent scheme		(5,655)	(27,128)
Provision for post retirement medical benefits		(306,908)	(353,170)
		(726,677)	(1,217,509)
		6,294,886	4,934,018

17.1 The Finance Act, 2010 and 2011 have made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provision for doubtful and loss categories of advances and off balance sheet items is allowable up to a maximum of 1% of total advances whereas provisions for advances and off-balance sheet items for consumers and Small and Medium Enterprises (SMEs) ("as defined under the SBP's Prudential Regulations") is now allowed at 5% of gross consumer and SME portfolio. The amount of bad debts classified as substandard under Prudential Regulations issued by State Bank of Pakistan would not be allowed as an expense.

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011 (Number of shares)	2010
19.3	Number of shares held by the associated undertakings as at December 31, are as follows:		
	Adamjee Insurance Company Limited	26,037,715	23,263,378
	Nishat Mills Limited	59,201,892	53,411,266
	D.G. Khan Cement Company Limited	76,842,402	69,856,731
	Din Leather (Private) Limited	5,211,371	4,737,611
	Siddiqsons Limited	10,726,120	34,708,948
	Mayban International Trust (Labuan) Berhad	167,247,294	152,042,995
		<u>345,266,794</u>	<u>338,020,929</u>
20. RESERVES			
	Share premium	9,702,528	9,702,528
	Exchange translation reserve	427,049	345,979
	Statutory reserve	20.1 13,456,890	11,514,399
	General reserve	18,600,000	18,600,000
		<u>42,186,467</u>	<u>40,162,906</u>

20.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	Note	2011 (Rupees in '000)	2010
21. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX			
Surplus / (deficit) arising on revaluation (net of tax) of:			
– fixed assets	21.1	9,451,135	9,486,923
– available-for-sale securities	21.2	436,344	537,275
		<u>9,887,479</u>	<u>10,024,198</u>
21.1 Surplus on revaluation of fixed assets–net of tax			
Surplus on revaluation of fixed assets as at January 01		10,289,171	8,772,543
Surplus during the year		-	1,550,154
Surplus realised on disposal of revalued properties - net of deferred tax		-	-
Related deferred tax liability		-	-
		-	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(35,788)	(21,792)
Related deferred tax liability		(19,271)	(11,734)
		<u>(55,059)</u>	<u>(33,526)</u>
Surplus on revaluation of fixed assets as at December 31		<u>10,234,112</u>	<u>10,289,171</u>
Less: Related deferred tax liability on:			
Revaluation as at January 01		802,248	503,649
Surplus during the year		-	310,333
Disposal of revalued properties during the year transferred to profit and loss account		-	-
Incremental depreciation charged during the year transferred to profit and loss account		(19,271)	(11,734)
		<u>782,977</u>	<u>802,248</u>
		<u>9,451,135</u>	<u>9,486,923</u>

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
21.2 Surplus / (deficit) on revaluation of available-for-sale securities – net of tax			
Federal Government Securities			
- Market Treasury Bills		(32,299)	(330,227)
- Pakistan Investment Bonds		(239,133)	(329,193)
Listed Securities			
- Shares / Certificates / Units		733,928	1,089,882
- Open Ended Mutual Funds		(33,669)	80,603
- Term Finance Certificates		35,520	15,903
		735,779	1,186,388
Sukuk Bonds		21,390	(5,273)
		485,737	521,695
Add: Related deferred tax asset	17	(49,393)	15,580
		436,344	537,275
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring:			
Government		2,634,218	2,080,334
Banks and financial institutions		2,519,451	1,455,621
Others		4,885,951	1,967,610
		10,039,620	5,503,565
22.2 Transaction-related contingent liabilities			
Guarantees in favour of			
Government		2,761,601	2,452,921
Others		4,217,157	5,827,049
Suppliers' credit / payee guarantee		2,373,006	2,326,818
		9,351,764	10,606,788
22.3 Trade-related contingent liabilities		77,075,699	76,856,249
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		844,099	674,032
22.5 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	2011	2010
(Rupees in '000)			
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		32,395,900	20,154,200
Sale		35,030,445	22,245,693
22.7 Commitments for the acquisition of fixed assets		276,277	51,944
22.8 Other commitments			
Cross currency swaps (notional amount)	23.1 & 23.2	-	153,126

Notes to the Financial Statements

For the year ended December 31, 2011

22.9 Taxation

The income tax assessments of the Bank have been framed upto and including the Tax Year 2011. For the Assessment Year 1988-89 through tax year 2010, the department has amended the assessments on certain issues against the Bank. The Bank has filed appeals which are pending at various appellate forums. In addition, certain decisions made in favour of the Bank are being contested by the department at higher forums. No provision has been made in the financial statements as the management and the 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.

23. DERIVATIVE INSTRUMENTS

Most corporate (counter parties) have either interest rate exposures arising from debt financing or excess liquidity or currency exposures arising out of commercial and business transactions. In the event of a shift in interest or foreign exchange (FX) rates, these 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:

- 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.

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).

Notes to the Financial Statements

For the year ended December 31, 2011

23.1 Product analysis

Counter parties	2011					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Counter parties	2010					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	76,563	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	2	76,563	-	-	-	-
Total						
Hedging	2	76,563	-	-	-	-
Market Making	2	76,563	-	-	-	-

23.2 Maturity analysis

Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Cross currency swaps					
1 to 2 Years	-	-	-	-	-
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Cross currency swaps					
1 to 2 Years	4	153,126	(51)	51	-
Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Interest rate swaps					
6 month to 1 year	-	-	-	-	-
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Interest rate swaps					
6 month to 1 year	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	33,769,826	32,598,604
On investments in:		
Held for trading securities	-	-
Available for sale securities	31,944,698	19,009,859
Held to maturity securities	1,174,867	1,310,394
	33,119,565	20,320,253
On deposits with financial institutions	11,828	16,105
On securities purchased under resale agreements	958,125	1,563,520
On money at call	71,626	105,031
Others	215,618	217,783
	68,146,588	54,821,296
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	20,083,248	15,805,828
Securities sold under repurchase agreements	1,574,909	622,999
Other short-term borrowings	1,210,856	901,916
Discount, commission and brokerage	662,115	553,809
Others	89,146	103,215
	23,620,274	17,987,767
26. GAIN ON SALE OF SECURITIES - NET		
Federal Government Securities		
Market Treasury Bills	47,461	965
Pakistan Investment Bonds	8,717	30,880
Sukuk Bonds	13,500	1,800
Shares- Listed	665,961	378,189
	735,639	411,834
27. OTHER INCOME		
Rent on property / lockers	129,722	84,396
Net profit on sale of property and equipment	24,291	15,993
Bad debts recovered	39,140	58,981
Others	337,482	388,310
	530,635	547,680

Notes to the Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		8,307,442	7,218,085
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(2,189,338)	(3,220,256)
- Post retirement medical benefits	36.7	169,629	136,014
- Employees' contributory benevolent scheme	36.7	51,422	71,464
- Employees' compensated absences	36.7	180,647	190,821
		(1,787,640)	(2,821,957)
Contributions to defined contribution plan - provident fund		176,510	158,724
Non-executive directors' fees		35,838	31,956
Rent, taxes, insurance and electricity		1,694,705	1,569,381
Legal and professional charges		186,917	221,954
Communications		935,531	841,915
Repairs and maintenance		948,994	681,026
Stationery and printing		385,384	362,691
Advertisement and publicity		426,513	232,432
Cash transportation charges		449,670	403,427
Instrument clearing charges		197,851	165,519
Donations	28.1	83,506	15,000
Auditors' remuneration	28.2	25,128	15,000
Depreciation	11.2	1,114,998	1,012,161
Amortization of intangible asset	11.3	250,400	160,352
Travelling, conveyance and fuel		728,167	683,651
Subscription		28,141	25,776
Entertainment		102,470	68,851
Training expenses		46,298	57,798
Petty capital items		55,907	63,924
Credit card related expenses		129,396	129,184
Others		1,062,561	877,092
		15,584,687	12,173,942

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

	2011	2010
(Rupees in '000)		
Construction of houses in flood affected areas	77,988	-
Cancer Detection Center - Rotary Club of Colombo	783	-
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation	4,735	-
Mosque of Armed forces Institute of Cardiology and National Institute of Heart Diseases, Rawalpindi	-	500
Chief Minister's Flood Relief and Rehabilitation Account for relief of flood victims	-	10,000
CAS flood relief fund for flood victims	-	2,500
Aitmaad Pakistan Trust for relief to the flood calamity masses of Pakistan	-	2,000
	83,506	15,000

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For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
28.2 Auditors' remuneration		
Annual Audit fee	2,988	2,716
Fee for the audit of branches	3,964	3,604
Fee for audit and other certifications of overseas branches	6,932	4,593
Fee for half year review	1,331	1,210
Special certifications and sundry advisory services	9,308	1,920
Out-of-pocket expenses	605	957
	25,128	15,000
29. OTHER CHARGES		
Provision for penalties of State Bank of Pakistan	150,000	366,251
Workers welfare fund	629,664	525,062
VAT Sri Lanka	33,448	89,216
Loss on sale of non-banking assets	182,595	-
Others	406,672	5,911
	1,402,379	986,440
30. TAXATION		
For the year		
Current	9,724,467	8,027,433
Deferred	1,153,561	1,352,467
	10,878,028	9,379,900
Prior years		
Current	1,037,910	-
Deferred	142,335	-
	1,180,245	-
	12,058,273	9,379,900
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	31,483,179	26,253,075
Tax rate	35%	35%
Tax on income	11,019,113	9,188,576
Tax effect on separate block of income (taxable at reduced rate)	(242,275)	(135,976)
Tax effect of permanent differences	81,727	339,034
Tax effect of prior years provisions	1,180,245	-
Others	19,463	(11,734)
Tax charge for the year	12,058,273	9,379,900

31. CREDIT RATING

PACRA through its notification in June 2011, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2010: AA+ [Double A plus] for long term and A1+ [A one plus] for short term rating).

Notes to the Financial Statements

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	2011	2010
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE PRE TAX		
Profit before taxation	31,483,179	26,253,075
	(Number of Shares)	
Weighted average number of shares outstanding during the year	836,236,476	836,236,476
	(Rupees)	
Basic and diluted earnings per share – pre tax	37.65	31.39
	2011	2010
	(Rupees in '000)	
33. BASIC AND DILUTED EARNINGS PER SHARE AFTER TAX		
Profit after taxation	19,424,906	16,873,175
	(Number of Shares)	
Weighted average number of shares outstanding during the year	836,236,476	836,236,476
	(Rupees)	
Basic and diluted earnings per share – after tax	23.23	20.18

* Weighted average number of shares outstanding for 2010 have been restated to give effect of bonus shares issued during the year.

	Note	2011	2010
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	53,122,522	45,407,183
Balances with other banks	7	2,281,263	1,478,569
		55,403,785	46,885,752
		2011	2010
		(Number)	
35. STAFF STRENGTH			
Permanent		10,090	9,583
Temporary/on contractual basis		64	57
Bank's own staff strength at the end of the year		10,154	9,640
Outsourced		2,892	3,740
Total staff strength		13,046	13,380

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

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

Notes to the Financial Statements

For the year ended December 31, 2011

36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2011. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(%)							
Valuation discount rate	13	13	13	13	13	13	13	13
Expected rate of return on plan assets	13	13	-	-	-	-	-	-
Salary increase rate	10	10	10	10	10	10	10	10
Medical cost inflation rate	-	-	-	-	7	7	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

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

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

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2011	2010	2011	2010	2011	2010	2011	2010	
	(Rupees in '000)								
Present value of defined benefit obligations	36.5	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792
Fair value of plan assets	36.6	(19,543,388)	(19,303,801)	-	-	-	-	-	-
Net actuarial gains / (losses) not recognised		549,069	2,543,734	(21,448)	(52,151)	22,774	53,360	-	-
Unrecognised negative past service cost		-	-	-	-	-	-	-	-
Unrecognised past service cost		-	-	-	-	-	-	-	-
Net (receivable) / payable recognised as at the year-end		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medial obligation at December 31, 2011 would be Rs. 81.262 million (2010: Rs. 82.189 million) and Rs. 69.891 million (2010: Rs. 68.517 million) respectively.

36.4 Movement in balance (receivable) / payable

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2011	2010	2011	2010	2011	2010	2011	2010	
	(Rupees in '000)								
Opening balance of (receivable) / payable		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116
Expense recognised	36.7	(2,189,338)	(3,220,256)	51,422	71,464	169,629	136,014	180,647	190,821
- Employees' contribution		-	-	9,694	10,972	-	-	-	-
Benefits paid		-	-	(61,350)	(66,617)	(132,178)	(132,145)	(200,569)	(176,145)
Closing balance of (receivable) / payable		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792

Notes to the Financial Statements

For the year ended December 31, 2011

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)								
Present value of obligation as at January 01,	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116
Current service cost	46,415	37,135	13,506	14,447	17,887	16,172	32,693	33,927
Interest cost	503,085	570,171	36,886	41,914	163,130	180,229	72,253	75,756
Benefits paid	(695,247)	(654,204)	(61,350)	(66,617)	(132,178)	(132,145)	(200,569)	(176,145)
Actuarial (gains) / losses	190,661	191,752	(19,979)	25,282	19,198	(30,671)	75,701	81,138
Present value of obligation as at December 31,	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)								
Net assets as at January 01,	19,303,801	18,254,967	-	-	-	-	-	-
Expected return on plan assets	2,464,303	2,555,695	-	-	-	-	-	-
Benefits paid	(695,247)	(654,204)	-	-	-	-	-	-
Actuarial gain / (loss)	(1,529,469)	(852,657)	-	-	-	-	-	-
Net assets as at December 31,	36.9 19,543,388	19,303,801	-	-	-	-	-	-

36.7 Charge for defined benefit plans and other benefits

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

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)								
Current service cost	46,415	37,135	13,506	14,447	17,887	16,172	32,693	33,927
Interest cost	503,085	570,171	36,886	41,914	163,130	180,229	72,253	75,756
Expected return on plan assets	(2,464,303)	(2,555,695)	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(274,535)	(1,271,867)	10,724	26,075	(11,388)	(26,680)	75,701	81,138
Contributions employees	-	-	(9,694)	(10,972)	-	-	-	-
Recognised past service cost	-	-	-	-	-	-	-	-
Recognised negative past service cost	-	-	-	-	-	(33,707)	-	-
	(2,189,338)	(3,220,256)	51,422	71,464	169,629	136,014	180,647	190,821

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 11.622 million (2010: Rs. 11.502 million) and Rs. 9.922 million (2010: Rs. 9.550 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)								
Actual return on plan assets	934,834	1,703,038	-	-	-	-	-	-

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36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2011		2010	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term deposit receipts	15,535,472	79.49	14,855,349	76.96
Listed equity shares	2,187,870	11.19	3,380,334	17.51
Open ended mutual funds units	182,438	0.93	222,605	1.15
Term Finance certificates	183,552	0.94	197,652	1.02
Cash and bank balances	1,454,056	7.44	647,861	3.36
Fair value of plan total assets	19,543,388	100	19,303,801	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	1,728,172		2,667,543	
TDRs of MCB	15,535,472		14,855,349	
Bank balance with MCB	1,442,065		634,567	
	18,705,709		18,157,459	

36.10 Other relevant details of above funds are as follows:

	2011	2010	2009	2008	2007
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,262,421	4,217,507	4,072,653	4,295,986	4,747,389
Fair value of plan assets	(19,543,388)	(19,303,801)	(18,254,967)	(15,953,712)	(25,095,113)
(Surplus) / deficit	(15,280,967)	(15,086,294)	(14,182,314)	(11,657,726)	(20,347,724)
Actuarial gain / (loss) on obligation					
Experience adjustment	(190,661)	(191,752)	(368,717)	167,695	(325,849)
Assumptions gain / (loss)	-	-	-	-	-
	(190,661)	(191,752)	(368,717)	167,695	(325,849)
Actuarial gain / (loss) on assets					
Experience adjustment	(1,529,469)	(852,657)	1,400,023	(476,313)	9,694,483
Assumptions gain / (loss)	-	-	-	-	-
	(1,529,469)	(852,657)	1,400,023	(476,313)	9,694,483
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	283,477	314,414	299,388	300,162	355,340
Fair value of plan assets	-	-	-	-	-
	283,477	314,414	299,388	300,162	355,340
Actuarial gain / (loss) on obligation					
Experience adjustment	19,979	(25,282)	(53,700)	-	(60,968)
Assumptions gain / (loss)	-	-	-	-	-
	19,979	(25,282)	(53,700)	-	(60,968)
Actuarial gain / (loss) on assets					
Experience adjustment	-	-	-	-	(1,529)
Assumptions gain / (loss)	-	-	-	-	-
	-	-	-	-	(1,529)

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	2011	2010	2009	2008	2007
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,388,970	1,320,933	1,287,348	1,269,622	1,422,918
Fair value of plan assets	-	-	-	-	-
	<u>1,388,970</u>	<u>1,320,933</u>	<u>1,287,348</u>	<u>1,269,622</u>	<u>1,422,918</u>
Actuarial gain / (loss) on obligation					
Experience adjustment	(19,198)	30,671	2,101	159,682	(40,893)
Assumptions gain / (loss)	-	-	-	-	-
	<u>(19,198)</u>	<u>30,671</u>	<u>2,101</u>	<u>159,682</u>	<u>(40,893)</u>
36.10.4 Compensated absences					
Present value of defined benefit obligation	535,870	555,792	541,116	752,947	974,464
Fair value of plan assets	-	-	-	-	-
	<u>535,870</u>	<u>555,792</u>	<u>541,116</u>	<u>752,947</u>	<u>974,464</u>
Actuarial gain / (loss) on obligation	(75,701)	(81,138)	(5,687)	-	-

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

37. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 7,331 (2010: 6,616) employees where contributions are made by the Bank and employees at 8.33% per annum (2010: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 176.510 million (2010: Rs. 158.724 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 1,999 (2010: 2,114) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2010: 12% per annum) of the basic salary.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fees	-	-	35,838	31,956	-	-
Managerial remuneration	20,600	22,597	-	-	925,273	876,574
Bonus and others	11,071	20,654	-	-	484,211	445,012
Retirement benefits	-	1,463	-	-	61,583	56,505
Rent and house maintenance	9,200	10,078	-	-	355,603	325,092
Utilities	2,044	2,240	-	-	74,847	69,663
Medical	-	-	-	-	20,388	19,086
Conveyance	-	-	-	-	393,443	317,945
38.1	<u>42,915</u>	<u>57,032</u>	<u>35,838</u>	<u>31,956</u>	<u>2,315,348</u>	<u>2,109,877</u>
Number of persons	1	2	14	12	863	827

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

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39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.3 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

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

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	(Rupees in '000)				
2011					
Total income	101,719	35,521,188	13,262,524	27,373,348	76,258,779
Total expenses	(27,540)	(6,345,536)	(32,731,707)	(5,670,817)	(44,775,600)
Income tax expense	-	-	-	-	(12,058,273)
Net income	74,179	29,175,652	(19,469,183)	21,702,531	19,424,906
Segment assets - (Gross of NPL's provision)	16,975	341,301,414	133,459,223	194,334,540	669,112,152
Advance taxation (payments less provisions)	-	-	-	-	5,990,472
Total assets	16,975	341,301,414	133,459,223	194,334,540	675,102,624
Segment non performing loans	-	-	8,195,846	18,469,027	26,664,873
Segment specific provision required	-	-	6,721,886	15,147,515	21,869,401
Segment liabilities	3,059	33,200,175	495,618,587	29,314,034	558,135,855
Deferred tax liability	-	-	-	-	6,294,886
Total liabilities - net	3,059	33,200,175	495,618,587	29,314,034	564,430,741
Segment return on assets (ROA) (%)	-	10.41%	10.46%	15.28%	-
Segment cost of fund (%)	-	12.04%	4.25%	5.85%	-

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For the year ended December 31, 2011

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
(Rupees in '000)					
2010					
Total income	105,897	22,832,746	12,907,394	25,240,565	61,086,602
Total expenses	(22,504)	(2,346,148)	(28,634,106)	(3,830,769)	(34,833,527)
Income tax expense	-	-	-	-	(9,379,900)
Net income	83,393	20,486,598	(15,726,712)	21,409,796	16,873,175
Segment assets – (Gross of NPL's provision)	-	244,173,082	122,032,226	217,744,106	583,949,414
Advance taxation (payments less provision)	-	-	-	-	2,533,770
Total assets	-	244,173,082	122,032,226	217,744,106	586,483,184
Segment non performing loans	-	-	7,892,471	16,651,336	24,543,807
Segment specific provision required	-	-	6,087,441	12,843,130	18,930,571
Segment liabilities	-	20,269,951	437,756,727	25,387,708	483,414,386
Deferred tax liability	-	-	-	-	4,934,018
Total liabilities – net	-	20,269,951	437,756,727	25,387,708	488,348,404
Segment return on net assets (ROA) (%)	-	9.35%	11.13%	12.32%	-
Segment cost of fund (%)	-	10.99%	4.00%	4.96%	-

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationship with its associates, subsidiaries, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in subsidiary companies and associates are stated in Annexure I (note 5 & 6) to these financial statements.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk. 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 36 and 37. Remuneration to executives is disclosed in note 38 to these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2011

	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)										
A. Balances										
Deposits										
Deposits at beginning of the year	2,088,985	1,390,799	955,014	789,205	77,043	40,644	24,677,392	18,203,007	90,816	32,289
Deposits received during the year	20,407,581	51,651,335	169,261,154	108,743,238	986,420	827,231	250,452,445	224,246,290	830,780	415,414
Deposits repaid during the year	(18,097,810)	(50,953,149)	(169,449,781)	(108,577,429)	(1,019,609)	(790,832)	(249,736,033)	(217,771,905)	(871,418)	(356,887)
Deposits at end of the year	4,398,756	2,088,985	766,387	955,014	43,854	77,043	25,393,804	24,677,392	50,178	90,816
Mark-up expense on deposits	140,834	227,084	78,244	74,666	1,593	1,292	2,571,745	2,135,133	2,732	1,227
Advances (secured)										
Balance at beginning of the year	-	-	-	-	112,548	1,141	-	-	54,474	52,594
Loans granted during the year	-	-	-	-	337,759	111,970	81,302	-	3,525	16,952
Repayments received during the year	-	-	-	-	(578)	(563)	-	-	(8,256)	(15,072)
Balance at end of the year	-	-	-	-	449,729	112,548	81,302	-	49,743	54,474
Markup income of advances	-	-	-	-	14,946	304	7,125	-	2,747	3,014
Outstanding Balance of credit card	1,137	848	-	-	-	-	-	-	856	903
Receivable from Pension fund	-	-	-	-	-	-	14,731,898	12,542,560	-	-

B. Other transactions (including profit and loss related transactions)

	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)										
Associates										
Adamjee Insurance Company Limited										
Insurance premium paid-net of refund	-	-	230,104	215,735	-	-	-	-	-	-
Insurance claim settled	-	-	55,452	166,315	-	-	-	-	-	-
Rent Income received	-	-	3,516	6,954	-	-	-	-	-	-
Dividend received	-	-	90,084	85,171	-	-	-	-	-	-
Commission income from bancassurance	-	-	330,816	111,677	-	-	-	-	-	-
Outstanding commitments and contingent liabilities	-	-	8,365	4,842	-	-	-	-	-	-
Purchase of vehicle	-	-	-	26,000	-	-	-	-	-	-
Adamjee Life Assurance Company Limited										
Insurance Premium Paid	-	-	86,501	69,396	-	-	-	-	-	-
Insurance claim settled	-	-	71,596	70,866	-	-	-	-	-	-
Outstanding commitments and contingent liabilities	-	-	500	-	-	-	-	-	-	-
Euronet Pakistan Private Limited										
ATM Outsourcing Revenue	-	-	101,233	-	-	-	-	-	-	-
Sale of hardware	-	-	39,522	-	-	-	-	-	-	-
Capital injection	-	-	52,519	-	-	-	-	-	-	-
Trade payable	-	-	7,317	-	-	-	-	-	-	-
Mayban International Trust (Labuan) Berhad										
Dividend paid	-	-	-	-	-	-	1,961,355	1,776,139	-	-
Bonus shares issued	-	-	-	-	-	-	152,043	138,221	-	-
Forward foreign exchange contracts (Notional)	-	-	-	-	-	-	1,913,753	-	-	-
Unrealized loss on forward foreign exchange contracts	-	-	-	-	-	-	40,914	-	-	-
Subsidiary Companies										
MNET Services (Private) Limited										
Dividend received	-	-	-	-	35,000	-	-	-	-	-
Outsourcing service expenses	-	-	-	-	74,739	79,697	-	-	-	-
Networking service expenses	-	-	-	-	-	15,276	-	-	-	-
Switch expense	-	-	-	-	261	124	-	-	-	-
Payment system managed service revenue (PSM)	-	-	-	-	8,599	26,721	-	-	-	-
Payable for trade debts	-	-	-	-	16,506	24,544	-	-	-	-
Receivable for other expenses	-	-	-	-	-	13,578	-	-	-	-
Other expenses paid by MCB	-	-	-	-	3,490	23,414	-	-	-	-
MCB Leasing" Closed Joint Stock Company										
Capital injection	-	-	-	-	-	84,138	-	-	-	-
Markup Receivable	-	-	-	-	4,265	274	-	-	-	-
MCB Financial Services Limited										
Dividend received	-	-	-	-	2,750	-	-	-	-	-

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	Directors		Associated		Subsidiaries		Other related parties		Key management	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)									
MCB Trade Services Limited	-	-	-	-	-	-	-	-	-	-
Dividend received	-	-	-	-	4,664	9,929	-	-	-	-
Arif Habib Investments Limited (amalgamated with MCB Asset Management Company Limited)	-	-	-	-	-	-	-	-	-	-
Dividend received	-	-	-	-	85,433	-	-	-	-	-
Markup paid	-	-	-	-	2,068	666	-	-	-	-
Markup payable	-	-	-	-	610	185	-	-	-	-
Commission Receivable	-	-	-	-	1,924	-	-	-	-	-
Management fee sharing	-	-	-	-	8,529	-	-	-	-	-
Others	-	-	-	-	7,472	4,073	-	-	-	-
Other related parties	-	-	-	-	-	-	-	-	-	-
MCB Employees Foundation	-	-	-	-	-	-	-	-	-	-
Service expenses	-	-	-	-	-	-	20,898	17,287	-	-
Cash sorting expenses	-	-	-	-	-	-	32,286	28,027	-	-
Stationery Expenses	-	-	-	-	-	-	185,832	121,791	-	-
Cash in transit expenses	-	-	-	-	-	-	-	220	-	-
Advance receivable	-	-	-	-	-	-	20,000	20,000	-	-
Payable for stationery expenses	-	-	-	-	-	-	1,255	394	-	-
Gain on sale of fixed assets	-	-	-	-	-	-	-	56	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-	-	178	-	-
MCB Employees Security System and Services (Private) Limited	-	-	-	-	-	-	-	-	-	-
Security guard expenses	-	-	-	-	-	-	226,417	168,823	-	-
Others	-	-	-	-	-	-	-	-	-	-
Remuneration of key management personnel	-	-	-	-	-	-	-	-	238,783	229,195
Dividend Income	-	-	-	-	-	-	285,017	143,136	-	-
Proceeds from sale of vehicles to key management personnel	-	-	-	-	-	-	-	-	-	6,003
Advisory fee received	-	-	-	3,428	-	-	-	13,696	-	-
Clearing expenses paid to NIFT	-	-	-	-	-	-	123,198	103,266	-	-
Other miscellaneous expenses	-	-	-	-	-	-	11,326	9,347	-	-
Investment in Metro-Bank Pakistan Sovereign Fund-Perpetual	-	-	-	-	-	-	4,000,000	-	-	-
Contribution to provident fund	-	-	-	-	-	-	176,510	158,724	-	-
Rent paid	-	-	-	-	-	-	191	169	-	-

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Financial Statements

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42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel II Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates undertaking) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The objectives and goals of managing capital of the Bank are as follows:

- to be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.8 billion paid up capital (net of losses) by the end of the financial year 2011. The paid up capital of the Bank for the year ended December 31, 2011 stands at Rs. 8.3 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10 % of the risk weighted exposure. The Bank's CAR as at December 31, 2011 is 21.79% of its risk weighted exposure.

Bank's regulatory capital is analysed into two tiers.

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net unappropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities and reciprocal investments advised by BSD circular letter No.6 of 2010 by SBP.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However, the bank currently does not have any Tier III capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008 and BSD Circular No.07 of 2009 dated April 15, 2009 . The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

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The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank has complied with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

	Note	2011 (Rupees in '000)	2010
42.3 Capital Structure			
Tier 1 Capital			
Shareholders equity /assigned capital		8,362,365	7,602,150
Share premium		9,702,528	9,702,528
Reserves		32,056,890	30,114,399
Unappropriated profits		28,366,171	21,414,955
		78,487,954	68,834,032
Deductions:			
Book value of intangible		630,734	407,346
Other deductions	42.3.1	827,293	725,412
		1,458,027	1,132,758
Total Tier 1 capital		77,029,927	67,701,274
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		464,041	661,764
Revaluation reserves up to 45%		4,823,932	4,864,890
Foreign exchange translation reserves		427,049	345,979
		5,715,022	5,872,633
Deductions:			
Other deductions	42.3.1	731,228	717,547
Total Tier 2 Capital		4,983,794	5,155,086
Total Regulatory Capital Base	A	82,013,721	72,856,360

42.3.1 Other deduction includes investments in equity of financial subsidiaries not consolidated in the statement of financial position and significant minority investments in banking, securities and other financial entities.

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42.4 Capital Adequacy

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

	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
	(Rupees in '000)			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	13,180,451	12,444,765	119,181,894	115,459,216
Banks / DFIs	611,137	444,321	5,526,096	4,122,296
Public sector entities	68,081	330,845	615,611	3,069,491
Sovereigns / cash & cash equivalents	472,916	537,630	4,276,258	4,987,985
Loans secured against residential property	178,010	189,672	1,609,627	1,759,731
Retail	2,238,162	3,161,672	20,238,188	29,333,155
Past due loans	545,338	660,003	4,931,118	6,123,329
Operating fixed assets	2,364,123	2,213,923	21,377,169	20,540,194
Other assets	2,883,415	2,133,269	26,072,770	19,791,909
	22,541,633	22,116,100	203,828,731	205,187,306
Off-Balance Sheet				
Non-market related	4,355,994	3,178,387	39,388,306	29,488,233
Market related	29,718	18,134	268,724	168,239
	4,385,712	3,196,521	39,657,030	29,656,472
Equity Exposure Risk in the Banking Book				
Listed	198,799	219,616	1,797,606	2,037,538
Unlisted	91,698	81,364	829,160	754,869
	290,497	300,979	2,626,766	2,792,407
Total Credit Risk	27,217,842	25,613,601	246,112,527	237,636,185
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,004,519	684,116	25,056,492	8,551,446
Equity position risk	1,483,230	712,207	18,540,375	8,902,587
Foreign exchange risk	167,728	157,520	2,096,602	1,969,001
Total Market Risk	3,655,478	1,553,843	45,693,469	19,423,034
Operational Risk				
Capital requirement for operational risks	6,770,883	5,846,092	84,636,037	73,076,148
Total	B 37,644,203	33,013,535	376,442,033	330,135,367

		2011	2010
		(Rupees in '000)	
Capital Adequacy Ratio			
Total eligible regulatory capital held	A	82,013,721	72,856,360
Total Risk Weighted Assets	B	376,442,033	330,135,367
Capital Adequacy Ratio	A / B	21.79%	22.07%

*As SBP capital requirement of 10% (10% in 2010) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

43 RISK MANAGEMENT

MCB defines risk as any deviation from an anticipated outcome that may affect the value, capital or earnings of the Bank. Identifying and managing exposure to risk is an integral part of strategic and operational activities of risk management. Bank's risk management policy is aimed at setting the best course of action under uncertainty by identifying, prioritizing,

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mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, following are the five guiding principles of robust risk management structure:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. This framework combines core policies, procedures and process design with broad oversight and is supported by risk monitoring across the bank. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC) and the senior management and its relevant committees, i.e. the Management Committee (MC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank so as to ensure that risks are kept within an acceptable level.

As part of risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Operational Risk Management

In context of the financial services industry and the requirements laid down via BSD Circular No. 03 of 2007 dated April 14, 2007 by the State Bank of Pakistan (SBP) and Pillar II of Basel II, defining and operationalising risk appetite has assumed critical importance. The financial industry is now widely seen recognizing the importance of articulating risk appetite and also linking it to limit setting, risk control and performance measurement.

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It also stems from activities both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of credit risk function is to identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and review clients' performance as an ongoing process.

The Bank has adopted standardized approach to measure Credit risk regulatory charge in compliance with Basel-II requirements. The approach is reliant upon the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems the Bank has developed a system and all its corporate borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, the bank has the following policies and procedures in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM & PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

As a part of credit assessment Bank, uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

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Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework, continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of risk profile benchmarks. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non- Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.4 for reconciliation of changes in specific and general provisions.

Management of Non-Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non-performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

The Bank also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

43.1.1 Segmental information

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

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	2,612,658	1.05	44,566,552	9.07	672,350	0.41
Mining and quarrying	161,133	0.06	411,287	0.08	205,147	0.12
Textile	37,394,234	15.07	2,733,369	0.56	16,803,887	10.18
Chemical and pharmaceuticals	13,430,355	5.41	2,657,125	0.54	7,239,080	4.39
Cement	2,391,098	0.96	419,559	0.09	825,748	0.50
Sugar	8,881,126	3.58	1,414,904	0.29	631,717	0.38
Footwear and leather garments	3,935,811	1.59	177,103	0.04	821,071	0.50
Automobile and transportation equipment	516,726	0.21	1,288,471	0.26	721,457	0.44
Electronics and electrical appliances	2,919,572	1.18	1,698,872	0.35	1,031,045	0.62
Construction	2,357,006	0.95	2,331,527	0.47	3,068,731	1.86
Power (electricity), gas, water, sanitary	20,846,124	8.40	7,435,537	1.51	8,769,317	5.31
Wholesale and Retail Trade	20,128,987	8.11	32,261,864	6.57	4,385,744	2.66
Transport, storage and communication	56,787,492	22.89	3,714,596	0.76	3,228,083	1.96
Financial	3,444,795	1.39	5,839,647	1.19	63,991,114	38.78
Insurance	99	0.00	2,733,849	0.56	5,790	0.00
Services	5,565,010	2.24	91,900,646	18.71	13,820,292	8.38
Individuals	17,455,692	7.03	267,484,500	54.46	1,337,904	0.81
Others	49,306,783	19.87	22,119,302	4.50	37,455,327	22.70
	248,134,701	100	491,188,710	100	165,013,804	100

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	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Agriculture, forestry, hunting and fishing	2,541,907	0.93	39,865,496	9.24	366,696	0.27
Mining and quarrying	157,736	0.06	371,755	0.09	388,575	0.29
Textile	40,354,192	14.72	1,669,316	0.39	26,185,570	19.22
Chemical and pharmaceuticals	12,990,612	4.74	1,600,137	0.37	5,219,494	3.83
Cement	3,648,217	1.33	417,445	0.10	694,911	0.51
Sugar	9,062,880	3.31	728,325	0.17	734,344	0.54
Footwear and leather garments	2,782,358	1.01	164,847	0.04	1,017,338	0.75
Automobile and transportation equipment	476,630	0.17	510,051	0.12	760,204	0.56
Electronics and electrical appliances	2,202,681	0.80	168,801	0.04	756,986	0.56
Construction	2,434,904	0.89	1,912,202	0.44	2,606,377	1.91
Power (electricity), gas, water, sanitary	36,348,248	13.26	724,626	0.17	4,617,725	3.39
Wholesale and Retail Trade	22,119,616	8.07	33,305,764	7.72	3,143,491	2.31
Transport, storage and communication	67,013,507	24.44	2,486,246	0.58	2,952,413	2.17
Financial	4,268,631	1.56	5,642,220	1.31	38,254,338	28.08
Insurance	426	0.00	1,612,642	0.37	8,429	0.01
Services	4,536,701	1.65	91,980,482	21.32	2,791,931	2.05
Individuals	22,007,235	8.03	223,040,400	51.70	18,413	0.01
Others	41,197,443	15.02	25,171,182	5.83	45,728,362	33.55
	<u>274,143,924</u>	<u>100</u>	<u>431,371,937</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

43.1.1.2 Segment by sector	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	49,079,118	19.78	15,279,097	3.11	43,860,105	26.58
Private	199,055,583	80.22	475,909,613	96.89	121,153,699	73.42
	<u>248,134,701</u>	<u>100</u>	<u>491,188,710</u>	<u>100</u>	<u>165,013,804</u>	<u>100</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	78,725,414	28.72	14,673,234	3.40	35,044,121	25.72
Private	195,418,510	71.28	416,698,703	96.60	101,201,476	74.28
	<u>274,143,924</u>	<u>100</u>	<u>431,371,937</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

Notes to the Financial Statements

For the year ended December 31, 2011

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

	2011		2010	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	416,111	416,111	417,169	290,886
Mining and quarrying	251	251	-	-
Textile	5,225,087	4,166,475	4,258,684	3,691,316
Chemical and pharmaceuticals	203,886	203,886	148,866	148,866
Cement	362,230	362,230	531,715	265,857
Sugar	1,265,828	1,265,828	1,160,081	1,059,540
Footwear and leather garments	126,591	126,591	128,292	128,292
Automobile and transportation equipment	68,865	53,860	114,482	84,721
Electronics and electrical appliances	340,410	340,410	323,271	322,558
Construction	172,091	170,245	127,404	116,056
Power (electricity), gas, water, sanitary	10	10	2,000	500
Wholesale and retail trade	4,631,382	4,621,737	4,516,086	4,254,729
Exports / imports	305,992	305,824	320,868	316,530
Transport, storage and communication	125,852	83,183	139,397	69,707
Financial	1,447,782	1,117,472	1,275,315	998,750
Services	938,661	924,310	615,006	568,668
Individuals	3,625,053	2,979,078	3,605,321	2,778,450
Others	7,408,791	4,731,900	6,859,850	3,835,145
	<u>26,664,873</u>	<u>21,869,401</u>	<u>24,543,807</u>	<u>18,930,571</u>

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

Public/ Government	-	-	-	-
Private	26,664,873	21,869,401	24,543,807	18,930,571
	<u>26,664,873</u>	<u>21,869,401</u>	<u>24,543,807</u>	<u>18,930,571</u>

43.1.1.5 Geographical segment analysis

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	31,061,946	640,639,202	88,372,243	156,761,215
Asia Pacific (including South Asia)	243,661	9,125,866	245,934	6,370,552
Middle East	177,572	3,468,155	184,305	1,882,037
	<u>31,483,179</u>	<u>653,233,223</u>	<u>88,802,482</u>	<u>165,013,804</u>
	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	25,806,227	556,339,307	78,756,846	130,676,444
Asia Pacific (including South Asia)	289,426	8,233,398	290,102	5,127,310
Middle East	157,422	2,979,908	157,261	441,843
	<u>26,253,075</u>	<u>567,552,613</u>	<u>79,204,209</u>	<u>136,245,597</u>

Total assets employed include intra group items of Rs. NIL (2010: Rs. NIL).

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43.1.2 Credit Risk – General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with State Bank requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company– Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	OTHER (S&P / Moody's / Fitch)
Corporate	Yes	Yes	–
Banks	Yes	Yes	Yes
Sovereigns	–	–	Yes
SME's	Yes	Yes	–

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumeric scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No. 8 table 2.3.

Long – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA–	AAA AA+ AA AA–	AAA AA+ AA AA–	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA–	1
2	A+ A A–	A+ A A–	A+ A A–	A1 A2 A3	A+ A A–	2
3	BBB+ BBB BBB–	BBB+ BBB BBB–	BBB+ BBB BBB–	Baa1 Baa2 Baa3	BBB+ BBB BBB–	3
4	BB+ BB BB–	BB+ BB BB–	BB+ BB BB–	Ba1 Ba2 Ba3	BB+ BB BB–	4
5	B+ B B–	B+ B B–	B+ B B–	B1 B2 B3	B+ B B–	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+, A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

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Credit Exposures subject to Standardised approach

Exposures	Rating	2011			2010		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	21,642,750	-	21,642,750	8,813,855	-	8,813,855
	2	13,722,126	-	13,722,126	11,067,495	-	11,067,495
	3,4	867,994	-	867,994	1,736,237	-	1,736,237
	5,6	172,685	-	172,685	-	-	-
	Unrated	106,865,261	-	106,865,261	106,426,460	-	106,426,460
Bank	1	17,953,697	-	17,953,697	18,116,088	-	18,116,088
	2,3	1,808,433	-	1,808,433	929,748	-	929,748
	4,5	165,978	-	165,978	943	-	943
	6	245,538	-	245,538	6,344	-	6,344
	Unrated	1,060,436	-	1,060,436	91,104	-	91,104
Public Sector Entities in Pakistan	1	1,428,701	-	1,428,701	3,039,527	-	3,039,527
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	48,544,287	47,884,545	659,742	81,068,380	76,145,209	4,923,171
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash		40,491,533	-	40,491,533	37,863,496	-	37,863,496
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	4,276,258	-	4,276,258	4,987,985	-	4,987,985
	6	-	-	-	-	-	-
	Unrated	-	-	-	-	-	-
Mortgage		4,598,934	-	4,598,934	5,027,804	-	5,027,804
Retail		26,984,250	-	26,984,250	39,110,873	-	39,110,873

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on statement of financial position activities, bank has taken only the benefit of Sovereign guarantee.

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MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 612,822.990 million (2010: Rs. 530,304.938 million) the financial assets which are subject to credit risk amounting to Rs. 602,485.568 million (2010: Rs. 519,661.765 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs.298,431.353 million (2010: Rs. 199,088.205 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs.27,459.603 million (2010: Rs. 24,393.181 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. The Bank has invested in its subsidiaries and associated companies to achieve long term strategic objectives. As of December 31, 2011 the composition of equity investments subsidiaries and associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Subsidiary and Associates
(Rs. in '000)			
Equity investments – publicly traded	-	11,838,204	1,263,723
Equity investments - others	-	523,951	277,906
Total value	-	12,362,155	1,541,629

Classification of equity investments

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments – Held for trading
- Investments – Available for sale
- Investments in associates
- Investments in subsidiaries

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. 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.

The cumulative realized gain of Rs. 665.961 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 700.259 million was recognized in the balance sheet in respect of "AFS" securities. Further a provision for impairment in value of equity investments amounting to Rs. 557.629 million has been charged to profit and loss account.

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43.2 Market Risk Management

Market risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates and Equity Prices. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign exchange and Capital market groups. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk. Market risk is also assumed as a result of bank's statement of financial position and capital management activities.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM & PRC) of the Board, ALCO, and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk Management Division is responsible for policy formulation, controlling of market risk including monitoring of exposures against limits; assessment of risks in new business; developing procedures, market risk measurement and reporting system. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

As per SBP instructions (BSD Circular 8, 2006) trading book shall consist of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. Hence the bank has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently valued and actively managed. The positions which does not fulfill the criteria of trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market risk by using conventional methods i.e. notional amounts and sensitivity. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. A reasonable number of limits are set and approved. These Limits are compared with the numbers generated by the market risk management system based on the trading activity and the outstanding position on risk measurement date.

Besides conventional methods, the Bank uses VaR (Value at Risk) technique for market risk assessment of assets booked by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Variance co-variance approach of VaR measure for conventional products and Monte Carlo simulation approach for derivative and structured products are being used by the bank.

Stress testing of both banking and trading books as per SBP guidelines is a regular feature.

The Bank is exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVBP, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

43.2.1 Foreign Exchange Risk Management

Foreign exchange risk represents exposures the bank has due to changes in the values of current holdings and future cash flows denominated in currencies other than home currency. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against losses that may arise due to volatile movements in foreign exchange rates or interest rates.

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Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenures have been introduced for USD exposures. Gap limit for other major currencies will be introduced depending upon the significance of exposure in that currency. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR 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 a daily basis.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
(Rupees in '000)				
Pakistan Rupee	630,458,241	544,128,255	2,268,342	88,598,328
United States Dollar	21,290,894	13,975,283	(7,196,737)	118,874
Pound Sterling	360,752	2,276,866	1,918,925	2,811
Japanese Yen	4,686	69	1	4,618
Euro	1,021,009	4,050,268	3,040,324	11,065
Other currencies	97,641	-	(30,855)	66,786
	<u>653,233,223</u>	<u>564,430,741</u>	<u>-</u>	<u>88,802,482</u>

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
(Rupees in '000)				
Pakistan Rupee	545,689,856	468,137,556	1,740,181	79,292,481
United States Dollar	20,279,528	13,920,166	(6,665,221)	(305,859)
Pound Sterling	473,095	2,170,830	1,696,111	(1,624)
Japanese Yen	544	44,138	47,434	3,840
Euro	820,530	4,002,992	3,181,495	(967)
Other currencies	289,060	72,722	-	216,338
	<u>567,552,613</u>	<u>488,348,404</u>	<u>-</u>	<u>79,204,209</u>

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index. This exercise is done on internal based assumptions in addition to the criteria advised by the State Bank of Pakistan for Stress Testing on Equities.

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4.3.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk								Not exposed to Yield/ Interest Risk		
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years		Above 10 years	
(Rupees in '000)													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	0%	53,122,522	2,974,718	-	-	-	-	-	-	-	-	-	50,147,804
Balances with other banks	0.50%	2,281,263	626,339	-	-	-	-	-	-	-	-	-	1,654,924
Lendings to financial institutions	7% to 11.90%	955,087	47,394	907,693	-	-	-	-	-	-	-	-	-
Investments - net	4.5% to 15%	315,109,984	32,389,246	75,507,096	90,520,065	72,587,281	8,522,746	4,483,175	18,704,852	2,288,814	2,288,814	10,126,709	
Advances - net	14.75%	225,801,259	201,686,722	4,212,143	1,667,716	4,954,184	6,904,334	2,678,429	2,068,180	1,467,001	162,550	15,552,875	
Other assets - net	-	15,552,875	-	-	-	-	-	-	-	-	-	-	-
		612,822,990	237,724,419	80,626,932	92,187,781	77,541,465	15,427,080	7,161,604	20,773,032	3,735,815	162,550	77,482,312	
Liabilities													
Bills payable	-	9,466,818	-	-	-	-	-	-	-	-	-	-	9,466,818
Borrowings	2.24% to 12.50%	39,100,627	25,282,290	5,484,553	1,597,966	1,597,966	1,597,966	-	-	-	-	-	-
Deposits and other accounts	5% to 13.7%	491,188,710	251,668,986	23,935,840	19,912,035	26,469,225	362,204	302,456	1,303,997	588,453	-	-	167,446,084
Other liabilities	-	15,168,748	-	-	-	-	-	-	-	-	-	-	15,168,748
		554,924,903	277,150,676	29,420,393	24,049,887	28,067,191	1,960,170	302,456	1,303,997	588,453	-	-	192,081,650
		57,898,087	(39,426,257)	51,206,539	68,137,894	49,474,274	13,466,910	6,859,118	19,469,035	3,147,362	162,550	(114,599,339)	-
On-balance sheet gap													
		32,895,900	17,321,000	10,873,338	3,823,771	377,791	-	-	-	-	-	-	-
Off-balance sheet financial instruments													
Foreign exchange contracts purchase	-	-	-	-	-	-	-	-	-	-	-	-	-
Cross currency swaps - long position	-	32,395,900	17,321,000	10,873,338	3,823,771	377,791	-	-	-	-	-	-	-
Foreign exchange contracts Sale	-	35,030,445	14,883,187	14,064,664	5,886,996	195,598	-	-	-	-	-	-	-
Cross currency swaps - short position	-	35,030,445	14,883,187	14,064,664	5,886,996	195,598	-	-	-	-	-	-	-
		(2,634,545)	2,437,813	(3,191,326)	(2,063,225)	182,193	-	-	-	-	-	-	-
			(36,988,444)	48,015,213	66,074,669	49,656,467	13,466,910	6,859,118	19,469,035	3,147,362	162,550	-	-
			(36,988,444)	11,026,769	77,101,438	126,757,905	140,224,815	147,083,933	166,552,968	169,700,330	169,862,890	-	-

Notes to the Financial Statements

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43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

Effective Yield/ Interest rate	2010										Not exposed to Yield/ Interest Risk		
	Total	Exposed to Yield/ Interest risk					Above 10 years	Over 5 to 10 years	Over 3 to 5 years	Over 2 to 3 years		Over 1 to 2 years	
		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							
(Rupees in '000)													
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	45,407,183	2,974,718	-	-	-	-	-	-	-	-	-	-	42,432,465
Balances with other banks	1,476,569	404,254	-	-	-	-	-	-	-	-	-	-	1,074,315
Lendings to financial institutions	4,401,781	1,510,027	2,891,754	-	-	-	-	-	-	-	-	-	-
Investments - net	211,591,917	52,052,595	77,743,838	1,049,725	1,567,893	2,622,223	-	-	-	-	-	-	5,606,841
Advances - net	254,551,589	152,730,953	38,182,738	12,727,579	-	-	-	-	-	-	-	-	12,873,899
Other assets - net	12,873,899	-	-	-	-	-	-	-	-	-	-	-	-
	530,304,938	209,672,547	120,419,505	118,818,330	13,777,304	2,622,223	-	-	-	-	-	-	61,987,520
Liabilities													
Bills payable	10,265,537	-	-	-	-	-	-	-	-	-	-	-	10,265,537
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	-	-	-	-	-	-	-	-
Deposits and other accounts	431,371,937	221,149,086	16,906,178	13,768,970	23,497,887	689,669	-	-	-	-	-	-	151,154,786
Other liabilities	12,922,168	-	-	-	-	-	-	-	-	-	-	-	12,922,168
	480,244,235	234,787,897	21,846,298	18,709,090	24,580,658	689,222	-	-	-	-	-	-	174,342,491
On-balance sheet gap	50,060,703	(25,115,350)	98,573,207	100,109,240	(10,803,354)	1,953,001	(445,547)	2,249,840	(2,249,840)	394,316	-	-	(112,354,971)
Off-balance sheet financial instruments													
Foreign exchange contracts purchase	20,154,200	12,279,293	4,980,758	2,226,096	668,052	-	-	-	-	-	-	-	-
Cross currency swaps - long position	76,563	-	-	-	-	76,563	-	-	-	-	-	-	-
	20,230,763	12,279,293	4,980,758	2,226,096	668,052	76,563	-	-	-	-	-	-	-
Foreign exchange contracts sale	22,245,693	12,917,004	6,180,514	3,148,175	-	-	-	-	-	-	-	-	-
Cross currency swaps - short position	76,563	-	-	-	-	76,563	-	-	-	-	-	-	-
	22,322,256	12,917,004	6,180,514	3,148,175	-	76,563	-	-	-	-	-	-	-
Off-balance sheet gap	(2,091,493)	(637,711)	(1,199,756)	(922,079)	668,052	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap	(25,753,060)	(25,753,060)	97,373,451	99,187,162	(10,135,301)	1,953,001	(445,547)	(2,249,840)	394,316	-	-	-	-
Cumulative yield / interest risk sensitivity gap	(25,753,060)	(25,753,060)	71,620,391	170,807,552	160,672,251	162,179,705	160,226,704	159,929,865	160,324,181	160,324,181	160,324,181	160,324,181	160,324,181

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.

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For the year ended December 31, 2011

Reconciliation to total assets	2011	2010	Reconciliation to total liabilities	2011	2010
	(Rupees in '000)			(Rupees in '000)	
Balance as per statement of financial position	653,233,223	567,552,613	Balance as per statement of financial position	564,430,741	488,348,404
Less: Non financial assets			Less: Non financial liabilities		
Investments	1,541,629	1,468,965	Other liabilities	3,210,952	3,170,151
Operating fixed assets	22,007,903	20,947,540	Deferred tax liability	6,294,886	4,934,018
Other assets	16,860,701	14,831,170		9,505,838	8,104,169
	40,410,233	37,247,675			
Total financial assets	612,822,990	530,304,938	Total financial liabilities	554,924,903	480,244,235

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that MCB conducts. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Liquidity Management

Asset Liability Committee of the bank has the responsibility for the formulation of overall strategy and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation. MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management. As per preliminary assessments, the Bank's liquidity coverage ratio and Net Stable Funding Ratio as per Basel III are also calculated and observed above the limits.

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Financial Statements

For the year ended December 31, 2011

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

2011

	Total	2011							Above 10 years	
		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
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	53,122,522	-	-	-	-	-	-	-	-	-
Balances with other banks	2,281,263	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	955,087	47,394	907,693	-	-	-	-	-	-	-
Investments - net	316,651,613	21,963,174	75,567,196	92,046,853	80,162,316	11,808,837	8,686,030	19,691,671	5,183,907	1,541,629
Advances - net	225,801,259	63,219,542	19,191,252	13,543,505	12,848,552	37,172,633	34,101,020	32,676,683	12,899,727	148,345
Operating fixed assets	22,007,903	113,783	227,566	341,350	682,699	1,365,398	1,365,398	2,730,796	6,826,990	8,353,923
Deferred tax assets	726,677	5,645	11,289	11,852	230,188	253,319	46,262	92,524	75,598	-
Other assets - net	32,413,576	6,962,140	6,994,623	61,114	2,791,907	-	-	15,603,792	-	-
	653,959,900	147,715,463	102,899,619	106,004,674	96,715,662	50,600,187	44,198,710	70,795,466	24,986,222	10,043,897
Liabilities										
Bills payable	9,466,818	9,466,818	-	-	-	-	-	-	-	-
Borrowings	39,100,627	25,282,290	5,484,553	5,137,852	1,597,966	1,597,966	-	-	-	-
Deposits and other accounts	491,188,710	419,314,470	23,935,840	18,912,035	26,469,225	362,204	302,456	1,303,997	588,453	-
Deferred tax liabilities	7,021,563	15,586	61,576	69,512	118,276	329,706	208,133	5,523,061	105,446	590,267
Other liabilities	18,379,700	9,255,663	1,575,594	2,563,784	1,465,355	1,914,159	337,304	386,820	881,021	-
	565,157,418	463,334,827	31,057,563	26,683,183	29,650,822	4,204,035	847,923	7,213,878	1,574,920	590,267
Net assets	88,802,482	(315,619,364)	71,842,056	79,321,491	67,064,840	46,396,152	43,350,787	63,581,588	23,411,302	9,453,630
Share capital	8,362,365									
Reserves	42,186,467									
Unappropriated profit	28,366,171									
Surplus on revaluation of assets - net of tax	9,887,479									
	88,802,482									

Notes to the Financial Statements

For the year ended December 31, 2011

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

		2010									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	45,407,183	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,478,569	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	4,401,781	1,510,027	-	2,891,754	-	-	-	-	-	-	-
Investments – net	213,060,882	41,715,017	69,523,376	79,607,464	4,805,688	5,267,577	5,203,638	784,119	4,685,038	1,468,965	
Advances – net	254,551,589	32,663,674	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	288,977	
Operating fixed assets	20,947,540	97,709	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,222,410	
Deferred tax assets	1,217,509	18,893	62,718	18,892	388,317	383,669	59,565	92,500	192,955	-	
Other assets – net	27,705,069	5,340,702	5,365,939	126,263	3,173,722	51	-	13,698,392	-	-	
	568,770,122	128,231,774	126,046,440	95,490,880	89,947,535	30,650,488	26,299,458	39,093,486	22,059,729	10,950,352	
Liabilities											
Bills payable	10,265,537	10,265,537	-	-	1,082,771	-	-	-	-	-	-
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	-	-	-	-	
Deposits and other accounts	431,371,937	372,303,872	16,906,178	13,768,971	23,497,887	930,669	669,222	2,249,840	1,045,298	-	
Deferred tax liabilities	6,151,527	18,441	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	684,908	
Other liabilities	16,092,319	7,936,734	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	-	
	489,565,913	404,163,395	23,075,703	20,756,569	25,980,161	3,834,982	1,147,214	7,577,396	2,345,585	684,908	
Net assets	79,204,209	(275,931,621)	102,970,737	74,734,311	63,967,374	26,815,486	25,152,244	31,516,090	19,714,144	10,265,444	
Share capital	7,602,150	-	-	-	-	-	-	-	-	-	
Reserves	40,162,906	-	-	-	-	-	-	-	-	-	
Unappropriated profit	21,414,955	-	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets – net of tax	10,024,198	-	-	-	-	-	-	-	-	-	
	79,204,209	-	-	-	-	-	-	-	-	-	

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

Notes to the Financial Statements

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43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

2011

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	53,122,522	53,122,522	-	-	-	-	-	-	-	-
Balances with other banks	2,281,263	2,281,263	-	-	-	-	-	-	-	-
Lendings to financial institutions	955,087	47,394	907,693	-	-	-	-	-	-	-
Investments - net	316,651,613	21,963,174	75,567,196	92,046,853	80,162,316	11,808,837	8,686,030	19,691,671	5,183,907	1,541,629
Advances - net	225,801,259	63,219,542	19,191,252	13,543,505	12,848,552	37,172,633	34,101,020	32,676,683	12,899,727	148,945
Operating fixed assets	22,007,903	113,783	227,566	341,350	682,699	1,365,398	1,365,398	2,730,796	6,826,990	8,353,923
Deferred tax assets	726,677	5,645	11,289	11,852	230,188	253,319	46,262	92,524	75,598	-
Other assets - net	32,413,576	6,962,140	6,994,623	61,114	2,791,907	-	-	15,603,792	-	-
	653,959,900	147,715,463	102,899,619	106,004,674	96,715,662	50,600,187	44,198,710	70,795,466	24,986,222	10,043,897
Liabilities										
Bills payable	9,466,818	9,466,818	-	-	-	-	-	-	-	-
Borrowings	39,100,627	25,282,290	5,484,553	5,137,852	1,597,966	1,597,966	-	-	-	-
Deposits and other accounts	491,188,710	42,739,164	45,922,760	44,482,217	26,890,645	98,916,656	98,716,465	99,998,923	33,521,880	-
Deferred tax liabilities	7,021,563	15,586	61,576	69,512	118,276	329,706	208,133	5,523,061	105,446	590,267
Other liabilities	18,379,700	9,255,663	1,575,594	2,563,784	1,465,355	1,914,159	337,304	386,820	881,021	-
	565,157,418	86,759,521	53,044,483	52,253,365	30,072,242	102,758,487	99,261,902	105,908,804	34,508,347	590,267
Net assets	88,802,482	60,955,942	49,855,136	53,751,309	66,643,420	(52,158,300)	(55,063,192)	(35,113,338)	(9,522,125)	9,453,630
Share capital	8,362,365									
Reserves	42,186,467									
Unappropriated profit	28,366,171									
Surplus on revaluation of assets - net of tax	9,887,479									
	88,802,482									

Refer the sub-note to note 43.4.1 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.

Notes to the Financial Statements

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43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2010									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	45,407,183	–	–	–	–	–	–	–	–	–	–
Balances with other banks	1,478,569	–	–	–	–	–	–	–	–	–	
Lendings to financial institutions	4,401,781	–	2,891,754	–	–	–	–	–	–	–	
Investments – net	213,060,882	41,715,017	69,523,376	79,607,464	4,805,688	5,267,577	5,203,638	784,119	4,685,038	1,468,965	
Advances – net	254,551,589	32,663,674	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	288,977	
Operating fixed assets	20,947,540	97,709	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,222,410	
Deferred tax assets	1,217,509	18,893	62,718	18,892	388,317	383,669	59,565	92,500	192,955	–	
Other assets – net	27,705,069	5,340,702	5,365,939	126,263	3,173,722	51	–	13,698,392	–	–	
	568,770,122	128,231,774	126,046,440	95,490,880	89,947,535	30,650,488	26,299,458	39,093,486	22,059,729	10,950,352	
Liabilities											
Bills payable	10,265,537	10,265,537	–	–	–	–	–	–	–	–	
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	–	–	–	–	
Deposits and other accounts	431,371,937	65,162,986	50,524,439	43,874,251	67,655,091	64,654,210	48,339,407	78,023,871	13,137,682	–	
Deferred tax liabilities	6,151,527	18,441	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	684,908	
Other liabilities	16,092,319	7,936,734	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	–	
	489,565,913	97,022,509	56,693,964	50,861,849	70,137,365	67,558,523	48,817,399	83,351,427	14,437,969	684,908	
Net assets	79,204,209	31,209,265	69,352,476	44,629,031	19,810,170	(36,908,055)	(22,517,941)	(44,257,941)	7,621,760	10,255,444	
Share capital	7,602,150										
Reserves	40,162,906										
Unappropriated profit	21,414,955										
Surplus on revaluation of assets – net of tax	10,024,198										
	79,204,209										

Refer the sub-note to note 43.4.1 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.

Notes to the Financial Statements

For the year ended December 31, 2011

43.5 Operational Risk

Operational Risk is risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Division (ORMD) within Risk Management Group (RMG) is primarily responsible for oversight of bank-wide operational risk management. ORMD is independent of revenue generating functions. Although, respective business and support functions are the risk takers / owners, ORMD provides assistance and guidance for proactive operational risk management. The Risk Management Policy and bank-wide Operational Risk Management Framework (ORMF) have been developed in line with international best practices. The policy and framework are reviewed periodically so as to incorporate the current changes.

Major processes for operational risk management include, but not limited to Risk and Control Self Assessment, loss database management, enhancing operational risk awareness through workshops and sessions. ORMD has active coordination with audit and compliance for information sharing on Key Risk Indicators (KRIs) with respect to management of various operational risk aspects within the bank.

43.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

ORMD initiated the process of collecting loss data on key risk events in the year 2007. Based on periodical analysis of loss data, ORMD generates reports for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events, impact analysis and recommendations for improvement in control / risk mitigation.

44. GENERAL

Comparative information has been reclassified and rearranged in these financial statements for the purpose of comparison.

45. NON-ADJUSTING EVENT

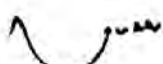
The Board of Directors in its meeting held on February 21, 2012 has announced a final cash dividend in respect of the year ended December 31, 2011 of Rs. 3.0 per share (2010: Rs. 3.0 per share) and bonus shares of 10% (2010: 10%). These financial statements for the year ended December 31, 2011 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 21, 2012.



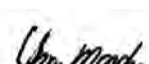
M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

1 Particulars of Investments in listed companies, mutual funds and modarabas – available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit	Total paid-up/ nominal value	Cost as at December 31, 2011
			Rupees	(Rupees in '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					
Abbott Laboratories Pakistan Limited		135,600	10	1,356	25,200
Allied Bank Limited		6,314,278	10	63,143	452,328
Arif Habib Limited		78,337	10	783	13,908
Arif Habib Corporation Limited		1,682,862	10	16,829	214,004
Askari Bank Limited		4,906,400	10	49,064	208,815
Attock Petroleum Limited		369,845	10	3,698	136,520
Attock Refinery Limited		160,000	10	1,600	20,394
Bank Al-Habib Limited		7,732,335	10	77,323	214,686
Century Papers & Board Mills Limited		54,540	10	545	1,556
Clariant Pakistan Limited		56,250	10	563	9,145
Fauji Fertilizer Bin Qasim Company Limited		14,884,277	10	148,843	712,264
Fauji Fertilizer Company Limited		10,200,000	10	102,000	1,016,796
Glaxo Smithkline Pakistan Limited		557,372	10	5,574	64,437
Habib Bank Limited		892,863	10	8,929	125,362
Habib Metropolitan Bank Limited		1,278,000	10	12,780	35,510
Ibrahim Fibers Limited		120,000	10	1,200	5,200
ICI Pakistan Limited		220,000	10	2,200	34,040
IGI Insurance Company of Pakistan Limited		418,413	10	4,184	42,529
Indus Motor Company Limited		27,027	10	270	5,566
International Industries Limited		344,942	10	3,449	26,427
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		20,000	10	200	895
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		409,921	10	4,099	189,083
National Refinery Limited		265,270	10	2,653	82,498
Oil & Gas Development Company Limited		297,135	10	2,971	41,713
Packages Limited		39,911	10	399	8,368
Pakistan Cables Limited		42,716	10	427	7,098
Pakistan Oilfields Limited		1,380,095	10	13,801	455,337
Pakistan Petroleum Limited		1,284,562	10	12,846	230,356
Pakistan State Oil Limited		172,980	10	1,730	43,413
Pakistan Telecommunication Company Limited		225,000	10	2,250	2,408
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		4,809	10	48	11,905
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		30,963,000	10	309,630	147,150
Soneri Bank Limited		4,435,881	10	44,359	121,456
Sui Northern Gas Pipelines Limited		50,115,263	10	501,153	2,205,253
Summit Bank Limited		680,489	10	6,805	23,352
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		52,087	50	2,604	150,970
Unilever Food Pakistan Limited		396	10	4	528
United Bank Limited		7,305,440	10	73,054	530,296
Wateen Telecom Limited		5,092,269	10	50,923	50,923
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					7,710,743

Annexure I

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2011
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,533	60,606
Total					60,606
Carrying value (before revaluation and provision) listed shares 'available for sale'					7,832,951
Provision for diminution in value of investments					(2,710,124)
Surplus on revaluation of securities					733,928
Market value as at December 31, 2011					5,856,755

Fully Paid-up Ordinary Certificates/ Units of Mutual Funds	Name of Management Company	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2011
Metro-Bank Pakistan Sovereign Fund-Perpetual (MSF)	Arif Habib Investments Limited	77,461,673	50	3,873,084	4,000,000
National Investments Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Carrying value before revaluation & provision					4,005,253
Provision for diminution in value of investments					(1,907)
Deficit on revaluation of securities					(33,669)
Market value as at December 31, 2011					3,969,677

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

Annexure I

2 Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2011	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees in '000)						
Shareholding more than 10%						
Fully paid up preference shares						
Fazal Cloth Mills Limited (2.1)	40.00%	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	18,840	June 30, 2011	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60%	30,000,000	300,000	388,342	December 31, 2010	Mr. Ghalib Nishtar
Next Capital Limited	10.00%	1,000,000	10,000	8,240	June 30, 2011	Mr. Najam Ali
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	161,292	June 30, 2011	Mr. Mohammad Hanif Jhakura
			331,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		250,000	2,500	2,767	June 30, 2011	Mr. Syed Kashan Kazmi
National Institute of Facilitation Technology Private Limited		985,485	1,527	59,255	June 30, 2011	Mr. M. M. Khan
National Investment Trust Limited		79,200	100	113,357	June 30, 2011	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	13,169	September 30, 2011	Mr. Ihsan ul Haq Khan
Arabian Sea Country Club		500,000	5,000	2,963	June 30, 2011	Mr. Arif Ali Khan Abbasi
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,569	December 31, 2010	Mr. Lazara Campos
Credit Information Bureau of Srilanka		300	24	7,843	December 31, 2010	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	790	3,443	March 31, 2011	Mr. Sunimal Weerasooriya
Lanka Financial Services Bureau Limited		100,000	790	1,163	March 31, 2011	Mr. Rajendra Thegarajah
Pakistan Agro Storage and Services corporation*		2,500	2,500	-	-	-
Equity Participation Fund*		15,000	1,500	-	-	-
Al-Ameen Textile Mills Limited.*		19,700	197	-	-	-
Ayaz Textile Mills Limited.*		225,250	2,252	-	-	-
Custodian Management Services*		100,000	1,000	-	-	-
Musarrat Textile Mills Limited.*		3,604,500	36,045	-	-	-
Sadiqabad Textile Mills Limited.*		2,638,261	26,382	-	-	-
			92,451			
Cost of unlisted shares / certificates / units			523,951			
Provision against unlisted shares			(73,674)			
Carrying value of unlisted shares / certificates / units			450,277			

* These are fully provided unlisted shares.

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

Annexure I

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

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2011	Name of Chief Executive
						(Rupees)	
LISTED TERM FINANCE CERTIFICATES – available for sale							
Askari Bank Limited – issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 months KIBOR +2.95% for next five years	0.32% of principal amount in the first 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,800	Mr. R. Mehakri
Bank Alfalah Limited – issue no. III	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi -annual installment starting from the 84th month.	499,600	Mr. Atif Bajwa
Pak Arab Fertilizers Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	In six stepped –up semi-annual installments starting from the 30th month from July 2007.	74,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited – issue no. IV	152,399	5,000	761,995,000	6 months KIBOR + 0.85% p.a. & 6 months KIBOR+1.35% for remaining term	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	727,111	Mr. Atif R. Bokhari
Allied Bank Limited – issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90% p.a.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,791	Mr. Khalid Sherwani
Allied Bank Limited – issue no. II	37,000	5,000	185,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	180,699	Mr. Khalid Sherwani
NIB Bank Limited	33,400	5,000	167,000,000	6 months KIBOR + 1.15% p.a.	0.02% of the principal in the first 10 months and remaining principal in 6 equal semi annual installments from the sixth-sixth month onward.	162,542	Mr. Baddar Kazmi
Carrying value before revaluation						1,949,543	
Surplus on revaluation of securities						35,520	
Market value of listed TFCs (revalued amount)						1,985,063	
SUKUK BONDS – available for sale							
	Terms of Redemption		Rate of interest	Currency			
	Principal	Interest					
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR		400,000	Mr. Muhammad Shakil Durrani
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR		3,700,000	
Surplus on revaluation of securities						21,390	
Market value of sukuk bonds						4,121,390	

Annexure I

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2011	Name of Chief Executive
	(Rupees)					(Rupees in '000)	
TERM FINANCE CERTIFICATES – held to maturity							
Askari 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.	98,714	Mr.R. Mehakri
– issue no. II	19,980	5,000	99,900,000	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.	97,782	—do—
	39,980		199,900,000				
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.	33,059	Mr. Atif Bajwa
– 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.	194,745	—do—
	49,720		248,600,000				
Bank Al Habib Limited – issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a. with a floor and cap of 3.5% and 10% per annum respectively.	0.02% of total issue in equal installments in first 78 months and the remaining principal in 3 semi-annual installments from the 84th month from July 2004.	65,771	Mr. Abbas D. Habib
– issue no. IV	20,000	5,000	100,000,000	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a for next 5 years.	6th-108th month: 0.36%; 114th & 120th: 49.82% each	100,000	—do—
	40,000		200,000,000				
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.	279,160	Mr. Munaf Ibrahim
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.	110,719	Mr. Aftab Manzoor
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.	282,635	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. II	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,814	Mr. Khalid Sherwani
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	125,000	Mr. Jehangir Khan Tareen
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a.	In 10 equal semi-annual installments starting from 18th Month from the date of issue date.	80,000	Mr. Ahsan Saleem
Pakistan Mobile Corporation Limited	20,000	5,000	100,000,000	3 Month KIBOR +2.65% p.a.	In 13 equal quarterly installments starting from 24th month after first disbursement and subsequently every three months.	98,856	Mr. Rashid Khan
Carrying value of unlisted TFCs						1,798,255	

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

Annexure I

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

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount (‘000)	Carrying value as at December 31, 2011 (Rupees in ‘000)
	Principal	Interest				
Debentures						
Singer (Sri Lanka) Plc.	At maturity	Half-yearly	AWPL + 3.00% p.a	LKR	45,000	35,546
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75%	LKR	250,000	197,475
Sukuk Bonds						
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +0.35%	PKR	–	400,000
Sui Southern Gas Company Limited Sukuk Bonds	At maturity	Quarterly	3 Month KIBOR +1.4%	PKR	–	58,333
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments	Half-yearly	6 Month KIBOR +1.70%	PKR	–	374,362
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.50%	PKR	–	67,500
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments	Quarterly	3 Month KIBOR +1.25%	PKR	–	97,222
Sitara Energy Limited	In 8 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.15%	PKR	–	84,545
Century Paper and Boards Mills Limited	At maturity	Half-yearly	6 Month KIBOR +1.35%	PKR	–	150,000
Sukuk Bonds					–	1,231,964
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875 %	US\$	17,149	1,542,470

5 Investment in subsidiaries

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

Name	% of holding	Country of incorporation	Year of incorporation
MCB Financial Services Limited	* 99.99	Pakistan	1992
MNET Services (Private) Limited	* 99.95	Pakistan	2001
MCB Trade Services Limited	100	Hong Kong	2005
Arif Habib Investments Limited	** 51.33	Pakistan	2005
"MCB Leasing" Closed Joint Stock Company	95	Azerbaijan	2009

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

** Arif Habib Investments Limited was amalgamated with MCB Assets Management Limited during the year .

6 Summarized financial information of associates (refer note 9)

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

Name of associates	Country of incorporation	Assets	Liabilities	Net assets (Rupees in ‘000)	Revenue	Profit after tax	% of interest held
2011							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2011)	Pakistan	313,117	132,129	180,988	112,493	4,651	30%
First Women Bank Limited (unaudited based on September 30, 2011)	Pakistan	19,046,454	17,800,821	1,245,633	586,146 *	71,895	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2011)	Pakistan	25,289,144	14,165,413	11,123,731	5,370,441 **	369,218	29.13%
2010							
First Women Bank Limited (unaudited based on September 30, 2010)	Pakistan	12,804,666	11,704,309	1,100,357	460,994 *	18,687	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2010)	Pakistan	25,809,424	15,155,098	10,654,326	5,049,611 **	133,317	29.13%

* Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

Islamic Banking Business Report of Shariah Advisor

The Shareholders of MCB Bank Limited

The year under review was the 2011 of Islamic Commercial Banking Operations of MCB Islamic banking Group (MCB IBG). During the year MCB IBG developed and executed a number of Islamic Commercial Banking Products in consultation with the Shariah Advisor of the Bank. Currently the Bank is offering a number of Shari'ah Compliant Commercial Banking Products on both asset and liability sides which include:

LIABILITY SIDE:

- For general deposits and treasury functions based on the Islamic contract of Mudarabah
 - Saving accounts for general deposits holders, non banking financial institutions and mutual funds
 - Term Deposits Receipts (TDRs) for general deposits holders, non banking financial institutions and mutual funds
 - Receiving funds from MCB Treasury based on Mudarabah
 - Ijara (Current) Account for general deposits holders

ASSETS SIDE:

- Corporate Banking products based on Islamic contracts of Murabahah, Ijarah, and Musharakah (Shirkat-ul-Milk)
 - For working Capital Finance
 - For Medium & Long Term Finance for plant and Machinery
 - For tangible assets Leasing/Ijarah
 - Islamic Export Refinance Scheme
- Murabaha based Trade Finance facilities based on Islamic contract of Murabaha
 - Letters of Credit (Sight & Usance) local and foreign both
- Services based facilities to issue different guarantees based on Islamic sub-contract of Kafalah
 - Different modes of Letters of Guarantee
- Consumer Banking
 - Car Ijarah based on Islamic mode of Ijarah

PKR 1,518,542/- deposited by the customers as charity, due to late payments of Bank's dues. The Bank has disbursed the full amount so deposited, during the year 2011, to registered charitable institutions of the bank.

During the year, I visited Islamic Banking branches and observed its general banking operational activities from sharia perspective which I found satisfactory. These activities were included basic sharia knowledge of staff members, display of profits sharing ratio & weightages of various deposit types for the next month, display of profit rates of previous month, timely distribution of profit to depositors, sharia compliance of account opening forms etc. Relevant reports have also been issued by the undersigned from time to time.

During the year, I also reviewed/verified the assignment of weightages to various depositors, calculation of profit on monthly basis and its' distribution, application of profit and loss sharing ratios to distributable profit and allocation of funds, which were found satisfactory from sharia perspective.

I have also reviewed the transactions executed by the bank and found that the transactions were done as per the approved/suggested mechanism. However, while carrying out the Shari'ah compliance process the following observations are made to further improve the Shari'ah compliance of the transactions;

1. It was observed that reconciliation statements, regarding date of receipt of goods under Murabaha arrangement and dates of execution of Murabaha contract, were not annexed with each Murabaha contract. Therefore in order to further improve the Shari'ah compliance mechanism, it is advised to annex the same with each Murabaha contract in future.
2. It was noted that proof of goods procured by the bank were provided late by few of the customers in their capacity as agents of the bank. However, the same has been improved with respect to last year. Accordingly, sanctity of Murabaha contracts may remain at risk at the time of execution of Murabaha contracts.
3. It was noted that in few cases Murabaha contracts were executed with some time difference between the goods procured by the bank and purchased by the customers. However, it is advised that efforts should be made to reduce the said time difference in future, for further improvement.
4. Though, the bank has started the process of making Takaful arrangement instead of conventional Insurance, yet Islamic Banking portfolio must continue the conversion of conventional insurance into Takaful arrangement.
5. Alhamdulillah, the Bank is hiring experienced Islamic Bankers and training must be kept continued to new staff members, where required.
6. There were few financing transactions executed by Islamic Banking Branches, where customer's account was credited for procurement of goods. This exercise should be avoided on best effort basis.
7. It is observed that in most of the cases Invoices are being obtained in the name of agent, though the same is allowed under regulations with the approval of Sharia Advisor, however, it is advised that branches should start obtaining invoices in the name of MCB on best efforts basis.
8. If possible, the senior management of MCB Bank Limited should think over the separation of treasury functions for Islamic Banking operations, although the present treasury functions are under the contract of Mudarabah.
9. Islamic Banking Group should develop more liability side products which can offer attractive & competitive market oriented returns to depositors. This will also help in reducing/avoiding the involvement of element of "Hiba" in profit of depositors.

The bank is in the process of development and refinement of its products to make the products competitive in the market, conforming to the preferred standard of Shari'ah Compliance. I would like to take this opportunity to offer praise to Almighty Allah and seek His guidance and Tawfeeq, and to express my wishes for further progress, development and prosperity of MCB IBG and Islamic Banking industry in Pakistan as a whole.



Dr. Muhammad Zubair Usmani
Shariah Advisor
MCB – Islamic Banking Group
21st Floor, MCB Tower,
I.I.Chundrigar Road, Karachi

Dated: February 21, 2012

Annexure II

Islamic Banking Business

The Bank operates 23 Islamic banking branches including 1 overseas branch at the end of December 31, 2011 (2010: 15 branches including 1 overseas branch).

Statement of Financial Position

As at December 31, 2011

	2011	2010
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	334,398	526,377
Investments	2,938,706	2,147,807
Financing and receivables		
- Murabaha	4,094,212	2,220,459
- Ijara	96,146	420,070
- Islamic export refinance	1,420,784	1,048,050
Fixed Assets	1,008,864	6,302
Deferred tax asset	-	1,846
Other assets	3,330,885	4,127,437
Total Assets	13,223,995	10,498,348
Liabilities		
Bills payable	45,297	74,335
Deposits and other accounts		
- Current accounts	1,022,119	605,066
- Saving accounts	1,636,924	3,445,730
- Term deposits	4,565,234	3,258,942
- Others	81,503	3,424
Borrowings from SBP	1,664,996	1,079,000
Due to head office	2,558,624	657,640
Deferred tax liability	8,182	-
Other liabilities	449,518	405,088
	12,032,397	9,529,225
Net Assets	1,191,598	969,123
Represented by		
Islamic banking fund	1,000,000	850,000
Other reserves	70	3
Unappropriated profit	176,334	122,548
	1,176,404	972,551
Surplus on revaluation of assets - net of tax	15,194	(3,428)
	1,191,598	969,123
Remuneration to Shariah Advisor / Board	1,849	1,424
CHARITY FUND		
Opening balance	1,763	1,998
Additions during the year		
Received from customers on delayed payments	1,397	1,621
Profit on charity saving account	122	144
	1,519	1,765
Payments / utilization during the year		
Social Welfare	(1,500)	-
Health	(1,000)	-
Education	-	-
Relief and disaster recovery	-	(2,000)
	(2,500)	(2,000)
Closing balance	782	1,763

Islamic Banking Business

Profit and Loss Account

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
Income / return / profit earned	1,422,236	993,885
Income / return / profit expensed	979,325	663,874
	442,911	330,011
Provision against loans and advances - net	(5,530)	51,054
Provision for diminution in the value of investments	42,273	-
Bad debts written off directly	-	-
	36,743	51,054
Net profit / income after provisions	406,168	278,957
Other income		
Fees, commission and brokerage income	43,747	26,102
Dividend income	-	-
Income from dealing in foreign currencies	9,668	7,132
Other Income	61,104	51,623
Total other income	114,519	84,857
	520,687	363,814
Other expenses		
Administrative expenses	342,988	239,803
Other provisions / write offs	-	-
Other charges (penalty paid to SBP)	1,365	1,463
Total other expenses	344,353	241,266
Extra ordinary / unusual items	-	-
	176,334	122,548
Profit before taxation		
Taxation - Current	-	-
- Prior years	-	-
- Deferred	-	-
	-	-
Profit after taxation	176,334	122,548

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intt/Acc/Mup	Others	Total				
1	Unique Metal Craft & Powder Coating 7/B-1, Bahawalpur Road, Chuburij Lahore	Tenor Rashid Fahat Tenor	35201-3907403-5 35201-6494799-6	Abdul Rashid Tenor Rashid	-	2,128	-	2,128	-	-	2,128	2,128
2	Younus & Co Ghalla Mandi Sheikhpura	Muhammad Younas	35404-5542497-9	Sarwar Khan	150	1,488	-	1,638	-	-	1,488	1,488
3	Ghafoor Ahmed Ch House No. 128, Block III, Sector C1, Township Lahore	Ghafoor Ahmed Ch	35202-8941615-3	Illam Ud Din Ch	875	1,465	-	2,339	-	-	1,364	1,364
4	Goraya Rice Mills Baddu Malhi, Narowal	Abbas Ali Goraya	35401-1859080-7	Muhammad Akbar	1,232	994	-	2,226	-	-	973	973
5	Javaid Builders Mohia Kalan, P.O Dheerkey Tehsil & Distt Gujrat	Javaid Iqbal Cheema	34101-5838951-9	Muhammad Sadiq Cheema	1,307	1,262	-	2,569	-	-	1,262	1,262
6	Imperial China Industries 45 C S F, GT Road Gujrat	Khawar Manzoor Qaiser Hakeem	34201-0362238-7 34201-0333374-7	Manzoor Hussain Abdul Hakeem	4,000	2,558	432	6,990	-	-	2,990	2,990
7	Qaiser Hakeem Bangla Mandi, Railway Road, Gujrat	Qaiser Hakeem	34201-0333374-7	Abdul Hakeem	1,000	625	260	1,885	-	-	885	885
8	Farooq Nazir 565- Umar Block, Allama Iqbal Town, Lahore	Farooq Nazir	35202-7139664-3	Muhammad Nazir	-	1,237	-	1,237	-	-	1,237	1,237
9	Monarach Agro Sciencs 209-A Johar Town, Lahore	Rana Muhammad Ibad	35204-2356971-5	Rana Abdul Shakoor	-	5,628	264	5,892	-	-	5,892	5,892
10	Haider Rizwan Sohail (Property No Swiv-69-S-2/A, Sham Nagar, New Chuburij Park Lahore.)	Haider Rizwan Sohail	35202-4936182-1	Rizwan Sohail	3,248	1,259	67	4,574	-	-	665	665
11	Adil Mehmood 182-Atta Turk Block, New Garden Town Lahore	Adil Mehmood	517-66-025718	Mehmood Sadiq	14,067	6,576	18	20,661	-	-	6,594	6,594
12	Rehman Fabrics Shop# 5, Rehman Center, Ichra Bazar Lahore	Amir Sadiq	35202-5691488-7	Sheikh Muhammad Sadiq	9,999	2,949	85	13,033	-	-	3,174	3,174
13	Akhtar Umer Leather Muradiah Road, Model Town Sialkot	Khalid Javed Samina Khalid Abbas Aslam	300-68-175971 301-65-563017 300-58-239204	Ghulam Rasool Khalid Javed Muhammad Aslam Khan	2,787	2,511	85	5,383	-	-	2,383	2,383

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intl/Acc/Mup	Others	Total				
14	Talât Masood Street 7, Mohallah Dar Ul Salam Gujranwala	Talât Masood	34101-0424960-7	Haji Muhammad Iqbal	729	1,290	55	2,074	-	-	945	945
15	Shahpur Textiles Mills Limited 16/6/10-M Nizamabad Old Chungi No 8 Mullan	Mirza Aurangzeb Baig Mirza Jahanzeb Baig Yasmeen Naz Asma Alangeer Faiheeda Begum Mirza Asbar Baig	36302-6507395-3 36302-1997813-3 36302-6590754-6 31202-9855777-2 36302-4002855-0 36302-6915443-9	Mirza Asbar Baig Mirza Asbar Baig Mirza Aurangzeb Baig Mirza Alangeer Baig Mirza Asbar Baig Mirza Azhar Baig	39,678	11,290	-	50,968	39,678	-	11,290	50,968
16	Sakeena Ch & Muhammad Amjad (H No 215-1, M.A Johar Town Lahore)	Sakeena Ch Muhammad Amjad	35202-0582765-0 35202-4641000-5	Shabir Ahmed Shabir Ahmed	5,893	993	-	6,886	-	-	977	977
17	Malayzi Filing Station Ward No.2 Mohallah Pathanan, Kalma Nau, Lahore	Sohail Anwar Pasha	35201-3600206-9	Anwar Ul Haq Khan	-	2,098	-	2,098	-	-	996	996
18	Haji Abdul Razzaq H/No.01 St/No.174,College Road, Baghbanpura Lahore	Haji Abdul Razzaq	35201-1491918-1	Ch.Muhammad Sharif	14,998	4,414	-	19,412	-	-	4,350	4,350
19	Afzal Brothers Mandi Farzabad, Qadian Wali, Al-Bashir Market, Nankana Sb, Distt. Shaikpura.	Muhammad Afzal Mukhtar Ahmed Tabassum	35402-1740110-5 35402-6864698-5	Fajir Ahmed Bashir Ahmed	2,969	1,115	-	4,084	-	-	777	777
20	Al Hamd Rice Mills Mohallah Khawigan, Mandi Bahaudin	Riazul Haq	34402-5068865-7	Nazar Muhammad	-	4,415	93	4,508	-	-	3,708	3,708
21	Muhammad Abbas & Sons Sundar Road, Raiwind, Lahore	Muhammad Abbas	35202-4225424-3	Ahmed Din	-	1,435	-	1,435	-	-	1,435	1,435
22	Star Leather Pasur Road, China Chowk, Lahore	Javaid Hidayat	34603-9645092-1	Hidayatulah	1,061	1,175	-	2,236	-	-	836	836
23	Reliance Cold Storage (Pvt.) Limited Mian Mir Road, Lahore	Mrs. Mahtooz Shoukat Mr. Munir Hussain Mr. Tajassar Shoaib Mr. Mustansar Billa	61101-4966391-6 34101-2669560-9 35201-9812701-3 42301-3998307-1	Shoukat Ali Mian Dost Muhammad Ch. Abdul Rasheed Ch. Abdul Rasheed	6,180	2,023	77	8,280	-	-	2,100	2,100
24	Tariq Abdul Qadoos & Nusrat Perveen House No.47, Street No.10 New Super Town Lahore	Tariq Abdul Qadoos	35201-1525642-3	Abdul Qadoos Ch	5,630	2,034	45	7,709	-	-	2,308	2,308

Annexure III

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Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intt/Acc/Mup	Others				
25	Imran Haider House No: 142-E, Street No. 14, Sector Ghori Block, Bahria Town, Lahore	Imran Haider	35202-2947400-3	Ghulam Haider	2,691	733	-	3,424	-	732	732
26	Farooq Hassan House No: 60/E-1, Gulberg III, Lahore	Farooq Hassan	35200-7393752-5	Hamid Hasan Mir	12,000	3,693	-	15,693	-	3,693	3,693
27	Kamran Sami House No: 103-B, Tariq Gardens, Housing Scheme, Lahore	Kamran Sami	35202-7883439-3	Syed Sami Ullah	3,451	881	-	4,332	-	862	862
28	Zafar Iqbal House No: 47, Block-D, Phase-I, Pcsir Staff Co-Operative Society Ltd, Lahore	Zafar Iqbal	35202-2650953-3	Iqbal Ahmad	1,191	1,587	-	2,778	-	1,538	1,538
29	Hashmi Spinning Mills Limited Plot No. 103, Golden Plaza, Blue Area, Islamabad	Shaukat Ali Qureshi Nadeem Sanwar Qureshi Zaheem Shaukat Qureshi Adeel Shaukat Qureshi Ishad Begum Razia Begum Rukhsana Kausar	61101-7300295-7 61101-3216635-3 61101-2031042-5 61101-2207152-7 37401-0301938-8 61101-6147495-6 61101-3800433-8	Muhammad Sanwar Qureshi Muhammad Sanwar Qureshi Shaukat Ali Qureshi Shaukat Ali Qureshi Muhammad Sanwar Shaukat Ali Qureshi Shaukat Ali Qureshi	101,932	367,461	2,500	471,893	-	369,443	369,443
30	Gaash Color Lab Address: Centre Plate, Chinnar Chowk, & Super Market, Kachehri Road, Muzaffarabad, Azad Kashmir.	Abdul Aziz	35200-8044506-1	Muhammad Shafi	-	2,281	-	2,281	-	1,914	1,914
31	Skylink Communication (Pvt) Limited Address: House No 32-A, Park Road, F-8/2 Islamabad	Abdul Majeed Malik Muhammad Akram Shah Muhammad Ilyas Adil Majeed Khalid Mehmood Akhtar	61101-9513546-3 37406-2034886-1 35201-5401950-7 61101-1937620-1 37405-0276168-3	Fazal Hussain Muhammad Azam Shah Muhammad Ramzan Abdul Majeed Malik Mehmood Ahmad Akhtar	981	4,282	60	5,323	-	2,723	2,723
32	Waqar Imran Address: House No 538, Block-D, Sattelite Town, Rawalpindi.	Waqar Imran	37405-7927782-5	Anwaar Feroz	2,439	1,478	122	4,039	-	733	733
33	Falak Sair Corporation Address: G.T Road, Amankot, Mingora, Swat	Khwaja Abdul Bari	15602-3808480-7	Hatiz Ghulam Umar	4,982	1,597	-	6,579	4,982	2,078	7,060
34	Shuaib Enterprises Address: Landi Khas, Khawaza Khaila, The & Distt Swat.	Muhammad Shuaib	15602-8424428-5	Munsif Khan	2,700	-	-	2,700	2,700	786	3,486

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intl/Acc/Mup	Others	Total				
35	Muhammad Mumtaz Address: House No, 705 Street No, 47, G-9/1, Islamabad	Muhammad Mumtaz	61101-4410841-9	Gul Muhammad	7,455	2,437	21	9,913	-	-	2,614	2,614
36	Texila Cotton Mills Limited Address: 270-Sector I-9 Industrial Area, Islamabad	Farukh Ahmad Masood Akhtar Mehboob Ellahi Mehfooz Ellahi Samina Begum Abdul Rashid Naveed Akhtar Syed M. Rounaq-Uddin Fatima Begum	37405-0376518-1 61101-1903396-3 61101-1999531-3 61101-1999527-5 61101-1907703-4 61101-5788796-1 37405-0376519-1 42101-1408298-7 Not Available (deceased)	Muhammad Idrees Abdul Haq Haji Muhammad Hussain Mehboob Ellahi Mehboob Ellahi Abdul Majeed Muhammad Idrees M. Fareed-Ud-Din Muhammad Hussain	3,710	14,797	99	18,606	-	-	14,896	14,896
37	Al-Syed Furniture Address: House No, C-35 S.A Road University Town, Peshawar	Haroon-Ur-Rashid	17301-11987347	Syed Iqbal Shah	748	1,926	30	2,704	-	-	708	708
38	Shurfa Steel Industries Address: House No. 72, Street No 59, I-8/3 Islamabad & Plot No 50/2, Phase II, Road 03, Hattar le Haripur	Muhammad Ali	37405-63817161	Shamshad Hussain	40,000	8,854	155	49,009	-	-	4,372	4,372
39	M/S. Front Line Traders H. No.41 Block-2, Jauharabad, Distt. Khushab.	Mian Kamran Sarshar Ahsar Mahmood	38201-1243940-5 38201-1120619-5	Mian Aman Ullah Muhammad Nazir	8,926	2,391	100	11,417	-	-	1,417	1,417
40	M/S. Paragone Fashions P-3 Paragon Avenue, Off Millat Road Faisalabad.	Naeem Ahmed Zaheer Iqbal Tahseen Ahmed Muhammad Idrees Muhammad Ajmal	248-85-466997 248-85-466994 248-87-466997 244-70-421459 244-76-686885	Waris Ali Waris Ali Waris Ali Muhammad Yaqoob Muhammad Yaqoob	2,563	2,094	-	4,657	-	-	2,094	2,094
41	M/S. J S L International P-3 Paragon Avenue, Off Millat Road Faisalabad.	Naeem Ahmed Tahseen Ahmed Muhammad Idrees Muhammad Ajmal	248-85-466997 248-87-466997 244-70-421459 244-76-686885	Waris Ali Waris Ali Muhammad Yaqoob Muhammad Yaqoob	3,000	1,909	-	4,909	-	-	1,909	1,909
42	Progressive Distributors P-56, Jinnah Colony, Faisalabad.	Muhammad Jamil	33303-4287122-5	Muhammad Rafique	7,499	3,301	-	10,800	-	-	860	860
43	Haris Traders Plot No, P-256 Main Jhang Road, Faisalabad.	Muhammad Jamil	33303-4287122-5	Muhammad Rafique	3,497	1,445	-	4,942	-	-	1,042	1,042

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intt/Acc/Mup	Others				
44	Hafiz Muhammad Saadiq Mordiwala Post Office Road, Bhakkar	Hafiz Muhammad Saadiq	38103-2733241-1	Muhammed Ramzan	5,000	1,253	-	6,253	-	895	895
45	Virk Medical Complex Jail Road, Shahpur, Sargodha.	Ansar Hussain Afzal Hussain	234-89-332445 234-93-303584	Ch. Ashiq Hussain Ch. Ashiq Hussain	900	920	84	1,904	-	604	604
46	Chemtex Enterprises 89-B, Commercial Center, Shaikhpura Road Millat Chowk, Gulistan Colony, Faisalabad.	Shaikh Khalid Mahmood	265-64-221054	Shaikh Jalal	-	1,526	-	1,526	-	1,526	1,526
47	Younis Weaving Factory Are, Khalid Colony, Kamalia.	Muhammed Younis	254-91-088708	Muhammed Sharif	2,998	1,865	-	4,863	-	960	960
48	Royal Tex 69 X 101, Madina Town, Faisalabad.	Sheraz Latif Umar Latif	244-76-570965 244-78-570966	Muhammed Latif Muhammed Latif	3,999	2,533	-	6,532	-	501	501
49	Kamooka Filing Station Jarranwala, Satiara Road, Faisalabad.	Zafar Iqbal	33100-4902916-9	Muhammed Yousaf	4,988	1,256	-	6,254	-	2,298	2,298
50	Iman Impex Raja Ghulam Rasool Nagar Road, Faisalabad.	Imran Younis	33100-2328747-1	Muhammed Younis	3,500	1,958	-	5,458	-	1,233	1,233
51	Atif Traders P-39, Tajbath Road, Faisalabad.	Atif Mahmood	33100-0907605-3	Faiz Ahmad	-	2,716	-	2,716	-	2,716	2,716
52	Pak Punjab Traders Purana Adda Jharabad	Zafar Ullislam	38201-1182586-5	Zain Ullislam	2,497	3,920	-	6,417	-	3,920	3,920
53	Chunday Traders Shop No. 14, Fda Market, Samundri Road, Faisalabad.	Ijaz Ahmad	33100-719348-5	Ch Asghar Ali	2,400	1,491	56	3,947	-	1,547	1,547
54	Bilal Weaving Factory Garh Mohallah, Gojra.	Junaid Ahmad Bilal	33301-2117541-3	Syed Ahmad	1,415	801	60	2,276	-	861	861
55	Al-Majeed Agro Traders Chak # 338/WB, Post Office, Tehsil Duniyapur, Dist. Lodhran	Mr. Abdul Majeed	36201-0576709-1	Barkat Ali	-	2,811	-	2,811	-	2,811	2,811
56	Al-Qaim Seeds Corporation Vehari Road Multan	Muhammed Anwar	36302-538632-3	Ghulam Rasool	-	5,001	-	5,001	-	5,001	5,001
57	Sattaj Enterprises Pvt Ltd Chak # 1 D.N.B Tehsil Yazman Dist. Bahawalpur	Mr. Khalid Pevsaiz Mr. Mumtaz Ahmed Mr. Ghulam Ahmed	31205-9389141-7 31205-9417044-5 345-87-183067	Muhammed Saifdar Ghulam Hussain Noor Ahmed	6,470	5,134	155	11,759	-	3,959	3,959

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intl/Acc/Mup	Others	Total				
58	Gheyas Fuel Station 3Km Luddien Road Vehari	Mr. Gheyas Ud Din	36603-7734645-3	Irshad Ahmed	2,499	1,161	-	3,660	-	-	1,061	1,061
59	M/S Rohi Cotton Ginners Pakhi Mandi Liaquatpur Dist. Rahim Yar Khan	Muhammad Tahir	31302-9634479-1	Muhammad Ibrahim	2,499	702	-	3,301	-	-	601	601
60	M/S Pak Madina Iron & Sanitary Store Shop # 50/H New, 132 H Block Burewala Bazar, Burewala	Fazal Mehmood Haji Chiragh	321-60-901825 321-36-159413	Muhammad Habib Fazal Din	221	1,035	17	1,273	-	-	1,052	1,052
61	M/S Friends Cotton Ginners Abbasia Road, Liaquatpur, Dist. Rahim Yar Khan.	Abdul Rasheed Saeed Rasheed Zeeshan Rasheed Muhammad Boota Sardar Muhammad	31302-3013574-1 31302-8787352-1	Ahmed Din Abdul Rasheed Abdul Rasheed Gulab Din Ghulam Muhammad	3,206	5,604	121	8,931	-	-	5,859	5,859
62	M/S Husain & Company Mauza Chadhar Bhindar, Malisi	Mehr Rabnawaz	36302-5029983-9	Ghulam Rasool	3,488	2,282	70	5,820	-	-	2,266	2,266
63	M/S Pakistan Poly Propylene Packages Pvt Ltd Plot # 100 Industrial Estate Multan	Asma Akram Sultan Aziz Sultan Kishwar Kamal	42301-4117698-4 42301-8637334-9 35201-1539175-6	Akram Sultan Ayub Sultan Akram Sultan	-	27,631	-	27,631	-	-	27,631	27,631
64	M/S Light House The Mall Circular Road Bahawalpur.	Asha Akram Sultan Akram Sultan Amin Akram Sultan Uzma Sultan	42301-4117698-4 42301-8667546-3 61101-7931567-1 42301-6919428-6	Akram Sultan Haji Muhammad Sultan Akram Sultan Ayub Sultan	-	1,323	-	1,323	-	-	1,323	1,323
65	M/S Choudhary & Sons Shop # 21-B Ghalla Mandi Vehari	Sulfan Ashraf	36603-6465045-1	Muhammad Ashraf	-	834	-	834	-	-	834	834
66	M/S Savet Pharma Iqbal Centre Jahanian Dist. Khanewal.	Waqas Ahmed	36101-2834021-5	Nazir Ahmad	2,549	1,749	74	4,372	-	-	1,617	1,617
67	Munir Khalid 16-Ground Floor, Kse Building Karachi	Munir Khalid	42000-9556668-1	Muhammad Rashid	1,786	1,737	192	3,715	-	-	1,913	1,913

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Annexure III

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total	
		CNIC No.			Principal	Intt/Acc/Mup	Others					Total
		Name	Name									
68	Metropolitan Steel Corporation Limited Plot No.H, Landhi Industrial Area Karachi	Abdul Razzak Noor Khawaja Maudoood Ahmed Mehmood Ali Mehkri Mohammad Shakir Muhammad Jamal Dehdhi Muhammad Umer Mehkri Tariq Adam Ghumra	42101-1737895-3 42301-3395663-1 42301-9714365-9 42101-2310521-9 42301-2069949-7 42301-7089962-3 42201-5397839-9	Noor Mohammad Khawaja Abdul Samad Mohammad Ali Mehkri Mohammad Tahir Haji Abdul Qadir Dehdhi Mehmood Ali Mehkri Adam Ghumra	4,026	4,742	-	8,768	-	3,520	3,520	
69	Fresh Fruit International 12-C, Al-Hilal Society, University Road Karachi.	Muhammad Asif	42201-9623996-7	Shaikh Mohammad Aqil	7,308	3,621	91	11,020	-	3,712	3,712	
70	Maccdonald Layton & Co Limited 34 West Wharf Road Karachi.	Ali Reza Rizvi Ali Hesson Rizvi Egt. Rtdj Muhammad Murtaz Khalid Late Mrs. Roshan Jahan Rizvi Muhammad Masood Ahmed Warsi Malha Khalid	42301-1628228-3 42301-2124070-9 37405-0394125-1 42301-6390783-6 42301-8215762-7 42301-7773347-6	Syed Ali Muhammad Rizvi Syed Ali Muhammad Rizvi Muhammad Usman Khalid W/O Syed Ali Muhammad Rizvi Abdul Shakoor Warsi D/O Anwar Khan	2,225	8,172	193	10,590	-	4,864	4,864	
71	Khair Muhammad Khokhar Bunglow No.4, Civil Lines, Hyderabad	Haji Khair Muhammad Khokhar Begum Shamim Noorul Ain	41303-1514274-4 41307-9906814-6 41305-9339482-4	S/O Ghulam Hussain W/O Khair Muhammad Khokhar D/O Khair Muhammad Khokhar	2,795	1,061	25	3,881	-	598	598	
72	Allied Ghee Industries Limited Ayub Mension, 2-Islamia Road Peshawar	Muhammad Afzal Liaqat Ali Khan Sardullah Muhammad Achran Muhammad Jibrin Pirzada Noor-Ul-Bashir Abdul Qahar	17301-1269055-1 35202-9940181-1 17101-7637127-3 135-85-153510 135-90-153511 506-50-246200 139-41-005509	Haji Mir Afzal Haji Mir Hesson Khan Maula Dad Khan Haji Muhammad Adeel Haji Muhammad Adeel Pirzada Noor Mohammad Abdul Sattar	619	3,458	13	4,090	-	3,440	3,440	
73	World Auto Mobile 44/A, 28Th Street Phase-V, D.H.A. Karachi	Mehmood Trunkwala	42301-6320217-5	Abdul Rahim	168,435	121,112	6,427	295,974	-	68,653	68,653	
74	World Trade House H.No.44/A, Street No 28, Khyabam-E-Mujahid, D.H.A. Karachi.	Farzana Mahmood	42301-9494587-0	Mehmood Trunkwala	60,930	43,748	1,353	106,031	-	32,525	32,525	
75	World Auto Trade 44/A, 28Th Street Phase-V, D.H.A. Karachi.	Shakeel Ahmed	42301-4446885-7	Haji Abdul Rahim	35,458	25,459	431	61,348	-	18,928	18,928	
76	World Enterprises H.No.44/A, Street No 28, Khyabam-E-Mujahid, D.H.A. Karachi.	Mehmood Trunkwala	42301-6320217-5	Abdul Rahim	11,303	8,115	1,920	21,338	-	6,032	6,032	

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name				Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.	Name	CNIC No.	Principal	Intt/Acc/Mup	Others	Total						
77	World Korean Motors Limited H.No.44/A, Street No.28, Khyaban-E-Mujahid, D.H.A, Karachi.	Mahmood Trunkwala Farah Naz Mohammad Munir Mohammad Junaid Shakeel Ahmed Tanweer Ansari	42301-6320217-5 42301-9494682-0 42000-8518412-5 42301-9634066-1 42301-4446885-7 42301-7442320-9	Abdul Rahim Shahzeb Mahmood Mahmood Trunkwala Shakeel Ahmed Haji Abdul Rahim Zameer Hussain	50,309	36,113	2,325	88,747	-	-	24,924	-	-	24,924	24,924
78	Tes Mart (Pvt) Limited 62-C25Th, Commercial Street Tauheed C, Commercial Area Phase-V Karachi.	Arsalan Mahmood Khan Bashir Ahmed Shahzeb Mahmood	35200-2438935-7 35201-5142644-9 42301-5546029-7	Asad Mahmood Khan Rehmat Ali Mahmood Trunkwala	2,903	2,089	111	5,103	-	-	1,554	-	-	1,554	1,554
79	Chihlan Transport Co. 2071 Pib Colony Karachi.	Abdul Hameed	42201-3616434-9	Haji Abdul Rehman	3,432	3,268	167	6,867	-	-	3,435	-	-	3,435	3,435
80	Shan Enterprises 2071 Pib Colony Karachi.	Abdul Hameed	42201-3616434-9	Haji Abdul Rehman	956	797	137	1,890	-	-	934	-	-	934	934
81	Sajid Hameed Alvi Shop No B 1 Regal Chema Hall Road Lahore	Sajid Hameed Alvi	35202-2714750-9	Hameed Ahmed Alvi	631	89	-	720	71	627	-	-	-	627	697
82	Sheikh Ejaz Ahmed 29-Km, G.T Road, Murtidkey Lahore	Sheikh Ejaz Ahmed	35202-2610941-1	Sheikh Saddiq	2,530	396	-	2,926	-	588	108	-	-	696	696
83	Mirza Ghazanfar Shahzad Baig Rex Market 6 Allama Iqbal Road, Lahore	Mirza Ghazanfar Shahzad Baig	35202-5611090-7	Mirza Muhammad Shafi	2,256	445	-	2,702	-	495	108	-	-	603	603
84	Kashif Mazhar 8 Nargis Block, Allama Iqbal Town Lahore	Kashif Mazhar	35202-2812410-1	Mazhar Hussain	7,422	1,363	-	8,785	-	797	67	-	-	864	864
85	Tariq Pervaiz Janjua Shop# 2, Abdullh Market, Near Dhama Syeda, Rawalpindi	Tariq Pervaiz Janjua	37405-9102501-3	Muhammad Ashaq Genjua	3,102	493	-	3,595	-	1,973	10	-	-	1,983	1,983
86	Asif Ullah H# 512, Main Ibr-E-Sina Road, Sec G-9/3, Islamabad	Asif Ullah	61101-9996150-9	Ehsan Ullah	9,668	1,850	-	11,519	-	1,204	107	-	-	1,311	1,311
87	Buland Iqbal Khan Room #508, Ismail Trade Centre, Ram Basti Street, Jodia Bazar, Karachi	Muhammad Buland Iqbal Khan	42101-5538280-7	Wahid Ali Khan	2,357	114	-	2,471	-	8,046	55	-	-	8,100	8,100
88	Muhammad Amir Sheikh Kashif Center, 1st Floor, Nisbat Road, Lahore	M Amir Sheikh	35202-3589840-3	Sheikh M. Arif	2,038	25	-	2,063	-	819	47	-	-	866	866

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		Name	CNIC No.		Principal	Intt/Acc/Mup	Others					
							Total					Total
89	Wariach & Sons Mehdiabad Road, Infront Of Cold Storage, Kacha Goja	Naseer Ahmed Wariach	33301-2131792-3	Nazir Ahmed	500	378	41	919	500	378	41	919
90	Ace Securities Pvt Limited Office Address: Room # 515, Kse Building Karachi, Stock Exchange Road, Karachi.	Iqbal Ismail Haroon Iqbal Suleman Iqbal	42301-1091235-1 42000-0430973-9 42301-1681061-7	Ismail Haji Suleman Iqbal Ismail Iqbal Ismail	-	-	-	-	-	2,040	-	2,040
91	Mohammad Aslam Shop No. 56 Gole Bazar, Azam Cloth Market Lahore	Muhammad Aslam	35202-7606633-7	Muhammad Yasin	-	598	48	646	-	596	-	596
92	Ghausia Filing Station 37-Km, Lahore Kasur Road, Mustata Abad, Lahore	Sheikh Ahmad Hussain	35102-0674816-7	Sheikh Muhammad Hussain	-	542	-	542	-	542	-	542
93	M Sadique Mughal Industries Daska Road, Wazirabad	Muhammad Siddique	34104-2370482-9	Rukan Din	1,487	1,070	162	2,718	-	784	-	784
94	Ch. Shahid Asghar 217-Upper Mall, Lahore	Ch. Shahid Asghar	35202-2667010-5	Ch. Asghar Ali	-	2,211	97	2,308	-	2,211	97	2,308
95	Fazad Ali, Street No.3 Muhammad Qadirabad, Hafizabad	Fazad Ali	34301-7404822-8	Ghulam Muhammad	1,000	577	-	1,577	-	577	-	577
96	Muhammad Idris Khuwaja 27/1, Street23,Kh-E-Tanzeem, Dha, Phase V, Karachi, Pakistan	Muhammad Idris Khuwaja	42301-0889837-3	Khuwaja M. Shafi	14,995	730	-	15,725	-	2,555	113	2,688
97	Marshal Engineering & Electronic (Pvt) Limited 42-C, 2nd Floor, 10th Street, Phase-V, Badkar Commercial, Karachi	Tariq Faud Rizvi (Director) Rana Tariq (Director)	42301-0586850-3 42301-7442560-8	Syed M. Jawad Rizvi Tariq Faud Rizvi	49,978	3,412	-	53,390	-	2,599	-	2,599
98	M/S Dawood Rice Mills Village & p/o Kolo Tarrar, District Hafizabad	Muhammad Fahad Khan	34301-1760446-3	Muhammad Usman	-	596	-	596	-	596	-	596
99	M/S Fancy Textile Industry Race Course Road, Gujranwala	Abdul Qadeer	34101-4378368-1	Manzoor Hussain	4,982	1,517	0	6,499	-	1,177	-	1,177
100	Als Bags (Pvt) Limited 10 Bolan Block, Fortress Stadium, Lahore	Mukhtar Ahmed Khalid Mukhtar	35201-7304558-5 891352-664261-1	Muhammad Chiragh Mukhtar Ahmed	14,989	5,121	-	20,111	-	5,121	-	5,121
101	limatech Pvt Limited 14-KM, Mullan Road, Behinde Uniform Factory, Lahore	Muhammad Tahir Samina Tahir Adnan Tahir	35202-9954597-5 35202-3013553-8 35201-3535148-7	Muhammad Aslam Muhammad Tahir Muhammad Tahir	-	3,840	-	3,840	-	2,561	-	2,561

Annexure III

Annexure III

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2011 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Intl/Acc/Mup	Others	Total				
102	Jannat Traders Power House Road Lipton Ground Abdullahpur, Faisalabad	Zahid Mumtaz (Prop)	33100-3104447-9	Inayatullah	-	713	-	713	-	513	-	513
103	Hussain Enterprises Jalalpur Bhattian Distt Haifzabad	Mian Murtjiz Buksh	34302-2815037-1	Khurshheed Ahmed	13,368	1,336	-	14,704	-	1,215	-	1,215
104	Goble Village G T Road, Near Railway Pathak Shahkot, Gujranwala	Muhammad Khalid Naeem Muhammad Asif Nadeem Hamood Uj Rehman	34101-1691835-5 34101-6210912-9 34101-9600928-1	Muhammad Bashir	2,500	1,478	-	3,978	-	610	-	610
105	Malik Maqsood Khalid House # 52, Block-E, Model Town, Lahore	Malik Maqsood Khalid	35202-1074927-5	Khalid Latif	5,053	2,602	-	7,655	-	2,602	-	2,602
106	Ashok Kumar Vill Cheena Po Daggar	Ashok Kumar	15101-8739483-1	Moti Ram	3,996	2,047	-	6,043	3,996	1,938	-	5,934
107	Moti Ram Vill Cheena Po Daggar	Moti Ram	15101-1146971-1	Bagwan Das	3,318	1,714	-	5,032	3,318	1,625	-	4,943
108	Bilal Tyres Corporation Village Kozkandi, Daggar	Muhammad Khalid	15101-0324751-9	Roidad Khan	996	495	-	1,491	996	482	-	1,478
109	Ali Brothers Main Gooqand Road, Daggar	Ahmad Ali Khan	61101-1060848-5	Abdul Rauf	2,961	1,322	-	4,283	2,961	1,241	-	4,202
110	Ali Filling Station Near Dhrq Hospital Daggar	Abdul Rauf	15101-0413981-3	Amir Haider	-	846	-	846	-	792	-	792
111	M/S Naeem Shah & Sons Main Bazar Near Khawar Baikhella	M/S Naeem Shah & Sons	15402-8338374-5	Sher Muhammad	895	239	-	1,134	895	239	-	1,134
112	M/S Aleem Shah Purana Dir Adda Baikhella	M/S Aleem Shah	15402-1446236-9	Qadeem Shah	398	285	-	683	398	285	-	683
113	M/S Muhammad Idrees & M Waris Main Bazar Baikhella	Muhammad Idrees M. Waris	15402-1441762-1 15402-1424661-1	Abdur Raziq Abdur Raziq	315	452	-	766	315	452	-	766
114	M/S Jamal Muhammad Mohalla Sirgina Baikhella	M/S Jamal Muhammad	15402-1126380-1	Dost Muhammad	1,871	603	-	2,473	1,871	603	-	2,473
115	M/S Nasir Hussain Ptdc Motie Jalawanan Baikhella	M/S Nasir Hussain	15402-3524195-9	Ahmad Hussain	999	311	-	1,310	999	311	-	1,310

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		Name	CNIC No.		Principal	Intt/Acc/Mup	Others					Total
116	M/S Khattak Timber Traders Timber Market Dargai	M/S Khattak Timber Traders	15401-5492965-1	Nasrullah Khan	1,976	1,756	-	3,731	1,976	1,756	-	3,731
117	M/S Jehanzeb Khan Vz Po Ghawar Kili Sakjha Kot Malakand Agency	M/S Jehanzeb Khan	15401-5161980-3	Haji Abdul Manan	2,783	1,437	-	4,220	2,783	1,437	-	4,220
118	Zubar Shah & Co. Tahir Abad Mingora	Mohammad Zubar	15602-0288048-3	Mohammed Rahim	1	422	-	422	600	422	-	1,022
119	Shah Auto Filling Station Rahimabad Mingora Swat	Akbar Ali Shah	15602-3202198-3	Rahim Shah Lala	2	982	-	984	1,987	982	-	2,969
120	Darul Hikmat Dawakhan Vili, Doley Kabal Swat	Abdul Majeed	15602-0390905-5	Rahim Ullah	1	285	-	285	669	285	-	954
121	Elum Corporation Taj Chowk Mingora Swat	Elum Corporation	15602-6483786.1	Itbar Gul	2	963	-	964	1,600	963	-	2,563
122	Usman Petroleum Service Rahimabad Mingora Swat	Usman Petroleum Service	15602-7054659-3	Muhammad Usman	1	774	-	775	902	774	-	1,677
123	Mangnaish Kumar Saroop Art Press Makan Bagh Mingora Swat	Mangnaish Kumar	15602-3006910-9	Ram Saroop	1	422	-	423	1,000	422	-	1,422
124	Sami Traders Dawood China Plaza Mingora Swat	Samiullah	15602-6746151-9	Muhammad Sherin	1	157	-	158	1,139	157	-	1,296
125	Shah Dawran Khwaza Khela Swat	Shah Dawran	15602-0486394-1	Muneer Khan	1	422	-	423	999	422	-	1,421
126	Azi Khail Filling Station Khwaza Khela Swat	Muhammad Shoab	15601-1042932-9	Karim Dad	1	376	-	377	890	376	-	1,266
127	Haider Ali Khwaza Khela Swat	Haider Ali	15602-2381404-1	Nowsherwan	1	511	-	512	998	511	-	1,509
128	Shahyar Filling Station Khwaza Khela Swat	Shahyar Filling Station	15602-6228087-5	Shahyar Khan	1	392	-	393	557	392	-	949
129	Bakht Bland Behrain Swat	Bakht Bland	15602-4371520-9	Hasmat Ullah	1	886	-	887	990	886	-	1,876
130	Arshad Hussain Khan Chena Market Mingora Swat	Arshad Hussain Khan	15602-0190809-9	Mohammad Ibrahim	500	288	-	787	500	288	-	787

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		Name	CNIC No.		Principal	Intl/Acc/Mup	Others	Total				
131	Fazal Steel & Plastic Furniture Airport Road Mingora Swat	Fazal Ahad Abdul Ahad	15602-0515611-3 15602-6356282-9	Ali Akbar	347	179	-	525	347	179	-	525
132	Sajjad Filing Station Walaabad Gulbagh Swat	Sajjad Filing Station 15602-0240377-7	15602-0244118-7	Haji Sarbaz Khan	-	512	-	512	-	512	-	512
133	Yousaf Haroon Saaidu Sharif Swat	Yousaf Haroon	15602-9046369-7	Hazrat Khan	390	282	-	672	390	282	-	672
134	Usman Ghani Malam Jaba Road Said Abad Swat	Usman Ghani	15602-6265401-1	Fazle Rahim	494	255	-	750	494	255	-	750
135	S And S Traders Airport Road Mingora Swat	Sherullah	15602-0489527-1	Sharif Ullah	435	129	-	563	435	129	-	563
136	Muhammad Rehman General Store Khwaza Khela Swat	Muhammad Rehman	116-88-00473-0	Gohar Rehman	315	345	-	659	315	345	-	659
137	Hazrat Umar Khwaza Khela Swat	Hazrat Umar	15602-7226112-5	Naeem Ullah	492	208	-	700	492	208	-	700
138	Mian Gul Bashir Khwaza Khela Swat	Mian Gul Bashir	15602-03784003	Mian Sanobar	403	209	-	612	403	209	-	612
139	Afzal Khan Khwaza Khela Swat	Afzal Khan	15602-1941403-3	Mohammad Younas	399	169	-	568	399	169	-	568
140	Jamil Ahmad Behrain Swat	Jamil Ahmad	15602-7662608-3	Haji Gari Gul	250	299	-	549	250	299	-	549
141	Amin Gul Behrain Swat	Amin Gul	15602-0506758-7	Ghulam Habib	395	192	-	587	395	192	-	587
142	Al-Hayat filling Station Airport Road Mingora Swat	Khizer Hayat	15602-9195972-5	Shah Rahman	-	937	-	937	-	937	-	937
143	Muhammad Taqi & Brothers School Road Piacinar Kuram Agency	Muhammad Taqi Jan	17301-1413693-1	Haji Muhammad Jan	497	0	-	497	272	234	-	506
144	Shahid Iqbal House No. 428-A, Murzaabad Colony, University Road, Sargodha	Shahid Iqbal	38-403-2090906-1	Muhammad Saadiq	1,796	634	37	2,467	-	634	37	671
145	Shahzada Mohyud Din Kalkatak Darosh Chitral	Shahzada Mohyud Din	15201-8474756-3	Shahzada Amirud Din	7,873	-	-	7,873	6,821	51	-	6,873

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		Name	CNIC No.		Principal	Intt/Acc/Mup	Others					Total
146	Ghaffar Filling Station Mor-Lasht Chitral	Sadar Qazafi	15201-0595969-5	Abdul Ghafar Khan	3,948	-	3,948	3,099	53	-	3,152	
147	Amir Zada Main Bazar Batkhela	Amir Zada	15402-3765577-1	Amir Muhammad	4,602	79	4,681	4,602	79	-	4,681	
148	M/S Khaista Muhammad Main Bazar Batkhela	Khaista Muhammad	15402-1447605-7	Amir Muhammad	798	15	813	798	15	-	813	
149	Royal Builders Yar Abad Sakhrakot Malakand Agency	Naik Muhammad	15401-6985852-1	Abdul Manan	639	3	642	639	3	-	642	
150	Punjab Tube Well Airport Road Mingora Swat	Rehmat Ali	15602-9290877-5	Manzari	2	30	32	1,978	30	-	2,008	
151	Udigram Petroleum Services GI Road Udigram Swat	Shah Rehman	15602-0268392-9	Pinda Gul	2	32	34	1,998	32	-	2,030	
152	Salar Din, Ghulam Mohyud Din & Amir Zeb Airport Road Mingora Swat	Salar Din, Ghulam Mohyud Din Amir Zeb	15602-6707740-9 15602-8696766-1	Salahud Din	2	31	33	1,987	31	-	2,018	
153	Sher Alam Khan & Sons New Sbi Mandi Mingora Swat	Sher Alam Khan	15602-0755374-7	Muhammad Ghani	1	18	19	1,155	18	-	1,173	
154	Saidu Medicose Opp. Central Hospital Saidu Shariff Swat	Usman Ghani	15602-5200316-7	Abdul Hamid	485	8	493	492	8	-	500	
					922,650	884,520	19,722	1,826,692	1,09,030	68,135	722,714	900,879

Annexure IV

Disposal of operating fixed assets (refer note 11.2.3)

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
(Rupees in '000)							
Furniture and fixture, electrical, computers and office equipment							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	12,052	11,351	701	726	Auction	Karachi Auction Mart	Karachi
	8,606	6,742	1,864	2,695	Claim	Adam Jee Insurance Company	Karachi
	17,383	17,383	-	300	Quotations	Abdur Razak & Brothers	Lahore
	15,851	14,861	990	1,164	Auction	Karachi Auction Mart	Karachi
	53,892	50,337	3,555	4,885			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	5,122	4,183	939	1,337	Auction/Quotation	Different Buyers	All Pakistan
Vehicles							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000							
Honda Civic	1,233	986	247	913	Bank Car Policy	Mr. Jaudat Hussain	Lahore
Honda Civic	1,679	1,679	-	1,837	Auction	T.P.L.Shaminda I.Perera	Colombo-Sri Lanka
Honda WP	5,569	2,228	3,341	4,176	Auction	Insurance Claim	Colombo-Sri Lanka
Honda Civic	3,820	3,514	306	2,773	Auction	Mr.N.Kodithuwakku	Colombo-Sri Lanka
Honda Civic	3,820	3,565	255	2,694	Auction	Mr.A.A.Nimal Jayalath	Colombo-Sri Lanka
Honda Civic	1,036	677	359	1,152	Auction	Mr. Muhammad Ali Siddiqui	Karachi
BMW	7,000	4,200	2,800	5,300	Auction	Mr. Gul Hassan	Lahore
Mercediez Benz	3,526	2,821	705	2,399	Auction	Mr. Syed Riaz Ahmed	Karachi
Honda Civic	1,038	830	208	909	Auction	Mr. Abdul Razzak	Karachi
	28,721	20,500	8,221	22,153			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	14,009	10,814	3,195	11,534			
Ijara Assets							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000							
Toyota XLI	1,314	643	671	755	Buy Back	Interloop limited	Faisalabad
Suzuki-Cultus	816	295	521	580	Buy Back	Interloop limited	Faisalabad
Suzuki-Liana	1,067	361	706	764	Buy Back	Interloop limited	Faisalabad
Toyota GLI	1,402	633	769	855	Buy Back	Interloop limited	Faisalabad
Suzuki-Cultus	945	14	931	931	Buy Back	Interloop limited	Faisalabad
Toyota XLI	1,445	65	1,380	1,385	Buy Back	Interloop limited	Faisalabad
	6,989	2,011	4,978	5,270			
2011	108,733	87,845	20,888	45,179			
2010	78,808	61,560	17,248	33,241			

Annexure V

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
		(Rupees in '000)	
Abbottabad	20,000	2,427	22,427
Bahawalpur	14,140	7,490	21,630
Chakwal	1,800	5,062	6,862
Chistian	13,200	1,260	14,460
Dera Gazi Khan	12,600	12,255	24,855
Dir	13,000	1,680	14,680
Faisalabad	486,286	141,939	628,225
Gawadar	450	-	450
Gujranwala	141,095	81,749	222,844
Gujrat	54,000	17,292	71,292
Hafizabad	32,000	4,402	36,402
Haripur	26,915	3,507	30,422
Haroonabad	14,640	1,980	16,620
Hyderabad	186,696	67,140	253,836
Islamabad	1,274,485	225,703	1,500,188
Jehlum	24,000	20,313	44,313
Jhang	19,625	2,218	21,843
Karachi	3,460,564	2,232,035	5,692,599
Kasur	14,040	1,434	15,474
Khanpur	19,033	7,218	26,251
Lahore	3,250,068	1,812,896	5,062,964
Larkana	27,420	5,197	32,617
Mianwali	14,375	16,780	31,155
Mirpur	57,352	8,635	65,987
Mirpurkhas	22,640	4,901	27,541
Multan	99,393	318,968	418,361
Muree	20,000	901	20,901
Muridke	30,000	3,234	33,234
Muzafarabad	57,235	7,993	65,228
Naushero Feroze	5,930	1,366	7,296
Okara	16,338	10,945	27,283
Peshawar	86,000	18,207	104,207
Quetta	276,760	31,082	307,842
Rahim Yar Khan	5,940	5,270	11,210
Rawalpindi	388,593	110,430	499,023
Sadiqabad	23,595	4,130	27,725
Sahiwal	14,720	10,753	25,473
Sargodha	74,147	16,205	90,352
Shahdapur	4,850	756	5,606
Sheikhupura	40,000	8,606	48,606
Shujabad	6,400	3,250	9,650
Sialkot	40,000	10,313	50,313
Moro	8,500	2,150	10,650
Sukkur	35,920	12,853	48,773
Swat	46,600	4,568	51,168
Tando Allahyar	2,600	727	3,327
Vehari	5,555	1,637	7,192
Wazirabad	12,000	6,062	18,062
Overseas	-	54,026	54,026
Grand total	10,501,500	5,329,945	15,831,445



MCB Bank Limited

Consolidated Financial Statements for the year ended December 31, 2011



Director's Report on Consolidated Financial Statements

The Board of Directors present the report on the consolidated financial statements of MCB Bank Limited and its subsidiaries namely Arif Habib Investments Limited, MCB Financial Services Limited, MNET Services (Private) Limited, MCB Trade Services, MCB Leasing Closed Joint Stock Company for the year ended December 31, 2011.

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

	(Rs. in '000)
Profit before taxation	31,321,782
Taxation	12,019,299
	<u>19,302,483</u>
Profit attributable to minority interest	(28,167)
Profit attributable to ordinary share holders	<u>19,274,316</u>
Un-appropriated profit brought forward	23,458,429
Transfer from surplus on revaluation of fixed assets (net of tax)	36,182
	<u>23,494,611</u>
Profit available for appropriation	<u>42,768,927</u>
Appropriations	
Statutory reserve	1,942,491
Final cash dividend– December 2010	2,280,645
Issue of bonus shares– December 2010	760,215
Interim dividend– March 2011	2,508,709
Interim dividend– June 2011	2,508,709
Interim dividend– September 2011	2,508,709
Total appropriations	<u>12,509,478</u>
	<u>30,259,449</u>

Pattern of Shareholding

The pattern of shareholding as at December 31, 2011 is annexed in annual report.

Earnings per Share

The consolidated financial statements reflect Rs.23.08 earning per share for the year under review.

On behalf of Directors



Mian Mohammad Mansha
Chairman

Dated: February 21, 2012

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'consolidated financial statements') for the year then ended. These consolidated financial statements include unaudited certified returns from the branches except for fifty branches which have been audited by us and eight branches audited by auditors abroad. We have also expressed separate opinions on the financial statements of MCB Bank Limited and MNET Services (Private) Limited. The financial statements of subsidiary companies MCB Financial Services Limited, MCB Trade Services Limited and MCB Leasing Closed Joint Stock Company were audited by other firms of chartered accountants, while the subsidiary Arif Habib Investments Limited was subject to a limited scope review by another firm of chartered accountants, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. These consolidated financial statements are responsibility of the Bank's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audit.

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

In our opinion the consolidated financial statements present fairly the financial position of MCB Bank Limited and its subsidiary companies as at December 31, 2011 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Other Matter

The consolidated financial statements of MCB Bank Limited for the year ended December 31, 2010 were audited by another firm of chartered accountants who expressed an unqualified opinion thereon vide their report dated February 10, 2011.

Lahore
February 21, 2012

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

Consolidated Statement of Financial Position

As at December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Assets			
Cash and balances with treasury banks	6	53,122,620	45,407,264
Balances with other banks	7	2,357,418	1,551,518
Lendings to financial institutions	8	955,087	4,401,781
Investments - net	9	319,005,983	215,747,844
Advances - net	10	225,794,738	254,565,471
Operating fixed assets	11	22,418,450	21,061,787
Deferred tax assets - net		-	-
Other assets - net	12	32,670,511	27,746,198
		656,324,807	570,481,863
Liabilities			
Bills payable	14	9,466,818	10,265,537
Borrowings	15	39,100,627	25,684,593
Deposits and other accounts	16	491,146,798	431,295,499
Sub-ordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	17	6,497,097	5,146,733
Other liabilities	18	18,459,162	16,090,374
		564,670,502	488,482,736
Net assets		91,654,305	81,999,127
Represented by:			
Share capital	19	8,362,365	7,602,150
Reserves	20	42,412,588	40,164,526
Unappropriated profit		30,259,449	23,458,429
		81,034,402	71,225,105
Minority interest		492,497	2,698
		81,526,899	71,227,803
Surplus on revaluation of assets - net of tax	21	10,127,406	10,771,324
		91,654,305	81,999,127
Contingencies and commitments	22		

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Mark-up / return / interest earned	24	68,215,902	54,829,365
Mark-up / return / interest expensed	25	23,632,615	18,027,372
Net mark-up / interest income		44,583,287	36,801,993
Provision for diminution in the value of investments - net	9.3	778,526	444,476
Provision against loans and advances - net	10.4.2	2,846,523	3,100,594
Bad debts written off directly	10.5.1	28,565	52,047
		3,653,614	3,597,117
Net mark-up / interest income after provisions		40,929,673	33,204,876
Non-mark-up / interest income			
Fee, commission and brokerage income		4,921,269	4,133,109
Income earned as trustee to various funds		17,257	22,714
Dividend income		785,549	450,492
Income from dealing in foreign currencies		924,236	632,819
Gain on sale of securities - net	26	761,890	410,618
Unrealized gain on revaluation of investments classified as held for trading	9.5	16,616	40,832
Other income	27	814,443	751,058
Total non-mark-up / interest income		8,241,260	6,441,642
		49,170,933	39,646,518
Non-mark-up / interest expenses			
Administrative expenses	28	15,860,242	12,327,496
Other provision - net	12.3	514,646	88,261
Other charges	29	1,402,756	990,638
Total non-mark-up / interest expenses		17,777,644	13,406,395
Share of profit of associates	9.7	(71,507)	269,513
Extra ordinary / unusual item		-	-
Profit before taxation		31,321,782	26,509,636
Taxation - Current year		9,739,369	8,053,368
- Prior years		1,038,662	-
- Deferred		1,312,316	1,554,809
Share of tax of associates		(71,048)	29,333
	30	12,019,299	9,637,510
Profit after taxation		19,302,483	16,872,126
(Profit) / loss attributable to minority interest		(28,167)	1,893
Profit attributable to ordinary share holders		19,274,316	16,874,019
Unappropriated profit brought forward		23,458,429	17,821,670
Transfer from surplus on revaluation of fixed assets - net of tax		36,182	21,879
		23,494,611	17,843,549
Profit available for appropriation		42,768,927	34,717,568
Basic and diluted earnings – after tax			
	Rupees per share	33	23.08
			20.18

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Consolidated Statement of Comprehensive Income

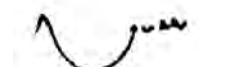
For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
Profit after tax for the year	19,302,483	16,872,126
Other comprehensive income		
Effect of translation of net investment in foreign branches and subsidiaries		
- Equity shareholders of the Bank	83,661	89,552
- Minority interest	142	70
	83,803	89,622
Comprehensive income transferred to equity	19,386,286	16,961,748
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	(33,008)	216,561
Deferred tax	(64,973)	(74,473)
	(97,981)	142,088
Total comprehensive income for the year	19,288,305	17,103,836

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Consolidated Cash Flow Statement

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
Cash flows from operating activities			
Profit before taxation		31,321,782	26,509,636
Less: Dividend income and share of profit of associates		(714,042)	(720,005)
		30,607,740	25,789,631
Adjustments for non-cash charges:			
Depreciation	11.2	1,130,102	1,024,200
Amortization	11.3	252,187	162,154
Provision against loans and advances - net	10.4.2	2,846,523	3,100,594
Provision for diminution in the value of investments - net	9.3	778,526	444,476
Provision against other assets - net	12.3	514,646	88,261
Bad debts written off directly	10.5.1	28,565	52,047
Gain on disposal of fixed assets - net	27	(25,372)	(16,961)
Unrealized gain on revaluation of 'held for trading' securities	9.5	(16,616)	(40,832)
		5,508,561	4,813,939
		36,116,301	30,603,570
(Increase) / decrease in operating assets			
Lendings to financial institutions		3,446,694	(1,401,781)
Net investments in 'held for trading' securities		43,760	(16,532)
Advances - net		25,895,645	(4,469,847)
Other assets - net		(1,764,387)	(2,253,702)
		27,621,712	(8,141,862)
Increase / (decrease) in operating liabilities			
Bills payable		(798,719)	2,064,447
Borrowings		13,416,034	(18,977,495)
Deposits and other accounts		59,851,299	63,714,424
Other liabilities		2,797,350	1,084,053
		75,265,964	47,885,429
		139,003,977	70,347,137
Income tax paid		(14,840,108)	(11,692,657)
Net cash flows from operating activities		124,163,869	58,654,480
Cash flows from investing activities			
Net investments in 'available for sale' securities		(107,745,893)	(47,515,913)
Net investments in 'held to maturity' securities		3,346,149	1,445,720
Net inflow of cash on amalgamation of subsidiary		41,573	-
Proceeds from issue of shares to minority interest		-	4,450
Investment in associate		(52,521)	-
Dividends received		874,111	562,545
Investments in operating fixed assets		(2,451,200)	(2,601,076)
Sale proceeds of property and equipment disposed off		46,660	34,276
Net cash flows from investing activities		(105,941,121)	(48,069,998)
Cash flows from financing activities			
Dividend paid		(9,785,295)	(8,567,547)
Net cash flows from financing activities		(9,785,295)	(8,567,547)
Exchange differences on translation of the net investment in foreign branches and subsidiaries		83,803	89,622
Increase in cash and cash equivalents		8,521,256	2,106,557
Cash and cash equivalents at beginning of the year		46,635,203	44,792,697
Effects of exchange rate changes on cash and cash equivalents		323,579	59,528
		46,958,782	44,852,225
Cash and cash equivalents at end of the year	34	55,480,038	46,958,782

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



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

	Capital Reserves			Revenue Reserves			Sub total	Minority interest	Total	
	Share capital	Reserve for issue of bonus shares	Share premium	Exchange translation reserve	Statutory reserve	General reserve				Unappropriated profit
	(Rupees in '000)									
Balance as at December 31, 2009	6,911,045	-	9,702,528	258,047	9,827,081	18,600,000	17,821,670	63,120,371	71	63,120,442
Profit after taxation for the year ended December 31, 2010	-	-	-	-	-	-	16,872,126	16,872,126	-	16,872,126
Profit attributable to minority interest	-	-	-	-	-	-	1,893	1,893	(1,893)	-
Profit after taxation for the year ended December 31, 2010 attributable to ordinary shareholders of the group	-	-	-	-	-	-	16,874,019	16,874,019	(1,893)	16,872,126
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	89,552	-	-	-	89,552	70	89,622
Total comprehensive income for the year ended December 31, 2010	-	-	-	89,552	-	-	16,874,019	16,963,571	(1,823)	16,961,748
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	21,879	21,879	-	21,879
Share of capital attributable to minority shareholders	-	-	-	-	-	-	-	-	4,450	4,450
Transferred to statutory reserve	-	-	-	-	1,687,318	-	(1,687,318)	-	-	-
Transfer to reserve for issue of bonus shares	-	691,105	-	-	-	-	(691,105)	-	-	-
Issue of bonus shares - December 2009	691,105	(691,105)	-	-	-	-	-	-	-	-
Final cash dividend - December 2009	-	-	-	-	-	-	(2,418,877)	(2,418,877)	-	(2,418,877)
Interim cash dividend - March 2010	-	-	-	-	-	-	(1,900,549)	(1,900,549)	-	(1,900,549)
Interim cash dividend - June 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)	-	(2,280,645)
Interim cash dividend - September 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)	-	(2,280,645)
Balance as at December 31, 2010	7,602,150	-	9,702,528	347,599	11,514,399	18,600,000	23,458,429	71,225,105	2,698	71,227,803
Profit after taxation for the year ended December 31, 2011	-	-	-	-	-	-	19,302,483	19,302,483	-	19,302,483
Profit attributable to minority interest	-	-	-	-	-	-	(28,167)	(28,167)	28,167	-
Profit after taxation for the year ended December 31, 2011 attributable to ordinary shareholders of the group	-	-	-	-	-	-	19,274,316	19,274,316	28,167	19,302,483
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	83,661	-	-	-	83,661	142	83,803
Total comprehensive income for the year ended December 31, 2011	-	-	-	83,661	-	-	19,274,316	19,357,977	28,309	19,386,286
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	36,182	36,182	128	36,310
Transferred to statutory reserve	-	-	-	-	1,942,491	-	(1,942,491)	-	-	-
Transfer to reserve for issue of bonus shares	-	760,215	-	-	-	-	(760,215)	-	-	-
Issue of bonus shares - December 2010	760,215	(760,215)	-	-	-	-	-	-	-	-
Adjustments pertaining to additional issue of share capital to minority interest on amalgamation of MCB Assets Management Company Limited with Arif Habib Investments Limited	-	-	221,910	-	-	-	-	221,910	513,947	735,857
Share of dividend attributable to minority interest	-	-	-	-	-	-	-	-	(52,585)	(52,585)
Final cash dividend - December 2010	-	-	-	-	-	-	(2,280,645)	(2,280,645)	-	(2,280,645)
Interim cash dividend - March 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)	-	(2,508,709)
Interim cash dividend - June 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)	-	(2,508,709)
Interim cash dividend - September 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)	-	(2,508,709)
Balance as at December 31, 2011	8,362,365	-	9,924,438	431,260	13,456,890	18,600,000	30,259,449	81,034,402	492,497	81,526,899

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

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

M.U.A. Usmani
President and Chief Executive

S. M. Muneer
Director

Dato' Seri Ismail Shahudin
Director

Mian Umer Mansha
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited

Subsidiary companies

Subsidiary companies	Percentage holding of MCB Bank Limited %
– MCB Financial Services Limited	99.999
– MNET Services (Private) Limited	99.950
– MCB Trade Services Limited	100.000
– Arif Habib Investments Limited	51.329
– "MCB Leasing" Closed Joint Stock Company	95.000

MCB Bank Limited

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2010: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB - 15 Main Gulberg, Lahore, respectively. The Bank operates 1,165 branches including 22 Islamic banking branches (2010: 1,125 branches including 14 Islamic banking branches) within Pakistan and 8 branches (2010: 7 branches) outside the country (including the Karachi Export Processing Zone branch).

MCB Financial Services Limited

The company was incorporated on February 12, 1992 under the Companies Ordinance, 1984 as a private limited company. The principal object of the company is to float, administer and manage modaraba funds and modarabas under Modaraba Companies & Modaraba (Floatation and Control) Ordinance 1980. The company also acts as a trustee of certain mutual funds. The company's registered office is situated at 16th Floor, MCB Tower, I.I. Chundrigar Road, Karachi.

MNET Services (Private) Limited

MNET Services (Private) Limited is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984 on September 7, 2001. The company's registered office and principal place of business are situated at MCB Building, F-6 / G-6, Jinnah Avenue, Islamabad and Sheikh Sultan Trust Building, Beaumont Road, Karachi respectively. The core objective of the company is to provide services

in Information Technology and to develop computer software and other data processing equipment for planning, designing, management and execution of all types of financial, personal, organizational and institutional activities.

MCB Trade Services Limited

The company was incorporated under the laws of Hong Kong on February 25, 2005. The registered office of the company is located at 28 / F, BEA Harbour View Centre 56 Gloucester Road, Wan Chai, Hong Kong. The principal activity of the company is to provide agency services.

Arif Habib Investments Limited

Arif Habib Investments Limited (the Company) was incorporated on 30 August 2000, as an unquoted public limited company under the Companies Ordinance, 1984. During 2008, the Company was listed on the Karachi Stock Exchange by way of offer for sale of shares by a few of the existing shareholders of the Company to the general public. In the same financial year, the name of the Company was changed from Arif Habib Investment Management Limited to Arif Habib Investments Limited. The registered office of the Company is situated at 8th Floor, Techno City, Corporate Tower, Molana Hasrat Mohani Road, Karachi, Pakistan.

The Company is registered as an Asset Management Company and Investment Advisor under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Pension Fund Manager under Voluntary Pension System Rules 2005. The Company also manages discretionary portfolio accounts.

The scheme of amalgamation of MCB Asset Management Company Limited with and into Arif Habib Investments Limited was sanctioned by Securities and Exchange Commission of Pakistan (SECP) through its order dated June 10, 2011 with effect from June 27, 2011. After the close of business on June 27, 2011, the SECP issued another order under Section 484(2) of the Companies Ordinance, 1984 (the Extension Order) to extend the effective date from June 27, 2011 to July 30, 2011. Based upon legal advice, the Company filed a constitutional petition before the Honorable High Court of Sindh (the Court) on July 02, 2011 pleading that the amalgamation is a past and closed transaction and the Extension Order was illegal and not tenable under law. On July 04, 2011, the Court suspended the operation of the Extension Order till the disposal of the application. On the basis of the order of the Honorable High Court of Sindh dated July 04, 2011

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

and the legal advice regarding merits of the case, management strongly believes that the outcome of the petition would be in its favor.

“MCB Leasing” Closed Joint Stock Company

The company was incorporated as a Closed Joint Stock Company under the laws of Azerbaijan on October 16, 2009 with 95% holding of MCB Bank Limited (a parent company). The registered office of the company is located at 49B Moscow Ave. Baku AZ1065, Republic of Azerbaijan.

The Company's principal business activity is providing lease finance within the Republic of Azerbaijan. The company leases various types of industrial equipment, equipment used in medical, public transports and real estate. In addition, the Company leases cars, trucks and rail cars. The company purchases leasing assets from suppliers in the Republic of Azerbaijan and abroad.

2. BASIS OF PRESENTATION

2.1 These consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and associates.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II of unconsolidated financial statements.

2.4 For the purpose of translation, rates of Rs. 89.9457 per US Dollar (2010: Rs. 85.6367) and Rs. 0.7899 per LKR (2010: Rs.0.7718) have been used.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial

Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

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

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2011:

- IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard classifies and simplifies the definition of a related party and removes the requirement for government - related entities to disclose details of all transactions with the government and other government - related entities. The revised standard does not have any significant effect on the Group's financial Statements.
- Prepayments of minimum funding requirements (Amendment to IFRIC 14) - effective for annual periods beginning on or after January 1, 2011. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary

Notes to the Consolidated Financial Statements

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prepayments for minimum funding contributions. This was not intended when the IFRIC 14 was issued, and the amendments correct this. The amendment is not expected to have any significant impact on Group's financial statements.

- Customer Loyalty Programmes (IFRIC 13) - effective for annual periods beginning on or after January 1, 2011. The interpretation clarifies that when measuring the fair value of an award credit, entities should take into account both the value of the award that would be offered to customers and the proportion of award credit that is not expected to be redeemed to customers. The amendment is not expected to have any significant impact on Groups financial statements.
- Business Combinations (IFRS 3 revised) - (effective for annual periods beginning on or after 1 July 2010). The revised standard clarifies that entities should apply the rule in IFRS 3 (not IFRS 7, IAS 32 or IAS 39) to contingent consideration that arises from a business combination with acquisition dates that precede the application of IFRS 3 (revised). The revision has no impact on financial statements of the Group.
- Business Combinations (IFRS 3 revised) - (effective for annual periods beginning on or after July 01, 2010). The revised standard clarifies that only entities with present ownership instruments that entitle their holders to a pro rata share of entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest that are not entitled to a proportionate share of net assets would be measured on an alternative basis. The revision has no impact on financial statements of the Group.
- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will

be effective for accounting periods beginning on or after January 01, 2012.

- IAS 27 Separate Financial Statements (2011) - effective for annual periods beginning on or after January 1, 2013. IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Group.
- IAS 19 Employee Benefits (amended 2011) - effective for annual periods beginning on or after January 01, 2013. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. The Group does not plan to adopt this change early and the extent of the impact has not been determined.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments, 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 Pak Rupees, which is the Group's functional and presentation currency. The amounts are rounded off to the nearest thousand.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

4.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the 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 the Bank follows the guidance provided in SBP circulars:

- For investments classified as 'held for trading', the Bank determines 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.
- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

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

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.4.3 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 investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the 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, amortization and revaluation of operating fixed assets

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

g) Staff retirement benefits

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- a) The consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of associates are accounted for under the equity basis of accounting.
- b) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries are disposed off. The assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the financial statements as at December 31, 2011 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.
- d) Minority interest is that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the Group.

5.2 Investments

The Bank classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

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

c) Available for sale

These are investments that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

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

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

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate and subsidiary at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

5.3 Sale and repurchase agreements

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

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

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. 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 recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.5 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost less accumulated impairment losses (if any). 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 land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

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

5.5.1 Intangible assets

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

5.5.2 Leases (Ijarah)

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

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

5.6 Impairment

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.7 Staff retirement benefits

MCB Bank Limited

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

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and
 - contributory benevolent scheme
- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
 - an approved pension fund.
 - contributory benevolent fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.
- d) For executives and officers who joined the Bank on or after January 1, 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 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

The company operates an unfunded gratuity scheme for its eligible employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. Accrual of charge for the year is made on the basis of actuarial valuations carried out under the projected unit credit method. Actuarial gains and losses are amortized over the expected future service of employees to the extent of the greater of ten percent of the present value of the defined benefit obligations at that date.

5.8 Employees' compensated absences

MCB Bank Limited

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 recognized 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 / finalized during the year.

Deferred

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

Notes to the Consolidated Financial Statements

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

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

5.10 Provisions

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

5.11 Foreign currencies

5.11.1 Foreign currency transactions

Transactions in foreign currencies (other than the results of foreign operations discussed in note 5.11.2) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.11.2 Foreign operations

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

5.11.3 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 and subsidiaries, which are taken to the capital reserve (exchange translation reserve).

5.11.4 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.

5.12 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of 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 recognized as income when these are realized.
- Unrealized 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.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.
- Outsourcing revenue, payment system managed service income, subscription fee in Switch product revenue and networking services revenue is recognised on an accrual basis when the related services are rendered.
- Revenue for acting as trustee is recognized on Net Assets Value (NAV) of respective funds.
- Management / advisory fee is calculated on a daily / monthly basis by charging specified rates to the net assets value / income of the Collective Investment Schemes. Advisory fee from the discretionary portfolio is calculated in accordance with the respective agreements with the clients. Management fee from the pension funds is calculated by charging the specified rates to the average net assets value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

5.13 Operating leases

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

5.14 Cash and cash equivalents

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

5.15 Financial instruments

5.15.1 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 and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.15.2 Derivative financial instruments

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

5.15.3 Off setting

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

5.16 Share issuance cost

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

5.17 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.

5.17.1 Business segments

Corporate Finance

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

Trading and Sales

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

Retail and Consumer Banking

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

Commercial Banking

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

Asset Management

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

5.17.2 Geographical segments

The Group operates in four geographic regions being:

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

5.18 Dividend distribution and appropriation

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand – local currency	6.1	9,178,652	9,103,263
– foreign currencies		1,158,868	1,539,991
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	23,043,958	20,062,585
Foreign currency current account	6.3	43,029	34,673
Foreign currency deposit account	6.2	4,041,566	3,966,291
With other central banks in foreign currency current account	6.2	331,050	329,632
With National Bank of Pakistan in local currency current account		15,325,497	10,370,829
		<u>53,122,620</u>	<u>45,407,264</u>

6.1 This includes national prize bonds amounting to Rs. 95.889 million (2010: Rs. 67.097 million).

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

6.3 This represents US Dollar settlement account maintained with SBP.

	Note	2011	2010
(Rupees in '000)			
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- current account		4,323	6,350
- deposit account		47,123	66,599
Outside Pakistan			
- current account	7.1	1,679,631	1,074,315
- deposit account	7.2	626,341	404,254
		<u>2,357,418</u>	<u>1,551,518</u>

7.1 This includes balance of Euro 3.2 million frozen on account of restraining order issued by court.

7.2 Balances with other banks outside Pakistan in deposit account carry interest at the rate of 0.50% (2010: 0.55% to 3% per annum).

Notes to the Consolidated Financial Statements

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	Note	2011	2010
(Rupees in '000)			
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	-	1,500,000
Repurchase agreement lendings	8.3	955,087	2,901,781
		955,087	4,401,781
8.1 Particulars of lendings			
In local currency		907,693	4,391,754
In foreign currencies		47,394	10,027
		955,087	4,401,781

8.2 These carry mark up rates ranging from 7% to 11.90% per annum (2010 : 12.80% to 12.85%).

8.3 Securities held as collateral against lendings to financial institutions

	2011			2010		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	955,087	-	955,087	922,947	-	922,947
Pakistan Investment Bonds	-	-	-	1,978,834	-	1,978,834
	955,087	-	955,087	2,901,781	-	2,901,781

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2011 amounted to Rs.914.027 million (2010: 2,922.541 million). These carry mark up rates ranging from 7% to 11.90% per annum (2010 : 12.80% to 12.85%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

9. INVESTMENTS – NET

9.1 Investments by types

	Note / Annexure	2011			2010		
		Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
(Rupees in '000)							
Held for trading securities							
– Units in open ended mutual funds	9.5 & Annexure I (note 2)	345,602	–	345,602	348,530	–	348,530
Available-for-sale securities							
– Market Treasury Bills	9.4	232,284,116	24,306,386	256,590,502	174,114,758	11,840,440	185,955,198
– Pakistan Investment Bonds	9.4	33,994,184	–	33,994,184	4,764,252	–	4,764,252
– Shares in listed companies	9.4 & Annexure I (note 1)	7,832,951	–	7,832,951	6,680,635	–	6,680,635
– Units in open ended mutual fund	9.4 & Annexure I (note 1)	4,312,262	–	4,312,262	182,981	–	182,981
– Shares in unlisted companies	9.4 & Annexure I (note 3)	523,951	–	523,951	523,915	–	523,915
– NIT units		5,253	–	5,253	5,253	–	5,253
– Sukuk Bonds	9.4 & Annexure I (note 4)	4,100,000	–	4,100,000	2,100,000	–	2,100,000
– Term Finance Certificates (TFCs)	9.4 & Annexure I (note 4)	1,949,543	–	1,949,543	1,672,200	–	1,672,200
		285,002,260	24,306,386	309,308,646	190,043,994	11,840,440	201,884,434
Held-to-maturity securities							
– Market Treasury Bills	9.6	1,817,297	483,000	2,300,297	3,055,428	100,207	3,155,635
– Pakistan Investment Bonds	9.6	1,804,197	–	1,804,197	2,172,165	–	2,172,165
– Provincial Government Securities		118	–	118	118	–	118
– Sukuk Bonds	Annexure I (note 5)	1,231,964	–	1,231,964	1,427,762	–	1,427,762
– Euro Bonds	Annexure I (note 5)	1,542,470	–	1,542,470	1,446,590	–	1,446,590
– Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4 & 5)	2,075,882	–	2,075,882	4,099,810	–	4,099,810
		8,471,928	483,000	8,954,928	12,201,873	100,207	12,302,080
Associates							
– Adamjee Insurance Company Limited	9.7	3,101,352	–	3,101,352	3,703,265	–	3,703,265
– Euronet Pakistan (Private) Limited	9.8	53,917	–	53,917	–	–	–
– First Women Bank Limited	9.9	63,300	–	63,300	63,300	–	63,300
		3,218,569	–	3,218,569	3,766,565	–	3,766,565
Investments at cost							
		297,038,359	24,789,386	321,827,745	206,360,962	11,940,647	218,301,609
Less: Provision for diminution in value of investments	9.3	(3,327,065)	–	(3,327,065)	(3,116,292)	–	(3,116,292)
Investments (net of provisions)							
		293,711,294	24,789,386	318,500,680	203,244,670	11,940,647	215,185,317
Surplus / (Deficit) on revaluation of available for sale securities - net	21.2	475,204	13,483	488,687	534,095	(12,400)	521,695
Surplus on revaluation of 'held for trading' securities - net		16,616	–	16,616	40,832	–	40,832
Investments at revalued amounts - net of provisions							
		294,203,114	24,802,869	319,005,983	203,819,597	11,928,247	215,747,844

Notes to the Consolidated Financial Statements

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	Note / Annexure	2011 (Rupees in '000)	2010
9.2 Investments by segments			
Federal Government Securities:			
– Market Treasury Bills	9.4	256,590,502	185,955,198
– Pakistan Investment Bonds	9.4	35,798,381	6,936,417
– Euro Bonds	Annexure I (note 5)	1,542,470	1,446,590
– Sukuk Bonds	Annexure I (note 4 & 5)	4,500,000	2,500,000
– Unlisted Term Finance Certificate	Annexure I (note 4)	–	2,250,000
Overseas Government Securities			
– Market Treasury Bills - Sri Lanka		2,300,297	3,155,635
Provincial Government Securities		118	118
Associates	9.6 / Annexure I (note 6)	3,218,569	3,766,565
Fully Paid-up Ordinary Shares / Certificates / Units			
– Listed companies / mutual funds / modarabas	Annexure I (note 1 & 2)	8,116,951	6,619,033
– Unlisted companies / funds	Annexure I (note 3)	423,951	423,915
Units of Open Ended Mutual Funds	Annexure I (note 1)	4,312,262	531,511
Fully Paid-up Preference Shares:			
– Listed Companies	Annexure I (note 1)	61,602	61,602
– Unlisted Companies	Annexure I (note 3)	100,000	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
– Listed Term Finance Certificates	Annexure I (note 4)	1,949,543	1,672,200
– Unlisted Term Finance Certificates	Annexure I (note 4)	714,183	1,758,446
– Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4 & 5)	1,361,699	91,364
Other Investments:			
– Sukuk Bonds	Annexure I (note 5)	831,964	1,027,762
– NIT Units		5,253	5,253
Total investments at cost		321,827,745	218,301,609
Less: Provision for diminution in the value of investments	9.3	(3,327,065)	(3,116,292)
Investments (net of provisions)		318,500,680	215,185,317
Surplus on revaluation of available for sale securities - net	21.2	488,687	521,695
Surplus on revaluation of 'held for trading' securities - net	9.5	16,616	40,832
Investments at revalued amounts - net of provisions		319,005,983	215,747,844

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
9.3 Particulars of provision		
Opening balance	3,116,292	3,686,520
Charge during the year	786,923	458,070
Reversal made during the year	(8,397)	(13,594)
	778,526	444,476
Reversal on disposal of shares	(566,750)	(983,262)
Adjustments due to reclassification	-	(31,140)
Investment written off against provision	(1,003)	(302)
Closing balance	3,327,065	3,116,292
9.3.1 Particulars of provision in respect of Type and Segment		
Available-for-sale securities		
Listed shares / Certificates / Units	2,712,032	2,724,181
Unlisted shares	73,674	70,645
	2,785,706	2,794,826
Held-to-maturity securities		
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates	541,359	321,466
	3,327,065	3,116,292

9.4 Quality of 'available for sale' securities

	Note	2011		2010	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	256,558,203	Unrated	185,624,971	Unrated
Pakistan Investment Bonds	9.4.1	33,755,051	Unrated	4,435,059	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		255,740	AA-	253,473	AA-
Bank Alfalah Limited		501,600	AA-	505,153	AA-
United Bank Limited		758,654	AA	686,225	AA
Allied Bank Limited		231,294	AA-	146,252	AA-
NIB Bank limited		163,443	A+	-	A+
Pak Arab Fertilizers Limited		74,332	AA	97,000	AA
		1,985,063		1,688,103	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		13,532	Not available	14,881	Not available
Allied Bank Limited		340,150	AA & A1+	342,733	AA & A1+
Arif Habib Limited		1,111	Not available	2,038	Not available
Arif Habib Corporation Limited		43,603	Not available	38,079	Not available
Arif Habib Investments Limited		-	-	13,826	A & A1
Askari Bank Limited		49,211	AA & A1+	113,744	AA & A1+
Atlas Bank Limited		-	-	2,465	A- & A2
Attock Petroleum Limited		152,561	Not available	132,585	Not available
Attock Refinery Limited		17,224	AA & A1+	-	-
Azgard Nine Limited - preference shares		-	-	11,602	A+ & A1
Bank Alfalah Limited		-	-	3,382	AA & A1+
Bank Al-Habib Limited		220,604	AA+ & A1+	241,804	AA+ & A1+
Century Papers and Board Mills Limited		709	A+	919	A+

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

Note	2011		2010	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Clariant Pakistan Limited	8,381	Not available	-	-
Fauji Fertilizer Bin Qasim Company Limited	631,540	Not available	192,955	Not available
Fauji Fertilizer Company Limited	1,525,308	Not available	1,090,321	Not available
First AI - Noor Modaraba	23,324	BBB & A-3	16,104	BBB & A-3
Glaxo Smithkline Pakistan Limited	37,389	Not available	42,743	Not available
Habib Bank Limited	94,715	AA+ & A-1+	66,428	AA+ & A-1+
Habib Metropolitan Bank Limited	21,585	AA+ & A-1+	33,628	AA+ & A-1+
Ibrahim Fiber Limited	3,245	AA- & A1+	1,264	A+ & A1
ICI Pakistan Limited	26,459	Not available	-	-
IGI Insurance Limited	18,502	AA	26,113	AA
Indus Motors Company Limited	5,541	Not available	6,824	Not available
International Industries Limited	13,111	Not available	20,645	Not available
Kohinoor Energy Limited	867	AA & A1+	1,198	Not available
Kot Addu Power Company Limited	826	AA+ & A-1+	57,220	Not available
Maple Leaf Cement Company Limited	-	-	11,002	BB & B
Masood Textile Mills Limited - preference shares	50,000	Not available	50,000	Not available
Mehr Dastagir Textile Mills Limited	3,234	Not available	3,234	Not available
Millat Tractors Limited	149,707	Not available	90,990	Not available
National Refinery Limited	64,378	AAA & A1+	-	-
Oil & Gas Development Company Limited	45,052	AAA & A-1+	5,213	AAA & A-1+
Packages Limited	3,301	AA & A1+	5,133	AA & A1+
Pakistan Cables Limited	1,367	Not available	2,342	Not available
Pakistan Oilfields Limited	478,134	Not available	155,823	Not available
Pakistan Petroleum Limited	216,217	Not available	124,802	Not available
Pakistan State Oil Company Limited	39,303	AA+ & A1+	-	-
Pakistan Telecommunication Company Limited	2,338	Not available	98,143	Not available
Pakistan Tobacco Company Limited	2,720	Not available	5,401	Not available
Rupali Polyester Limited	4,974	Not available	23,708	Not available
Rafhan Maize Products Limited	12,086	Not available	-	-
Samba Bank Limited	44,896	A+ & A-1	60,688	A & A-1
Soneri Bank Limited	17,300	AA- & A1+	32,766	AA- & A1+
Summit Bank Limited	1,170	A & A2	-	-
** Sui Northern Gas Pipelines Limited	787,311	AA & A1+	1,276,269	AA & A1+
The Bank of Punjab	-	-	63,011	AA- & A1+
* Trust Securities & Brokerage Limited	330	Not available	525	Not available
Unilever Pakistan Limited	289,906	Not available	145,106	Not available
Unilever Pakistan Foods Limited	677	Not available	-	-
United Bank Limited	382,732	AA+ & A-1+	475,389	AA+ & A-1+
Wateen Telecom Limited	9,114	Under review	28,994	A & A-2
Zulfiqar Industries Limited	1,007	Not available	1,707	Not available
	5,856,752		5,133,747	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund - Perpetual (MSF)	3,967,713	AM2	-	-
Pakistan Pension Fund	115,365	AM2	-	-
Pakistan Islamic Pension Fund	113,811	AM2	-	-
Pakistan Capital Protected Fund - Fixed Income Securities (FIS)	1,439	AM2	-	-
AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF)	30,876	AM2	-	-
MCB Islamic Income Fund	52,820	AM2	-	-
MCB Dynamic Allocation Fund	-	-	77,327	AM3+
MCB Dynamic Stock Fund	-	-	100,624	AM3+
	4,282,024		177,951	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011		2010	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Shares in Un-listed Companies	9.4.2				
* Khushhali Bank Limited		300,000	A & A-1	300,000	A- & A-2
* National Investment Trust Limited		100	AM2	100	AM2
* SME Bank Limited		10,106	BBB & A-3	10,106	BBB & A-3
First Capital Investment (Private) Limited		2,500	AM4+	2,500	AM4+
Pak Asian Fund		11,500	Not available	11,500	Not available
* Arabian Sea Country Club		2,962	Not available	4,481	Not available
* Central Depository Company of Pakistan Limited		10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited		1,527	Not available	1,527	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)		1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited - preference share		100,000	A- & A2	100,000	A- & A2
* Next Capital Limited		8,240	Not available	9,752	Not available
Lanka Clearing (Private) Limited		790	Not available	772	Not available
Lanka Financial Services Bureau Limited		790	Not available	772	Not available
Credit Information Bureau of Sri Lanka		24	Not available	23	Not available
		450,277		453,271	
Other Investment					
Sukuk Bonds	9.4.1	4,121,390	Unrated	2,094,727	Unrated
N.I.T. Units		2,865	AM2	3,475	AM2
		<u>307,011,625</u>		<u>199,611,304</u>	

9.4.1 These are Government of Pakistan guaranteed securities.

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

* These are the strategic investments of the Bank.

** This includes 33.901 million shares valuing Rs. 532.591 million (2010: 32.287 million shares valuing Rs. 863.355 million) which are held as strategic investment by the Bank.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

9.5 Unrealized gain on revaluation of investments classified as 'held for trading'

	Unrealized gain		Cost	
	2011	2010	2011	2010
	(Rupees in '000)			
Investee Company				
MCB Dynamic Cash Fund	10,088	31,208	234,433	247,208
MCB Cash Management Optimizer Fund	3,567	7,045	61,042	50,604
MCB Sarmaya Mahfooz Fund 1	2,961	2,579	50,127	50,718
	16,616	40,832	345,602	348,530

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 and Market Treasury Bills classified as 'held to maturity' as at December 31, 2011 amounted to Rs. 1,651.687 million and Rs. 2,300.297 million (2010: Pakistan Investment Bonds Rs. 1,848.956 million and Market Treasury Bills Rs. 3,155.635 million) respectively.

9.7 Investment of the Group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2011 amounted to Rs. 1,675.927 million (2010: Rs. 3,152.948 million).

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

	2011	2010
	(Rupees in '000)	
Opening Balance	3,703,265	3,339,710
Share of profit for the year before tax	(73,069)	269,513
Dividend from associate	(90,084)	(85,171)
Share of tax	71,214	(29,333)
	(91,939)	155,009
Share of unrealized surplus on assets -net of tax	(509,974)	208,546
Closing Balance	3,101,352	3,703,265

9.8 During the year Group has made investment in Euronet Pakistan Private Limited. Investment in Euronet Pakistan Private Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'.

Investment in Euronet Pakistan (Private) Limited under equity method - holding 30%

	2011
	(Rupees In '000)
Investment made during the year	52,521
Share of profit for the year before tax	1,562
Share of tax	(166)
	1,396
Closing Balance	53,917

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

9.10 Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2010: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2010: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
10. ADVANCES – NET			
Loans, cash credits, running finances, etc.			
In Pakistan		223,963,444	250,283,213
Outside Pakistan		10,511,019	9,129,006
		<u>234,474,463</u>	<u>259,412,219</u>
Net investment in finance lease	10.2		
In Pakistan		1,226,014	2,333,037
Outside Pakistan		593,796	212,860
		<u>1,819,810</u>	<u>2,545,897</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		722,522	1,274,149
Payable outside Pakistan		11,111,385	10,925,541
		<u>11,833,907</u>	<u>12,199,690</u>
Advances - gross		<u>248,128,180</u>	<u>274,157,806</u>
Provision against advances	10.4		
Specific provision	10.3	(21,869,401)	(18,930,571)
General provision	10.4.3	(248,135)	(274,144)
General provision against consumer loans	10.4.5	(198,340)	(357,352)
General provision for potential lease losses (in Sri Lanka operations)		(17,566)	(30,268)
		<u>(22,333,442)</u>	<u>(19,592,335)</u>
Advances - net of provision		<u>225,794,738</u>	<u>254,565,471</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		222,581,371	249,698,757
In foreign currencies		25,546,809	24,459,049
		<u>248,128,180</u>	<u>274,157,806</u>
10.1.2 Short-term		186,111,501	192,763,200
Long-term		62,016,679	81,394,606
		<u>248,128,180</u>	<u>274,157,806</u>

10.2 Net investment in finance lease

	2011				2010			
	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
(Rs. in '000)								
Lease rentals receivable	757,371	1,019,082	71,903	1,848,356	774,330	1,418,457	1,362	2,194,149
Guaranteed residual value	176,521	132,488	-	309,009	404,732	294,465	254	699,451
Minimum lease payments	933,892	1,151,570	71,903	2,157,365	1,179,062	1,712,922	1,616	2,893,600
Finance charge for future periods	(142,909)	(182,563)	(12,083)	(337,555)	(139,747)	(207,595)	(361)	(347,703)
Present value of minimum lease payments	<u>790,983</u>	<u>969,007</u>	<u>59,820</u>	<u>1,819,810</u>	<u>1,039,315</u>	<u>1,505,327</u>	<u>1,255</u>	<u>2,545,897</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

10.3 Advances include Rs. 26,664.873 million (2010: Rs. 24,543.807 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2011								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	-	-	-	-	-	-	-	-	-
Substandard		2,036,968	7,857	2,044,825	459,410	1,964	461,374	459,410	1,964	461,374
Doubtful		292,466	-	292,466	115,289	-	115,289	115,289	-	115,289
Loss		20,061,976	4,265,606	24,327,582	19,580,300	1,712,438	21,292,738	19,580,300	1,712,438	21,292,738
		<u>22,391,410</u>	<u>4,273,463</u>	<u>26,664,873</u>	<u>20,154,999</u>	<u>1,714,402</u>	<u>21,869,401</u>	<u>20,154,999</u>	<u>1,714,402</u>	<u>21,869,401</u>
2010										
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees in '000)								
Other Assets Especially Mentioned (OAEM)	10.3.1	57,057	-	57,057	-	-	-	-	-	-
Substandard		1,539,019	864	1,539,883	349,703	216	349,919	349,703	216	349,919
Doubtful		2,139,457	2,755	2,142,212	1,014,758	1,377	1,016,135	1,014,758	1,377	1,016,135
Loss		16,688,531	4,116,124	20,804,655	16,310,419	1,254,098	17,564,517	16,310,419	1,254,098	17,564,517
		<u>20,424,064</u>	<u>4,119,743</u>	<u>24,543,807</u>	<u>17,674,880</u>	<u>1,255,691</u>	<u>18,930,571</u>	<u>17,674,880</u>	<u>1,255,691</u>	<u>18,930,571</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.

Note	2011				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
10.4 Particulars of provision against advances					
Opening balance	18,930,571	274,144	357,352	30,268	19,592,335
Exchange adjustments	4,523	-	-	-	4,523
Provision made during the year	6,371,637	-	-	-	6,371,637
Reversals	(3,327,391)	(26,009)	(159,012)	(12,702)	(3,525,114)
Amounts written off	3,044,246	(26,009)	(159,012)	(12,702)	2,846,523
	(109,939)	-	-	-	(109,939)
Closing balance	<u>21,869,401</u>	<u>248,135</u>	<u>198,340</u>	<u>17,566</u>	<u>22,333,442</u>
Note	2010				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
Opening balance	15,678,345	269,722	494,434	30,268	16,472,769
Exchange adjustments	20,890	-	-	-	20,890
Provision made during the year	5,989,585	4,422	-	-	5,994,007
Reversals	(2,756,331)	-	(137,082)	-	(2,893,413)
Amounts written off	3,233,254	4,422	(137,082)	-	3,100,594
	(1,918)	-	-	-	(1,918)
Closing balance	<u>18,930,571</u>	<u>274,144</u>	<u>357,352</u>	<u>30,268</u>	<u>19,592,335</u>

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	2011			2010		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.4.1 Particulars of provisions against advances						
In local currency	20,154,999	446,475	20,601,474	17,674,880	631,496	18,306,376
In foreign currencies	1,714,402	17,566	1,731,968	1,255,691	30,268	1,285,959
	<u>21,869,401</u>	<u>464,041</u>	<u>22,333,442</u>	<u>18,930,571</u>	<u>661,764</u>	<u>19,592,335</u>

	Note	2011	2010
		(Rupees in '000)	
10.4.2 The following amounts have been charged to the profit and loss account:			
Specific provision		3,044,246	3,233,254
General provision	10.4.3	(26,009)	4,422
General provision against consumer loans	10.4.5	(159,012)	(137,082)
General provision for potential lease losses (in Sri Lanka operations)		(12,702)	-
		<u>2,846,523</u>	<u>3,100,594</u>

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

10.4.4 State Bank of Pakistan vide BSD Circular No. 02 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009, BSD Circular No. 02 of 2010 dated June 3, 2010 and BSD Circular No. of 2011 dated October 2011 has allowed benefit of Forced Sale Value (FSV) of Plant & Machinery under charge, pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against Non- Performing Loans (NPLs) for five years from the date of classification. However, management has not taken the said benefit in calculation of specific provision, other than mortgage financing as allowed under Prudential Regulations issued by the SBP .

10.4.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP.

	Note	2011	2010
		(Rupees in '000)	
10.5 Particulars of write offs:			
10.5.1 Against provisions	10.4	109,939	1,918
Directly charged to the profit and loss account		28,565	52,047
		<u>138,504</u>	<u>53,965</u>
10.5.2 Write offs of Rs. 500,000 and above	10.5.3	109,030	7,019
Write offs of below Rs. 500,000		29,474	46,946
		<u>138,504</u>	<u>53,965</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, 2011 is given at Annexure- III of unconsolidated financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
10.6 Particulars of advances to directors, executives, associated companies, etc.			
Debts due by executives or officers of the Group or any of them either severally or jointly with any other persons			
Balance at beginning of the year		4,660,598	4,393,286
Loans granted during the year		955,974	1,426,017
Repayments		(1,437,535)	(1,158,705)
Balance at end of the year		4,179,037	4,660,598
Debts due by controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		54,474	52,594
Loans granted during the year		84,827	16,952
Repayments		(8,256)	(15,072)
Balance at end of the year		131,045	54,474
		4,310,082	4,715,072
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,599,602	2,040,246
Property and equipment	11.2	20,117,286	18,712,072
Intangible asset	11.3	701,562	309,469
		22,418,450	21,061,787
11.1 Capital work-in-progress			
Civil works		912,641	1,654,483
Advances to suppliers and contractors		308,946	194,751
Others		378,015	191,012
		1,599,602	2,040,246

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

11.2 Property and equipment

Description	2011									
	Cost/ Revalued amount			Accumulated depreciation			Net book value at December 31, 2011	Annual rate of depreciation / estimated useful life		
	At January 01, 2011	Additions / (disposals) / exchange and other adjustments	At December 31, 2011	At January 01, 2011	Charge for the year / (depreciation on disposals) / exchange and other adjustments	At December 31, 2011				
(Rupees in '000)										
Land - Freehold	10,381,400	406,723	10,788,123	-	-	-	10,788,123	-		
Land - Leasehold	120,100	-	120,100	-	-	-	120,100	-		
Buildings on freehold land	5,365,631	296,557	5,632,100	13,314	133,016	146,330	5,485,770	50 years		
		(30,088)								
Buildings on leasehold land	161,983	111,717	307,012	67,896	58,634	127,453	179,559	3 to 50 years		
		-			-					
Furniture and fixture	807,128	120,749	918,961	390,099	54,201	436,368	482,593	10% to 33%		
		(9,770)			(8,472)					
		854			540					
Electrical, Computers and office Equipment	5,968,890	1,209,717	7,205,306	3,958,624	772,069	4,760,614	2,444,692	20% to 33%		
		(49,690)			(46,093)					
		76,389			76,014					
Vehicles	589,749	28,372	568,394	292,375	76,722	330,076	238,318	20%		
		(48,152)			(36,736)					
		(1,575)			(2,285)					
Ijarah Assets										
Assets held under Ijarah - Car	52,413	60,112	105,537	12,914	19,128	30,031	75,506	20%		
		(6,988)			(2,011)					
Assets held under Ijarah - Equipment	-	318,957	318,957	-	16,332	16,332	302,625	20%		
	23,447,294	2,552,904	25,964,490	4,735,222	1,130,102	5,847,204	20,117,286			
		(114,600)			(93,312)					
		78,892			75,192					
2010										
Description	Cost/ Revalued amount				Accumulated depreciation				Net book value at December 31, 2010	Annual rate of depreciation / estimated useful life
	At January 01, 2010	Additions/ (disposals)	Revaluation surplus	Reversal due to revaluation	At December 31, 2010	At January 01, 2010	Charge for the year / (depreciation on disposals)	Reversal due to revaluation		
(Rupees in '000)										
Land - Freehold	9,719,130	61,451	600,819	-	10,381,400	-	-	-	10,381,400	-
Land - Leasehold	57,430	-	62,670	-	120,100	-	-	-	120,100	-
Buildings on freehold land	4,317,548	437,788	892,715	(282,420)	5,365,631	190,136	105,598	(282,420)	5,352,317	50 years
Buildings on leasehold land	76,230	76,587	9,166	-	161,983	28,854	39,042	-	94,087	3 to 50 years
Furniture and fixture	717,607	93,116	-	-	807,128	331,131	61,726	-	417,029	10% to 33%
		(3,595)					(2,758)			
Electrical, Computers and office Equipment	5,302,067	689,493	-	-	5,968,890	3,246,939	732,544	-	3,958,624	20% to 33%
		(22,670)					(20,859)			
Vehicles	550,750	93,142	-	-	589,749	256,292	75,559	-	297,374	20%
		(54,143)					(39,476)			
Ijarah Assets										
Assets held under Ijarah - Car	29,947	22,466	-	-	52,413	3,183	9,731	-	12,914	20%
	20,770,709	1,474,043	1,565,370	(282,420)	23,447,294	4,056,535	1,024,200	(282,420)	4,735,222	18,712,072
		(80,408)					(63,093)			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

11.2.1 The land and buildings of the Bank were last revalued in December 2010 by independent valuers (Pee Dee Associates & Arch-e-Decon), valuation and engineering consultants, on the basis of market value. The information relating to location of revalued assets is given in Annexure III. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	10,501,500
Total revalued amount of buildings	5,410,745

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2011 would have been as follows:

	(Rupees in '000)
Land	2,911,186
Buildings	2,950,376

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

Furniture and fixture	2,316,130
Electrical, computers and office equipment	13,079
Vehicles	162,683
Intangible asset	785,040

11.2.3 Details of disposal of operating fixed assets

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

11.3 Intangible asset

Description	2011							
	Cost			Accumulated amortization			Net book value at December 31, 2011	Annual rate of amortization %
	At January 01, 2011	Additions	At December 31, 2011	At January 01, 2011	Amortization for the year	At December 31, 2011		
(Rupees in '000)								
Computer software	1,143,451	370,153	1,513,604	833,982	252,187	1,086,169	427,435	33.33
Goodwill	-	82,127	82,127	-	-	-	82,127	
Management rights	-	192,000	192,000	-	-	-	192,000	
	<u>1,143,451</u>	<u>644,280</u>	<u>1,787,731</u>	<u>833,982</u>	<u>252,187</u>	<u>1,086,169</u>	<u>701,562</u>	
Description	2010							
	Cost			Accumulated amortization			Net book value at December 31, 2010	Annual rate of amortization %
	At January 01, 2010	Additions	At December 31, 2010	At January 01, 2010	Amortization for the year	At December 31, 2010		
(Rupees in '000)								
Computer software	922,575	220,876	1,143,451	671,828	162,154	833,982	309,469	33.33
	<u>922,575</u>	<u>220,876</u>	<u>1,143,451</u>	<u>671,828</u>	<u>162,154</u>	<u>833,982</u>	<u>309,469</u>	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
12. OTHER ASSETS – NET			
Income / mark-up accrued on advances and investments - local currency		7,210,511	7,739,680
Income / mark-up accrued on advances and investments - foreign currencies		187,967	66,625
Advances, deposits, advance rent and other prepayments		1,104,778	754,981
Advance against future Murabaha		1,645,531	2,212,048
Advance taxation (payments less provisions)		6,091,803	2,549,908
Compensation for delayed income tax refunds		44,802	44,802
Branch adjustment account		-	153,857
Non-banking assets acquired in satisfaction of claims	12.1	994,504	1,155,832
Unrealised gain on derivative financial instruments	12.2	311,282	278,628
Stationery and stamps on hand		64,989	94,053
Prepaid exchange risk fee		537	233
Receivable from the pension fund	36.3	14,731,898	12,542,560
Deferred Cost		-	1,227
Others		1,571,596	920,039
		<u>33,960,198</u>	<u>28,514,473</u>
Less: Provision held against other assets	12.3	1,289,687	768,275
		<u>32,670,511</u>	<u>27,746,198</u>

12.1 The market value of non-banking assets with carrying value of Rs. 871.894 million (2010: Rs. 1,033.222 million) net of provision as per the valuation report dated December 31, 2011 amounted to Rs. 893.184 million (2010: Based on valuation as of December 31, 2010 Rs. 1,048.473 million).

12.2 Unrealised gain on derivative financial instruments

	Notional amount of contracts		Unrealised gain	
	2011	2010	2011	2010
(Rupees in '000)				
Unrealised gain on:				
Cross currency swaps	-	76,563	-	51
Forward exchange contracts	29,327,087	23,302,853	311,282	278,577
	<u>29,327,087</u>	<u>23,379,416</u>	<u>311,282</u>	<u>278,628</u>

	Note	2011	2010
(Rupees in '000)			
12.3 Provision held against other assets			
Opening balance		768,275	583,953
Charge for the year		520,423	88,261
Reversal during the year		(5,777)	-
		<u>514,646</u>	<u>88,261</u>
Write off during the year		(18,286)	(111,409)
Exchange adjustments		25,052	207,470
Closing balance		<u>1,289,687</u>	<u>768,275</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Group As at December 31, 2011 and December 31, 2010.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
		(Rupees in '000)	
14. BILLS PAYABLE			
In Pakistan		9,435,321	10,218,142
Outside Pakistan		31,497	47,395
		<u>9,466,818</u>	<u>10,265,537</u>
15. BORROWINGS			
In Pakistan		37,397,843	24,324,510
Outside Pakistan		1,702,784	1,360,083
		<u>39,100,627</u>	<u>25,684,593</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		37,397,843	24,324,510
In foreign currencies		1,702,784	1,360,083
		<u>39,100,627</u>	<u>25,684,593</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	9,903,657	9,880,240
Long term financing facility	15.4 & 15.5	2,026,175	721,000
Long term financing - export oriented projects scheme	15.4 & 15.5	949,375	1,444,542
Financing Facility for Storage of Agricultural Produce		219,932	-
Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas		450	-
		<u>13,099,589</u>	<u>12,045,782</u>
Borrowings from other financial institution	15.6	293,113	618,163
Repurchase agreement borrowings	15.7	24,781,254	12,027,499
		<u>38,173,956</u>	<u>24,691,444</u>
Unsecured			
Call borrowings	15.8	816,139	449,860
Overdrawn nostro accounts		110,532	543,289
		<u>926,671</u>	<u>993,149</u>
		<u>39,100,627</u>	<u>25,684,593</u>

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

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

15.5 Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP.

15.6 These carry mark-up ranging from 2.80% to 9.50% per annum (2010: 2% to 3.15% per annum).

15.7 These carry mark-up rates ranging from 6.30% to 12.50% per annum (2010: 12.75% to 14% per annum) and are secured against government securities of carrying value of Rs. 24,802.869 million (2010: Rs. 11,928.247 million). These are repayable latest by April, 2012.

15.8 These carry mark-up ranging from 2.24% to 9.10% per annum (2010: 0.75% to 8.10% per annum). These are repayable by April, 2012.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
		(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		91,476,846	80,049,848
Saving deposits		225,916,109	195,987,483
Current accounts		161,668,528	144,520,780
Margin accounts		3,511,830	3,482,526
		482,573,313	424,040,637
Financial institutions			
Remunerative deposits		6,319,827	4,128,090
Non-remunerative deposits		2,253,658	3,126,772
		8,573,485	7,254,862
		491,146,798	431,295,499
16.1 Particulars of deposits			
In local currency		463,499,029	404,092,501
In foreign currencies		27,647,769	27,202,998
		491,146,798	431,295,499

16.2 Deposits include deposits from related parties amounting to Rs. 30,609.125 million (2010: Rs. 27,812.207 million).

	Note	2011	2010
		(Rupees in '000)	
17. DEFERRED TAX LIABILITY / (ASSET) – NET			
The details of the tax effect of taxable and deductible temporary differences are as follows:			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	788,352	808,054
Accelerated tax depreciation		1,057,564	853,349
Receivable from pension fund		5,156,165	4,389,896
Net investment in finance lease receivable		-	119,372
Investments in associates		193,138	202,332
Others		10,219	1,828
Surplus on revaluation of securities		49,393	-
		7,254,831	6,374,831
Deductible temporary differences on:			
Deficit on revaluation of securities	21.2	-	(15,580)
Provision for bad debts		(414,436)	(821,631)
Provision for gratuity		(1,019)	(1,083)
Provision for contributory benevolent scheme		(5,656)	(27,128)
Provision for post retirement medical benefits		(306,908)	(353,170)
Taxable losses		(29,715)	(9,506)
		(757,734)	(1,228,098)
		6,497,097	5,146,733

17.1 The Finance Act, 2010 and 2011 have made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provision for doubtful and loss categories of advances and off balance sheet items is allowable up to a maximum of 1% of total advances whereas provisions for advances and off-balance sheet items for consumers and Small and Medium Enterprises (SMEs) (as defined under the SBP's Prudential Regulations) is now allowed at 5% of gross consumer and SME portfolio. The amount of bad debts classified as substandard under Prudential Regulations issued by State Bank of Pakistan would not be allowed as an expense.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		7,096,928	6,293,230
Mark-up / return / interest payable in foreign currencies		68,145	44,443
Accrued expenses		3,543,270	2,628,033
Unclaimed dividend		628,228	606,751
Staff welfare fund		36,871	46,777
Unrealised loss on derivative financial instruments	18.1	434,278	264,411
Provision for employees' compensated absences	36.3	535,870	555,792
Provision for post retirement medical benefits	36.3	1,411,744	1,374,293
Provision for employees' contributory benevolent scheme	36.3	262,029	262,263
Provision for gratuity		2,910	2,564
Security deposits received in respect of finance lease		391,952	714,165
Branch adjustment account		175,079	-
Retention money		33,382	32,067
Insurance payable against consumer assets		124,749	196,806
Others		3,713,727	3,068,779
		<u>18,459,162</u>	<u>16,090,374</u>

18.1 Unrealised loss on derivative financial instruments

	Notional amount of contracts		Unrealised loss	
	2011	2010	2011	2010
(Rupees in '000)				
Unrealised loss on:				
Cross currency swaps	-	76,563	-	51
Forward exchange contracts	38,099,258	19,097,040	434,278	264,360
	<u>38,099,258</u>	<u>19,173,603</u>	<u>434,278</u>	<u>264,411</u>

19. SHARE CAPITAL

19.1 Authorised Capital

2011	2010		2011	2010
(Number of shares)			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs 10 each	10,000,000	10,000,000

19.2 Issued, subscribed and paid-up capital

2011			2010			2011	2010	
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total	(Rupees in '000)		
(Number of shares)								
197,253,795	562,961,185	760,214,980	197,253,795	493,850,732	691,104,527	Opening balance	7,602,150	6,911,045
-	76,021,496	76,021,496	-	69,110,453	69,110,453	Shares issued during the year	760,215	691,105
<u>197,253,795</u>	<u>638,982,681</u>	<u>836,236,476</u>	<u>197,253,795</u>	<u>562,961,185</u>	<u>760,214,980</u>	Closing balance	<u>8,362,365</u>	<u>7,602,150</u>

	2011	2010
(Number of shares)		
19.3 Number of shares held by the associated undertakings as at December 31, are as follows:		
Adamjee Insurance Company Limited	26,037,715	23,263,378
Nishat Mills Limited	59,201,892	53,411,266
D.G. Khan Cement Company Limited	76,842,402	69,856,731
Din Leather (Private) Limited	5,211,371	4,737,611
Siddiqsones Limited	10,726,120	34,708,948
Mayban International Trust (Labuan) Berhad	167,247,294	152,042,995
	<u>345,266,794</u>	<u>338,020,929</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
(Rupees in '000)			
20. RESERVES			
Share premium		9,924,438	9,702,528
Exchange translation reserve		431,260	347,599
Statutory reserve	20.1	13,456,890	11,514,399
General reserve		18,600,000	18,600,000
		42,412,588	40,164,526

20.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	Note	2011	2010
(Rupees in '000)			
21. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX			
Surplus arising on revaluation (net of tax) of:			
– fixed assets	21.1	9,461,743	9,497,706
– available-for-sale securities	21.2	439,294	537,275
Surplus arising on revaluation of assets of associated undertaking (net of tax)		226,369	736,343
		10,127,406	10,771,324
21.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 01		10,305,760	8,774,054
Surplus during the year		-	1,565,370
Surplus realised on disposal of revalued properties - net of deferred tax		-	-
Related deferred tax liability		-	-
		-	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(36,182)	(21,879)
Related deferred tax liability		(19,483)	(11,785)
		(55,665)	(33,664)
Surplus on revaluation of fixed assets as at December 31		10,250,095	10,305,760
Less: Related deferred tax liability on:			
Revaluation as at January 1		808,054	504,200
Surplus during the year		-	315,639
Adjustment during the year		(219)	-
Disposal of revalued properties during the year transferred to profit and loss account		-	-
Incremental depreciation charged during the year transferred to profit and loss account		(19,483)	(11,785)
		788,352	808,054
		9,461,743	9,497,706

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Note	2011	2010
		(Rupees in '000)	
21.2 Surplus / (deficit) on revaluation of available-for-sale securities – net of tax			
Federal Government Securities			
– Market Treasury Bills		(32,299)	(330,227)
– Pakistan Investment Bonds		(239,133)	(329,193)
Listed Securities			
– Shares / Certificates / Units		733,928	1,089,882
– Open Ended Mutual Funds		(30,719)	80,603
– Term Finance Certificates		35,520	15,903
		738,729	1,186,388
Sukuk Bonds		21,390	(5,273)
		488,687	521,695
Add: Related deferred tax asset	17	(49,393)	15,580
		439,294	537,275
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring:			
Government		2,634,218	2,080,334
Banks and financial institutions		2,519,451	1,455,621
Others		4,885,951	1,967,610
		10,039,620	5,503,565
22.2 Transaction-related contingent liabilities			
Guarantees in favour of:			
Government		2,761,601	2,452,921
Others		4,217,157	5,827,049
Suppliers' credit / payee guarantee		2,373,006	2,326,818
		9,351,764	10,606,788
22.3 Trade-related contingent liabilities		77,075,699	76,856,249
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		844,099	674,032
22.5 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	2011	2010
		(Rupees in '000)	
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		32,395,900	20,154,200
Sale		35,030,445	22,245,693
22.7 Commitments for the acquisition of fixed assets		276,277	51,944
22.8 Other commitments			
Cross currency swaps (notional amount)	23.1 & 23.2	-	153,126

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

22.9 Taxation

The income tax assessments of the Bank have been framed upto and including the Tax Year 2011. For the Assessment Year 1988-89 through tax year 2010, the department has amended the assessments on certain issues against the Bank. The Bank has filed appeals which are pending at various appellate forums. In addition, certain decision made in favour of the Bank are being contested by the department at higher forums. No provision has been made in the financial statements as the management and the 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.

23. DERIVATIVE INSTRUMENTS

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

The Bank 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:

- 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.

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).

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23.1 Product analysis

Counter parties	2011					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
Counter parties	2010					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	76,563	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	-	-	-	-
Market Making	2	76,563	-	-	-	-
Total						
Hedging	2	76,563	-	-	-	-
Market Making	2	76,563	-	-	-	-

23.2 Maturity analysis

Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Cross currency swaps					
1 to 2 Years	-	-	-	-	-
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Cross currency swaps					
1 to 2 Years	4	153,126	(51)	51	-
Remaining Maturity	2011				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Interest rate swaps					
6 month to 1 year	-	-	-	-	-
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
(Rupees in '000)					
Interest rate swaps					
6 month to 1 year	-	-	-	-	-

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	Note	2011	2010
(Rupees in '000)			
24. MARK-UP / RETURN / INTEREST EARNED			
On loans and advances to:			
Customers		33,831,320	32,606,495
On investments in:			
- Held for trading securities		-	-
- Available for sale securities		31,944,698	19,009,859
- Held to maturity securities		1,174,867	1,310,394
		33,119,565	20,320,253
On deposits with financial institutions		19,648	16,283
On securities purchased under resale agreements		958,125	1,563,520
On money at call		71,626	105,031
Others		215,618	217,783
		68,215,902	54,829,365
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		20,083,248	15,803,152
Securities sold under repurchase agreements		1,574,909	622,999
Other short-term borrowings		1,223,045	901,916
Discount, commission and brokerage		662,115	596,090
Others		89,298	103,215
		23,632,615	18,027,372
26. GAIN ON SALE OF SECURITIES - NET			
Federal Government Securities			
- Market Treasury Bills		47,461	965
- Pakistan Investment Bonds		8,717	30,880
- Sukuk Bonds		13,500	1,800
Shares- listed		665,961	376,973
Mutual funds		26,251	-
		761,890	410,618
27. OTHER INCOME			
Rent on property / lockers		129,722	84,241
Net profit on sale of property and equipment		25,372	16,961
Bad debts recovered		39,140	58,981
Others		620,209	590,875
		814,443	751,058

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	Note	2011	2010
(Rupees in '000)			
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		8,461,039	7,294,811
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(2,189,338)	(3,220,256)
- Post retirement medical benefits	36.7	169,629	136,014
- Employees' contributory benevolent scheme	36.7	51,422	71,464
- Employees' compensated absences	36.7	180,647	190,821
- Gratuity scheme		346	1,425
		(1,787,294)	(2,820,532)
Contributions to defined contribution plan - provident fund		176,510	159,051
Non-executive directors' fees		35,838	31,956
Rent, taxes, insurance and electricity		1,724,806	1,594,032
Legal and professional charges		207,274	224,537
Communications		940,832	844,345
Repairs and maintenance		960,689	689,704
Stationery and printing		388,792	366,649
Advertisement and publicity		440,878	236,933
Cash transportation charges		449,670	403,427
Instrument clearing charges		197,851	165,519
Donations	28.1	83,506	15,000
Auditors' remuneration	28.2	27,262	17,991
Depreciation	11.2	1,130,102	1,024,200
Amortization of intangible asset	11.3	252,187	162,154
Amortization of deferred cost		-	307
Travelling, conveyance and fuel		731,552	685,759
Subscription		41,010	29,355
Entertainment		104,156	69,887
Training expenses		46,298	58,152
Petty capital items		55,907	63,924
Credit card related expenses		129,396	129,184
Others		1,061,981	881,151
		15,860,242	12,327,496

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

	Note	2011	2010
(Rupees in '000)			
Construction of houses in flood affected areas		77,988	-
Cancer Detection Center - Rotary Club of Colombo		783	-
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation		4,735	-
Mosque of Armed forces Institute of Cardiology and National Institute of Heart Diseases, Rawalpindi		-	500
Chief Minister's Flood Relief and Rehabilitation Account for relief of flood victims		-	10,000
CAS flood relief fund for flood victims		-	2,500
Aitmaad Pakistan Trust for relief to the flood calamity masses of Pakistan		-	2,000
		83,506	15,000

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	Note	2011	2010
		(Rupees in '000)	
28.2 Auditors' remuneration			
Annual Audit fee		2,988	2,716
Fee for the audit of branches		3,964	3,604
Fee for the audit of subsidiaries		714	1,642
Fee for the audit of overseas subsidiary		1,392	1,327
Fee for audit and other certifications of overseas branches		6,932	4,593
Fee for half year review		1,331	1,210
Special certifications and sundry advisory services		9,308	1,920
Out-of-pocket expenses		633	979
		27,262	17,991
29. OTHER CHARGES			
Provision for penalties of State Bank of Pakistan		150,000	366,251
Workers welfare fund		630,041	529,260
VAT Sri Lanka		33,448	89,216
Loss on sale of non-banking assets		182,595	-
Others		406,672	5,911
		1,402,756	990,638
30. TAXATION			
For the year			
Current		9,739,369	8,053,368
Deferred		1,169,981	1,376,495
		10,909,350	9,429,863
Prior years			
Current		1,038,662	-
Deferred		142,335	178,314
		1,180,997	178,314
Share of tax of associates		(71,048)	29,333
		12,019,299	9,637,510
30.1 Relationship between tax expense and accounting profit			
Accounting profit for the year		31,321,782	26,509,636
Tax rate		35%	35%
Tax on income		10,962,624	9,278,373
Tax effect on separate block of income (taxable at reduced rate)		(242,275)	(112,623)
Tax effect of permanent differences		81,317	305,231
Tax effect of prior years provisions		1,180,997	178,314
Others		36,636	(11,785)
Tax charge for the year		12,019,299	9,637,510
31. CREDIT RATING			
PACRA through its notification in June 2011, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2010: AA+ [Double A plus] for long term and A1+ [A one plus] for short term rating).			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	2011	2010
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE – PRE TAX		
Profit before taxation	31,321,782	26,509,636
	(Number of shares)	
Weighted average number of shares outstanding during the year	836,236,476	836,236,476
	(Rupees)	
Basic and diluted earnings per share – pre tax	37.46	31.70
	2011	2010
	(Rupees in '000)	
33. BASIC AND DILUTED EARNINGS PER SHARE – AFTER TAX		
Profit after taxation	19,302,483	16,872,126
	(Number of shares)	
Weighted average number of shares outstanding during the year	836,236,476	836,236,476
	(Rupees)	
Basic and diluted earnings per share – after tax	23.08	20.18

*Weighted average number of shares outstanding for 2010 have been restated to give effect of bonus shares issued during the year.

	Note	2011	2010
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	53,122,620	45,407,264
Balances with other banks	7	2,357,418	1,551,518
		55,480,038	46,958,782
		2011	2010
		(Number)	
35. STAFF STRENGTH			
Permanent		10,199	9,881
Temporary/on contractual basis		69	59
Bank's own staff strength at the end of the year		10,268	9,940
Outsourced		3,087	3,774
Total staff strength		13,355	13,714

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

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

Notes to the Consolidated Financial Statements

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36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2011. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(%)							
Valuation discount rate	13	13	13	13	13	13	13	13
Expected rate of return on plan assets	13	13	-	-	-	-	-	-
Salary increase rate	10	10	10	10	10	10	10	10
Medical cost inflation rate	-	-	-	-	7	7	-	-
Exposure inflation rate	-	-	-	-	3	3	-	-

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

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

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2011	2010	2011	2010	2011	2010	2011	2010	
	(Rupees in '000)								
Present value of defined benefit obligations	36.5	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792
Fair value of plan assets	36.6	(19,543,388)	(19,303,801)	-	-	-	-	-	-
Net actuarial gains / (losses) not recognised		549,069	2,543,734	(21,448)	(52,151)	22,774	53,360	-	-
Unrecognised negative past service cost		-	-	-	-	-	-	-	-
Unrecognised past service cost		-	-	-	-	-	-	-	-
Net (receivable) / payable recognised as at the year-end		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medial obligation at December 31, 2011 would be Rs. 81.262 million (2010: Rs. 82.189 million) and Rs. 69.891 million (2010: Rs. 68.517 million) respectively.

36.4 Movement in balance (receivable) / payable

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2011	2010	2011	2010	2011	2010	2011	2010	
	(Rupees in '000)								
Opening balance of (receivable) / payable		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116
Expense recognised	36.7	(2,189,338)	(3,220,256)	51,422	71,464	169,629	136,014	180,647	190,821
- Employees' contribution		-	-	9,694	10,972	-	-	-	-
Benefits paid		-	-	(61,350)	(66,617)	(132,178)	(132,145)	(200,569)	(176,145)
Closing balance of (receivable) / payable		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)							
Present value of obligation as at January 1,	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116
Current service cost	46,415	37,135	13,506	14,447	17,887	16,172	32,693	33,927
Interest cost	503,085	570,171	36,886	41,914	163,130	180,229	72,253	75,756
Benefits paid	(695,247)	(654,204)	(61,350)	(66,617)	(132,178)	(132,145)	(200,569)	(176,145)
Actuarial (gains) / losses	190,661	191,752	(19,979)	25,282	19,198	(30,671)	75,701	81,138
Present value of obligation as at December 31,	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)							
Net assets as at January 1,	19,303,801	18,254,967	-	-	-	-	-	-
Expected return on plan assets	2,464,303	2,555,695	-	-	-	-	-	-
Benefits paid	(695,247)	(654,204)	-	-	-	-	-	-
Actuarial gain / (loss)	(1,529,469)	(852,657)	-	-	-	-	-	-
Net assets as at December 31,	36.9 19,543,388	19,303,801	-	-	-	-	-	-

36.7 Charge for defined benefit plans and other benefits

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

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)							
Current service cost	46,415	37,135	13,506	14,447	17,887	16,172	32,693	33,927
Interest cost	503,085	570,171	36,886	41,914	163,130	180,229	72,253	75,756
Expected return on plan assets	(2,464,303)	(2,555,695)	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(274,535)	(1,271,867)	10,724	26,075	(11,388)	(26,680)	75,701	81,138
Contributions employees	-	-	(9,694)	(10,972)	-	-	-	-
Recognised past service cost	-	-	-	-	-	-	-	-
Recognised negative past service cost	-	-	-	-	-	(33,707)	-	-
	(2,189,338)	(3,220,256)	51,422	71,464	169,629	136,014	180,647	190,821

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post - employment medical costs would be Rs. 11.622 million (2010: Rs. 11.502 million) and Rs. 9.922 million (2010: Rs. 9.550 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)							
Actual return on plan assets	934,834	1,703,038	-	-	-	-	-	-

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36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2011		2010	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term Deposit Receipts (TDRs)	15,535,472	79.49	14,855,349	76.96
Listed equity shares	2,187,870	11.19	3,380,334	17.51
Open ended mutual funds units	182,438	0.93	222,605	1.15
Term Finance certificates	183,552	0.94	197,652	1.02
Cash and bank balances	1,454,056	7.44	647,861	3.36
Fair value of plan total assets	19,543,388	100	19,303,801	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	1,728,172		2,667,543	
TDRs of MCB	15,535,472		14,855,349	
Bank balance with MCB	1,442,065		634,567	
	18,705,709		18,157,459	

36.10 Other relevant details of above funds are as follows:

	2011	2010	2009	2008	2007
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,262,421	4,217,507	4,072,653	4,295,986	4,747,389
Fair value of plan assets	(19,543,388)	(19,303,801)	(18,254,967)	(15,953,712)	(25,095,113)
(Surplus) / deficit	(15,280,967)	(15,086,294)	(14,182,314)	(11,657,726)	(20,347,724)
Actuarial gain / (loss) on obligation					
Experience adjustment	(190,661)	(191,752)	(368,717)	167,695	(325,849)
Assumptions gain / (loss)	-	-	-	-	-
	(190,661)	(191,752)	(368,717)	167,695	(325,849)
Actuarial gain / (loss) on assets					
Experience adjustment	(1,529,469)	(852,657)	1,400,023	(476,313)	9,694,483
Assumptions gain / (loss)	-	-	-	-	-
	(1,529,469)	(852,657)	1,400,023	(476,313)	9,694,483
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	283,477	314,414	299,388	300,162	355,340
Fair value of plan assets	-	-	-	-	-
	283,477	314,414	299,388	300,162	355,340
Actuarial gain / (loss) on obligation					
Experience adjustment	19,979	(25,282)	(53,700)	-	(60,968)
Assumptions gain / (loss)	-	-	-	-	-
	19,979	(25,282)	(53,700)	-	(60,968)
Actuarial gain / (loss) on assets					
Experience adjustment	-	-	-	-	(1,529)
Assumptions gain / (loss)	-	-	-	-	-
	-	-	-	-	(1,529)

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	2011	2010	2009	2008	2007
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,388,970	1,320,933	1,287,348	1,269,622	1,422,918
Fair value of plan assets	-	-	-	-	-
	1,388,970	1,320,933	1,287,348	1,269,622	1,422,918
Actuarial gain / (loss) on obligation					
Experience adjustment	(19,198)	30,671	2,101	159,682	(40,893)
Assumptions gain / (loss)	-	-	-	-	-
	(19,198)	30,671	2,101	159,682	(40,893)
36.10.4 Compensated absences					
Present value of defined benefit obligation	535,870	555,792	541,116	752,947	974,464
Fair value of plan assets	-	-	-	-	-
	535,870	555,792	541,116	752,947	974,464
Actuarial gain / (loss) on obligation	(75,701)	(81,138)	(5,687)	-	-

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

37. DEFINED CONTRIBUTION PLAN

37.1. MCB Bank Limited (holding company)

The Bank operates an approved contributory provident fund for 7,331 (2010: 6,616) employees where contributions are made by the Bank and employees at 8.33% per annum (2010: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 176.510 million (2010: Rs. 158.724 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 1,999 (2010: 2,114) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2010: 12% per annum) of the basic salary.

37.2. MCB Financial Services Limited

The company operates the provident fund scheme covering all permanent employees. Contribution at the rate of 8.33% per annum are made both by the Company and employees to the fund.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executive	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fees	-	-	35,838	31,956	-	-
Managerial remuneration	20,600	22,597	-	-	999,603	881,610
Bonus and others	11,071	20,654	-	-	484,800	359,691
Retirement benefits	-	1,463	-	-	64,205	56,120
Rent and house maintenance	9,199	10,078	-	-	369,438	320,652
Utilities	2,044	2,240	-	-	77,922	68,801
Medical	-	-	-	-	23,256	20,007
Conveyance	-	-	-	-	402,579	314,853
38.1	42,914	57,032	35,838	31,956	2,421,803	2,021,734
Number of persons	1	2	14	12	906	899

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

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39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Group's as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

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

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Eliminations	Total
(Rupees in '000)							
2011							
Total income	124,610	35,308,587	13,292,440	27,430,665	336,277	(106,924)	76,385,655
Total expenses	(49,157)	(6,371,573)	(32,777,693)	(5,765,296)	(207,078)	106,924	(45,063,873)
Income tax expense	-	-	-	-	-	-	(12,019,299)
Net income	75,453	28,937,014	(19,485,253)	21,665,369	129,199	-	19,302,483
Segment assets - (Gross of NPL's provision)	51,973	342,694,317	134,002,884	195,121,195	1,327,408	(1,095,372)	672,102,405
Advance taxation (payments less provision)	-	-	-	-	-	-	6,091,803
Total assets	51,973	342,694,317	134,002,884	195,121,195	1,327,408	(1,095,372)	678,194,208
Segment non performing loans	-	-	8,195,846	18,469,027	-	-	26,664,873
Segment specific provision required	-	-	6,721,886	15,147,515	-	-	21,869,401
Segment liabilities	5,371	33,736,091	495,822,079	29,604,917	100,319	(1,095,372)	558,173,405
Deferred tax liability	-	-	-	-	-	-	6,497,097
Total liabilities - net	5,371	33,736,091	495,822,079	29,604,917	100,319	(1,095,372)	564,670,502
Segment return on net assets (ROA) (%)	-	10.30%	10.44%	15.24%	25.33%	-	-
Segment cost of fund (%)	-	12.04%	4.25%	5.85%	-	-	-

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For the year ended December 31, 2011

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Eliminations	Total
(Rupees in '000)							
2010							
Total income	131,461	22,852,533	13,009,702	25,435,328	259,866	(148,370)	61,540,520
Total expenses	(40,658)	(2,342,292)	(28,676,040)	(3,963,088)	(157,176)	148,370	(35,030,884)
Income tax expense	-	-	-	-	-	-	(9,637,510)
Net income	90,803	20,510,241	(15,666,338)	21,472,240	102,690	-	16,872,126
Segment assets – (Gross of NPL's provision)	45,815	245,386,643	122,651,081	219,013,168	541,450	(775,631)	586,862,526
Advance taxation (payment less provision)	-	-	-	-	-	-	2,549,908
Total assets	45,815	245,386,643	122,651,081	219,013,168	541,450	(775,631)	589,412,434
Segment non performing loans	-	-	7,892,471	16,651,336	-	-	24,543,807
Segment specific provision required	-	-	6,087,441	12,843,130	-	-	18,930,571
Segment liabilities	4,678	20,545,559	437,855,212	25,679,383	26,846	(775,675)	483,336,003
Deferred tax liability	-	-	-	-	-	-	5,146,733
Total liabilities – net	4,678	20,545,559	437,855,212	25,679,383	26,846	(775,675)	488,482,736
Segment return on net assets (ROA) (%)	-	9.31%	11.16%	12.34%	47.99%	-	-
Segment cost of fund (%)	-	10.99%	4.00%	4.96%	-	-	-

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Group has related party relationship with its associates, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in associates are stated in Annexure I (note 6) to these financial statements.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk. 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 36 and 37. Remuneration to executives is disclosed in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

	Directors		Associates		Other related parties		Key management	
	2011	2010	2011	2010	2011	2010	2011	2010
(Rupees in '000)								
A. Balances								
Deposits								
Deposits at beginning of the year	2,088,985	1,390,799	955,014	789,205	24,677,392	18,203,007	90,816	32,289
Deposits received during the year	20,407,581	51,651,335	169,261,154	108,743,238	250,452,445	224,246,290	830,780	415,414
Deposits repaid during the year	(18,097,810)	(50,953,149)	(169,449,781)	(108,577,429)	(249,736,033)	(217,771,905)	(871,418)	(356,887)
Deposits at end of the year	4,398,756	2,088,985	766,387	955,014	25,393,804	24,677,392	50,178	90,816
Mark-up expense on deposits	140,834	227,084	78,244	74,666	2,571,745	2,135,133	2,732	1,227
Advances (secured)								
Balance at beginning of the year	-	-	-	-	-	-	54,474	52,594
Loans granted during the year	-	-	-	-	81,302	-	3,525	16,952
Repayments received during the year	-	-	-	-	-	-	(8,256)	(15,072)
Balance at end of the year	-	-	-	-	81,302	-	49,743	54,474
Markup income of advances	-	-	-	-	7,125	-	2,747	3,014
Outstanding Balance of credit card	1,137	848	-	-	-	-	856	903
Receivable from Pension fund	-	-	-	-	14,731,898	12,542,560	-	-
B. Other transactions (including profit and loss related transactions)								
(Rupees in '000)								
Associates								
Adamjee Insurance Company Limited								
Insurance premium paid-net of refund	-	-	230,104	215,735	-	-	-	-
Insurance claim settled	-	-	55,452	166,315	-	-	-	-
Rent Income received	-	-	3,516	6,954	-	-	-	-
Dividend received	-	-	90,084	85,171	-	-	-	-
Commission income from bancassurance	-	-	330,816	111,677	-	-	-	-
Outstanding commitments and contingent liabilities	-	-	8,365	4,842	-	-	-	-
Purchase of vehicle	-	-	-	26,000	-	-	-	-
Adamjee Life Assurance Company Limited								
Insurance Premium Paid	-	-	86,501	69,396	-	-	-	-
Insurance claim settled	-	-	71,596	70,866	-	-	-	-
Outstanding commitments and contingent liabilities	-	-	500	-	-	-	-	-
Euronet Pakistan Private Limited								
ATM Outsourcing Revenue	-	-	101,233	-	-	-	-	-
Sale of hardware	-	-	39,522	-	-	-	-	-
Capital injection	-	-	52,519	-	-	-	-	-
Trade payable	-	-	7,317	-	-	-	-	-
Mayban International Trust (Labuan) Berhad								
Dividend paid	-	-	-	-	1,961,355	1,776,139	-	-
Bonus shares issued	-	-	-	-	152,043	138,221	-	-
Forward foreign exchange contracts (Notional)	-	-	-	-	1,913,753	-	-	-
Unrealized loss on forward foreign exchange contracts	-	-	-	-	40,914	-	-	-
Other related parties								
MCB Employees Foundation								
Service expenses	-	-	-	-	20,898	17,287	-	-
Cash sorting expenses	-	-	-	-	32,286	28,027	-	-
Stationery Expenses	-	-	-	-	185,832	121,791	-	-
Cash in transit expenses	-	-	-	-	-	220	-	-
Advance receivable	-	-	-	-	20,000	20,000	-	-
Payable for stationery expenses	-	-	-	-	1,255	394	-	-
Gain on sale of fixed assets	-	-	-	-	-	56	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	178	-	-
MCB Employees Security System and Services (Private) Limited								
Security guard expenses	-	-	-	-	226,417	168,823	-	-
Others								
Remuneration of key management personnel	-	-	-	-	-	-	238,783	229,195
Dividend Income	-	-	-	-	285,017	143,136	-	-
Proceeds from sale of vehicles to key management personnel	-	-	-	-	-	-	-	6,003
Advisory fee received	-	-	-	3,428	-	13,696	-	-
Clearing expenses paid to NIFT	-	-	-	-	123,198	103,266	-	-
Other miscellaneous expenses	-	-	-	-	11,326	9,347	-	-
Investment in Metro-Bank Pakistan Sovereign Fund-Perpetual	-	-	-	-	4,000,000	-	-	-
Contribution to provident fund	-	-	-	-	176,510	158,724	-	-
Rent paid	-	-	-	-	191	169	-	-

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

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42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel II Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates undertaking) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The objectives and goals of managing capital of the Group are as follows:

- to be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.8 billion paid up capital (net of losses) by the end of the financial year 2011. The paid up capital of the Bank for the year ended December 31, 2011 stands at Rs. 8.3 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10 % of the risk weighted exposure. The Bank's CAR as at December 31, 2011 is 21.88% of its risk weighted exposure.

Bank's regulatory capital is analysed into two tiers.

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net unappropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities and reciprocal investments advised by BSD circular letter No.6 of 2010 by SBP.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However, the bank currently does not have any Tier III capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008 and BSD Circular No.07 of 2009 dated April 15, 2009 . The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

Notes to the Consolidated Financial Statements

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The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank has complied with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

	Note	2011 (Rupees in '000)	2010
42.3 Capital Structure			
Tier 1 Capital			
Shareholders equity /assigned capital		8,362,365	7,602,150
Share premium		9,924,438	9,702,528
Reserves		32,056,890	30,114,399
Unappropriated profits		30,259,449	23,458,429
Minority interest		492,497	2,698
		81,095,639	70,880,204
Deductions:			
Book value of intangible		910,500	470,176
Other deductions	42.3.1	1,690,053	1,899,200
		2,600,553	2,369,376
Total Tier 1 capital		78,495,086	68,510,828
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		464,041	661,764
Revaluation reserves up to 45%		4,989,169	5,382,131
Foreign exchange translation reserves		431,260	347,599
		5,884,470	6,391,494
Deductions:			
Other deductions	42.3.1	1,593,988	1,891,335
Total Tier 2 Capital		4,290,482	4,500,159
Total Regulatory Capital Base	A	82,785,568	73,010,987

42.3.1 Other deduction includes investments in equity of financial subsidiaries not consolidated in the statement of financial position and significant minority investments in banking, securities and other financial entities.

Notes to the Consolidated Financial Statements

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42.4 Capital Adequacy

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

	Capital Requirements		Risk Weighted Assets	
	2011	2010	2011	2010
(Rupees in '000)				
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	13,145,367	12,442,059	118,732,165	115,347,246
Banks / DFIs	614,240	444,793	5,547,969	4,123,566
Public sector entities	68,157	331,094	615,611	3,069,491
Sovereigns / cash & cash equivalents	473,444	538,035	4,276,258	4,987,985
Loans secured against residential property	178,724	189,815	1,614,282	1,759,731
Retail	2,276,357	3,174,235	20,560,618	29,427,544
Past due loans	545,946	660,500	4,931,118	6,123,329
Operating fixed assets	2,381,241	2,227,712	21,507,950	20,652,563
Other assets	2,915,079	2,138,138	26,329,705	19,822,149
	22,598,555	22,146,381	204,115,676	205,313,604
Off-Balance Sheet				
Non-market related	4,360,855	3,180,781	39,388,306	29,488,233
Market related	29,752	18,147	268,724	168,239
	4,390,606	3,198,928	39,657,030	29,656,472
Equity Exposure Risk in the Banking Book				
Listed	199,021	219,781	1,797,606	2,037,538
Unlisted	83,732	81,425	756,292	754,869
	282,753	301,206	2,553,898	2,792,407
Total Credit Risk	27,271,915	25,646,515	246,326,604	237,762,483
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,004,519	684,116	25,056,492	8,551,446
Equity position risk	1,591,619	774,505	19,895,235	9,681,311
Foreign exchange risk	167,728	157,520	2,096,602	1,969,001
Total Market Risk	3,763,866	1,616,141	47,048,329	20,201,758
Operational Risk				
Capital requirement for operational risks	6,793,149	5,864,928	84,914,368	73,311,602
Total	B			
	37,828,930	33,127,584	378,289,301	331,275,843
(Rupees in '000)				
Capital Adequacy Ratio			2011	2010
Total eligible regulatory capital held	A		82,785,568	73,010,987
Total Risk Weighted Assets	B		378,289,301	331,275,843
Capital Adequacy Ratio	A / B		21.88%	22.04%

* As SBP capital requirement of 10% (10% in 2010) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

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43 RISK MANAGEMENT

MCB defines risk as any deviation from an anticipated outcome that may affect the value, capital or earnings of the Bank. Identifying and managing exposure to risk is an integral part of strategic and operational activities of risk management. Bank's risk management policy is aimed at setting the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, following are the five guiding principles of robust risk management structure:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. This framework combines core policies, procedures and process design with broad oversight and is supported by risk monitoring across the bank. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC) and the senior management and its relevant committees, i.e. the Management Committee (MC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank so as to ensure that risks are kept within an acceptable level.

As part of risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Liquidity Risk Management
- Operational Risk Management

In context of the financial services industry and the requirements laid down via BSD Circular No. 03 of 2007 dated April 14, 2007 by the State Bank of Pakistan (SBP) and Pillar II of Basel II, defining and operationalising risk appetite has assumed critical importance. The financial industry is now widely seen recognizing the importance of articulating risk appetite and also linking it to limit setting, risk control and performance measurement.

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It also stems from activities both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of credit risk function is to identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and review clients' performance as an ongoing process.

The Bank has adopted standardized approach to measure Credit risk regulatory charge in compliance with Basel-II requirements. The approach is reliant upon the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems the Bank has developed a system and all its corporate borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, the bank has the following policies and procedures in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM & PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

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As a part of credit assessment Bank, uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework, continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of risk profile benchmarks. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non- Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.4 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non-performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

The Bank also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

43.1.1 Segmental information

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

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	2,612,658	1.05	44,566,552	9.07	672,350	0.41
Mining and quarrying	161,133	0.06	411,287	0.08	205,147	0.12
Textile	37,394,234	15.07	2,733,369	0.56	16,803,887	10.18
Chemical and pharmaceuticals	13,430,355	5.41	2,657,125	0.54	7,239,080	4.39
Cement	2,391,098	0.96	419,559	0.09	825,748	0.50
Sugar	8,881,126	3.58	1,414,904	0.29	631,717	0.38
Footwear and leather garments	3,935,811	1.59	177,103	0.04	821,071	0.50
Automobile and transportation equipment	516,726	0.21	1,288,471	0.26	721,457	0.44
Electronics and electrical appliances	2,919,572	1.18	1,698,872	0.35	1,031,045	0.62
Construction	2,357,006	0.95	2,331,527	0.47	3,068,731	1.86
Power (electricity), gas, water, sanitary	20,846,124	8.40	7,435,537	1.51	8,769,317	5.31
Wholesale and Retail Trade	20,128,987	8.11	32,261,864	6.57	4,385,744	2.66
Transport, storage and communication	56,787,492	22.89	3,714,596	0.76	3,228,083	1.96
Financial	3,444,795	1.39	5,839,647	1.19	63,991,114	38.78
Insurance	99	0.00	2,733,849	0.56	5,790	0.00
Services	5,565,010	2.24	91,858,734	18.70	13,820,292	8.38
Individuals	17,455,692	7.03	267,484,500	54.46	1,337,904	0.81
Others	49,300,262	19.87	22,119,302	4.50	37,455,327	22.70
	248,128,180	100	491,146,798	100	165,013,804	100

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	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Agriculture, forestry, hunting and fishing	2,541,907	0.93	39,865,496	9.24	366,696	0.27
Mining and quarrying	157,736	0.06	371,755	0.09	388,575	0.29
Textile	40,354,192	14.72	1,669,316	0.39	26,185,570	19.22
Chemical and pharmaceuticals	12,990,612	4.74	1,600,137	0.37	5,219,494	3.83
Cement	3,648,217	1.33	417,445	0.10	694,911	0.51
Sugar	9,062,880	3.31	728,325	0.17	734,344	0.54
Footwear and leather garments	2,782,358	1.01	164,847	0.04	1,017,338	0.75
Automobile and transportation equipment	476,630	0.17	510,051	0.12	760,204	0.56
Electronics and electrical appliances	2,202,681	0.80	168,801	0.04	756,986	0.56
Construction	2,434,904	0.89	1,912,202	0.44	2,606,377	1.91
Power (electricity), gas, water, sanitary	36,348,248	13.26	724,626	0.17	4,617,725	3.39
Wholesale and Retail Trade	22,119,616	8.07	33,305,764	7.72	3,143,491	2.31
Transport, storage and communication	67,013,507	24.44	2,486,246	0.58	2,952,413	2.17
Financial	4,268,631	1.56	5,642,220	1.31	38,254,338	28.08
Insurance	426	0.00	1,612,642	0.37	8,429	0.01
Services	4,536,701	1.65	91,980,482	21.33	2,791,931	2.05
Individuals	22,007,235	8.03	223,040,400	51.71	18,413	0.01
Others	41,211,325	15.02	25,094,744	5.81	45,728,362	33.55
	<u>274,157,806</u>	<u>100</u>	<u>431,295,499</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	49,079,118	19.78	15,279,097	3.11	43,860,105	26.58
Private	199,049,062	80.22	475,867,701	96.89	121,153,699	73.42
	<u>248,128,180</u>	<u>100</u>	<u>491,146,798</u>	<u>100</u>	<u>165,013,804</u>	<u>100</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	78,725,414	28.72	14,673,234	3.40	35,044,121	25.72
Private	195,432,392	71.28	416,622,265	96.60	101,201,476	74.28
	<u>274,157,806</u>	<u>100</u>	<u>431,295,499</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

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

	2011		2010	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	416,111	416,111	417,169	290,886
Mining and quarrying	251	251	-	-
Textile	5,225,087	4,166,475	4,258,684	3,691,316
Chemical and pharmaceuticals	203,886	203,886	148,866	148,866
Cement	362,230	362,230	531,715	265,857
Sugar	1,265,828	1,265,828	1,160,081	1,059,540
Footwear and leather garments	126,591	126,591	128,292	128,292
Automobile and transportation equipment	68,865	53,860	114,482	84,721
Electronics and electrical appliances	340,410	340,410	323,271	322,558
Construction	172,091	170,245	127,404	116,056
Power (electricity), gas, water, sanitary	10	10	2,000	500
Wholesale and retail trade	4,631,382	4,621,737	4,516,086	4,254,729
Exports / imports	305,992	305,824	320,868	316,530
Transport, storage and communication	125,852	83,183	139,397	69,707
Financial	1,447,782	1,117,472	1,275,315	998,750
Services	938,661	924,310	615,006	568,668
Individuals	3,625,053	2,979,078	3,605,321	2,778,450
Others	7,408,791	4,731,900	6,859,850	3,835,145
	<u>26,664,873</u>	<u>21,869,401</u>	<u>24,543,807</u>	<u>18,930,571</u>

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

Public/ Government	-	-	-	-
Private	26,664,873	21,869,401	24,543,807	18,930,571
	<u>26,664,873</u>	<u>21,869,401</u>	<u>24,543,807</u>	<u>18,930,571</u>

43.1.1.5 Geographical segment analysis

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	30,919,455	643,238,946	91,184,472	156,761,215
Asia Pacific (including South Asia)	243,661	9,125,866	245,934	6,370,552
Middle East	177,572	3,468,155	184,305	1,882,037
Eurasia (Azerbaijan)	(18,906)	491,840	39,594	-
	<u>31,321,782</u>	<u>656,324,807</u>	<u>91,654,305</u>	<u>165,013,804</u>

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	26,097,707	559,102,562	81,491,975	130,676,444
Asia Pacific (including South Asia)	292,553	8,241,765	297,520	5,127,310
Middle East	157,422	2,979,908	157,261	441,843
Eurasia (Azerbaijan)	(38,046)	157,628	52,371	-
	<u>26,509,636</u>	<u>570,481,863</u>	<u>81,999,127</u>	<u>136,245,597</u>

Total assets employed include intra group items of Rs. NIL (2010: Rs. NIL).

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43.1.2 Credit Risk – General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with State Bank requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company– Vital Information Systems), Fitch, Moody's and Standard & Poors . Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	OTHER (S&P / Moody's / Fitch)
Corporate	Yes	Yes	–
Banks	Yes	Yes	Yes
Sovereigns	–	–	Yes
SME's	Yes	Yes	–

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumeric scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No.8 table 2.3.

Long – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA–	AAA AA+ AA AA–	AAA AA+ AA AA–	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA–	1
2	A+ A A–	A+ A A–	A+ A A–	A1 A2 A3	A+ A A–	2
3	BBB+ BBB BBB–	BBB+ BBB BBB–	BBB+ BBB BBB–	Baa1 Baa2 Baa3	BBB+ BBB BBB–	3
4	BB+ BB BB–	BB+ BB BB–	BB+ BB BB–	Ba1 Ba2 Ba3	BB+ BB BB–	4
5	B+ B B–	B+ B B–	B+ B B–	B1 B2 B3	B+ B B–	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short – Term Ratings Grades Mapping

SBP	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+, A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

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Credit Exposures subject to Standardised approach

Exposures	Rating	2011			2010		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	21,642,750	-	21,642,750	8,813,855	-	8,813,855
	2	13,722,126	-	13,722,126	11,067,495	-	11,067,495
	3,4	867,994	-	867,994	1,736,237	-	1,736,237
	5,6	172,685	-	172,685	-	-	-
	Unrated	106,415,532	-	106,415,532	106,314,490	-	106,314,490
Bank	1	18,004,538	-	18,004,538	18,116,727	-	18,116,727
	2,3	1,809,039	-	1,809,039	929,748	-	929,748
	4,5	187,510	-	187,510	943	-	943
	6	245,538	-	245,538	6,344	-	6,344
	Unrated	1,063,612	-	1,063,612	96,815	-	96,815
Public Sector Entities in Pakistan	1	1,428,701	-	1,428,701	3,039,527	-	3,039,527
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	48,544,287	47,884,545	659,742	81,068,380	76,145,209	4,923,171
Sovereigns / on Government of Pakistan / Provincial Governments / SBP or Cash		40,491,631	-	40,491,631	37,863,577	-	37,863,577
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	4,276,258	-	4,276,258	4,987,985	-	4,987,985
	6	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	
Mortgage		4,612,235	-	4,612,235	5,027,804	-	5,027,804
Retail		27,414,157	-	27,414,157	39,236,725	-	39,236,725

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

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The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on statement of financial position activities, bank has taken only the benefit of Sovereign guarantee.

MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 613,817.208 million (2010: Rs. 530,822.341 million) the financial assets which are subject to credit risk amounting to Rs. 603,479.688 million (2010: Rs. 520,179.087 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs.298,431.353 million (2010: Rs. 199,088.205 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs.27,459.603 million (2010: Rs. 24,393.181 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Group takes proprietary equity positions for both trading and strategic purposes. The Group has invested in its associated companies to achieve long term strategic objectives. As of December 31, 2011 the composition of equity investments in associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Associates
(Rs. in '000)			
Equity investments – publicly traded	345,602	12,150,466	3,101,352
Equity investments – others	–	523,951	117,217
Total value	345,602	12,674,417	3,218,569

Classification of equity investments

The Group classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments – Held for trading
- Investments – Available for sale
- Investments in associates

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. 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

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is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative realized gain of Rs. 692.212 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 703.209 million was recognized in the balance sheet in respect of "AFS" securities. Further a provision for impairment in value of equity investments amounting to Rs. 557.629 million has been charged to profit and loss account.

43.2 Market Risk Management

Market risk arises from changes in market rates (such as Interest Rates, Foreign Exchange Rates and Equity Prices) as well as their correlations and volatilities. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign exchange and Capital market groups. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk. Market risk is also assumed as a result of bank's statement of financial position and capital management activities.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM & PRC) of the Board, ALCO, and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk Management Division is responsible for policy formulation, controlling of market risk including monitoring of exposures against limits; assessment of risks in new business; developing procedures, market risk measurement and reporting system. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

As per SBP instructions (BSD Circular 8, 2006) trading book shall consist of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. Hence the bank has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently valued and actively managed. The positions which does not fulfill the criteria of trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market risk by using conventional methods i.e. notional amounts and sensitivity. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. A reasonable number of limits are set and approved. These Limits are compared with the numbers generated by the market risk management system based on the trading activity and the outstanding position on risk measurement date.

Besides conventional methods, the Bank uses VaR (Value at Risk) technique for market risk assessment of assets booked by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Variance co-variance approach of VaR measure for conventional products and Monte Carlo simulation approach for derivative and structured products are being used by the bank.

Stress testing of both banking and trading books as per SBP guidelines is a regular feature.

The Bank is exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVBP, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

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43.2.1 Foreign Exchange Risk Management

Foreign exchange risk represents exposures the bank has due to changes in the values of current holdings and future cash flows denominated in currencies other than home currency. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenures have been introduced for USD exposures. Gap limit for other major currencies will be introduced depending upon the significance of exposure in that currency. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR 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 a daily basis.

	2011			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	633,549,825	544,368,016	2,268,342	91,450,151
United States Dollar	21,290,894	13,975,283	(7,196,737)	118,874
Pound Sterling	360,752	2,276,866	1,918,925	2,811
Japanese Yen	4,686	69	1	4,618
Euro	1,021,009	4,050,268	3,040,324	11,065
Other currencies	97,641	-	(30,855)	66,786
	<u>656,324,807</u>	<u>564,670,502</u>	<u>-</u>	<u>91,654,305</u>

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	548,453,111	468,165,682	1,740,181	82,027,610
United States Dollar	20,287,895	13,921,115	(6,665,221)	(298,441)
Pound Sterling	473,095	2,170,830	1,696,111	(1,624)
Japanese Yen	544	44,138	47,434	3,840
Euro	820,530	4,002,992	3,181,495	(967)
Other currencies	446,688	177,979	-	268,709
	<u>570,481,863</u>	<u>488,482,736</u>	<u>-</u>	<u>81,999,127</u>

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index. This exercise is done on internal based assumptions in addition to the criteria advised by the State Bank of Pakistan for Stress Testing on Equities.

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4.3.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

	Effective Yield/ Interest rate	Total	2010										Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk										
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
			(Rupees in '000)										
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	0%	45,407,264	2,974,767	-	-	-	-	-	-	-	-	-	42,432,497
Balances with other banks	0.55% to 3%	1,551,518	477,203	-	-	-	-	-	-	-	-	-	1,074,315
Lendings to financial institutions	12.80% to 13.50%	4,401,781	1,510,027	-	2,891,764	-	-	-	-	-	-	-	-
Investments - net	4.5% to 16.12%	211,981,279	52,441,957	69,509,187	77,743,838	1,049,725	1,567,893	2,622,223	-	1,439,615	-	-	5,606,841
Advances - net	15.00%	254,565,471	152,744,835	50,910,318	38,182,738	12,727,580	-	-	-	-	-	-	12,915,028
Other assets - net		12,915,028	-	-	-	-	-	-	-	-	-	-	-
		530,822,341	210,148,789	120,419,505	118,818,330	13,777,305	1,567,893	2,622,223	-	1,439,615	-	-	62,028,681
Liabilities													
Bills payable		10,265,537	-	-	-	1,082,771	1,082,771	-	-	-	-	-	10,265,537
Borrowings	6% to 14%	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	-	-	-	-	-	-
Deposits and other accounts	5% to 13%	431,295,499	221,072,648	16,906,178	13,768,970	23,497,887	930,669	669,222	2,249,840	1,045,299	-	-	151,154,786
Other liabilities		12,920,223	-	-	-	-	-	-	-	-	-	-	12,920,223
		480,165,852	234,711,459	21,846,298	18,709,090	24,580,658	2,013,440	669,222	2,249,840	1,045,299	-	-	174,340,546
On-balance sheet gap		50,656,489	(24,562,670)	98,573,207	100,109,240	(10,803,353)	(445,547)	1,953,001	(2,249,840)	394,316	-	-	(112,311,865)
Off-balance sheet financial instruments													
Foreign exchange contracts Purchase		20,154,200	12,279,293	4,980,758	2,226,096	668,052	-	-	-	-	-	-	-
Cross currency swaps - long position		76,563	-	-	-	-	76,563	-	-	-	-	-	-
		20,230,763	12,279,293	4,980,758	2,226,096	668,052	76,563	-	-	-	-	-	-
Foreign exchange contracts Sale		22,245,693	12,917,004	6,180,514	3,148,175	-	-	-	-	-	-	-	-
Cross currency swaps - short position		76,563	-	-	-	-	76,563	-	-	-	-	-	-
		22,322,256	12,917,004	6,180,514	3,148,175	-	76,563	-	-	-	-	-	-
Off-balance sheet gap		(2,091,493)	(637,711)	(1,199,756)	(922,079)	668,052	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		(25,200,381)	(25,200,381)	97,373,451	99,187,161	(10,135,301)	(445,547)	1,953,001	(2,249,840)	394,316	-	-	-
Cumulative yield / interest risk sensitivity gap		(25,200,381)	(25,200,381)	72,173,070	171,360,232	161,224,931	160,779,384	162,732,385	160,482,545	160,876,861	160,876,861	-	-

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

Reconciliation to total assets	2011	2010	Reconciliation to total liabilities	2011	2010
	(Rupees in '000)			(Rupees in '000)	
Balance as per statement of financial position	656,324,807	570,481,863	Balance as per statement of financial position	564,670,502	488,482,736
Less: Non financial assets			Less: Non financial liabilities		
Investments	3,218,569	3,766,565	Other liabilities	3,210,952	3,170,151
Operating fixed assets	22,418,450	21,061,787	Deferred tax liability	6,497,097	5,146,733
Other assets	16,870,580	14,831,170		9,708,049	8,316,884
	42,507,599	39,659,522			
Total financial assets	613,817,208	530,822,341	Total financial liabilities	554,962,453	480,165,852

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that MCB conducts. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Liquidity Management

Asset Liability Committee of the bank has the responsibility for the formulation of overall strategy and oversight of the Asset Liability management function. Board has approved a comprehensive Liquidity Risk Policy (part of Risk Management Policy), which stipulates policies regarding maintenance of various ratios, funding preferences, and evaluation of Banks' liquidity under normal and crisis situation. MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions. A framework to assess the maturity profile of non-contractual assets and liabilities is in place to supplement the liquidity management. As per preliminary assessments, the Bank's liquidity coverage ratio and Net Stable Funding Ratio as per Basel III are also calculated and observed above the limits.

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintains a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

2011

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	53,122,620									
Balances with other banks	2,357,418									
Lendings to financial institutions	955,087	47,394	907,693							
Investments - net	319,005,983	22,069,708	75,567,196	92,046,853	80,162,316	11,808,837	8,686,030	19,691,671	5,183,907	3,789,465
Advances - net	225,794,738	63,213,021	19,191,252	13,543,505	12,848,552	37,172,633	34,101,020	32,676,683	12,899,727	148,945
Operating fixed assets	22,418,450	524,330	227,566	341,350	682,699	1,365,398	1,365,398	2,730,796	6,826,990	8,353,923
Deferred tax assets	757,734	36,702	11,289	11,852	230,188	253,319	46,262	92,524	75,598	
Other assets - net	32,670,511	7,309,532	6,904,166	61,114	2,791,907			15,603,792		
	657,082,541	148,680,725	102,809,162	106,004,674	96,715,662	50,600,187	44,198,710	70,795,466	24,986,222	12,291,733
Liabilities										
Bills payable	9,466,818	9,466,818								
Borrowings	39,100,627	25,282,290	5,484,553	5,137,852	1,597,966	1,597,966				
Deposits and other accounts	491,146,798	419,314,470	23,893,928	18,912,035	26,469,225	362,204	302,486	1,303,997	588,453	
Deferred tax liabilities	7,254,831	55,716	61,576	69,512	118,276	329,706	208,133	5,523,061	105,446	783,405
Other liabilities	18,459,162	9,335,125	1,575,594	2,563,784	1,465,355	1,914,159	337,304	386,820	881,021	
	565,428,236	463,454,419	31,015,651	26,683,183	29,650,822	4,204,035	847,923	7,213,878	1,574,920	783,405
Net assets	91,654,305	(314,773,694)	71,793,511	79,321,491	67,064,840	46,396,152	43,350,787	63,581,588	23,411,302	11,508,328
Share capital	8,362,565									
Reserves	42,412,588									
Unappropriated profit	30,259,449									
Non-controlling interest	492,497									
Surplus on revaluation of assets - net of tax	10,127,406									
	91,654,305									

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

		2010									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	45,407,264	–	–	–	–	–	–	–	–	–	
Balances with other banks	1,551,518	–	–	–	–	–	–	–	–	–	
Lendings to financial institutions	4,401,781	–	2,891,754	–	–	–	–	–	–	–	
Investments – net	215,747,844	41,715,017	69,523,376	79,607,464	5,195,050	5,267,577	5,203,638	784,119	4,685,038	3,766,565	
Advances – net	254,565,471	32,677,556	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	288,977	
Operating fixed assets	21,061,787	131,156	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,303,210	
Deferred tax assets	1,228,098	28,399	62,718	18,892	389,400	383,669	59,565	92,500	192,955	–	
Other assets – net	27,746,198	5,381,831	5,365,939	126,263	3,173,722	51	–	13,698,392	–	–	
	571,709,961	128,402,768	126,046,440	95,490,880	90,337,980	30,650,488	26,299,458	39,093,486	22,059,729	13,328,752	
Liabilities											
Bills payable	10,265,537	10,265,537	–	–	–	–	–	–	–	–	
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	–	–	–	–	
Deposits and other accounts	431,295,499	372,227,434	16,906,178	13,768,971	23,497,887	930,669	669,222	2,249,840	1,045,298	–	
Deferred tax liabilities	6,374,831	39,413	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	887,240	
Other liabilities	16,090,374	7,934,789	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	–	
	489,710,834	404,105,984	23,075,703	20,756,569	25,980,161	3,834,982	1,147,214	7,577,396	2,345,585	887,240	
Net assets	81,999,127	(275,703,216)	102,970,737	74,734,311	64,357,819	26,815,486	25,152,244	31,516,090	19,714,144	12,441,512	
Share capital	7,602,150										
Reserves	40,164,526										
Unappropriated profit	23,458,429										
Minority interest	2,698										
Surplus on revaluation of assets – net of tax	10,771,324										
	81,999,127										

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

2011

Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
										(Rupees in '000)
Assets										
	53,122,620	-	-	-	-	-	-	-	-	-
Cash and balances with treasury banks	2,357,418	-	-	-	-	-	-	-	-	-
Balances with other banks	955,087	907,693	-	-	-	-	-	-	-	-
Lendings to financial institutions	22,069,708	75,567,196	92,046,853	80,162,316	11,808,837	8,686,030	19,691,671	5,183,907	3,789,465	
Investments - net	225,794,738	63,213,021	19,191,252	13,543,505	37,172,633	34,101,020	32,676,683	12,899,727	148,945	
Advances - net	22,418,450	524,330	341,350	682,699	1,365,398	1,365,398	2,730,796	6,826,990	8,353,923	
Operating fixed assets	757,734	36,702	11,852	230,188	253,319	46,262	92,524	75,598	-	
Deferred tax assets	32,670,511	7,309,532	6,114	2,791,907	-	-	15,603,792	-	-	
Other assets - net	657,082,541	148,680,725	102,809,162	96,715,662	50,600,187	44,198,710	70,795,466	24,986,222	12,291,733	
Liabilities										
	9,466,818	9,466,818	-	-	-	-	-	-	-	-
Bills payable	39,100,627	25,282,290	-	1,597,966	1,597,966	-	-	-	-	-
Borrowings	491,146,798	42,697,252	44,482,217	26,890,645	98,916,656	98,716,465	99,998,923	33,521,880	-	
Deposits and other accounts	7,254,831	55,716	61,576	118,276	329,706	208,133	5,523,061	105,446	783,405	
Deferred tax liabilities	18,459,162	9,335,125	2,563,784	1,465,355	1,914,159	337,304	386,820	881,021	-	
Other liabilities	565,428,236	86,837,201	53,044,483	30,072,242	102,758,487	99,261,902	105,908,804	34,508,347	783,405	
Net assets	91,654,305	61,843,524	49,764,679	66,643,420	(52,158,300)	(55,063,192)	(35,113,338)	(9,522,125)	11,508,328	
Share capital	8,362,365	-	-	-	-	-	-	-	-	
Reserves	42,412,588	-	-	-	-	-	-	-	-	
Unappropriated profit	30,259,449	-	-	-	-	-	-	-	-	
Minority interest	492,497	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets - net of tax	10,127,406	-	-	-	-	-	-	-	-	
	91,654,305	-	-	-	-	-	-	-	-	

Refer the sub-note to note 43.4.1 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2010									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	45,407,264	–	–	–	–	–	–	–	–	–	
Balances with other banks	1,551,518	–	–	–	–	–	–	–	–	–	
Lendings to financial institutions	4,401,781	–	2,891,754	–	–	–	–	–	–	–	
Investments – net	215,747,844	41,715,017	69,523,376	79,607,464	5,195,050	5,267,577	5,203,638	784,119	4,685,038	3,766,565	
Advances – net	254,565,471	32,677,556	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	288,977	
Operating fixed assets	21,061,787	131,156	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,303,210	
Deferred tax assets	1,228,098	28,399	62,718	18,892	389,400	383,669	59,565	92,500	192,955	–	
Other assets – net	27,746,198	5,381,831	5,365,939	126,263	3,173,722	51	–	13,698,392	–	–	
	571,709,961	128,402,768	126,046,440	95,490,880	90,337,980	30,650,488	26,299,458	39,093,486	22,059,729	13,328,752	
Liabilities											
Bills payable	10,265,537	10,265,537	–	–	–	–	–	–	–	–	
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	–	–	–	–	
Deposits and other accounts	431,295,499	65,086,548	50,524,439	43,874,251	67,655,091	64,654,210	48,339,407	78,023,871	13,137,682	–	
Deferred tax liabilities	6,374,831	39,413	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	887,240	
Other liabilities	16,090,374	7,934,789	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	–	
	489,710,834	96,985,098	56,693,964	50,861,849	70,137,365	67,558,523	48,817,399	83,351,427	14,437,969	887,240	
Net assets	81,999,127	31,437,670	69,352,476	44,629,031	20,200,615	(36,908,055)	(22,517,941)	(44,257,941)	7,621,760	12,441,512	
Share capital	7,602,150										
Reserves	40,164,526										
Unappropriated profit	23,458,429										
Minority interest	2,698										
Surplus on revaluation of assets – net of tax	10,771,324										
	81,999,127										

Refer sub-note to note 43.4.1 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2011

43.5 Operational Risk

Operational Risk is risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Division (ORMD) within Risk Management Group (RMG) is primarily responsible for oversight of bank-wide operational risk management. ORMD is independent of revenue generating functions. Although, respective business and support functions are the risk takers / owners, ORMD provides assistance and guidance for proactive operational risk management. The Risk Management Policy and bank-wide Operational Risk Management Framework (ORMF) have been developed in line with international best practices. The policy and framework are reviewed periodically so as to incorporate the current changes.

Major processes for operational risk management include, but not limited to Risk and Control Self Assessment, loss database management, enhancing operational risk awareness through workshops and sessions. ORMD has active coordination with audit and compliance for information sharing on Key Risk Indicators (KRIs) with respect to management of various operational risk aspects within the bank.

43.5.1 Operational Risk–Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

ORMD initiated the process of collecting loss data on key risk events in the year 2007. Based on periodical analysis of loss data, ORMD generates reports for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events, impact analysis and recommendations for improvement in control / risk mitigation.

44. GENERAL

Comparative information has been reclassified and rearranged in these consolidated financial statements for the purpose of comparison.

45. NON-ADJUSTING EVENT

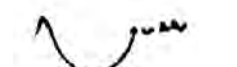
The Board of Directors in its meeting held on February 21, 2012 has announced a final cash dividend in respect of the year ended December 31, 2011 of Rs. 3.0 per share (2010: Rs. 3.0 per share) and bonus shares of 10% (2010: 10%). These consolidated financial statements for the year ended December 31, 2011 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 21, 2012.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Seri Ismail Shahudin
Director



Mian Umer Mansha
Director

1 Particulars of Investments in listed companies, mutual funds and modarabas – available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit	Total paid-up/ nominal value	Cost as at December 31, 2011
			Rupees	(Rupees in '000)	
Fully Paid-up Preference Shares					
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					
Abbott Laboratories Pakistan Limited		135,600	10	1,356	25,200
Allied Bank Limited		6,314,278	10	63,143	452,328
Arif Habib Limited		78,337	10	783	13,908
Arif Habib Corporation Limited		1,682,862	10	16,829	214,004
Askari Bank Limited		4,906,400	10	49,064	208,815
Attock Petroleum Limited		369,845	10	3,698	136,520
Attock Refinery Limited		160,000	10	1,600	20,394
Bank Al-Habib Limited		7,732,335	10	77,323	214,686
Century Papers & Board Mills Limited		54,540	10	545	1,556
Clariant Pakistan Limited		56,250	10	563	9,145
Fauji Fertilizer Bin Qasim Company Limited		14,884,277	10	148,843	712,264
Fauji Fertilizer Company Limited		10,200,000	10	102,000	1,016,796
Glaxo Smithkline Pakistan Limited		557,372	10	5,574	64,437
Habib Bank Limited		892,863	10	8,929	125,362
Habib Metropolitan Bank Limited		1,278,000	10	12,780	35,510
Ibrahim Fibers Limited		120,000	10	1,200	5,200
ICI Pakistan Limited		220,000	10	2,200	34,040
IGI Insurance Company of Pakistan Limited		418,413	10	4,184	42,529
Indus Motor Company Limited		27,027	10	270	5,566
International Industries Limited		344,942	10	3,449	26,427
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		20,000	10	200	895
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		409,921	10	4,099	189,083
National Refinery Limited		265,270	10	2,653	82,498
Oil & Gas Development Company Limited		297,135	10	2,971	41,713
Packages Limited		39,911	10	399	8,368
Pakistan Cables Limited		42,716	10	427	7,098
Pakistan Oilfields Limited		1,380,095	10	13,801	455,337
Pakistan Petroleum Limited		1,284,562	10	12,846	230,356
Pakistan State Oil Limited		172,980	10	1,730	43,413
Pakistan Telecommunication Company Limited		225,000	10	2,250	2,408
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		4,809	10	48	11,905
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		30,963,000	10	309,630	147,150
Soneri Bank Limited		4,435,881	10	44,359	121,456
Sui Northern Gas Pipelines Limited		50,115,263	10	501,153	2,205,253
Summit Bank Limited		680,489	10	6,805	23,352
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		52,087	50	2,604	150,970
Unilever Food Pakistan Limited		396	10	4	528
United Bank Limited		7,305,440	10	73,054	530,296
Wateen Telecom Limited		5,092,269	10	50,923	50,923
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					7,710,743

Annexure I

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2011
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,532.70	60,606
Total					60,606
Carrying value (before revaluation and provision) listed shares 'available for sale'					7,632,951
Provision for diminution in value of investments					(2,710,124)
Surplus on revaluation of securities					733,928
Market value As at December 31, 2011					5,856,765

Fully Paid-up Ordinary Certificate/ Units of Mutual Funds	Name of Management Company	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2011
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	Arif Habib Investments Limited	77,461,673	50	3,873,084	4,000,840
National Investments Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Pakistan Pension Fund	Arif Habib Investments Limited	900,000	100	90,000	113,328
Pakistan Islamic Pension Fund	Arif Habib Investments Limited	900,000	100	90,000	111,534
Pakistan Capital Protected Fund - Fixed Income Securities (FIS)	Arif Habib Investments Limited	137,144	10	1,371	1,340
AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF)	Arif Habib Investments Limited	623,643	50	31,182	35,220
MCB Islamic Income Fund	Arif Habib Investments Limited	500,000	100	50,000	50,000
Carrying value before revaluation & provision					4,317,515
Provision for diminution in value of investments					(1,907)
Surplus on revaluation of securities					(30,719)
Market value as at December 31, 2011					4,284,889

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

2 Particulars of Investment in mutual funds – held for trading

	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2011
MCB Dynamic Cash Fund	2,363,151	100	236,315	234,433
MCB Cash Management Optimizer Fund	627,969	100	62,797	61,042
MCB Sarmaya Mehfooz Fund 1	502,532	100	50,253	50,127
			349,365	345,602

Annexure I

3 Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2011	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees in '000)						
Shareholding more than 10%						
Fully paid up preference shares						
Fazal Cloth Mills Limited (2.1)	40.00%	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	18,840	June 30, 2011	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60%	30,000,000	300,000	388,342	December 31, 2010	Mr. Ghalib Nishtar
Next Capital Limited	10.00%	1,000,000	10,000	8,240	June 30, 2011	Mr. Najam Ali
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	161,292	June 30, 2011	Mr. Mohammad Hanif Jhakura
			331,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		250,000	2,500	2,767	June 30, 2011	Mr. Syed Kashan Kazmi
National Institute of Facilitation Technology Private Limited		985,485	1,527	59,255	June 30, 2011	Mr. M. M. Khan
National Investment Trust Limited		79,200	100	113,357	June 30, 2011	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	13,169	September 30, 2011	Mr. Ihsan ul Haq Khan
Arabian Sea Country Club		500,000	5,000	2,963	June 30, 2011	Mr. Arif Ali Khan Abbasi
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,569	December 31, 2010	Mr. Lazara Campos
Credit Information Bureau of Srilanka		300	24	7,843	December 31, 2010	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	790	3,443	March 31, 2011	Mr. Sunimal Weerasooriya
Lanka Financial Services Bureau Limited		100,000	790	1,163	March 31, 2011	Mr. Rajendra Thegarajah
Pakistan Agro Storage and Services corporation*		2,500	2,500	-	-	-
Equity Participation Fund*		15,000	1,500	-	-	-
Al-Ameen Textile Mills Limited.*		19,700	197	-	-	-
Ayaz Textile Mills Limited.*		225,250	2,252	-	-	-
Custodian Management Services*		100,000	1,000	-	-	-
Musarrat Textile Mills Limited.*		3,604,500	36,045	-	-	-
Sadiqabad Textile Mills Limited.*		2,638,261	26,382	-	-	-
			92,451			
Cost of unlisted shares / certificates / units			523,951			
Provision against unlisted shares			(73,674)			
Carrying value of unlisted shares / certificates / units			450,277			

* These are fully provided unlisted shares.

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

Annexure I

4. Particulars of investments in Term Finance Certificates and Sukuk Bonds- (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2011	Name of Chief Executive
						(Rupees)	
LISTED TERM FINANCE CERTIFICATES – available for sale							
Askari Bank Limited – issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 months KIBOR +2.95% for next five years	0.32% of principal amount in the first 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,800	Mr. R. Mehakri
Bank Alfalah Limited – issue no. III	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi –annual installment starting from the 84th month.	499,600	Mr. Atif Bajwa
Pak Arab Fertilizers Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	In six stepped –up semi-annual installments starting from the 30th month from July 2007.	74,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited – issue no. IV	152,399	5,000	761,995,000	6 months KIBOR + 0.85% p.a. & 6 months KIBOR+1.35% for remaining term	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	727,111	Mr. Atif R. Bokhari
Allied Bank Limited – issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90% p.a.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,791	Mr. Khalid Sherwani
Allied Bank Limited – issue no. II	37,000	5,000	185,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	180,699	Mr. Khalid Sherwani
NIB Bank Limited	33,400	5,000	167,000,000	6 months KIBOR + 1.15% p.a.	0.02% of the principal in the first 10 months and remaining principal in 6 equal semi annual installments from the sixth-sixth month onward.	162,542	Mr. Baddar Kazmi
Carrying value before revaluation						1,949,543	
Surplus on revaluation of securities						35,520	
Market value of listed TFCs (revalued amount)						1,985,063	
SUKUK BONDS – available for sale							
	<u>Terms of Redemption</u>		<u>Rate of interest</u>	<u>Currency</u>			
	<u>Principal</u>	<u>Interest</u>					
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR		400,000	Mr. Muhammad Shakil Durrani
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR		3,700,000	
Surplus on revaluation of securities						21,390	
Market value of sukuk bonds						4,121,390	

Annexure I

Investee	Number of certificates held	Paid up value per certificate (Rupees)	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2011 (Rupees in '000)	Name of Chief Executive
TERM FINANCE CERTIFICATES – held to maturity							
Askari 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.	98,714	Mr.R. Mehakri
– issue no. II	19,980	5,000	99,900,000	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.	97,782	—do—
	39,980		199,900,000				
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.	33,059	Mr. Atif Bajwa
– 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.	194,745	—do—
	49,720		248,600,000				
Bank Al Habib Limited – issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a. with a floor and cap of 3.5% and 10% per annum respectively.	0.02% of total issue in equal installments in first 78 months and the remaining principal in 3 semi-annual installments from the 84th month from July 2004.	65,771	Mr. Abbas D. Habib
– issue no. IV	20,000	5,000	100,000,000	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% p.a for next 5 years.	6th-108th month: 0.36%; 114th & 120th: 49.82% each	100,000	—do—
	40,000		200,000,000				
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.	279,160	Mr. Munaf Ibrahim
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.	110,719	Mr. Aftab Manzoor
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.	282,635	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. II	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,814	Mr. Khalid Sherwani
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	125,000	Mr. Jehangir Khan Tareen
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a.	In 10 equal semi-annual installments starting from 18th Month from the date of issue date.	80,000	Mr. Ahsan Saleem
Pakistan Mobile Corporation Limited	20,000	5,000	100,000,000	3 Month KIBOR +2.65% p.a.	In 13 equal quarterly installments starting from 24th month after first disbursement and subsequently every three months.	98,856	Mr. Rashid Khan
Carrying value of unlisted TFCs						1,798,255	

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

Annexure I

5. Details of Bonds, Debentures and Federal Government Securities (refer note 9) – held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount (‘000)	Carrying value as at December 31, 2011 (Rupees in ‘000)
	Principal	Interest				
Debentures						
Singer (Sri Lanka) Plc.	At maturity	Half-yearly	AWPL + 3.00	LKR	45,000	35,546
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75%	LKR	250,000	197,475
Sukuk Bonds						
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +0.35%	PKR	–	400,000
Sui Southern Gas Company Limited Sukuk Bonds	At maturity	Quarterly	3 Month KIBOR +1.4%	PKR	–	58,333
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments	Half-yearly	6 Month KIBOR +1.70%	PKR	–	374,362
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.50%	PKR	–	67,500
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments	Quarterly	3 Month KIBOR +1.25%	PKR	–	97,222
Sitara Energy Limited	In 8 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.15%	PKR	–	84,545
Century Paper and Boards Mills Limited Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +1.35%	PKR	–	150,000
					–	1,231,964
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875 %	US\$	17,149	1,542,470

6 Summarized financial information of associates (refer note 9)

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

Name of associates	Country of incorporation	Assets	Liabilities	Net assets	Revenue	Profit after tax	% of interest held
		(Rupees in ‘000)					
2011							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2011)	Pakistan	313,117	132,129	180,988	112,493	4,651	30%
First Women Bank Limited (unaudited based on September 30, 2011)	Pakistan	19,046,454	17,800,821	1,245,633	586,146 *	71,895	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2011)	Pakistan	25,289,144	14,165,413	11,123,731	5,370,441 **	369,218	29.13%
2010							
First Women Bank Limited (unaudited based on September 30, 2010)	Pakistan	12,804,666	11,704,309	1,100,357	460,994 *	18,687	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2010)	Pakistan	25,809,424	15,155,098	10,654,326	5,049,611 **	133,317	29.13%

* Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

Annexure II

Disposal of operating fixed assets (refer note 11.2.3)

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
(Rupees in '000)							
Furniture and fixture, electrical, computers and office equipment							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	12,052	11,351	701	726	Auction	Karachi Auction Mart	Karachi
	8,606	6,742	1,864	2,695	Claim	Adamjee Insurance Company	Karachi
	17,383	17,383	-	300	Quotations	Abdur Razak & Brothers	Lahore
	15,851	14,861	990	1,164	Auction	Karachi Auction Mart	Karachi
	53,892	50,337	3,555	4,885			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	5,568	4,229	1,339	1,734	Auction/Quotation	Different Buyers	All Pakistan
Vehicles							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	1,233	986	247	913	Bank Car Policy	Mr. Jaudat Hussain	Lahore
Honda Civic	1,679	1,679	-	1,837	Auction	T.P.L.Shaminda I.Perera	Colombo-Sri Lanka
Honda Civic	5,569	2,228	3,341	4,176	Auction	Insurance Claim	Colombo-Sri Lanka
Honda WP	3,820	3,514	306	2,773	Auction	Mr.N.Kodithuwakku	Colombo-Sri Lanka
Honda Civic	3,820	3,565	255	2,694	Auction	Mr.A.A.Nimal Jayalath	Colombo-Sri Lanka
Honda Civic	1,036	677	359	1,152	Auction	Mr. Muhammad Ali Siddiqui	Karachi
Honda Civic	7,000	4,200	2,800	5,300	Auction	Mr. Gul Hassan	Lahore
BMW	3,526	2,821	705	2,399	Auction	Mr. Syed Riaz Ahmed	Karachi
Mercediez Benz	1,038	830	208	909	Auction	Mr. Abdul Razzak	Karachi
Honda Civic	4,035	4,085	-	817	Company Policy	Mr. Yasir Qadri	Karachi
Honda	1,336	1,336	-	267	Company Policy	Mr. Junaid Khalid	Karachi
	34,142	25,921	8,221	23,237			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	14,009	10,814	3,195	11,534			
Ijara Assets							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	1,314	643	671	755	Buy Back	Interloop limited	Faisalabad
Toyota XLI	816	295	521	580	Buy Back	Interloop limited	Faisalabad
Suzuki-Cultus	1,067	361	706	764	Buy Back	Interloop limited	Faisalabad
Suzuki-Liana	1,402	633	769	855	Buy Back	Interloop limited	Faisalabad
Toyota GLI	945	14	931	931	Buy Back	Interloop limited	Faisalabad
Suzuki-Cultus	1,445	65	1,380	1,385	Buy Back	Interloop limited	Faisalabad
Toyota XLI	6,989	2,011	4,978	5,270			
2011	114,600	93,312	21,288	46,660			
2010	78,808	61,560	17,248	33,241			

Annexure III

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	(Rupees in '000)		
Abbottabad	20,000	2,427	22,427
Bahawalpur	14,140	7,490	21,630
Chakwal	1,800	5,062	6,862
Chistian	13,200	1,260	14,460
Dera Gazi Khan	12,600	12,255	24,855
Dir	13,000	1,680	14,680
Faisalabad	486,286	141,939	628,225
Gawadar	450	–	450
Gujranwala	141,095	81,749	222,844
Gujrat	54,000	17,292	71,292
Hafizabad	32,000	4,402	36,402
Haripur	26,915	3,507	30,422
Haroonabad	14,640	1,980	16,620
Hyderabad	186,696	67,140	253,836
Islamabad	1,274,485	225,703	1,500,188
Jehlum	24,000	20,313	44,313
Jhang	19,625	2,218	21,843
Karachi	3,460,564	2,232,035	5,692,599
Kasur	14,040	1,434	15,474
Khanpur	19,033	7,218	26,251
Lahore	3,250,068	1,812,896	5,062,964
Larkana	27,420	5,197	32,617
Mianwali	14,375	16,780	31,155
Mirpur	57,352	8,635	65,987
Mirpurkhas	22,640	4,901	27,541
Multan	99,393	318,968	418,361
Muree	20,000	901	20,901
Muridke	30,000	3,234	33,234
Muzafarabad	57,235	7,993	65,228
Naushero Feroze	5,930	1,366	7,296
Okara	16,338	10,945	27,283
Peshawar	86,000	18,207	104,207
Quetta	276,760	31,082	307,842
Rahim Yar Khan	5,940	5,270	11,210
Rawalpindi	388,593	110,430	499,023
Sadiqabad	23,595	4,130	27,725
Sahiwal	14,720	10,753	25,473
Sargodha	74,147	16,205	90,352
Shahdapur	4,850	756	5,606
Sheikhupura	40,000	8,606	48,606
Shujabad	6,400	3,250	9,650
Sialkot	40,000	10,313	50,313
Moro	8,500	2,150	10,650
Sukkur	35,920	12,853	48,773
Swat	46,600	4,568	51,168
Tando Allahyar	2,600	727	3,327
Vehari	5,555	1,637	7,192
Wazirabad	12,000	6,062	18,062
Overseas	–	54,026	54,026
Arif Habib Investments Limited (subsidiary company)	–	80,800	80,800
Grand total	10,501,500	5,410,745	15,912,245

Branch Network

COMMERCIAL BRANCH BANKING GROUP

Circle / No. of Branches		Region	No. of Branches	No. of Sub Branches
Commercial Branch Banking Group – South				
1. KARACHI CITY 44	01.	Karachi City	21	–
	02.	Karachi North	23	–
2. KARACHI EAST 38	03.	Karachi East	19	1
	04.	Karachi South	19	–
3. KARACHI WEST 42	05.	Karachi Central	21	–
	06.	Karachi West	21	–
4. HYDERABAD 62	07.	Hyderabad	33	–
	08.	Nawabshah	29	1
5. QUETTA 38	09.	Makran	08	–
		Quetta Circle	30	–
TOTAL CBBG - SOUTH			224	02
Commercial Branch Banking Group – East				
1. BAHAWALPUR 89	01.	Bahawalpur	32	–
	02.	Rahim Yar Khan	29	–
	03.	Vehari	28	–
2. MULTAN 97	04.	Dera Ghazi Khan	32	–
	05.	Multan	28	1
	06.	Sahiwal	37	–
3. SUKKUR 63	07.	Larkana	32	2
	08.	Sukkur	31	–
TOTAL CBBG - SOUTH			249	03
Commercial Branch Banking Group – Central				
1. LAHORE 92	01.	Lahore Central	22	–
	02.	Lahore City	22	–
	03.	Lahore East	24	–
	04.	Lahore West	24	–
2. FAISALABAD 97	05.	Faisalabad	35	1
	06.	Faisalabad City	35	–
	07.	Sheikhupura	27	–
3. GUJRANWALA 93	08.	Gujranwala	27	1
	09.	Gujrat	34	2
	10.	Sialkot	32	–
4. SARGODHA 92	11.	Jhang	30	1
	12.	Mianwali	29	–
	13.	Sargodha	33	–
TOTAL CBBG - CENTRAL			374	05
Commercial Branch Banking Group – North				
1. ISLAMABAD 79	01.	Chakwal	25	–
	02.	Islamabad	26	–
	03.	Rawalpindi	28	–
2. JHELMUM 54	04.	Jhelum	23	–
	05.	Muzaffarabad A.K.	31	–
3. PESHAWAR 73	06.	Kohat	22	–
	07.	Mardan	25	–
	08.	Peshawar	26	1
4. ABBOTTABAD 71	09.	Abbottabad	25	–
	10.	Attock	28	3
	11.	Swat	18	–
TOTAL CBBG - NORTH			277	04

Branch Network

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Wholesale Banking Branches	10	–

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Islamic Banking	22	02

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Privilege Banking	09	–

Circle / No. of Branches	No. of Branches
1. Colombo	1
2. EPZ	1
3. Kandy	1
4. Maradana	1
5. Offshore Banking Unit (OBU) - Bahrain	1
6. Pettah	1
7. Wellawatte	1
8. Batticaloa	1
TOTAL	8
Dubai (Rep. Office)	1

SUMMARY

Group	Circles	Regions	No. of Branches
CBBG-South	5	9	224
CBBG-East	3	8	249
CBBG-Central	4	13	374
CBBG-North	4	11	277
Wholesale Banking	-	-	10
Islamic Banking	-	-	22
Privilege Banking	-	-	9
Total	16	41	1,165
Overseas	-	-	7
EPZ	-	-	1
Grand Total	16	41	1,173

PROVINCE-WISE

Province	Branches	Sub-Branches	Total
Punjab	725	10	735
Sindh	260	5	265
Khyber Pakhtunkhwa	114	1	115
Balochistan	40	-	40
Azad J. Kashmir	26	-	26
Domestic Total	1,165	16	1,181
Overseas	7	-	7
EPZ	1	-	1
Grand Total	1,173	16	1,189

Pattern of Shareholding

Share Holders	Having Shares		No. of Shares	% age
	From	To		
16,122	1	100	630,048	0.0753
13,005	101	500	3,283,111	0.3926
5,287	501	1,000	3,714,327	0.4442
7,762	1,001	5,000	11,308,160	1.3523
313	5,001	10,000	2,195,997	0.2626
284	10,001	50,000	6,104,278	0.7300
78	50,001	100,000	5,451,256	0.6519
95	100,001	500,000	23,468,780	2.8065
43	500,001	1,000,000	31,032,329	3.7110
47	1,000,001	5,000,000	106,263,372	12.7073
3	5,000,001	10,000,000	20,070,114	2.4001
5	10,000,001	15,000,000	59,807,516	7.1520
3	15,000,001	25,000,000	69,464,022	8.3067
8	25,000,000	Above	493,443,166	59.0076
43,055	Company Total		836,236,476	100.0000

Categories of shareholders

	No of Share Holders	Shares held	Percentage
DIRECTORS, CEO & CHILDREN	17	89,919,758	10.7529
ASSOCIATED COMPANIES	5	178,019,500	21.2882
NIT & ICP	3	581,295	0.0695
BANKS, DFI & NBF	26	7,271,723	0.8696
INSURANCE COMPANIES	17	55,604,546	6.6494
MODARABAS & MUTUAL FUNDS	62	8,941,330	1.0692
PUBLIC SECTOR COS. & CORP.	12	24,615,851	2.9436
GENERAL PUBLIC (LOCAL)	39,159	126,426,227	15.1185
GENERAL PUBLIC (FOREIGN)	3,455	3,194,061	0.3820
FOREIGN COMPANIES	94	285,896,121	34.1884
OTHERS	205	55,766,064	6.6687
Company Total	43,055	836,236,476	100.0000

Pattern of Shareholding under Code of Corporate Governance As of December 31, 2011

Associated Companies, Undertakings and Related Parties

Adamjee Insurance Company Limited	26,037,715
Adamjee Insurance Company Limited - Employees Provident Fund	77,550
D.G. Khan Cement Company Limited	76,842,402
D.G.Khan Cement Company Limited - Employees Provident Fund	198,793
Din Leather (Private) Limited	5,211,371
Mayban International Trust (Labuan) Berhad	167,247,294
MCB Dynamic Stock Fund	209,938
Pakistan Stock Market Fund	202,028
Pakistan Capital Market Fund	25,532
Pakistan Premier Fund	47,000
Pakistan Strategic Allocation Fund	65,000
AH Dow Jones Safe Pakistan Titans 15 Index Fund	135,951
MCB Dynamic Allocation Fund	28,260
MCB Bank Limited - Employees Pension Fund	12,839,314
MCB Bank Limited - Provident Fund Pak Staff	25,838,964
Nishat (Chunian) Limited - Employees Provident Fund	6,655
Nishat Mills Limited	59,201,892
Nishat Mills Limited - Employees Provident Fund	6,224,187
Siddiqsons Limited	10,726,120

NIT and ICP

Investment Corporation of Pakistan	615
National Bank of Pakistan-Trustee Department NI(U)T Fund	574,439
IDBP (ICP Unit)	1,080
National Investment Trust Limited	6,241

Directors, CEO and their spouse and minor children

Mian Mohammad Mansha	5,887
Sarmad Amin	2,143
Mian Raza Mansha	9,512,915
Aftab Ahmad Khan	689
Dato' Mohammed Hussein	8,165
Manzar Mushtaq	500
S. M. Muneer	1,548
Tariq Rafi	24,048,736
Mrs. Nighat Tariq	4,293,836
Shahzad Saleem	679
Dato' Seri Ismail Shahudin	504
Saeeda Parveen	1,799,182
Mian Umer Mansha	24,031,840
Ammil Raza	21,383,446
Naz Mansha	4,826,490
Ahmad Alman Aslam	500
M. U. A. Usmani	2,698

Executives 10,556

Public Sector Companies & Corporations (other than those covered under insurance companies & banks) 24,615,851

Banks, Develop Finance Institutions, Non- Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds 71,816,519

Shareholdings more than 10%

Mayban International Trust (Labuan) Berhad	167,247,294
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Notice of 64th Annual General Meeting

Notice is hereby given that 64th Annual General Meeting of the members of MCB Bank Limited will be held at Islamabad Hotel (Holiday Inn), G-6, Civic Centre, Islamabad on Tuesday, March 27, 2012, at 3:00 PM to transact the following business:

Ordinary Business:

1. To confirm the minutes of 63rd Annual General Meeting held on March 31, 2011.
2. To receive, consider and adopt the Annual Audited Financial Statements of MCB Bank Limited & consolidated accounts of MCB Bank Limited and its subsidiaries for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors for the year ending December 31, 2012 till the conclusion of next Annual General Meeting and fix their remuneration. Retiring Auditors, M/s. A. F. Ferguson & Company, Chartered Accountants, being eligible, have offered themselves for re-appointment.
4. To approve, as recommended by directors, payment of Final Cash Dividend @ 30% i.e., PKR 3.0 per share for the financial year 2011, in addition to 90% (30% 1st, 2nd & 3rd quarter each) Interim Cash Dividends already paid.
5. To elect the directors of the Bank for a period of three years commencing from March 27, 2012, in accordance with the provisions of Section 178 of the Companies Ordinance, 1984. The Board of Directors has fixed the number of directors to be elected as twelve. The following are the names of retiring directors:
 - i. Mian Mohammad Mansha
 - ii. Mr. S. M. Muneer
 - iii. Mr. Tariq Rafi
 - iv. Mr. Shahzad Saleem
 - v. Mr. Sarmad Amin
 - vi. Mian Raza Mansha
 - vii. Dato' Mohammed Hussein
 - viii. Dato' Seri Ismail Shahudin
 - ix. Mr. Aftab Ahmad Khan
 - x. Mian Umer Mansha
 - xi. Mr. Manzar Mushtaq
 - xii. Mr. Ahmad Alman Aslam

Special Business:

6. To approve the issue of Bonus Shares in the ratio of 10 shares for every 100 shares held (i.e. 10%) as declared and recommended by the Board of Directors, and if thought fit, pass the following Resolutions as Ordinary Resolutions:

"Resolved that a sum of PKR 836.236 million out of reserves of the Bank available for appropriation as at December 31, 2011, be capitalized and applied for issue of 83,623,647 Ordinary Shares of PKR 10/- each allotted as fully paid bonus shares to the members of the Company whose names appear on the register of members as at close of business on March 15, 2012 in the proportion of ten shares for every hundred shares held (i.e. 10%) and that such shares shall rank pari passu in every respect with the existing ordinary shares of the Bank."

"Further Resolved that the bonus shares so allotted shall not be entitled for final cash dividend for the year 2011."

"Also Resolved that fractional entitlement of the members shall be consolidated into whole shares and sold on the Karachi Stock Exchange and the Company Secretary is authorized to pay the proceeds of sale when realized to any recognized charitable institution(s)."

"Further Resolved that the Company Secretary be and is hereby authorized and empowered to give effect to this ordinary resolution and to do or cause to do all acts, deeds and things that may be necessary or required for issue, allotment and distribution of bonus shares."

7. To consider and, if deemed fit, pass the following Ordinary Resolutions as recommended by the Board of Directors of the Bank:
 - a. "Resolved that approval be and is hereby granted for donation of PKR 24 million (PAK Rupees twenty four million) for the construction of twenty additional houses in two villages (Basti Darkhanwala and Verar Sipra, Distt. Muzaffargarh) for flood affected residents of the area."
 - b. "Resolved that approval be and is hereby granted for donation of PKR 5.000 Million (PAK Rupees five million) to Sindh Institute of Urology and Transplantation (SIUT) as Bank's Corporate Social Responsibility."
 - c. "Resolved that approval be and is hereby granted for adoption of two dispensaries of City District Government Lahore (CDGL), situated at Lahore for three years to help control 'dengue fever' epidemic with a total expenditure of PKR 24.760 million (PAK Rupees twenty four million seven hundred and sixty thousand) for the first year and recurring expenditure max. upto PKR 18 million (PAK Rupees eighteen million) per annum for the remaining two years."
 - d. "Resolved that approval be and is hereby granted for donation of PRK 100,000/- (PAK Rupees one hundred thousand) to Shaukat Khanum Memorial Trust, Lahore to assist in providing treatment to poor & needy cancer patients."

Notice of 64th Annual General Meeting

e. "Resolved that approval be and is hereby granted for donation of USD 42,000/- (Approximately PKR 3.822 Million) plus PKR 17,000 ancillary LC expenses to Hyderabad Relief & Rehabilitation Trust, Hyderabad for purchase of medical equipment."

f. "Resolved that approval be and is hereby granted for donation of PKR 12.5 million for one time development cost and PKR 2.5 million annual maintenance cost for five years for the adoption of Sports Playfield at K-Block Model Town, Lahore which would not only provide healthy activities to the local communities and youth but also provide an excellent opportunity for the Bank to advertise its products."

8. To consider and approve the shifting of Registered Office of the Bank from Islamabad Capital Territory to Lahore in the Province of Punjab and, if thought fit, to pass, with or without modification, the following Resolutions as Special Resolutions to approve the alteration in Clause 2 of the Memorandum of Association of the Company in accordance with the provisions of Section 21 read with Section 142 of the Companies Ordinance, 1984:

"Resolved that subject to the fulfillment of regulatory requirements and approval of the State Bank of Pakistan, the Registered Office of the Bank be shifted from Islamabad to Lahore in the Province of Punjab."

"Further Resolved that the Clause 2 of the Memorandum of Association of the Bank be and is hereby altered to read as follows:

The Registered Office of the Company will be situated at Lahore in the Province of Punjab."

"Also Resolved that the Company Secretary be and is hereby authorized to undertake all such actions, execute all such documents and do all such things for and on behalf of the Bank including completion of all regulatory requirements for alteration in the Memorandum of Association of the Bank, filing of all requisite returns with the Registrar of Companies and complying with all other legal requirements so as to effectuate the change of the Registered Office of the Company from Islamabad to Lahore."

9. To consider and approve an additional equity Investment of USD 1 million in MCB Leasing, CJSC, a company incorporated under the laws of Azerbaijan and subsidiary of MCB Bank Limited and the following resolutions be passed as a Special Resolution as required by Section 208 of the Companies Ordinance, 1984, with or without modification:

"Resolved that the proposal of equity investment of USD 1 million in MCB Leasing, CJSC, subsidiary of

MCB Bank Limited incorporated under the laws of Azerbaijan, in order to increase its equity base to meet the future business needs, be and is hereby approved, subject to all applicable regulatory approvals and compliance of all relevant formalities."

10. To transact any other business with the permission of the Chair.

A Statement under Section 160(1)(b) of Companies Ordinance, 1984 setting forth all material facts pertaining to the Special Business referred to above is annexed to this Notice being sent to the members.

By Order of the Board

March 05, 2012
Islamabad.

ABDUS S. SAMI
Company Secretary

NOTES:

1. The Shares Transfer Books of MCB Bank Limited will remain closed from March 16, 2012 to March 27, 2012 (both days inclusive). Share Transfers received at M/s THK Associates (Pvt) Limited, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi, the Share Registrar and Transfer Agent of the Bank, at the close of business hours on March 15, 2012 will be treated as being in time for the purpose of the entitlement of cash dividend and bonus shares.

2. Any person who seeks to contest the election to the office of a Director, whether he is retiring director or otherwise, shall file following with the Company Secretary of the Bank at Principal Office, MCB Building, 15-Main Gulberg, Lahore, not later than fourteen days before the date of the meeting to obtain clearance/ approval, in principle, from State Bank of Pakistan (the 'SBP');

i. In terms of Section 178 (3) of the Companies Ordinance, 1984, his/her intention to offer him/ herself for the election together with: (a) consent on Form 28; (b) a Declaration with the consent to act as Director under Clause (ii) of the Code of Corporate Governance to the effect that he/ she is aware of the duties and powers of directors under the relevant laws, Memorandum & Articles of Association of the Bank, and the listing regulations of the stock exchanges; a Declaration in terms of Clauses (iii), (iv) and (v) of the Code of Corporate Governance; and a Declaration that he/she is not ineligible to become a director under any circular/ directive of the SBP.

ii. A Proforma for Fit & Proper Test along with questionnaire duly completed, an Affidavit, recent photographs and copy of attested CNIC/

Notice of 64th Annual General Meeting

Passport to, inter-alia, meet the requirements for the appointment of directors as contained in Annexures VI-A, VI-B and VII-B of SBP's Prudential Regulations G-1.

3. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or not.
4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarized certified copy of the power of attorney or authority in order to be effective must be deposited at the Share Registrar and Transfer Agent Office of the Bank not less than 48 hours before the time for holding the meeting, and must be duly stamped, signed and witnessed.
5. Members are requested to immediately notify the change, if any, in their registered addresses to the Share Registrar and Transfer Agent of the Bank.
6. CDC Accountholders will further have to follow the under mentioned guidelines as laid down by the Circular No. 1, dated January 26, 2000, issued by Securities and Exchange Commission of Pakistan.

For Attending of Meeting:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For Appointing of Proxies:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall submit the proxy form as per above requirements.
- ii. The proxy form shall be witnessed by the two persons whose name, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.
- v. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen

signature shall be submitted along with proxy form of the Bank.

Statement under Section 160 (1) (b) of the Companies Ordinance, 1984 pertaining to Special Business:

This Statement sets out the material facts pertaining to the Special Business to be transacted at the 64th Annual General Meeting of the Bank.

Agenda No. 6 – Issue of Bonus Shares:

The Directors are of the view that the reserves/profits are adequate for capitalization of a sum of PKR 836.236 million for issue of the proposed 10% bonus shares; and in this regard compliance has been made under Rule 6 of the Companies (Issue of Capital) Rules, 1996. External Auditors' certificate in respect of adequacy of reserves has also been obtained. The Directors are interested in this business to the extent of their entitlement to the bonus shares as shareholders.

Agenda No. 7 – Approval for Donations to Charitable Institutions:

- a. Last year, the Bank considering its philanthropic responsibility took an initiative and constructed 226 houses in the flood affected areas, two villages, namely, Basti Darkhanwala and Verar Sipra in district Muzaffargarh for which the shareholders approved a sizeable donation. The Board also responded compassionately at the request of the Punjab Govt., for the construction of additional twenty houses in the same area and sought approval from shareholders for an amount of PKR 24 million to share the huge losses caused by the natural disaster.
- b. The Sindh Institute of Urology and Transplantation (SIUT) provides free medical treatment for kidney and liver diseases and cancer patients who belong from rural areas and poor urban strata with the aim to help those patients who did not have access either to such facilities or enough finances for such expensive treatments. SIUT also served as a regional training center for urology, nephrology and transplantation for graduates from Iran, Sudan, UAE, Bangladesh, Sri Lanka, Nepal, and other South Asian countries for the improvement of medical services in the region. The Board as a part of its Corporate Social Responsibility (CSR) acceded the request of SIUT for monetary assistance to enable SIUT to continue providing uninterrupted services to the needy and destitute people of the country.
- c. The Government of Punjab approached MCB Bank to join hands with the Govt. in controlling dengue epidemic in Lahore city and requested the Bank to adopt five dispensaries run by the City District Government Lahore for providing better medical facilities to citizens who were facing a worse ever situation. The Bank adopted two dispensaries and Bank's CSR department approached the Punjab Rural Support Program (PRSP), a very reputable NGO having experience in health care, and selected PRSP to operate/manage the health care operation of two adopted dispensaries on behalf

Notice of 64th Annual General Meeting

of MCB. The expenses required to operate these dispensaries as proposed by PRSP being placed for the consideration of the shareholders.

- d. Shaukat Khanum Memorial Trust, running a Cancer Hospital at Lahore, requested the Bank for a nominal donation of PKR 100,000/- to help it in providing cancer treatment to deserving poor patients.
- e. Hyderabad Relief & Rehabilitation Trust, a renowned organization, involved in many projects related to rehabilitation and medical support to poor and needy people of Sindh district. The Trust is also managing a hospital which deals with providing medical assistance to patients who due to financial constraints do not even have the access towards treatment. The Board sympathetically responded to the appeal of the Trust to provide them financial assistance in purchasing medical equipments enabling them to continue to support their regular medical services to the needy and sought approval of the shareholders for donation of USD 42,000 (PKR 3.822 million approx. @ PKR 91/- USD) and PKR 17,000/- ancillary LC expenses for purchase of medical equipment as MCB's contribution in discharging its responsibilities as a good corporate citizen.
- f. MCB always endeavored to promote healthy sports activities of society; considering it not only Bank's ethical accountability towards society at large but also as a part of its CSR Program. The Board, in response to its ongoing CSR program, took an initiative and selected a prime location at K-Block, Model Town, Lahore to manage the sports playfield by joining hands with public sector to maintain and uplift the playfields for providing healthy activities to the local communities and youth. The Board also encouraged making social expenses for wider interest of the society and to enhance Bank's image as good corporate entity amongst various walks of life; hence, considered seeking shareholders' approval for PKR 12.5 million for one time development cost and PKR 2.5 million annual maintenance cost for five years as donation for the adoption of sports playfield.
 - The Directors have no interest in above mentioned donations.

Agenda No. 8 – Relocation of Registered Office from Islamabad to Lahore:

The Registered Office of the Bank was shifted from Karachi to Islamabad Capital Territory in 1999. Later on, the Board transferred Principal Office of the Bank from Karachi to Lahore in 2006 because majority of

the operations of the Bank were functioning through Lahore office. Further, it was observed that the statutory guidelines, notifications and other communications etc., issued by the Securities and Exchange Commission of Pakistan (the 'SECP') from time to time are sent to Registered Office of the Bank in Islamabad which are forwarded to the Principal Office at Lahore resulting in loss of time and consequently lesser time is available for attending/ responding SECP communications. Based on the administrative issues faced by the Bank executives in terms of travelling, logistics and related regulatory matters which needed to be carried out only through the Registered Office, the Board, subject to regulatory requirements including approval from State Bank of Pakistan, proposed to shift registered office from Islamabad to Lahore and sought shareholders' approval by passing a special resolution for proper and timely administration and to facilitate the Bank in carrying on its business more economically and efficiently in terms of Section 21 of the Companies Ordinance, 1984.

- The directors have no direct or indirect interest in the above said special business save their shareholdings in the Company.

Agenda No. 9 – Equity Investment in MCB Leasing CJSC-Azerbaijan:

MCB Leasing, CJSC (the 'Company') was incorporated and domiciled on October 16, 2009 in the Republic of Azerbaijan with an initial capital investment of USD 1 million by MCB Bank Limited with a minority interest holder. The Company is a closed joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. MCB Bank Limited (Pakistan) owns 95% of the issued share capital and is the parent company whereas remaining 5% shares are held by the other minority interest holder.

The Company's principal business activity is providing finance lease within the Republic of Azerbaijan. The Company leases various types of industrial equipment, equipment used in medicine, public transports and real estate. In addition, the Company leases cars, trucks and rail cars.

Due to increase in lease portfolio and efficient utilization of existing liquidity, MCB Leasing requires further capital injection. Other leasing companies in Azerbaijan have higher capital bases; therefore, without a further increase in capital, it will be tough for MCB Leasing to compete in the local market. It is quite difficult to attract funding arrangements from local market for a newly established company for which a strong capital base is desirable.

The Board of Directors of MCB Bank have carried out necessary due diligence for the proposed equity investment

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as required by Regulation No. 3(3) of the Companies (Investment in Associated Companies or Associated Undertaking) Regulations, 2012 and fair valuation of the MCB Leasing, CJSC was also carried out by M/s Riaz Ahmed & Company, Chartered Accountants. As per the valuation the fair value of per share of MCB Leasing, CJSC comes to AZN 1.170 [AZN: Azerbaijan Manat (functional currency)]. The new shares of MCB Leasing, CJSC will be issued at par value of AZN 1 per share. However, in the absence of any market value the management of the MCB Leasing, considered it appropriate to issue the new shares at par rather at fair value. One of the directors of MCB Bank Limited is also on board of MCB Leasing, however, he doesn't have any personal interest in the investee company nor any other director/sponsor of both MCB Bank Limited and MCB Leasing, CJSC have any

interests in it. With post capital injection, the management of MCB Leasing is confident that with increased profitability and enhanced capital base they will be able to get funding lines from local banks in the near future.

The Board of Directors of MCB Bank Limited in its meeting held on July 26, 2011 approved this additional capital investment and thereafter necessary regulatory approval from State Bank of Pakistan was sought vide their approval letter No. BPRD/BRD-04/MCB/14438/11 dated November 29, 2011.

The shareholders are requested to approve the equity investment of USD 1 million in the MCB Leasing, CJSC.

1.	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established;	MCB Leasing, CJSC. MCB Bank Limited has 95% stake in the share capital of the Company
2.	Purpose, benefits and period of investment;	<ul style="list-style-type: none"> Due to increase in lease portfolio and efficient utilization of existing liquidity, MCB Leasing requires further capital injection. Other leasing companies in Azerbaijan have higher capital bases; therefore, without a further increase in capital, it will be tough for MCB Leasing to compete in the local market. It is quite difficult to attract funding arrangements from local market for a newly established company for which a strong capital base is desirable. With Post capital injection, the management of MCB Leasing is confident that with increased profitability and enhanced capital base they will be able to get funding lines from local banks in the near future. Since this is equity injection, therefore it will be for indefinite period and management of MCB Bank Limited does not have any intention to sell its stake in the subsidiary.
3.	Maximum amount of investment;	USD 1 Million
4.	Maximum price at which securities will be acquired;	Per share price would be 1 AZN (Azerbaijan Manat)
5.	Maximum number of securities to be acquired;	New share will be issued at face value and proposed investment will be converted into AZN at the time of remittance and converted amount will be utilized to subscribe the new issue. Approximately the USD to AZN conversion rate would be 0.7862 therefore new shares will be approximately 786,200.
6.	Number of securities and percentage thereof held before and after the proposed investment;	<ul style="list-style-type: none"> Before: 95% After: approximately 97.4%
7.	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired;	N/A

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8.	In case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1);	As per latest valuation conducted by a firm of Chartered Accountants having satisfactory rating under Quality Control Review Program of Institute of Chartered Accountants of Pakistan (ICAP), the per share fair value of the company comes to AZN 1.170.
9.	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements;	The Break-up value on the basis of latest audited Financial Statements comes to AZN 0.411 per share.
10.	Earnings per share of the associated company or associated undertaking for the last three years;	<ul style="list-style-type: none"> • Calendar Year 2011 – AZN -0.1683 • Calendar Year 2010 - AZN -0.4205 [the Company is in operation for the last two calendar years]
11.	Sources of fund from which securities will be acquired;	MCB Bank Limited has sufficient retained earnings to subscribe.
12.	Where the securities are intended to be acquired using borrowed funds: (I) justification for investment through borrowings; and (II) detail of guarantees and assets pledged for obtaining such funds;	N/A
13.	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment;	N/A
14.	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration;	No personal interest of MCB Bank's directors in MCB Leasing, CJSC, Azerbaijan.
15.	Any other important details necessary for the members to understand the transaction; and	N/A
16.	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely: (I) description of the project and its history since conceptualization; (II) starting and expected dated of completion of work; (III) time by which such project shall become commercially operational; and (IV) expected time by which the project shall start paying return on investment.	N/A

Glossary of Terms

Important terms and formulae used for calculation in Financial Statements are briefly described here;

Breakup Value per share

Represents the total worth (equity) of the business per share, calculated as shareholders' equity or Net Assets excluding the impact of revaluation on fixed assets, divided by the total number of share outstanding at year end.

BSD

Banking Surveillance Department

Capital Adequacy Ratio (CAR)

The relationship between capital and risk weighted assets as defined in the framework developed by the State Bank of Pakistan.

Cash Reserve Ratio (CRR)

Cash Reserve Ratio is the amount of funds that the banks have to keep with SBP.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cost to Income Ratio

The proportion of total operating costs excluding total provisions and write-offs, to total income, represented as combination of net interest income and non interest income.

Credit Risk Spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Dividend Payout Ratio

Dividends (cash dividend plus bonus shares) paid per share as a fraction of earnings per share (EPS).

Dividend Yield Ratio

Dividend per share divided by the market value of share.

Forced Sale Value (FSV)

Forced Sale Value means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged / pledged assets in a forced / distressed sale conditions.

Government Securities

Government Securities shall include such types of Pak. Rupee obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

IFRIC

International Financial Reporting Interpretation Committee

Impairment allowances

A provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

Interest Rate Swap (IRS)

An Interest Rate Swap (the swap) is a financial contract between two parties exchanging or swapping a stream of interest payments for a 'Notional Principal' amount on multiple occasions during a specified period. The swap is usually "fixed to floating" or "floating to floating" exchanges of interest rate. As per the contract, on each payment date during the swap period, the cash payments based on difference in fixed/floating or floating / floating rates are exchanged by the parties from one another. The party incurring a negative interest rate differential for that leg pays the other counter-party.

Loan losses and provisions

Amount set aside against identified and possible losses on loans, advances and other credit facilities as a result of their becoming party or wholly uncollectible.

Liquid Assets

The assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs / NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management

Glosary of Terms

companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks / DFIs with perfected lien.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of share as at the year end.

Net Interest Income (NII)

Net interest income is the difference between the interest earned on assets and interest expensed on liabilities.

NPLs to Gross Advances/Loans

Represents the infected portfolio of the bank and is calculated by dividing the total non-performing loans by gross advances.

Non Performing Loan-Substandard Category

Where markup/interest or principal is overdue by 90 days or more from the due date.

Non Performing Loan-Doubtful Category

Where markup/interest or principal is overdue by 180 days or more from the due date.

Non Performing Loan-Loss Category

Where mark-up/interest or principal is overdue by one year or more from the due date and Trade Bill (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.

Repo / Reverse Repo

A repurchase agreement, or repo, is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Return on Equity (ROE)

Represents the ratio of the current year's profit available for distribution to the weighted average shareholders equity over the period under review, calculated by dividing the net profit (profit after tax) to the average equity (before surplus) for the period.

Return on Assets (ROA)

Indicator of profitability of the business relative to the value of its assets, calculated by dividing the net profit (profit after tax) to the average total assets for the period.

Secured means exposure backed by tangible security and any other form of security with appropriate margins (in cases where margin has been prescribed by State Bank, appropriate margin shall at least be equal to the prescribed margin). Exposure without any security or collateral is defined as clean. The banks / DFIs may also take exposure against Trust Receipt. They are, however, free to take collateral / securities, to secure their risks / exposure, in addition to the Trust Receipt. Banks / DFIs will be free to decide about obtaining security / collateral against the L/C facilities for the interim period, i.e. from the date of opening of L/C till the receipt of title documents to the goods.

Strategic Investment

Strategic Investment is an investment which a bank / DFI makes with the intention to hold it for a period of minimum 5 years.

The following must be noted further in respect of strategic investment:

- The bank should mark strategic investment as such at the time of investment
- If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.
- The banks / DFIs will report their investment in strategic portfolio to the Banking Policy Department, within 2 working days from the date of such investment.

SRO

Statutory Regulatory Order

VaR

Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Weighted Average Cost of Deposits

Percentage of the total interest expensed on average deposits of the bank for the period.

Form of Proxy 64th Annual General Meeting

I/We _____
of _____
being a member (s) of MCB Bank Limited, and holder of _____
Ordinary Shares, do hereby appoint _____
of _____ vide Folio/CDC Account No. _____
or failing him / her _____ of _____ who is also a member
of the Bank, vide Folio/CDC Account No. _____
as my / our proxy in my / our absence to attend, speak and vote for me / us
and on my / our behalf at the 64th Annual General Meeting of the Bank to be held on
Tuesday, March 27, 2012 at 3:00 PM at Islamabad Hotel (Holiday Inn), G-6, Civic Centre, Islamabad,
and at any adjournment thereof.

As witness my / our hand/Seal this _____ day of _____ 2012.

Signed by _____

In the presence of _____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five-Rupees
Revenue Stamp

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

Important:

1. This Proxy Form, duly completed and signed, must be deposited in the office of M/s THK Associates (Pvt) Limited, the Share Registrar and Transfer Agent, situated at Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi, not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Share Registrar, all such instruments of proxy shall be rendered invalid.
3. **For CDC Account Holders / Corporate Entities**
In addition to the above, the following requirements have to be met:
 - i. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
 - ii. The proxy shall produce his original CNIC or original passport at the time of the meeting.
 - iii. In case of a corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Company.



Principal Office:
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UAN: (042) 111-000-111
PABX: (042) 36041998-9

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