

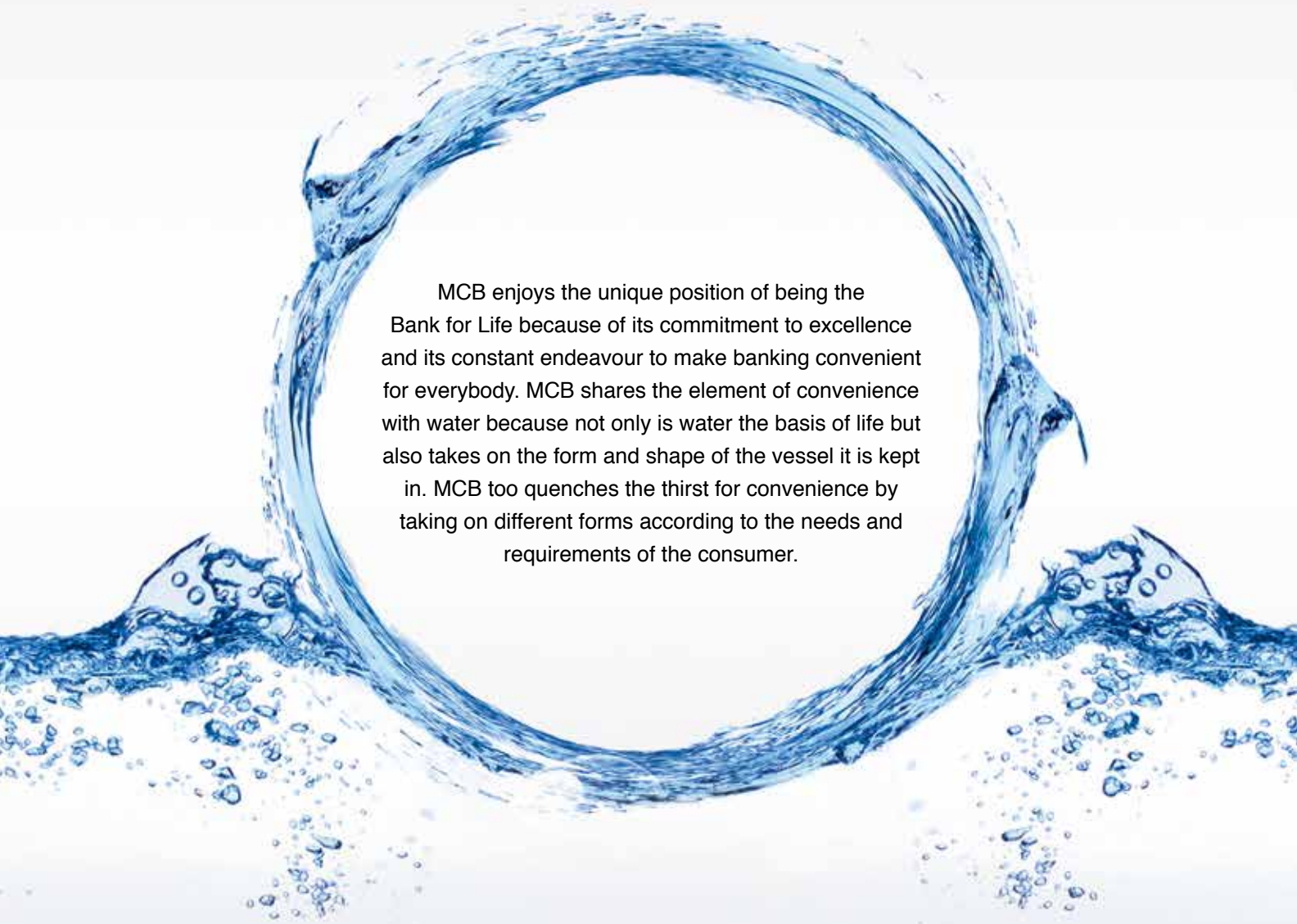


Annual Report 2012



Convenience

in every form!



MCB enjoys the unique position of being the Bank for Life because of its commitment to excellence and its constant endeavour to make banking convenient for everybody. MCB shares the element of convenience with water because not only is water the basis of life but also takes on the form and shape of the vessel it is kept in. MCB too quenches the thirst for convenience by taking on different forms according to the needs and requirements of the consumer.



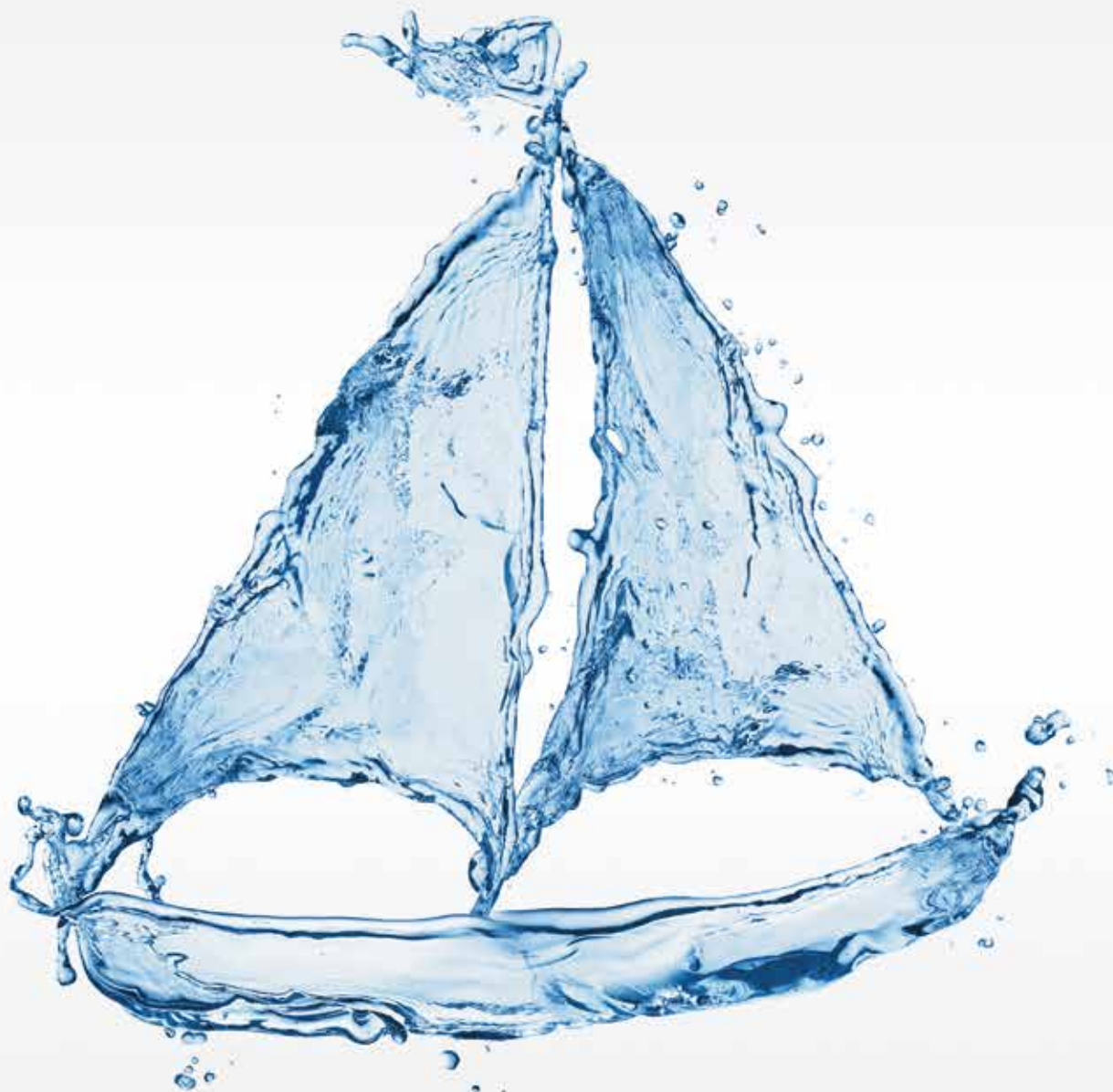
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Vision

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



Mission

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



Strategic Objectives

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



Growth with Convenience

By empowering businesses with tailored solutions that conveniently meet their requirements, MCB's economic vision encompasses growth, prosperity and financial well-being of the people.



Care with Convenience

At MCB, we are always eager and willing to help people who are less fortunate and people who are in any sort of distress. Our efforts are aimed at enriching their lives so that they can help themselves to live a life of convenience and ease.



Trust with Convenience

We know that in these tough economic times, people need a reliable source to act as their partner for better investments and improved results. Our vast portfolio of convenient offerings and our image as a trustworthy Bank assures local investors to have faith in the economy and makes it easier for foreign investors to invest in Pakistan.



Earn with Convenience

MCB is a firm believer in the age-old wisdom of 'a rupee saved is a rupee earned'. We understand that people want to save and earn on their savings which is why we offer a plethora of convenient solutions for savings so that people can enjoy their today by overcoming their worries for tomorrow.



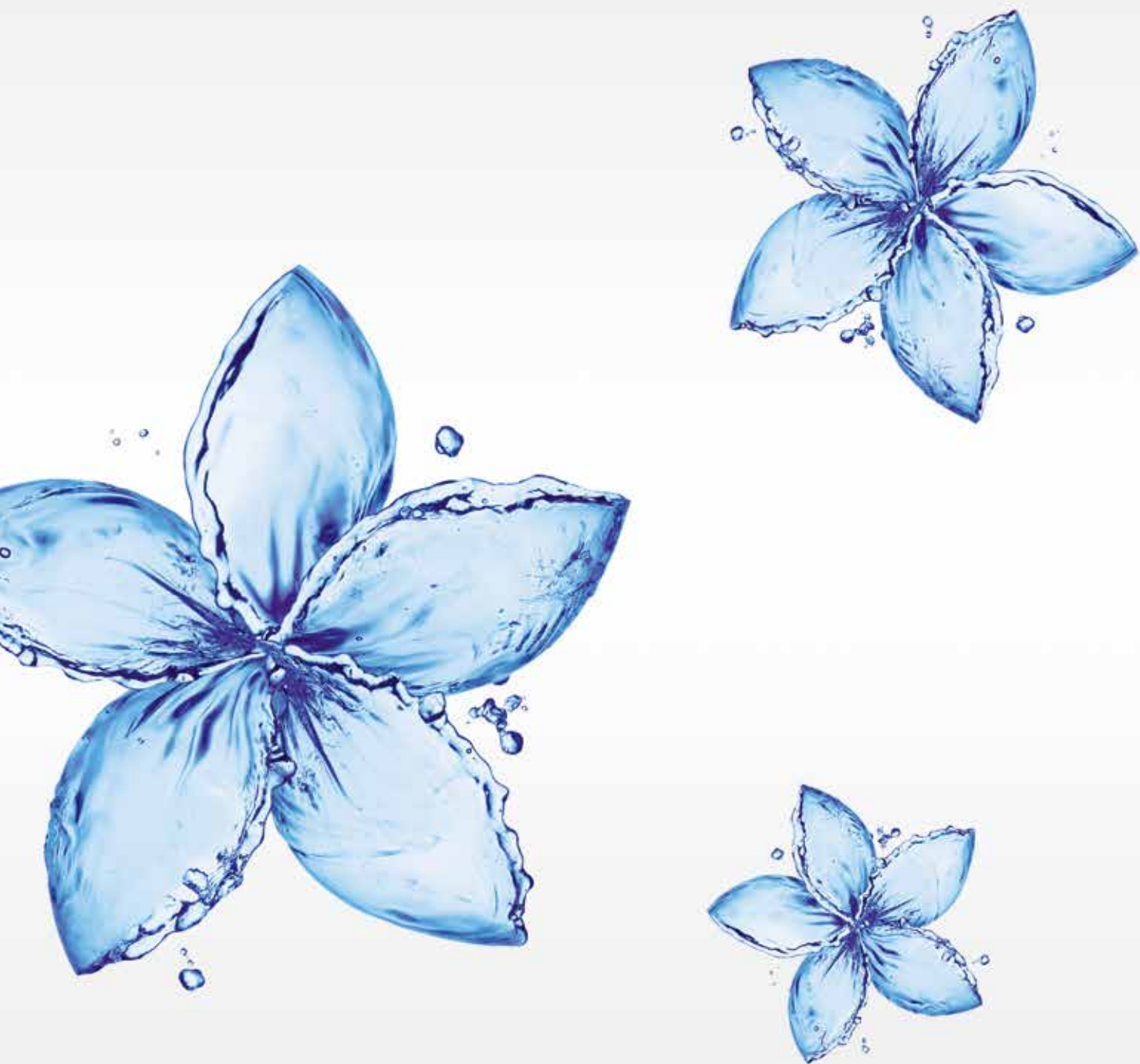
Move with Convenience

With over 1100 branches all over Pakistan and virtual presence through various affiliations, MCB offers a convenient, fast and secure way of money transfer from anywhere in the world to Pakistan and all over Pakistan.



Luxury with Convenience

It is always nice to feel and see that you are being treated in a special manner. By offering convenient solutions for unconventional needs, MCB treats all its customers as royalty. Our banking services are centered on offering a sense of luxury with utmost convenience.



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

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



MCB
Rupee Travelers Cheque



Products & Services

Current Account

MCB Bank offers a variety of current accounts to cater 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 requirement; Business Account offering free online transactions, Demand Drafts, Pay Orders and lots more to meet the day-to-day business requirements; Current Life Account that offers the security of life insurance free of cost; and for all others, the conventional Current Account.

Savings Account

MCB Bank offers a wide array of savings products that suit short-term growth and 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 and 365 Gold offers profit rates on daily balances with no minimum balance requirements. In addition, two unique products, i.e. 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 Deposit

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

MCB 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, dividend pay-outs, custodian banking and utility companies' bills processing.

MCB Channel Financing

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

MCB Local Correspondent Banking

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 Remittances offers unmatched services for overseas Pakistanis to send money home FAST and FREE at no cost across Pakistan through MCB's large network of over 1100 branches. Money can be sent FREE & INSTANT through our international send agents like MoneyGram, Xpress Money and many others. We also offer facility to Overseas Pakistanis to open accounts in their home country through our "Motherland account". This is designed to allow transferring of funds to your family & loved ones through your own personal account back home.

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

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

MCB Quasi Equity/Hybrid Instruments

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

MCB Equity Capital Raising

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

MCB Advisory Services

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

MCB Islamic Banking

MCB-Islamic Banking Group provides Shariah-compliant products and services both on the liability and asset sides to various customers of all demographic segments to cater a wide range of Working Capital, Capital Expenditures, Trade Business and Consumer requirements. In addition to existing Shariah-compliant IB products, Islamic Banking Group also provides customized solutions to its valued customers for execution of complex financial transactions. Furthermore, Islamic Banking Group also provides Shariah advisory services in structuring of various syndicated transactions for its valued customers. To facilitate its valued clients, MCB-Islamic Banking has also increased outreach of its dedicated Islamic Banking branches to the tune of 27 in 14 cities across the country.

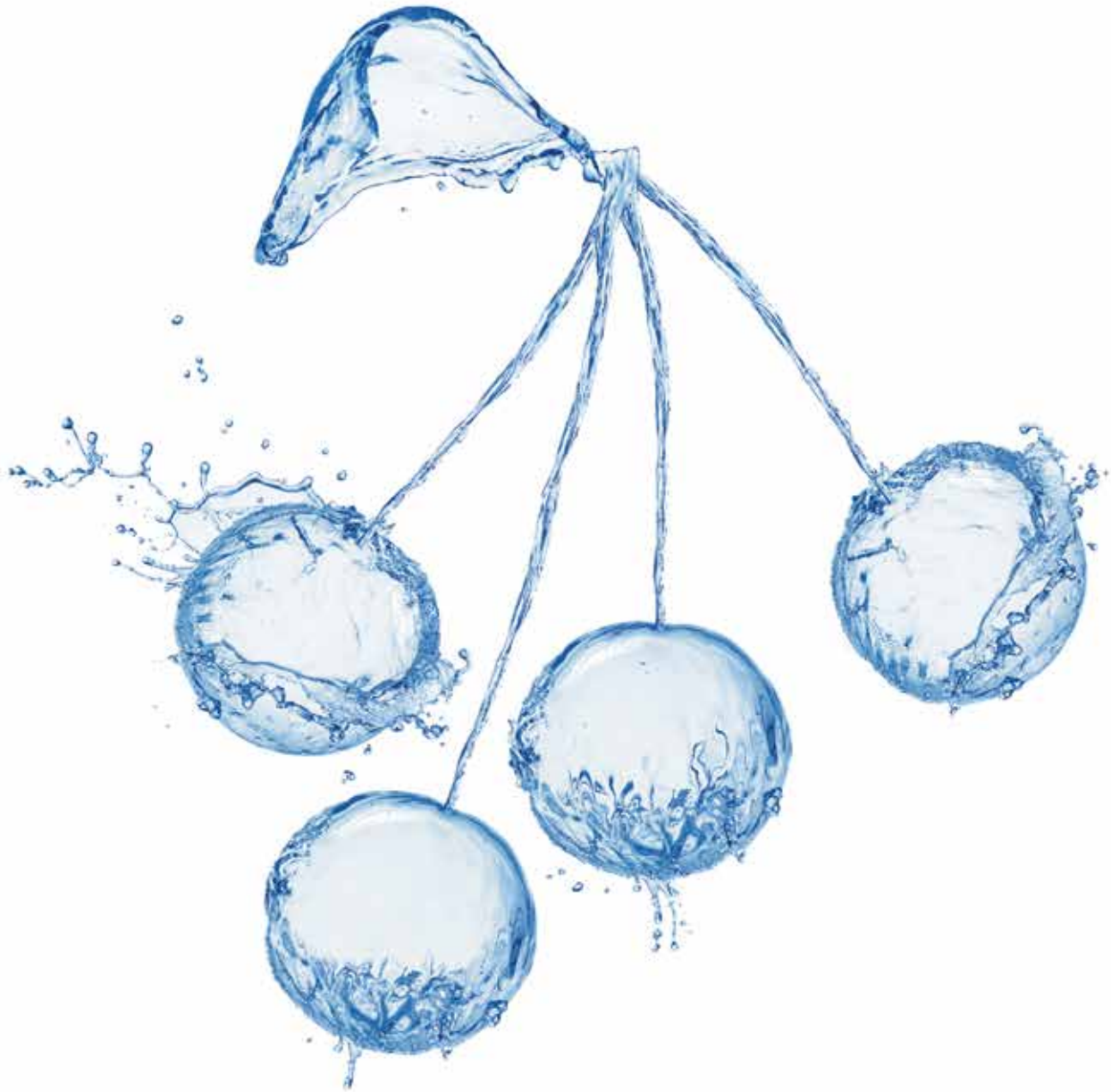
MCB Agri Products

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

MCB Trade Products

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





Products & Services

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

MCB Privilege

A first from a local bank, MCB Privilege through its dedicated, world-class Privilege Centres offer a higher level of personalized services, more rewarding in-branch experience and a wide array of deposit and investment products that are tailored to meet the financial expectations of our affluent clientele. As members of MCB Privilege, customers experience unparalleled advantages that put them ahead of others. MCB's dedicated Privilege Centres 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

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

MCB Visa Credit Card

MCB offers a complete suite of Classic, Gold and Platinum Visa Credit Cards focusing on providing superior services, travel privileges and shopping pleasures. It also offers comprehensive insurance and instalment 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 rates 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, travelling, etc.

MCB Rupee Travellers Cheque

MCB Rupee Travellers Cheque is the best and safest alternate way of carrying cash. It can be used by travellers, businessmen or by the general public in meeting their day-to-day cash requirements while they travel. It is a safe and secure way to make payments because it gives the purchaser

security that even if the cheque is lost it can be refunded. Unlike other modes of funds/remittance transfer, which can only be drawn at a particular branch and can be encashed only at that branch, MCB Rupee Travellers Cheque can be encashed at any of our branches across the country.

MCB ATMs

MCB has one of the nation's largest ATM networks with 682+ ATMs covering 182 cities across the country and still growing. MCB ATMs give you a 24-hour 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 Gold Plus –The Mobile Enabled Visa Debit

MCB Gold Plus is Pakistan's 1st chip based, mobile enabled Visa debit card. Within the first six months of its launch, over 100,000 customers enjoyed the benefits of higher ATM and spending limits on a global network of millions of ATMs and merchants along with our award winning MCB Mobile 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 and ATM/Debit Cards, confirm account balances and view last 6 transactions, pay utility/mobile phone and 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.



MCB
mobile



PRIVILEGE



Corporate Information

Board of Directors

Mian Mohammad Mansha Chairman	(Non-Executive Director)
S.M. Muneer Vice Chairman	(Non-Executive Director)
Tariq Rafi	(Non-Executive Director)
Shahzad Saleem	(Non-Executive Director)
Sarmad Amin	(Non-Executive Director)
Mian Raza Mansha	(Non-Executive Director)
Mian Umer Mansha	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Manzar Mushtaq	(Non-Executive Director)
Ahmad Alman Aslam	(Non-Executive Director)
Dato' Seri Ismail Shahudin	(Non-Executive Director)
Datuk Abdul Farid Bin Alias	(Non-Executive Director)
Imran Maqbool President / CEO	(Executive Director)

Audit Committee

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

Chief Financial Officer

Salman Zafar Siddiqi

Company Secretary

Abdus S. Sami

Auditors

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

Legal Advisors

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

Principal/Registered Office

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

Registrar's and Share Registration Office

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







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 Bank 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). 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 and the Atlantic Council. He was a member of the International Advisory Board at Babson College, Boston, USA.

S.M. Muneer Vice Chairman

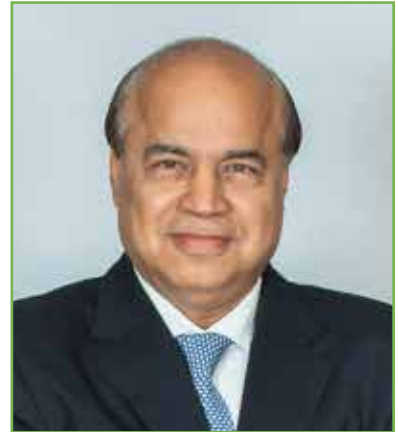
With experience in sectors ranging from tanneries, textiles and leather garments, Mr. Muneer is a consummate industrialist. He has been awarded with The Best Export Performance trophy by the Federation of Pakistan Chamber of Commerce & Industry (FPCCI), the Gold Medallion Award from the International 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. Mr. S.M. Muneer was awarded "Life Time Achievement Award" by the President of Pakistan, Mr. Asif Ali Zardari, in the President House in 2012.



Tariq Rafi

Director

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



Shahzad Saleem

Director

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

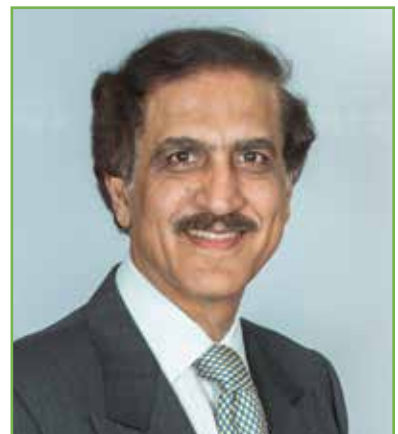
Shahzad served on the board of Adamjee Insurance Company Ltd. from 2004-2009. He is on the board of the MCB Bank since 1995 and has played a key role in the successful ventures undertaken by MCB Bank including listing on the London Stock Exchange and sale of 20 percent stake of MCB Bank to Maybank, Malaysia.

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

Sarmad Amin

Director

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



Mian Raza Mansha

Director

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



Aftab Ahmad Khan

Director

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

Mian Umer Mansha

Director

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



Manzar Mushtaq

Director

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



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 and Opus International Consultants Limited, a company listed on the New Zealand Stock Exchange.

Datuk Abdul Farid Bin Alias

Director

Mr. Farid is the Deputy President and Head, Global Wholesale Banking at Maybank, Malaysia. Prior to joining Maybank, he has worked for a number of Malaysian and global financial institutions primarily in the area of Investment Banking. He is the Chairperson of Permanent Committee on ASEAN Inter-Regional Relations, ASEAN Banking Council (ABC) and is a member of the Asian Bankers Association (ABA) Policy Advocacy Committee. He is also a member of the Malaysia-Pakistan Business Council. Presently, at MCB Bank, he is a member of the Board of Directors and a member of the Board's Business Strategy & Development Committee and Risk Management and Portfolio Review committee.



Ahmed Alman Aslam

Director

Mr. Aslam has over 37 years of professional experience in investment banking, corporate finance and advisory services. He is currently a managing partner of Ahmad Alman Aslam and Associates, an enterprise engaged in investment banking. Mr. Aslam started his career with Citibank in 1975 and continued with Citibank for 28 years, serving in various capacities. He was the Managing Director, based in New York, responsible for all debt issued by borrowers in the emerging markets. Mr. Aslam has also served as an advisor to EMP Washington, a US\$ 6 billion private equity fund. In Pakistan he has served on the boards of the State Bank of Pakistan, OGDC, Adamjee Insurance, The Bank of Punjab, Punjab Small Industries Corporation and the Private Power and Infrastructure Board. He currently serves on the boards of IGI Asset Management, and The Punjab Coal Mining Company. Mr. Aslam has Masters in Business Administration from Punjab University and has attended the program for Management Development at Harvard University, Cambridge.



Imran Maqbool

President / CEO

Mr. Imran Maqbool holds an MBA degree from IBA Karachi and MS in Management from Sloan School of Management, MIT (USA). He started his career from Bank of America, where he worked at various positions in Relationship Management, Corporate and Investment Banking, over a period of 15 years. Later, he joined Citibank, Lahore as Regional Manager for a period of 2 years. He has been a part of MCB Bank for over ten years. During this period, he worked as Corporate Head before moving to Colombo as the Country Head of MCB's Sri Lanka Operations. In Pakistan, he headed the Islamic Banking and Special Assets Management Group. He was Group Head Commercial Banking, MCB Bank Ltd. before becoming President and CEO of the Bank. Prior to joining the banking industry, Mr. Imran Maqbool served a brief stint with Exxon Chemical Limited, Multan.

Board Committees

Audit Committee

Meetings held: 5

Members

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

Terms of Reference:

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

Business Strategy and Development Committee

Meetings held: 4

Members

1. Mian Mohammad Mansha - Chairman
2. S. M. Muneer
3. Mian Raza Mansha
4. Mian Umer Mansha
5. Datuk Abdul Farid Bin Alias
6. Ahmad Alman Aslam
7. President & CEO

Terms of Reference:

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

Human Resource and Remuneration Committee

Meetings held: 6

Members

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

Terms of Reference:

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

Risk Management and Portfolio Review Committee

Meetings held: 4

Members

1. Mian Umer Mansha - Chairman
2. Sarmad Amin
3. Manzar Mushtaq
4. Datuk Abdul Farid Bin Alias
5. President & CEO

Terms of Reference:

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

Committee on Physical Planning and Contingency Arrangements

Meetings held: 5

Members

6. Sarmad Amin – Chairman
7. S. M. Muneer
8. Mian Umer Mansha
9. President & CEO

Terms of Reference:

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

IT Committee

Meetings held: 4

Members

1. Mian Raza Mansha - Chairman
2. Tariq Rafi
3. Aftab Ahmad Khan
4. President & CEO

Terms of Reference:

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

SBP Report Compliance Monitoring Committee

Meetings held: 2

Members

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

Terms of Reference:

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

Write Off and Waiver Committee

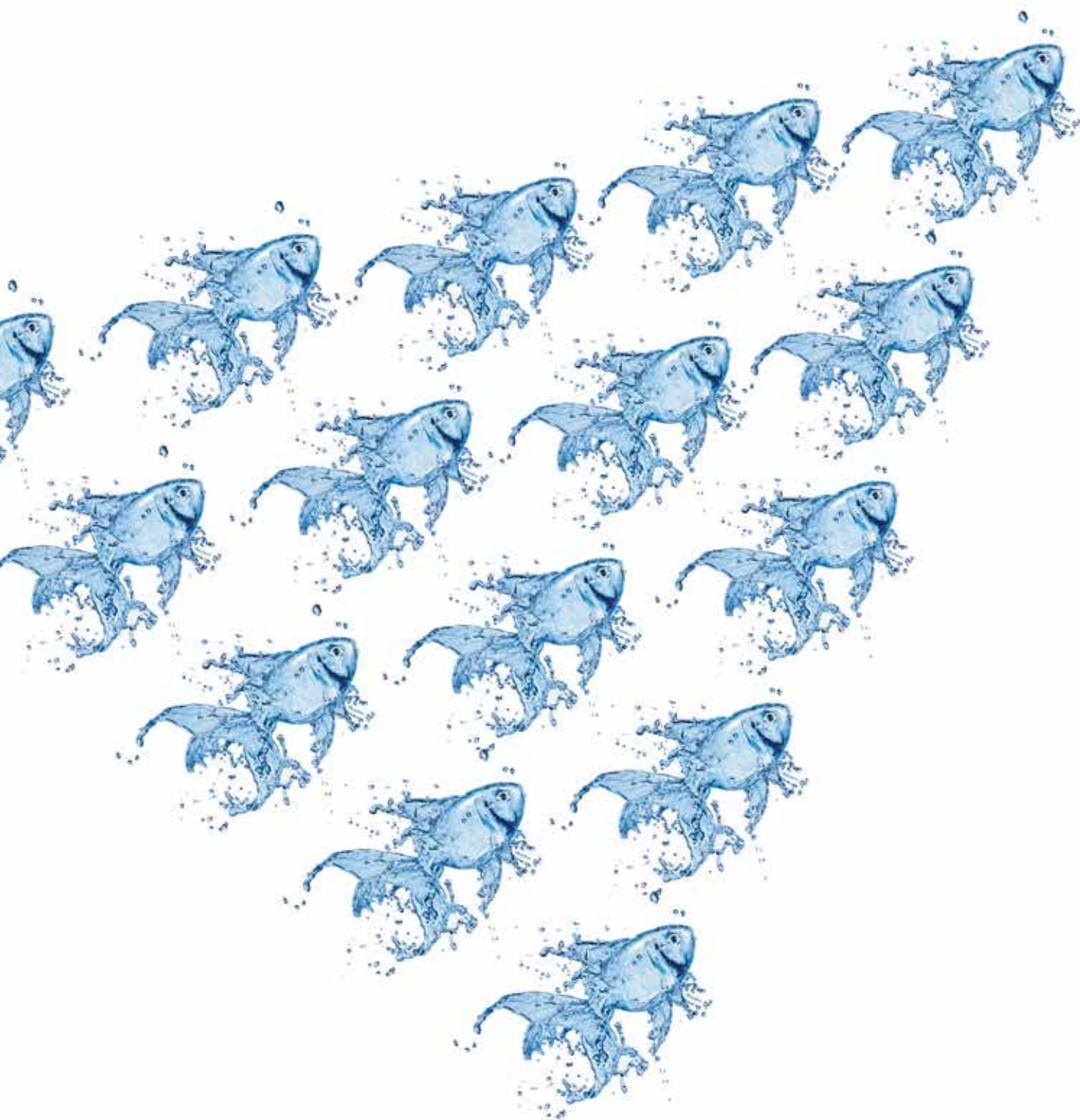
Members

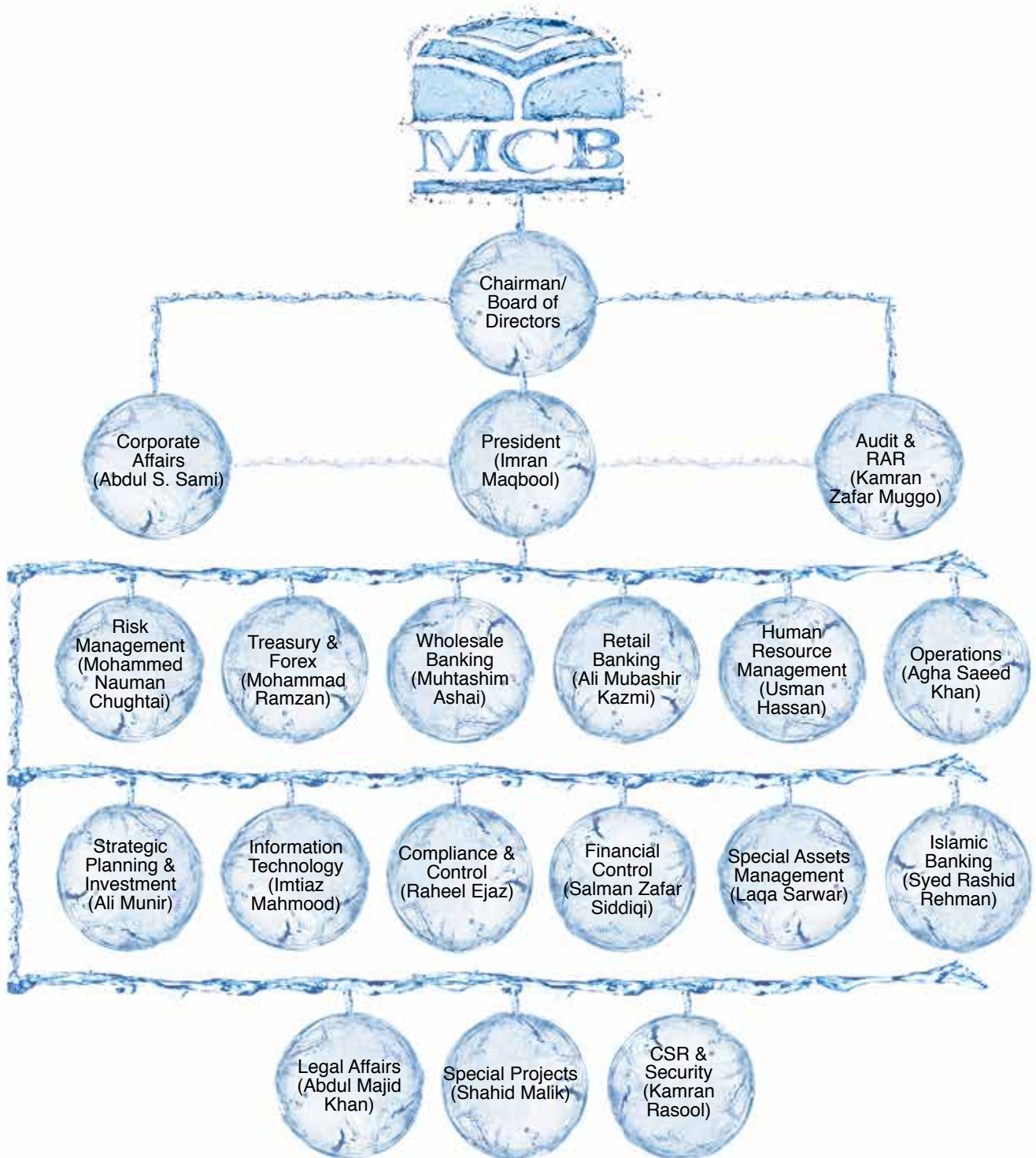
1. Mian Mohammad Mansha - Chairman
2. Tariq Rafi
3. Aftab Ahmad Khan

Terms of Reference:

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

Organizational Structure







Agha Saeed Khan



Imran Maqbool



Salman Zafar Siddiqi



Shahid Malik



Mohammad Ramzan



Syed Rashid Rehman



Usman Hassan



Mohammed Nauman Chughtai



Ali Mubashir Kazmi



Ali Munir



Muhtashim Ashai



Kamran Rasool



Laqa Sarwar



Raheel Ijaz



Imtiaz Mahmood



Abdul Majid Khan

Management Committee

Management Committee

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

Assets & Liabilities Committee

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

Investment Committee

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

IT Steering Committee

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

Write Off Committee

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

Purchase and Expense Committee

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

Disciplinary Action Committee

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

Other Senior Management



Abdus S Sami
Company Secretary



Malik Abdul Waheed
Advisor to Chairman

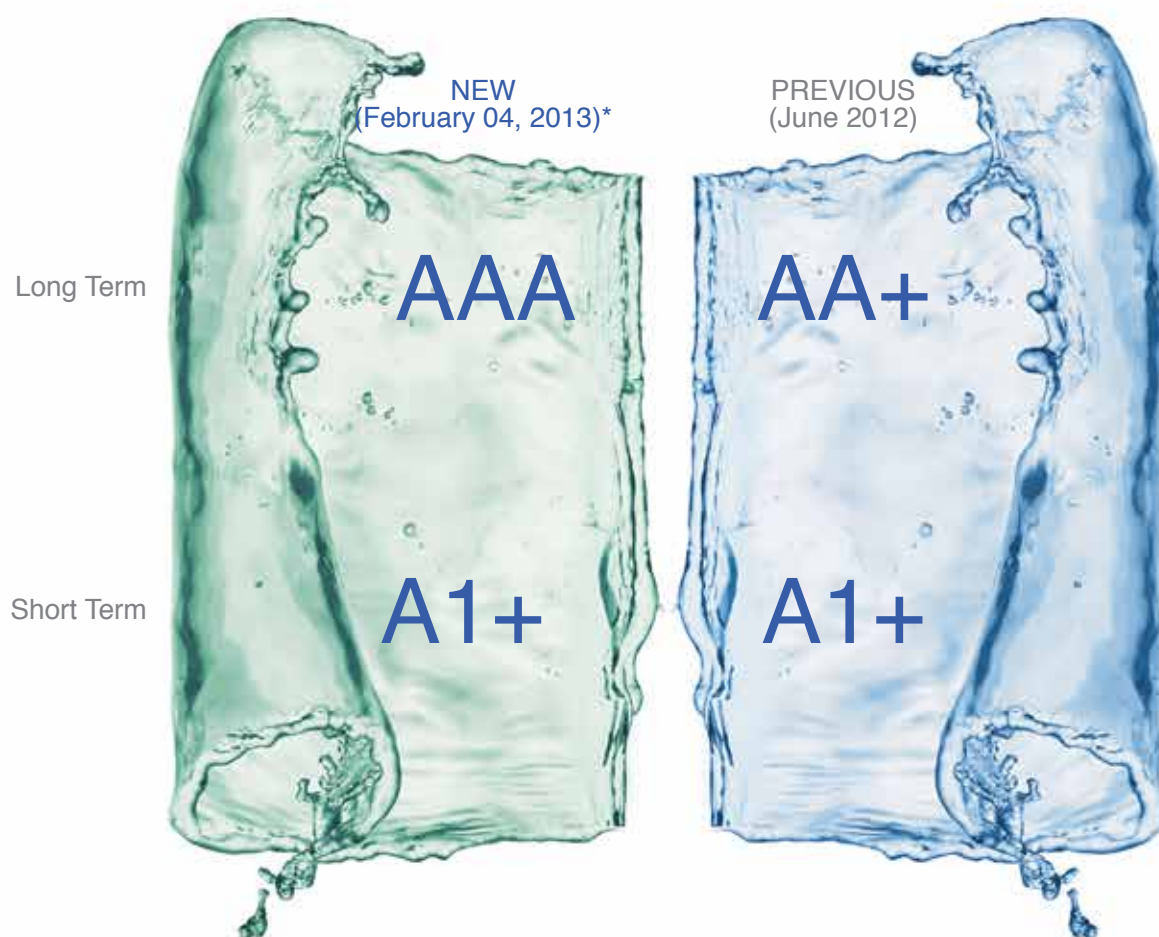


Kamran Zafar Muggo
Group Head Audit & RAR



Azfar Alam Nomani
Country Head Sri Lanka

Entity Credit Rating



* PACRA in its notification dated February 04, 2013 has upgraded the Bank's long term entity rating to AAA from AA+.

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: 15.46%

Adamjee Insurance Company Limited

Holding: 29.13%

Euronet Pakistan (Private) Limited

Holding: 30%

Chairman's Message



We at MCB Bank Limited are proud to announce another successful year based on our performance in 2012. Customer satisfaction remained our top priority, along with ensuring growth and profits for our valuable stakeholders. Our Management, Board and Regulators have played an integral part in ensuring our success in the past year, and for that we remain humbly grateful.

The year 2012 was not without its challenges. There were infrastructure problems on account of energy shortages, law & order situation, low economic growth and generally pessimistic business sentiment. There were frequent bouts of speculation against rupee with memories of 2008 still fresh in the nation's psyche. During the year central bank focused on economic growth and private sector credit revival. The policy rates were slashed by 250 basis points and at the same time the minimum rate on the deposit was raised by 1 percent creating a challenge for the banking industry.

Despite the many challenges faced, MCB Bank Limited continued to flourish in terms of our infrastructure, IT, corporate social responsibility, and reaped benefits for our shareholders. We launched new products and upgraded current services in line with our tradition. MCB has always stood for excellence – and we plan to keep it that way.

As always, we look forward to your continuous support in the coming years. Together we can reap the benefits of rewarding partnerships and bank on a positively brighter future.



Mian Mohammad Mansha

Chairman

MCB Bank Limited

February 07, 2013

President's Review

MCB Bank Limited is not just a financial institution; it is a fraternity for all its stakeholders. What defines us is our strict adherence to our values. We have a responsibility towards our customers and employees, and the society at large. That's where our strong tradition stands out.

We, at MCB Bank have continued to maintain sustainable business practices leading to increased productivity and growth. Despite the challenging times the banking industry has faced this year, due to the security situation, economic slowdown, and the declining interest rates, MCB has overcome many business upheavals and the year 2012 has closed on new heights of financial achievements.

When we say we are the Bank for life, we mean it. Our ideology runs deep, just like our relationship with our stakeholders.

Overall Strategy

We are the idea generators for better business and management solutions to the wide customer range in the country and abroad. We do not just wait for opportunities to appear; we act on creating new ones. Customer centric strategy helps us in improving ourselves year to year. Retaining our customers enables us to materialize our targets into returns that bring mutual benefits to all stakeholders and us. We are emphasizing on the right marketing strategies and mix of products & services to compete. While continuing to meet and exceed market expectations, MCB Bank Limited is committed on meticulous compliance with regulations and building stronger layers of ethics and sustainability.

Business Strategy

MCB Bank structures its products / services in line with the financial requirements of its customers and our product development teams are constantly tapping the unbanked segment of our population for their induction in the banking arena. Diversification in banking services is crucial for proper identification and generation of relevant need-based solutions. This strategy has helped us serve our clientele without break for decades. Technology now goes hand in hand in serving the massive 4.9 million customers of our Bank.

Financial Strategy

In times where recovery is slow and dynamics of the economy continue to play volatile role, MCB Bank Limited has positioned itself to gain from every possible opportunity, translating them in revenue streams. The strength depicted by the asset base is reflection of the prudent and risk management strategies that would enable the Bank to achieve sustainable financial growth.



MCB Bank Limited has managed to remain a market leader by investing its capital and assets to ensure that investors always meet their expected returns. It is due to our diligence that the Bank has grown into a brand truly recognized and trusted globally.

We invest conscious effort into maintaining our standards; over the year we improved not only our countrywide network, but also established ourselves in the international market. We generated maximum shareholder returns while building strong goodwill, promoting investor relations and transparency in the Bank.

MCB Bank Limited always strives to stay ahead with the times and we support continuous change management to reflect modern business methods. We efficiently and effectively employ our technological and human capital to improve services, as well as, achieve financial goals.

We hope to continue to encourage a strong sense of ethics in all our team members and provide healthy incentives based on performances. Our mutually beneficial relationship with our team members has resulted in enhanced knowledge and awareness of corporate social responsibility.

Our results for the year show both the progress that we have made and the challenges that remain.

The Bank's financial footing improved with 8% increase in profits, 11% in deposits base and 12% in shareholders' equity base while the total asset base has improved by 17% over 2011. In pursuit of maintaining the highest asset quality; the Bank reduced its infected portfolio by 4%. MCB Bank also remained the top lead in the industry with the highest free float and market capitalization. Amongst some highlights of the year were, launch of country's first mobile enabled Debit Card, robust increase in the card business volumes, synergic merger of commercial and consumer banking group as Retail Banking Group and improvement in the Bank's Information Technology footprint.

The Bank's growing efforts were translated into increased number of accolades and awards. The recent among the list is the upgrade of Bank's Long Term Credit Rating to AAA from AA+ previously and Short Term Rating at A1+

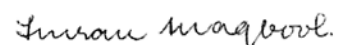
remained the same, based on the notification issued by PACRA on February 4, 2013.

Being the recipient of the "Best Commercial Bank" by the World Finance Banking Awards, UK, proves that MCB Bank Limited has managed to maintain its quality of excellence. This can solely be attributed to our stakeholders, whose faith in us keeps us in business, and our employees, whose hard work and effort gives us confidence to attain new heights. Our array of services and products remain amongst the best available; E-banking solutions, an expansive branch network, Bancassurance, Mobile Banking, the ATM network are just some of our facilities that have contributed towards making MCB the Best.

I extend my heartiest congratulations to the Chairman, Board of Directors, foreign partners, and our team for sustaining yet another profitable year. It is their commitment towards the Bank that makes us who we are today.

I stand proud to be given the opportunity, to not only represent one of the leading banks, but also to be a member of this team of committed and hardworking individuals. With our energy, team work, commitment and unity of purpose, I have no doubt that we will once again be able to meet the expectations of our shareholders, customers, employees and regulators. I would also like to take this opportunity to express my gratitude to Mr. M.U.A Usmani (former CEO/President MCB Bank Limited) for his noteworthy service to the Bank and for his esteemed hard work that has been highly valuable to the management and to the iconic image of MCB.

I am very hopeful that 2013 will be another banner year of our collective success in reaching higher milestones of financial and operational excellence.

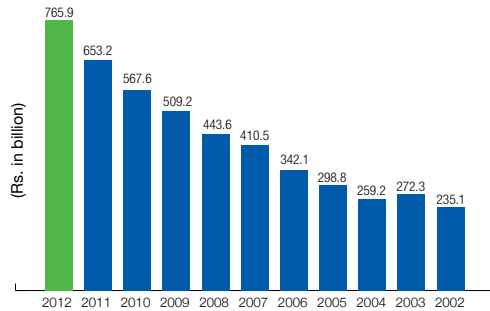


Imran Maqbool
President and CEO
MCB Bank Limited

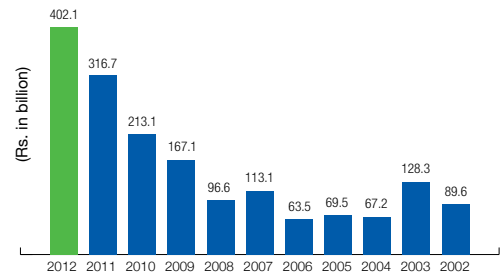
February 07, 2013

Annual Trend 2002 - 2012

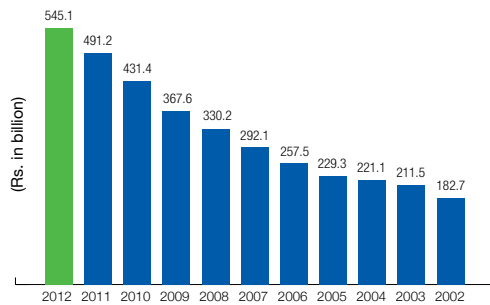
Total Assets
CAGR 13%



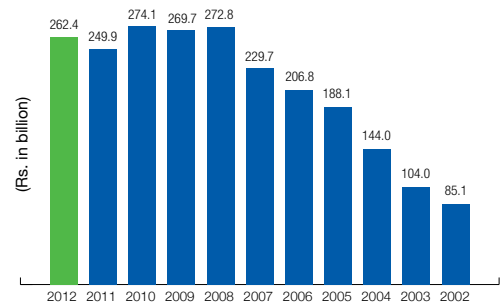
Investments
CAGR 16%



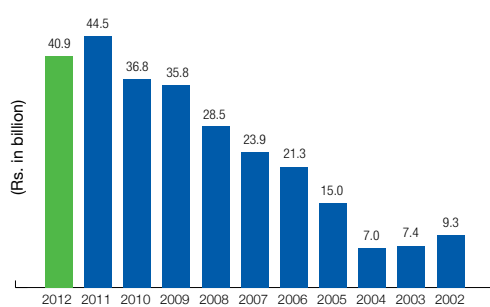
Deposits
CAGR 12%



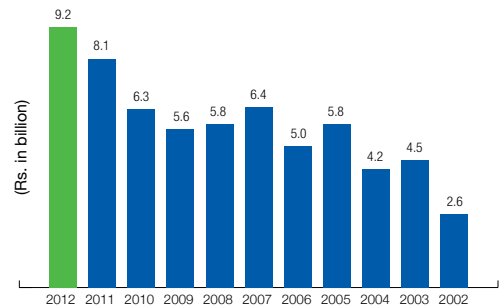
Gross Advances
CAGR 12%



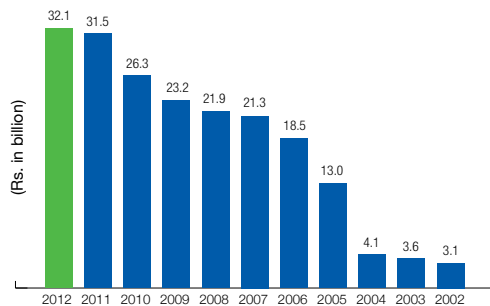
Fund Based Income
CAGR 16%



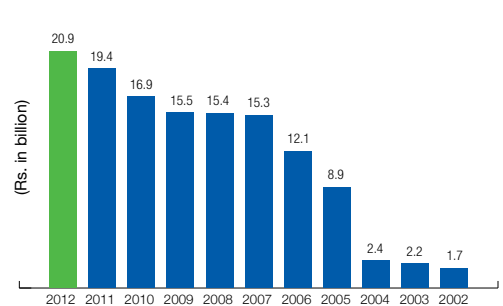
Non Markup Income
CAGR 13%



Profit Before Tax
CAGR 26%



Profit After Tax
CAGR 28%



Highlights 2012

PAT	Rs. 21 Billion
Non-Markup Income	+ 13%
Non-Markup Expenses	- 0.14%
Provisions	- 87%
Gross Advances	+ 5%
Investments	Rs. 402 Billion
NPLs	- 4%
NPLs Coverage	87%
Deposits	Rs. 545 Billion
CASA	85%
ROE	25.07%
ROA	2.95%
Bookvalue (per share)	Rs. 95.84
Market Capitalisation	Rs. 193 Billion
Market Capitalisation - Industry Share	23.6%
Free Float	36.63%
Islamic Banking Net Assets	+ 13%
New Virtual Banking Customers	+ 6,793
New Mobile Customers	+ 143,699
Smart/ Debit Cards Issued	+ 469,814
Bancassurance Premium	Rs. 1.88 Billion
Market Share in Home Remittances	10.52%
Cash Dividends	130%
CAR	22.13%

Review of Six Years' Performance

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

Total Assets

- The Bank has grown its asset base exuberantly over the last six years with asset footing increasing from Rs. 410B reported at December 31, 2007 to Rs. 766B at the end of current financial year, translating into an annual average increase of 11% for the last six years;
- Prime contributors to the said increase have been advances and investments over years, which is dominated by investments in the recent years. MCB Bank has been prudently able to manage the risks and returns of its earning asset base to deliver maximum return to its stakeholders.

Advances

- The macro-economic instability coupled with energy crisis has adversely affected the private sector credit demand of the local banking industry and a similar pattern can be observed for MCB Bank Limited. Advances, being main stream business line of the Bank remained our prime focus and the Bank has been able to maintain its gross advances base accordingly. However, the ADR had been deteriorating as a result of shift in asset mix to investments in recent years, from 79% reported in 2007 to 48% reported for 2012.
- On the NPLs side, the strengthened risk management framework has enabled the Bank to highlight risks associated and subjectively downgrade / classify such facility to ensure reflection of quality assets on the books of the Bank. The Bank has been conservative on the provisioning side which is substantiated by the fact that the Bank carries an unencumbered provision charge of Rs. 257M as general provision and has not taken the benefit of "FSV", in its specific provision classification. The coverage ratio of the Bank has improved from 68.3% in 2007 to 87.6% in 2012. Moreover, the NPLs classified in "loss"

category constitute more than 90% of the NPLs base as at December 31, 2012, which specifies the adequacy of provision held in the books of the Bank.

- Sector wise advances' increase has been seen mainly in transport and communication, sugar, power and chemicals while lending to retail and wholesale trade and to financial institutions has seen a major decline over the past six years.

Deposits

- The deposit base of the Bank has steadily grown over the last six years, with absolute numbers increasing from Rs. 292B in 2007 to Rs. 545B in 2012. MCB Bank's edge has been the highest CASA base, supporting its lower cost of deposits;
- MCB Bank has been able to mark its share in the domestic industry deposit increase with an average share of approximately 8%.
- The significant CASA base of the Bank has provided the Bank with an opportunity to provide better returns to its shareholders. However, with the specification of minimum rates to be offered on saving and fixed deposits by the Central Bank, there has been an increase in the cost of deposits of the Bank. As depicted by the deposit categorization, the Bank has been able to retain the deposits over years by providing quality services to its customers and constantly adding new products to its menu.

Equity and Dividends

- The paid-up capital of the Bank has grown from Rs. 6.2B in 2007 to Rs. 9.2B in 2012, meeting the capital requirements set by the Central Bank.
- In 2008, most affluence strategic partnership occurred in Pakistan where the largest Bank of Malaysia, Maybank Berhad, acquired 20% holding in MCB Bank Limited. This brought synergies in technology, human resource and decision making.

- The equity base of the Bank is reflective of the outstanding financial results achieved during the last many years. The capital base of the Bank is strong which is substantiated by the reported CAR of 22.13% as at December 31, 2012 against the statutory specified percentage of 10. The Shareholders' equity stands at Rs. 88B as at December 31, 2012 growing from Rs. 45B in 2007, almost doubling over the period of last six years.
- The Bank has been amongst the leading distributor of cash dividends with regular interim dividends and remains one of the prime stocks preferred by foreign institutions / stakeholders.

Net Interest Margin

- The composition of markup income has seen a shift in the last six years on the back of volumetric shift in the earning asset base of the Bank. The gross markup income earned on advances has reduced from 71% in 2007 to 42% in 2012 while markup income from investments has increased to 57% (2007: 27%).
- The volatility in the net interest margin of the Bank is on account of the movement in the monetary policy rate and the specification of the minimum rates to be offered on saving and fixed deposits. However, the Bank has been able to capitalize on the lower cost of deposits due to significant CASA base, translating into maximum results.

Non-Markup Income

- As an alignment indicator to the Bank's focus on the non-markup based income, the contribution of non-markup income to the total revenue line has increased significantly over the last six years. The product development teams of the Bank have been tapping the unbanked segment of the population and offering them tailored products to meet their specific financial requirements.
- The fee, commission and brokerage block of the Bank has been constantly increasing over years with major contributions coming from commission earned on bancassurance business, remittances and intercity / intra-city cash transfers.

- The equity investment base of the Bank has been providing outstanding dividend yields with dividend income registering the second highest contribution to non-markup income.

Operating Expenses

- Owing to the strengthened risk management framework, the provision charge of the Bank has been on a declining trend over years. The provision and write-off charge was reported at Rs. 7.4B for the year 2009 which has been reduced to Rs. 291M for the year 2012, despite the healthy growth in the asset base. It is pertinent to add that the Bank has been conservative on the provision side and has not taken the benefit of FSV in specific provision calculation for the year 2012.
- The growth in administrative block of the bank has been nominal considering the inflationary patterns followed over the period of six years and falls within the budgetary limits set. The management has been able to introduce cost effective techniques / methods to exercise control over the administrative expenses.
- The above has helped the Bank to register one of the lowest cost to income ratios in the industry despite the inflationary pressures on core operating expenses

Profit (before tax) and Profit (after tax)

- MCB Bank has been able to post outstanding profitability numbers over the period of last six years as corroborated by the highest EPS and remarkable ROA. The annual pre-tax profitability numbers have grown from Rs. 21.3B in 2007 to Rs. 32.05B in 2012.
- The profitability ratios have been one of the best in the banking industry which are reflective of the effective management of the affairs and adoption of prudent strategies.

Non-Financial

- The Bank has generated 1 million additional customers in the past six years and has expanded its infrastructural network by 161 new branches.
- With active participation in trade, MCB Bank has been able to improve its share in total market trade from 6.7% in 2007 to 7.61% in 2012
- Magnificent increase in the share of market remittances has been seen as the Bank continues to commit its focus in this area. From a portfolio of only Rs. 19 billion in 2007, the Bank now has 10.5% share (2007: 5.2%) to the total market home remittances
- In 2008, the Bank launched Bancassurance which was a unique cross functional service to the customers of the Bank. With only 131 policies and 129 customers in 2008, MCB Bank now manages approximately 11,000 policies and customers.
- MCB Bank launched mobile banking in 2009 with approximately 53 thousand customers reported by the end of the year. As of 2012, the number of mobile customers has multiplied to approximately 293 thousand customers with 15 times more transaction volume.
- 2009 was also the year when MCB Bank launched privilege banking to the elite niche in Pakistan. As of 2012, the Bank holds 2,372 accounts with 1,872 customers.

Six Years' Financial Summary 2007 - 2012

		2012	2011	2010	2009	2008	2007
Profit & Loss account							
Mark-up/ return earned	Rs. Mln	68,356	68,147	54,821	51,616	40,044	31,787
Mark-up/ return expensed	" "	27,500	23,620	17,988	15,837	11,561	7,866
Fund based income	" "	40,856	44,526	36,834	35,779	28,483	23,921
Fee, Commission, FX and Other Income	" "	7,131	6,373	5,310	4,409	4,537	3,891
Dividend Income & Capital gains	" "	2,022	1,739	956	1,234	1,255	2,120
Total income	" "	50,009	52,639	43,099	41,422	34,275	30,369
Operating expenses	" "	17,665	16,987	13,160	10,801	8,365	6,000
Operating profit before tax and provision	" "	32,345	35,651	29,938	30,620	25,910	24,369
Provisions / write-offs	" "	291	4,168	3,685	7,465	4,042	3,061
Profit before tax	" "	32,054	31,483	26,253	23,155	21,868	21,308
Profit after tax	" "	20,941	19,425	16,873	15,495	15,375	15,266
Cash Dividends	" "	11,959*	10,036	8,743	7,602	7,225	7,854
Bonus shares	" "	920*	836	760	691	628	-
Statement of Financial Position							
Authorised capital	" "	10,000	10,000	10,000	10,000	10,000	10,000
Paid up capital **	" "	9,199	8,362	7,602	6,911	6,283	6,283
Reserves	" "	44,253	42,186	40,163	38,386	36,769	34,001
Unappropriated Profit	" "	34,705	28,366	21,416	15,779	9,193	5,131
Shareholder's equity	" "	88,157	78,915	69,180	61,076	52,245	45,414
Surplus on revaluation of assets - net of tax	" "	13,594	9,887	10,024	8,664	6,191	9,706
Net Assets	" "	101,751	88,802	79,203	69,740	58,436	55,120
Total Assets	" "	765,899	653,233	567,553	509,224	443,616	410,486
Earning Assets	" "	663,330	570,988	494,605	444,188	380,187	343,173
Gross Advances	" "	262,392	249,914	274,144	269,722	272,847	229,733
Advances - net of provisions	" "	239,583	227,580	254,552	253,249	262,135	218,961
Non-Performing Loans (NPLs)	" "	25,562	26,665	24,544	23,239	18,269	10,725
Investments	" "	402,069	316,652	213,061	167,134	96,632	113,089
Total Liabilities	" "	664,148	564,431	488,349	439,484	385,180	355,366
Deposits & other accounts	" "	545,061	491,189	431,372	367,605	330,182	292,098
Current & Saving Deposits (CASA)	" "	464,411	399,687	351,298	304,953	268,501	259,896
Borrowings	" "	78,951	39,101	25,685	44,662	22,664	39,407
Interest bearing Liabilities	" "	434,619	362,843	305,902	283,369	240,470	232,398
Contingencies and Commitments	" "	143,803	165,014	136,246	119,922	266,251	213,317
Profitability Ratios							
Profit before tax ratio	%	46.89%	46.20%	47.89%	44.86%	54.61%	67.03%
Gross Yield on Average Earning Assets	" "	11.08%	12.79%	11.68%	12.52%	11.07%	10.00%
Gross Yield on Avg. Earning Assets (incl. dividend & capital gains)	" "	11.40%	13.12%	11.88%	12.82%	11.42%	10.67%
Gross Spread	" "	59.77%	65.34%	67.19%	69.32%	71.13%	75.26%
Non interest income to total income	" "	18.30%	15.41%	14.54%	13.62%	16.90%	21.23%
Return on average equity (ROE)	" "	25.07%	26.23%	25.91%	27.35%	31.49%	37.66%
Return on average assets (ROA)	" "	2.95%	3.18%	3.13%	3.25%	3.60%	4.06%
Return on Capital Employed (ROCE)	" "	25.07%	26.23%	25.91%	27.35%	31.49%	37.22%
Cost to income ratio	" "	35.32%	32.27%	30.54%	26.08%	24.41%	19.76%
Cost to income ratio (excluding pf reversal)	" "	40.36%	36.43%	38.01%	35.55%	40.16%	38.75%
Investment ratios							
Earnings per share (after tax)***	Rs.	22.77	21.12	18.34	16.85	16.71	16.60
Earnings per share (before tax)***	" "	34.85	34.23	28.54	25.17	23.77	23.16
Breakup value per share (excl. surplus on rev. of assets)***	" "	95.84	85.79	75.21	66.40	56.80	49.37
Net assets per share***	" "	110.62	96.54	86.10	75.82	63.53	59.92
Asset Quality and Liquidity ratios							
Gross Advances to deposits ratio	%	48.14%	50.88%	63.55%	73.37%	82.64%	78.65%
Net Advances to deposits ratio	" "	43.96%	46.33%	59.01%	68.89%	79.39%	74.96%
Investments to deposits ratio	" "	73.77%	64.47%	49.39%	45.47%	29.27%	38.72%

		2012	2011	2010	2009	2008	2007
Weighted Average Cost of Deposits	%	4.40%	4.25%	3.97%	3.08%	2.89%	2.04%
CASA to total deposits	" "	85.20%	81.37%	81.44%	82.96%	81.32%	88.98%
NPLs to Gross advances ratio	" "	9.74%	10.67%	8.95%	8.62%	6.70%	4.67%
Coverage Ratio (specific provision/ NPLs)	" "	87.55%	82.02%	77.13%	67.47%	54.17%	68.31%
Earning assets to total assets ratio	" "	86.61%	87.14%	87.15%	87.23%	85.70%	83.60%
Earning assets to interest bearing Liabilities	Times	1.53	1.57	1.62	1.57	1.58	1.48
Deposits to shareholder equity	" "	6.18	6.22	6.24	6.02	6.32	6.43
Assets to Equity	" "	8.69	8.28	8.20	8.34	8.49	9.04
Risk Adequacy							
Tier I Capital	Rs. Mln	86,341	77,030	67,701	59,896	51,301	44,199
Total Eligible Capital	" "	93,526	82,014	72,856	64,357	54,235	53,470
Risk Weighted Assets (RWA)	" "	422,583	376,442	330,135	337,417	329,537	308,170
Tier I to RWA	%	20.43%	20.46%	20.51%	17.75%	15.57%	14.34%
RWA to total assets	" "	55.17%	57.63%	58.17%	66.26%	74.28%	75.07%
Capital Adequacy Ratio	" "	22.13%	21.79%	22.07%	19.07%	16.28%	16.73%
Net Return on Average RWA	" "	5.24%	5.50%	5.06%	4.65%	4.82%	5.80%
Market Ratios							
Cash Dividend	%	130%	120%	115%	110%	115%	125%
Bonus Shares Issued	" "	10.00%	10.00%	10.00%	10.00%	10.00%	-
Dividend Yield ratio (based on cash dividend)	" "	6.20%	8.92%	5.03%	5.01%	9.14%	3.13%
Dividend Payout ratio	" "	61.50%	55.97%	56.32%	53.52%	51.08%	51.45%
Price to book value ratio (excl. intangible assets)	Times	2.19	1.43	2.78	3.02	2.02	2.40
Price to earning ratio	" "	9.21	6.37	12.46	13.04	7.53	24.10
Dividend cover ratio	" "	1.75	1.76	1.59	1.53	1.45	1.33
Share Information							
Market value per share - Dec 31	Rs.	209.76	134.60	228.54	219.68	125.81	399.95
High - during the year	" "	216.75	250.48	233.80	244.00	494.80	434.60
Low - during the year	" "	133.00	134.00	173.04	75.00	125.81	244.05
Market Capitalisation	Rs. Mln	192,950	112,557	173,740	151,822	79,044	251,279
Industry Share							
Deposits	%	8.16%	8.36%	8.42%	8.50%	8.55%	9.74%
Advances	" "	6.80%	7.16%	7.85%	8.24%	8.63%	9.53%
Total Assets	" "	8.40%	8.76%	8.37%	8.52%	8.51%	10.12%
Market Capitalisation	" "	23.58%	20.40%	24.10%	22.35%	18.59%	17.50%
Consolidated							
Total Assets	Rs. Mln	770,283	656,325	570,482	511,742	445,286	412,901
Shareholders' Equity	" "	91,132	81,527	71,228	63,120	54,121	47,338
Net Assets	" "	105,755	91,654	81,999	72,313	60,132	57,547
Profit before tax	" "	32,476	31,322	26,510	23,349	21,887	22,526
Profit after tax	" "	21,153	19,274	16,873	15,665	15,323	16,442
Return on Average Assets	%	2.97%	3.14%	3.12%	3.27%	3.57%	4.35%
Return on Average Equity	" "	24.50%	25.24%	25.12%	26.72%	30.21%	39.27%
Earnings per share***	Rs.	23.00	20.95	18.34	17.03	16.66	17.87
Breakup value per share (excl. surplus on rev. of assets)***	" "	99.07	88.63	77.43	68.62	58.84	51.46
Capital Adequacy Ratio	%	22.16%	21.88%	22.04%	19.10%	16.37%	16.69%
Per Branch							
Gross Advances	Rs. Mln	221.06	213.06	242.18	249.51	257.40	223.91
Deposits	" "	459.19	418.75	381.07	340.06	311.49	284.70
CASA	" "	391.25	340.74	310.33	282.10	253.30	253.31
PBT	" "	27.00	26.84	23.19	21.42	20.63	20.77

* This includes final cash dividend and bonus proposed by BOD.

** Shares held by sponsors / directors / executives and associated companies are disclosed on Page # 285

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

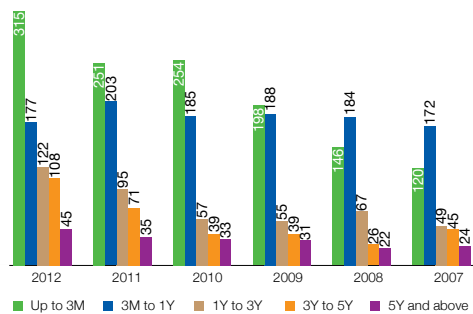
Six Years' Non Financial Summary 2007 - 2012

		2012	2011	2010	2009	2008	2007
No. of accounts	Absolute	4,931,631	4,687,993	4,239,487	3,893,531	3,915,009	3,902,140
No. of branches	"	1,187	1,173	1,132	1,081	1,060	1,026
No. of permanent employees	"	10,612	10,090	9,583	9,397	10,160	9,721
ATMs							
No. of ATMs	"	680	676	493	495	370	349
Total active smart/ debit card issued	"	1,367,858	1,242,271	1,144,403	1,490,887	1,283,430	1,107,231
No. of smart cards/Debit cards issued during the year	"	469,814	319,390	338,534	259,473	255,468	223,430
*Debit cards launched in 2011	"						
Credit Cards							
No. of new issuance	"	3,261	2,846	2,845	7,152	24,738	75,138
No. of customers	"	68,075	68,515	69,503	69,737	70,835	61,502
Total spend (transaction volume)	Rs. Mln	4,005	4,140	4,386	4,836	5,540	3,927
Virtual Banking							
No. of customers	Absolute	82,462	75,669	66,795	57,024	47,312	39,230
No. of transactions	"	998,789	741,818	663,411	458,985	612,359	358,360
Volume of transactions	Rs. Mln	14,627	9,333	5,379	7,296	10,818	4,483
Mobile Banking							
No. of customers	Absolute	292,756	149,057	105,372	53,182	-	-
No. of transactions - financial	"	704,008	501,876	437,870	102,021	-	-
No. of transactions - non-financial	"	2,673,556	2,139,421	1,857,001	1,278,687	-	-
Volume of transactions	Rs. Mln	8,516	5,647	3,104	525	-	-
Bancassurance							
No. of customers	Absolute	10,769	7,835	5,644	2,507	129	-
No. of policies	"	11,001	8,060	5,812	2,614	131	-
Bancassurance Premium	Rs. Mln	1,888	1,160	683	247	9	-
Privilege Banking							
No. of accounts	Absolute	2,372	1,988	1,430	733	-	-
No. of customers	"	1,872	1,494	1,048	579	-	-
Trade							
Imports - volume	Rs. Mln	326,120	341,348	280,392	186,418	204,748	130,415
Exports - volume	"	161,776	149,603	121,870	88,321	85,623	64,976
Market share of total market trade	%	7.61%	8.20%	8.03%	6.87%	7.28%	6.86%
Volume of home remittance - MCB	USD Mln	1,470	1,242	898	560	365	313
Volume of home remittance - MCB	Rs. Mln	137,376	106,791	76,485	45,772	25,795	19,005
Home Remittance MCB Market Share	%	10.52%	9.97%	9.29%	6.44%	5.20%	5.22%

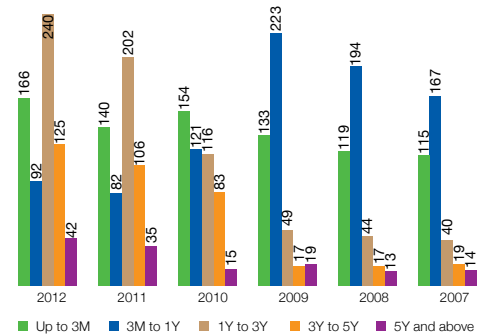
Six Years' Summary of Concentration and Maturities

Maturities of Total Assets and Total Liabilities

Total Assets (2007-2012)
(Rs. in Billion)

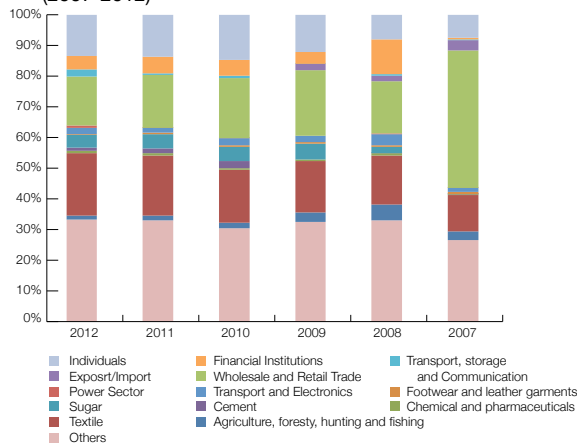


Total Liabilities (2007-2012)
(Rs. in Billion)

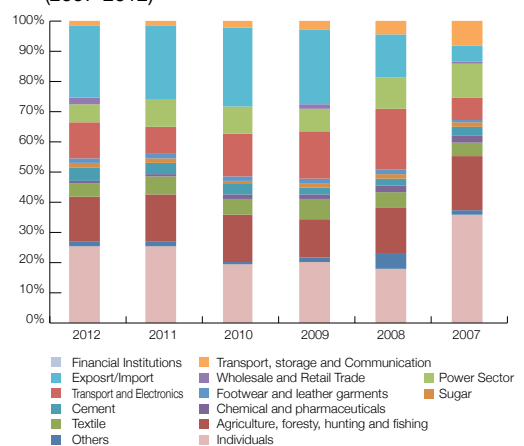


Concentration of Advances, NPLs, Deposits and Off-Balance Sheet Items

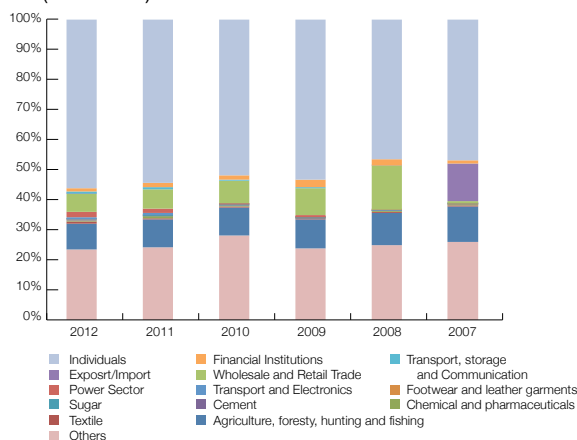
Classified Advances (2007-2012)



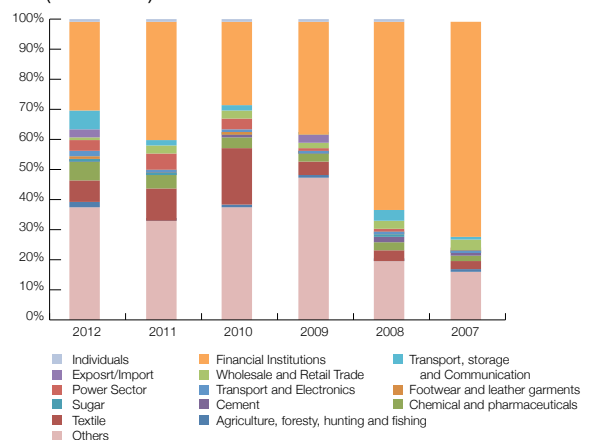
Gross Advances (2007-2012)



Deposits (2007-2012)



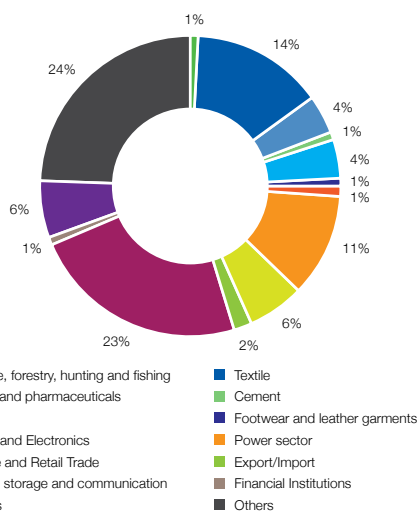
Off-Balance Sheet Items (2007-2012)



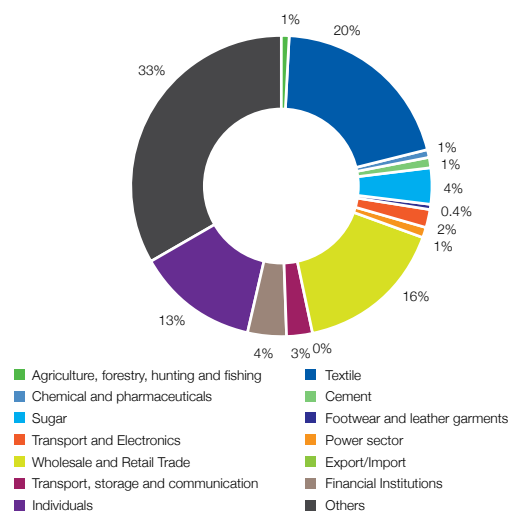
Concentration of Advances, NPLs, Deposits & Off-Balance Sheet Items

Segments by class of business	Advances (Gross)			Classified Advances			Deposits			Off-balance sheet items		
	Rs. in Mln	Mix	YoY	Rs. in Mln	Mix	YoY	Rs. in Mln	Mix	YoY	Rs. in Mln	Mix	YoY
Agriculture, forestry, hunting and fishing	2,985	1%	8%	312	1%	-25%	47,485	9%	6%	3,320	2%	278%
Textile	37,797	14%	2%	5,210	20%	-0.3%	2,839	1%	4%	9,676	7%	-42%
Chemical and pharmaceuticals	10,887	4%	-19%	196	1%	-4%	2,853	1%	7%	8,701	6%	20%
Cement	1,340	1%	-44%	296	1%	-18%	545	0.1%	30%	812	1%	-2%
Sugar	11,374	4%	28%	1,035	4%	-18%	1,246	0.2%	-12%	1,127	1%	78%
Footwear and leather garments	3,351	1%	-15%	104	0.4%	-18%	185	0.03%	5%	1,212	1%	48%
Transport and Electronics	2,932	1%	-15%	506	2%	24%	3,098	1%	4%	2,017	1%	15%
Power sector	29,779	11%	43%	180	1%	100%	10,474	2%	41%	5,596	4%	-36%
Wholesale and Retail Trade	16,156	6%	-20%	4,076	16%	-12%	31,694	6%	-2%	1,669	1%	-62%
Export/Import	4,375	2%	100%	-	-	-	1,155	0.2%	100%	3,464	2%	100%
Transport, storage and communication	60,303	23%	6%	645	3%	413%	2,964	1%	-20%	8,606	6%	167%
Financial Institutions	2,625	1%	-24%	1,108	4%	-23%	7,529	1%	29%	43,797	30%	-32%
Individuals	14,526	6%	-17%	3,394	13%	-6%	304,771	56%	14%	28	0.02%	-98%
Others	63,964	24%	8%	8,500	33%	-4%	128,223	24%	8%	53,778	37%	-1%
Total	262,392	100%	5%	25,562	100%	-4%	545,061	100%	11%	143,803	100%	-13%

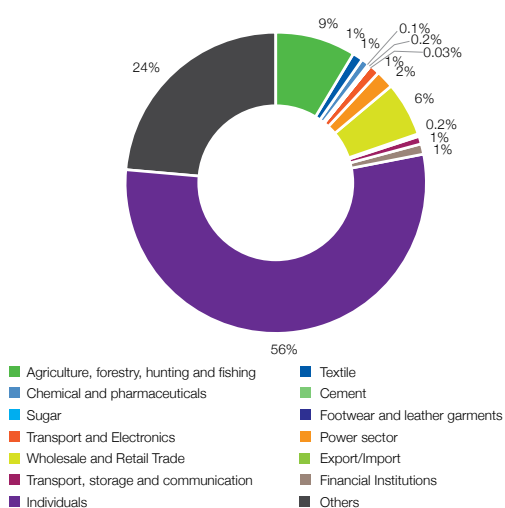
Advances (Gross)



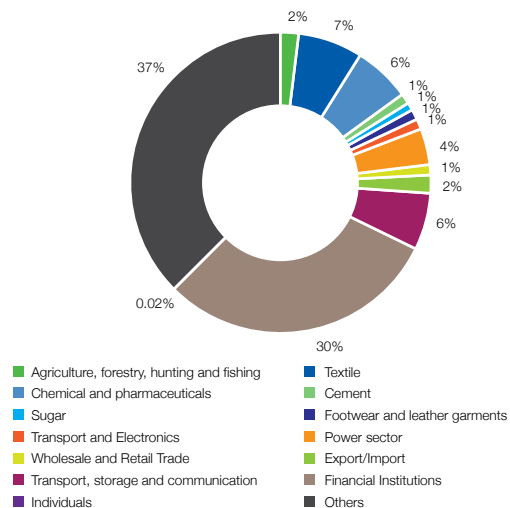
Classified Advances



Deposits



Off Balance Sheet Items



Maturities of Assets & Liabilities

(Rupees in Millions)

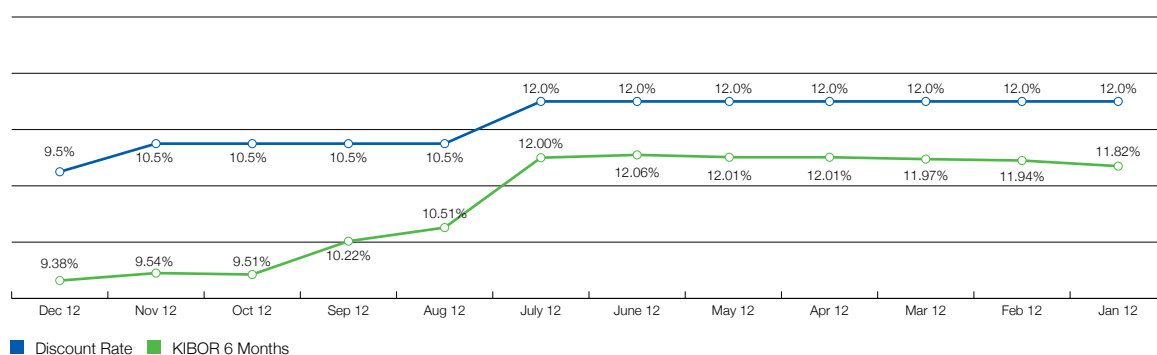
	Total	Upto 3M	3M to 1Y	1Y to 3Y	3Y to 5Y	5Y & above
Assets						
Cash and balances with treasury banks	57,420	57,420	-	-	-	-
Balances with other banks	1,192	1,192	-	-	-	-
Lendings to financial institutions	1,551	1,551	-	-	-	-
Investments - net	402,069	155,309	154,562	33,932	43,493	14,773
Advances - net	239,583	78,220	19,933	84,486	42,186	14,759
Operating fixed assets	23,738	410	1,229	3,278	3,278	15,544
Deferred tax assets	270	12	49	98	98	12
Other assets - net	40,345	20,792	1,024	-	18,529	-
	766,169	314,906	176,797	121,794	107,584	45,088
Liabilities						
Bills payable	9,896	9,896	-	-	-	-
Borrowings	78,951	69,788	6,777	2,386	-	-
Deposits and other accounts	545,061	500,286	43,310	463	775	227
Deferred tax liabilities	9,412	110	379	521	6,830	1,573
Other liabilities	21,098	12,087	5,306	2,468	276	962
	664,419	592,167	55,771	5,839	7,880	2,763

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

Key Interest Bearing Assets and Liabilities

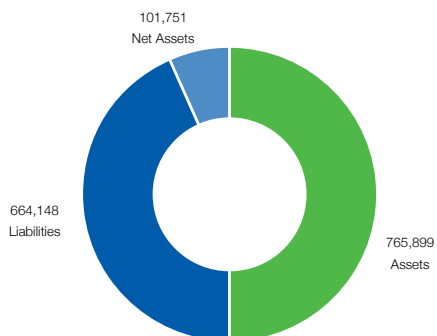
	2012			2011		
	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)
Interest Earning Assets						
Lendings to Financial Institutions	2,777	10.1	280	8,014	12.8	1,030
Gross Advances (excluding NPLs)	227,210	12.7	28,811	241,898	13.96	33,770
Gross Investments (excluding equity investments)	335,753	11.6	39,034	252,554	13.1	33,120
Interest Bearing Liabilities						
Deposits (excluding current deposits)	341,105	6.8	23,043	304,117	6.6	20,083
Borrowings	39,353	9.6	3,782	27,633	10.1	2,786

Discount Rate & KIBOR - 6 months

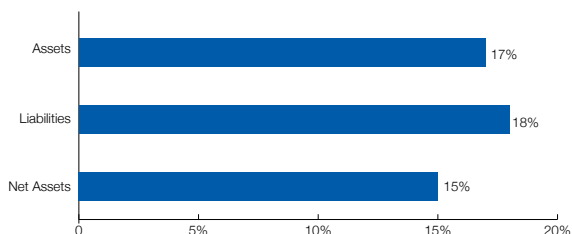


Graphical Presentation of Financial Statements

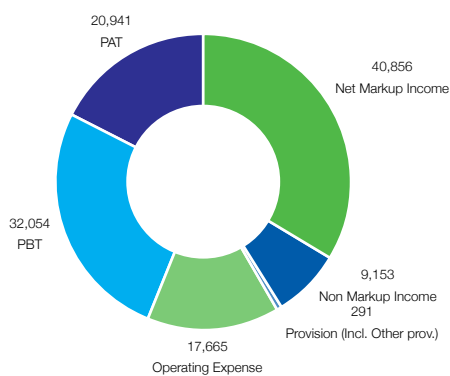
Statement of Financial Position
(Rs. in Million)



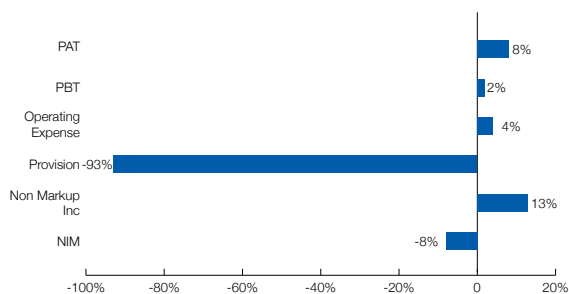
Variance from YE11



Profit and Loss
(Rs. in Million)

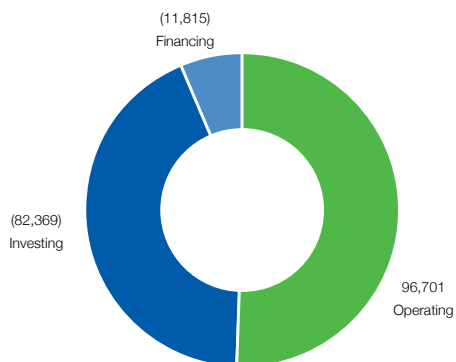


Variance from FY11

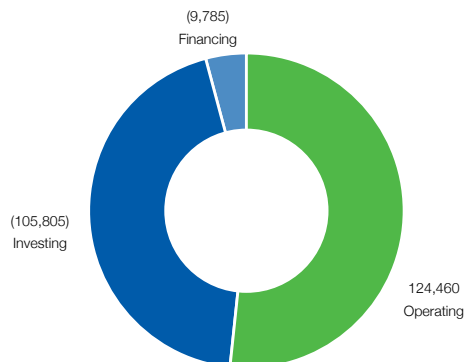


Cash Flows
(Rs. in Million)

2012



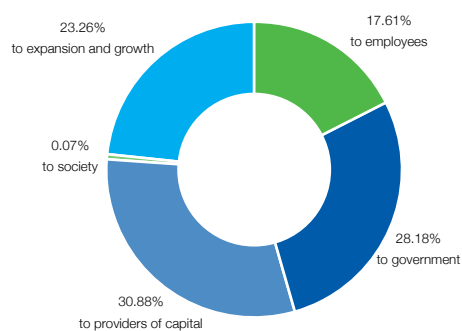
2011



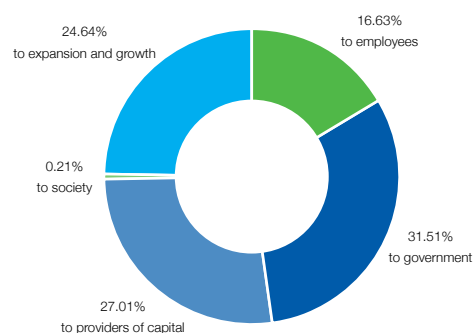
Statement of Value Added

	2012		2011	
	Rs. in Mln	%	Rs. in Mln	%
Value Added				
Net interest income	40,856		44,526	
Non interest income	9,153		8,112	
Operating expenses excluding staff costs depreciation, amortization and WWF	(8,008)		(8,212)	
Provision against advances, investments & others	(291)		(4,168)	
Value added available for distribution	41,711		40,258	
Distribution of value added				
To employees				
Remuneration, provident fund and other benefits	9,867	23.66%	8,886	22.07%
Pension fund reversal	(2,521)	-6.04%	(2,189)	-5.44%
	7,346	17.61%	6,696	16.63%
To government				
Worker welfare fund	641	1.54%	630	1.56%
Income tax	11,113	26.64%	12,058	29.95%
	11,754	28.18%	12,688	31.51%
To providers of capital				
Cash dividends to shareholders	11,959	28.67%	10,036	24.93%
Bonus shares	920	2.21%	836	2.08%
	12,878	30.88%	10,872	27.01%
To Society				
Donations	31	0.07%	84	0.21%
To expansion and growth				
Depreciation	1,379		1,115	
Amortization	260		250	
Retained earnings	8,062		8,553	
	9,701	23.26%	9,918	24.64%
	41,711	100%	40,258	100%

2012



2011

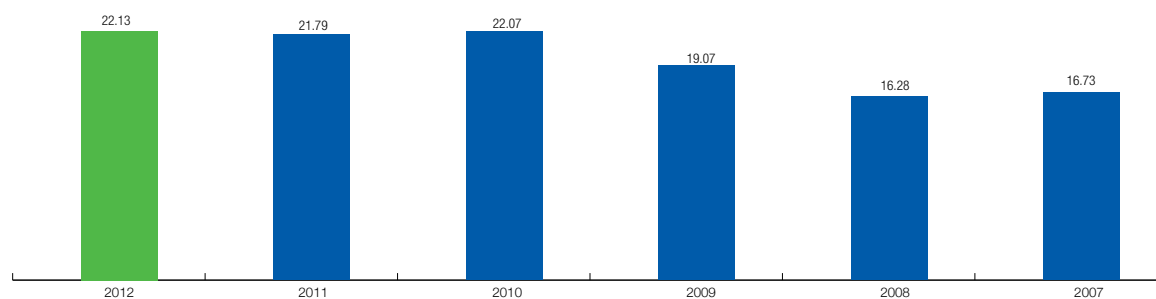


Capital Structure

(Rs. in Millions)

	2012	2011
Tier 1 Capital		
Shareholders equity /assigned capital	9,199	8,362
Share premium	9,703	9,703
Reserves	34,151	32,057
Unappropriated profits	34,705	28,366
	87,757	78,488
Deductions:		
Book value of intangible and advances given for intangible	627	631
Other deductions	790	827
	1,417	1,458
Total Tier 1 capital	86,341	77,030
Tier 2 Capital		
General provisions subject to 1.25% of total risk weighted assets	429	464
Revaluation reserves up to 45%	7,136	4,824
Foreign exchange translation reserves	400	427
	7,965	5,715
Deductions:		
Other deductions	779	731
Total Tier 2 Capital	7,186	4,984
Total Regulatory Capital Base	93,526	82,014
Risk Weighted Assets		
Credit Risk	271,846	246,113
Market Risk	60,785	45,693
Operational Risk	89,952	84,636
Total RWA	422,583	376,442
Capital Adequacy Ratio	22.13%	21.79%

Capital Adequacy Ratio (2007-2012)
(%)

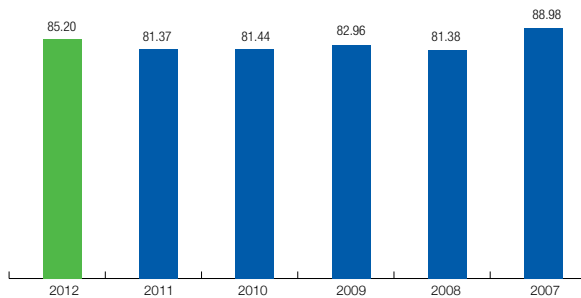


Groupwise Deposits & Advances

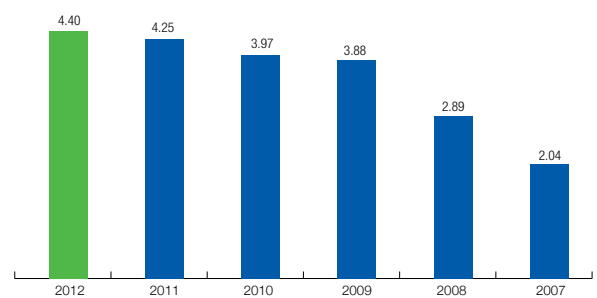
(Rs. in Billion)

	Groupwise Deposits				Groupwise Advances			
	2012	2011	Variance		2012	2011	Variance	
			Amount	%			Amount	%
Retail	514	464	50	11%	71	68	3	-4%
Corporate	15	13	3	21%	162	156	6	4%
Islamic	10	8	2	19%	10	8	2	20%
Others	6	7	-1	-9%	19	17	2	12%
Total	545	491	54	11%	262	250	12	5%

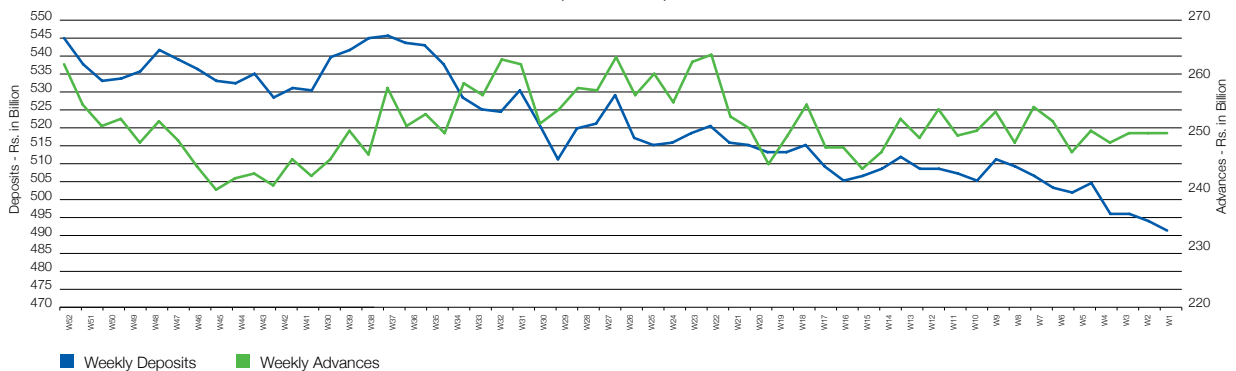
CASA to Total Deposit (2007-2012)
(%)



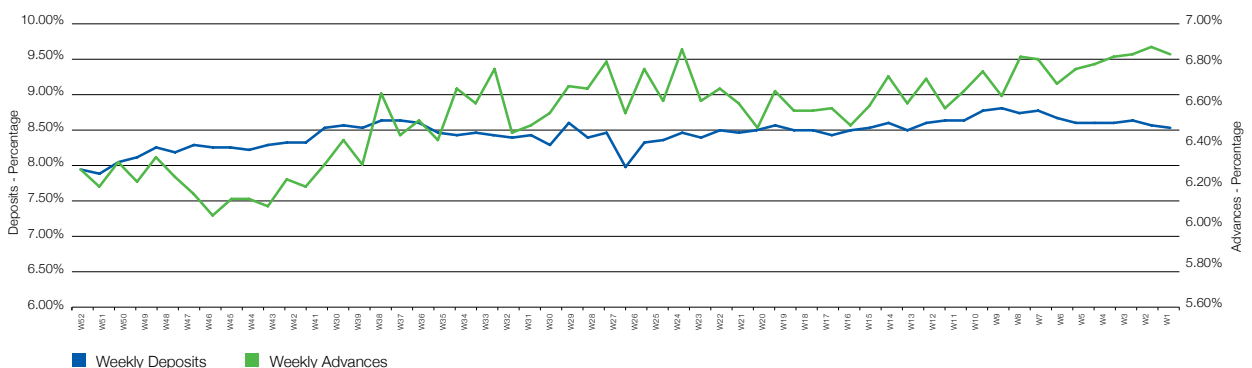
Weighted Average Cost of Deposits (2007-2012)
(%)



Weekly Trend of MCB Deposits and Advances - 2012
(Rs. in Billion)



MCB's Industry Share (Domestic) in Deposits and Advances - 2012

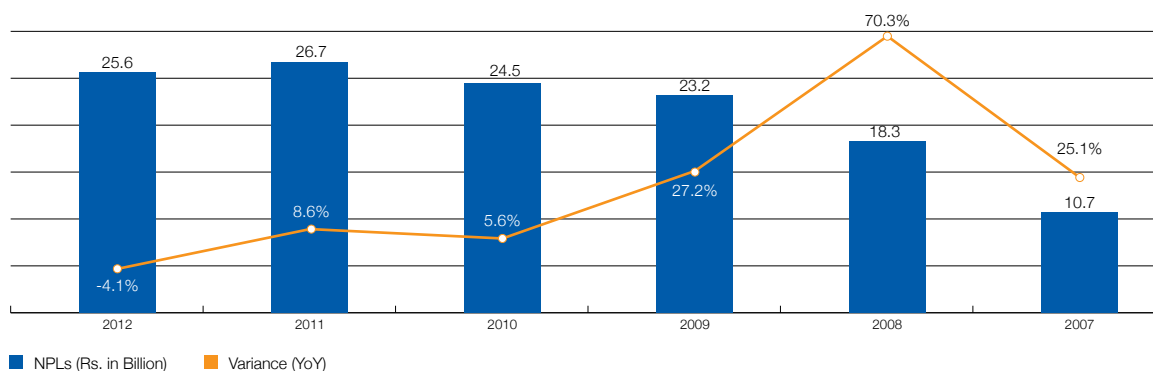


Non Performing Loans

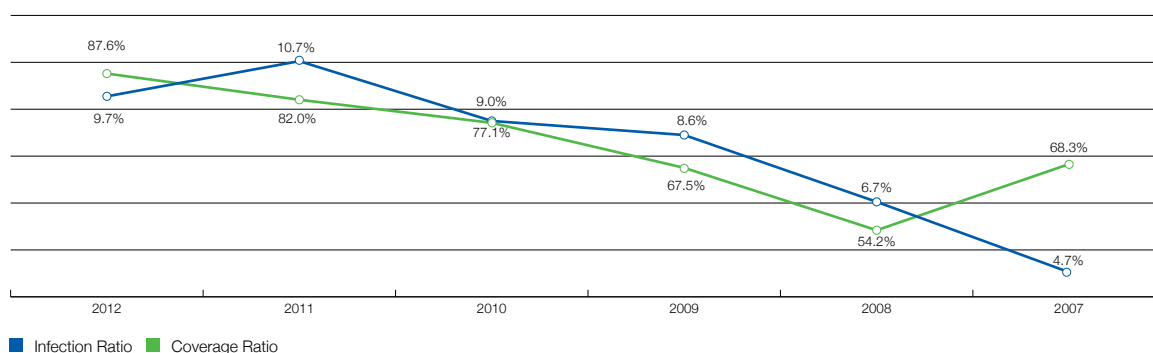
(Rs. in Billion)

	2012		2011		Variance		2012
	NPLs	Provision held	NPLs	Provision held	NPLs	Provision held	Coverage
Categorywise							
Substandard	0.29	0.04	2.0	0.5	-86%	-92%	13%
Doubtful	0.84	0.4	0.3	0.1	191%	268%	50%
Loss	24.43	21.9	24.4	21.3	0.4%	3%	90%
Total	25.6	22.4	26.7	21.9	-4%	2%	88%
Groupwise							
Retail Banking	8.0	7.7	11.3	11.4	-41%	-48%	96%
Corporate Banking	5.4	5.0	4.9	3.6	11%	36%	92%
SAMG	7.6	7.6	6.1	6.1	24%	24%	100%
Islamic	-	-	0.1	-	-99%	-100%	-
Overseas	4.6	2.2	4.3	1.7	8%	29%	48%
Total	25.6	22.4	26.7	21.9	-4%	2%	88%

NPLs and Variance (2007-2012)



Infection and Coverage Ratios (2007-2012)



Investments

Top 10 listed equity holdings as on December 31, 2012			
Company Name	Total shares / units (numbers)	Book Value (Rs. Mln)	Market Value (Rs. Mln)
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	84,493,205	4,000.00	4,236.49
Sui Northern Gas Pipelines Limited	50,115,263	2,205.25	1,165.18
Fauji Fertilizer Company Limited	10,032,000	738.91	1,175.15
United Bank Limited	7,830,440	566.15	655.17
Allied Bank Limited	6,759,474	438.76	496.75
Pakistan Oilfields Limited	1,165,695	414.04	510.04
Unilever Pakistan Limited	79,200	387.45	799.92
Attock Petroleum Limited	821,805	368.74	420.76
Habib Bank Limited	2,698,149	325.30	317.87
Arif Habib Corporation Limited	1,851,148	214.00	44.65

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	15.46%	23,095,324	63.3
Euronet Pakistan (Pvt.) Limited	30.00%	52,521	52.5

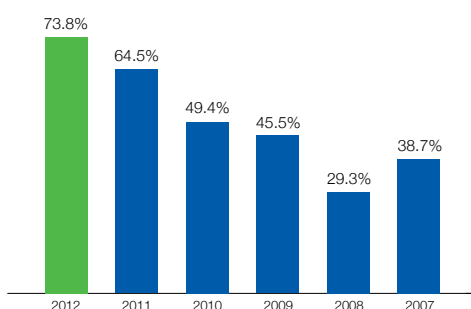
Subsidiaries

Arif Habib Investments Limited	51.33%	36,956,768	320.1
MNET Services (Pvt.) 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	0.1
MCB Leasing Closed Joint Company Limited	95.00%	1,585,400	178.8

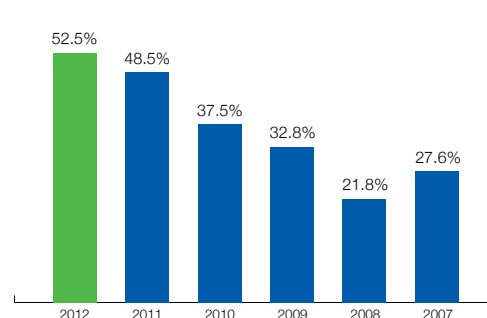
Concentration of Investment Portfolio (2007-2012)
(Rs. in Billion)



Investments to Deposit Ratio (2007 - 2012)



Investment to Total Assets Ratio (2007-2012)

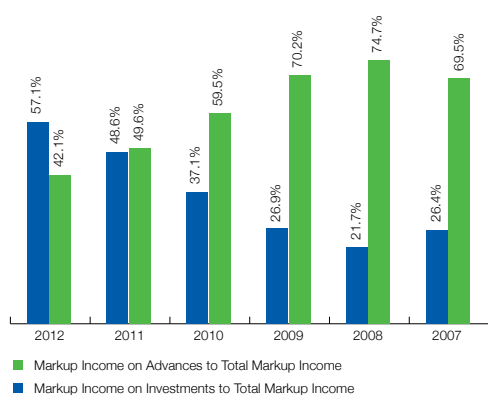


Markup and Non Markup Income

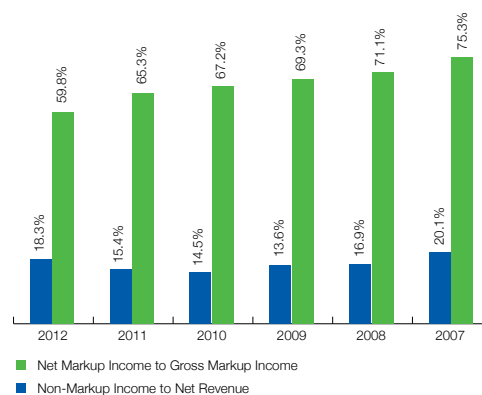
(Rs. in Million)

	2012	2011	2010	2009	2008	2007
Markup Income						
Loans and advances	28,811	33,770	32,599	36,212	29,923	22,094
Investments	39,034	33,120	20,320	13,894	8,690	8,376
Deposits with financial institutions	40	12	16	133	110	134
Securities purchased under resale agreements	257	958	1,564	838	582	548
Money at call	23	72	105	336	402	292
Others	191	215	217	201	337	343
	68,356	68,147	54,821	51,616	40,044	31,787
Markup Expense						
Deposits	23,043	20,083	15,806	13,867	9,427	5,910
Securities under repurchase agreements	2,628	1,575	623	723	945	641
Other short-term borrowings	1,154	1,211	902	775	520	812
Discount, Commission and brokerage	512	662	554	449	443	319
Others	164	89	103	23	226	184
	27,500	23,620	17,988	15,837	11,561	7,866
Net Markup Income	40,856	44,526	36,834	35,779	28,483	23,921
Non-Markup Income						
Fee, Commission & Other Income	6,307	5,452	4,677	4,068	3,808	3,198
Dividend Income	1,198	1,003	544	460	618	632
Income from dealing in foreign currency	823	921	632	341	728	693
Gain on sale of securities	825	736	412	774	637	1,488
	9,153	8,112	6,265	5,643	5,791	6,011

Markup Income from Advances and Investments (2007-2012)



Profitability Ratios (2007-2012)

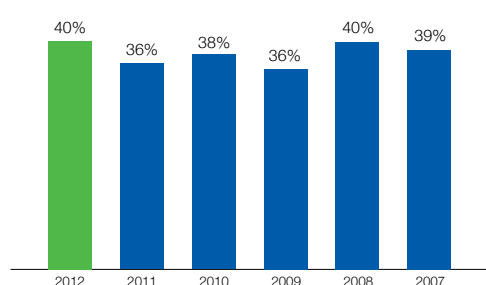


Administrative Expenses

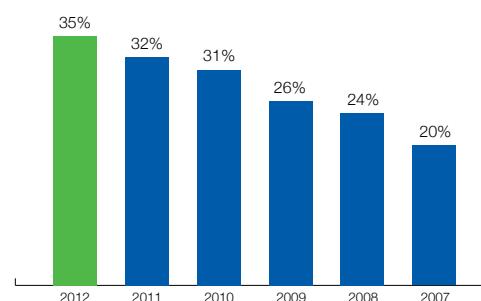
(Rs. in Million)

	2012	2011	2010	2009	2008	2007
Personnel expenses						
Salaries and allowances	9,177	8,307	7,218	6,471	6,696	5,747
Contributions to defined contribution plan - provident fund	188	177	159	149	135	101
Post retirement medical benefits	223	170	136	130	99	145
Employees' contributory benevolent scheme	39	51	71	65	48	60
Employees' compensated absences	240	181	191	151	(76)	101
	9,867	8,886	7,775	6,966	6,903	6,154
Others Administrative expenses						
Rent, taxes, insurance, electricity	1,965	1,695	1,569	1,356	1,040	842
Legal and professional charges	177	187	222	240	202	306
Communications	932	936	842	995	844	656
Repairs and maintenance	1,208	949	681	534	506	377
Stationery and printing	402	385	363	330	327	265
Advertisement and publicity	393	427	232	215	197	363
Auditors' remuneration	21	25	15	15	16	12
Depreciation	1,379	1,115	1,012	909	815	599
Amortization of intangible asset	260	250	160	153	142	191
Travelling, conveyance and fuel	745	728	684	589	619	321
Entertainment	110	102	69	74	100	50
Training Expenses	30	46	58	47	96	65
Petty Capital items	35	56	64	49	103	209
Credit Card Related Expenses	147	129	129	58	64	68
Non-executive directors' fees	33	36	32	10	4	1
Cash transportation charges	461	450	403	516	399	362
Instrument clearing charges	187	198	166	137	113	102
Subscription	18	28	26	14	24	16
Donations	31	84	15	25	-	8
Outsourced Security Guards, Tea Services and Others	1,183	1,063	877	799	431	226
	9,719	8,888	7,619	7,069	6,043	5,040
Administrative expenses (before PF reversal)	19,586	17,774	15,394	14,035	12,946	11,195
Pension fund reversal	(2,521)	(2,189)	(3,220)	(3,923)	(5,399)	(5,769)
Total Administrative expenses	17,065	15,585	12,174	10,111	7,547	5,426

Cost to Income ratio (excluding pension fund reversal)



Cost to Income ratio



Six Years' Vertical Analysis

Statement of Financial Position / Profit & Loss

	2012		2011		2010		2009		2008		2007	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	57,420	7%	53,123	8%	45,407	8%	38,775	8%	39,631	9%	39,684	10%
Balances with other banks	1,192	0.2%	2,281	0.3%	1,479	0.3%	6,010	1%	4,043	1%	3,808	1%
Lendings to financial institutions	1,551	0.2%	955	0.1%	4,402	1%	3,000	1%	4,100	1%	1,051	0.3%
Investments	402,069	52%	316,652	48%	213,061	38%	167,134	33%	96,632	22%	113,089	28%
Advances	239,583	31%	227,580	35%	254,552	45%	253,249	50%	262,135	59%	218,961	53%
Operating fixed assets	23,738	3%	22,008	3%	20,948	4%	18,015	4%	17,264	4%	16,024	4%
Other assets	40,345	5%	30,635	5%	27,706	5%	23,040	5%	19,810	4%	17,869	4%
	765,899	100%	653,233	100%	567,553	100%	509,224	100%	443,616	100%	410,486	100%
Liabilities												
Bills payable	9,896	1%	9,467	1%	10,266	2%	8,201	2%	10,551	2%	10,479	3%
Borrowings	78,951	10%	39,101	6%	25,685	5%	44,662	9%	22,664	5%	39,407	10%
Deposits	545,061	71%	491,189	75%	431,372	76%	367,605	72%	330,182	74%	292,098	71%
Sub-ordinated loan	-	-	-	-	-	-	-	-	-	-	479	0.1%
Deferred tax liabilities	9,142	1%	6,295	1%	4,934	1%	3,197	1%	437	0.1%	1,180	0.3%
Other liabilities	21,098	3%	18,380	3%	16,092	3%	15,819	3%	21,346	5%	11,722	3%
	664,148	87%	564,431	86%	488,349	86%	439,484	86%	385,180	87%	355,366	87%
Net Assets												
	101,751	13%	88,802	14%	79,204	14%	69,740	14%	58,436	13%	55,120	13%
Represented by												
Share capital	9,199	1%	8,362	1%	7,602	1%	6,911	1%	6,283	1%	6,283	2%
Reserves	44,253	6%	42,186	6%	40,163	7%	38,386	8%	36,769	8%	34,001	8%
Unappropriated profit	34,705	5%	28,366	4%	21,416	4%	15,779	3%	9,193	2%	5,131	1%
Surplus on revaluation of assets - net of tax	13,594	2%	9,887	2%	10,024	2%	8,664	2%	6,191	1%	9,706	2%
	101,751	13%	88,802	14%	79,204	14%	69,740	14%	58,436	13%	55,120	13%
Profit & Loss Account												
Mark-up earned	68,356	88%	68,147	89%	54,821	90%	51,616	90%	40,044	87%	31,787	84%
Mark-up expensed	(27,500)	-35%	(23,620)	-31%	(17,988)	-29%	(15,837)	-28%	(11,561)	-25%	(7,866)	-21%
Net mark-up income	40,856	53%	44,526	58%	36,834	60%	35,779	62%	28,483	62%	23,921	63%
Provisions & write off	(291)	-0.4%	(4,168)	-5%	(3,685)	-6%	(7,465)	-13%	(4,042)	-9%	(3,061)	-8%
Net mark-up income after provisions	40,565	52%	40,358	53%	33,149	54%	28,314	49%	24,441	53%	20,860	55%
Non-mark-up income	9,153	12%	8,112	11%	6,265	10%	5,643	10%	5,791	13%	6,448	17%
Non-mark-up expenses	(17,665)	-23%	(16,987)	-22%	(13,160)	-22%	(10,801)	-19%	(8,365)	-18%	(6,000)	-16%
Profit before taxation	32,054	41%	31,483	41%	26,254	43%	23,155	40%	21,868	48%	21,308	56%
Taxation	(11,113)	-14%	(12,058)	-16%	(9,380)	-15%	(7,660)	-13%	(6,493)	-14%	(6,042)	-16%
Profit after taxation	20,941	27%	19,425	25%	16,873	28%	15,495	27%	15,375	34%	15,266	40%

Six Years' Horizontal Analysis

Statement of Financial Position / Profit & Loss

	2012	12 Vs 11	2011	11 Vs 10	2010	10 Vs 09	2009	09 Vs 08	2008	08 Vs 07	2007	07 Vs 06
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	57,420	8%	53,123	17%	45,407	17%	38,775	-2%	39,631	0%	39,684	22%
Balances with other banks	1,192	-48%	2,281	54%	1,479	-75%	6,010	49%	4,043	6%	3,808	-42%
Lendings to financial institutions	1,551	62%	955	-78%	4,402	47%	3,000	-27%	4,100	290%	1,051	-95%
Investments	402,069	27%	316,652	49%	213,061	27%	167,134	73%	96,632	-15%	113,089	78%
Advances	239,583	5%	227,580	-11%	254,552	1%	253,249	-3%	262,135	20%	218,961	10%
Operating fixed assets	23,738	8%	22,008	5%	20,948	16%	18,015	4%	17,264	8%	16,024	77%
Other assets	40,345	32%	30,635	11%	27,706	20%	23,040	16%	19,810	11%	17,869	62%
	765,899	17%	653,233	15%	567,553	11%	509,224	15%	443,616	8%	410,486	20%
Liabilities												
Bills payable	9,896	5%	9,467	-8%	10,266	25%	8,201	-22%	10,551	1%	10,479	48%
Borrowings	78,951	102%	39,100	52%	25,685	-42%	44,662	97%	22,664	-42%	39,407	65%
Deposits	545,061	11%	491,189	14%	431,372	17%	367,605	11%	330,182	13%	292,098	13%
Sub-ordinated loan	-	-	-	-	-	-	-	-	-	-100%	479	-70%
Deferred tax liabilities	9,142	45%	6,295	28%	4,934	54%	3,197	631%	437	-63%	1,180	-
Other liabilities	21,098	15%	18,380	14%	16,092	2%	15,819	-26%	21,346	82%	11,722	5%
	664,148	18%	564,431	16%	488,349	11%	439,484	14%	385,180	8%	355,366	18%
Net Assets												
	101,751	15%	88,802	12%	79,204	14%	69,740	19%	58,436	6%	55,120	35%
Represented by:												
Share capital	9,199	10%	8,362	10%	7,602	10%	6,911	10%	6,283	0%	6,283	15%
Reserves	44,253	5%	42,186	5%	40,163	5%	38,386	4%	36,769	8%	34,001	38%
Unappropriated profit	34,705	22%	28,366	32%	21,416	36%	15,779	72%	9,193	79%	5,131	-7%
Surplus on revaluation of assets - net of tax	13,594	37%	9,887	-1%	10,024	16%	8,664	40%	6,191	-36%	9,706	87%
	101,751	15%	88,802	12%	79,204	14%	69,740	19%	58,436	6%	55,120	35%
Profit and Loss Account												
Mark-up earned	68,356	0.3%	68,147	24%	54,821	6%	51,616	29%	40,044	26%	31,787	23%
Mark-up expensed	(27,500)	16%	(23,620)	31%	(17,988)	14%	(15,837)	37%	(11,561)	47%	(7,866)	74%
Net mark-up income	40,856	-8%	44,526	21%	36,834	3%	35,779	26%	28,483	19%	23,921	13%
Provisions & write off	(291)	-93%	(4,168)	13%	(3,685)	-51%	(7,465)	85%	(4,042)	32%	(3,061)	156%
Net mark-up income after provisions	40,565	1%	40,358	22%	33,148	17%	28,314	16%	24,441	17%	20,860	4%
Non-mark-up income	9,153	13%	8,112	29%	6,265	11%	5,643	-3%	5,791	-10%	6,448	29%
Non-mark-up expenses	(17,665)	4%	(16,987)	29%	(13,160)	22%	(10,801)	29%	(8,365)	39%	(6,000)	-8%
Profit before taxation	32,054	2%	31,483	20%	26,253	13%	23,155	6%	21,868	3%	21,308	15%
Taxation	(11,113)	-8%	(12,058)	29%	(9,380)	22%	(7,660)	18%	(6,493)	7%	(6,042)	-5%
Profit after taxation	20,941	8%	19,425	15%	16,873	9%	15,495	1%	15,375	1%	15,266	26%

Quarterly Performance - 2012 & 2011

(Rupees in Millions)

	2012				2011			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Profit & Loss Account								
Mark-up earned	16,453	17,411	16,947	17,545	18,533	16,771	16,882	15,960
Mark-up expensed	(6,838)	(7,075)	(6,740)	(6,847)	(6,929)	(6,076)	(5,578)	(5,037)
Net mark-up income	9,616	10,335	10,207	10,698	11,604	10,695	11,304	10,923
Provisions & write off	(190)	351	(360)	(91)	(1,439)	(299)	(1,248)	(1,183)
Non-mark-up income	2,218	1,740	2,782	2,413	2,035	1,924	2,145	2,008
Non-mark-up expenses	(5,048)	(4,226)	(4,026)	(4,365)	(4,882)	(4,318)	(3,875)	(3,912)
Profit before taxation	6,595	8,200	8,603	8,656	7,319	8,003	8,326	7,836
Taxation	(2,327)	(2,852)	(2,921)	(3,012)	(3,409)	(3,059)	(2,777)	(2,813)
Profit after taxation	4,268	5,347	5,681	5,644	3,910	4,944	5,548	5,023
Statement of Financial Position								
Assets								
Cash and balances with treasury banks	57,420	49,880	52,771	46,916	53,123	44,375	47,228	42,537
Balances with other banks	1,192	2,113	3,159	2,452	2,281	938	1,578	1,162
Lendings to financial institutions	1,551	3,308	32	2,820	955	35,690	8,849	1,025
Investments	402,069	415,212	327,513	327,630	316,652	309,398	260,204	250,242
Advances	239,583	228,339	240,954	230,457	227,580	241,562	259,974	259,056
Operating fixed assets	23,738	23,920	23,645	22,369	22,008	21,176	21,215	21,404
Other assets	40,345	38,510	38,029	34,001	30,635	32,385	31,125	29,271
	<u>765,899</u>	<u>761,282</u>	<u>686,103</u>	<u>666,644</u>	<u>653,233</u>	<u>685,524</u>	<u>630,174</u>	<u>604,697</u>
Liabilities								
Bills payable	9,896	8,683	9,679	8,405	9,467	6,680	7,848	9,627
Borrowings	78,951	84,802	27,523	28,545	39,101	86,621	17,523	29,670
Deposits and other accounts	545,061	541,613	529,366	512,067	491,189	482,938	496,206	462,301
Deferred tax liabilities	9,142	8,487	6,813	6,538	6,295	15,748	18,251	16,072
Other liabilities	21,098	17,856	17,896	18,658	18,380	5,918	5,547	5,121
	<u>664,148</u>	<u>661,441</u>	<u>591,277</u>	<u>574,213</u>	<u>564,431</u>	<u>597,905</u>	<u>545,374</u>	<u>522,791</u>
Net assets	<u>101,751</u>	<u>99,842</u>	<u>94,826</u>	<u>92,431</u>	<u>88,802</u>	<u>87,619</u>	<u>84,799</u>	<u>81,906</u>
Represented by:								
Share capital	9,199	9,199	9,199	9,199	8,362	8,362	8,362	7,602
Reserves	44,253	43,720	43,103	42,506	42,186	41,792	41,262	41,430
Unappropriated profit	34,705	33,614	32,473	30,110	28,366	27,347	25,398	22,904
Surplus on revaluation of assets - net of tax	13,594	13,309	10,052	10,616	9,887	10,118	9,777	9,969
	<u>101,751</u>	<u>99,842</u>	<u>94,826</u>	<u>92,431</u>	<u>88,802</u>	<u>87,619</u>	<u>84,799</u>	<u>81,906</u>

Six Years' summary of Cash Flows

(Rupees in Millions)

	2012	2011	2010	2009	2008	2007
Cash flows from operating activities	96,701	124,460	58,701	78,148	2,032	61,899
Cash flows from investing activities	(82,369)	(105,805)	(48,123)	(70,369)	8,234	(51,616)
Cash flows from financing activities	(11,815)	(9,785)	(8,568)	(6,736)	(10,313)	(5,847)
Cash and cash equivalents at beginning of the year	55,293	46,342	44,785	43,674	43,491	39,043
Cash and cash equivalents at end of the year	57,783	55,293	46,342	44,785	43,674	43,491

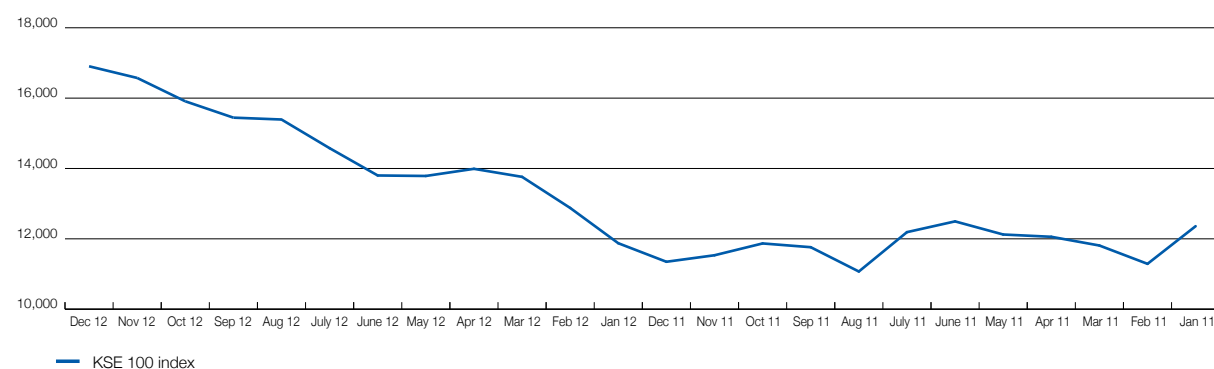
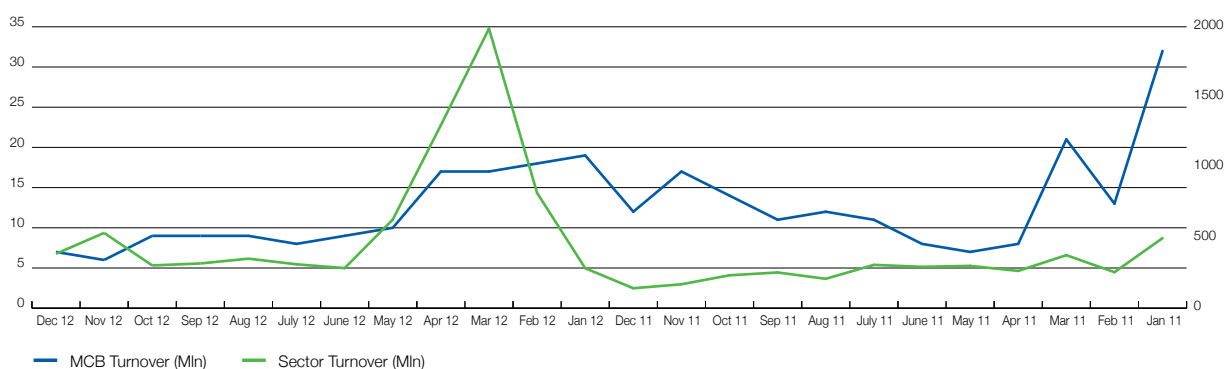
Market Statistics of MCB's Share

	Share Price (Rs.)			GDRs (REG S)* USD	Free Float		Market Capitalisation	
	High	Low	Closing	Closing	Shares ('000s)	%	Capital (Min)	Value (Min)
	2012							
December 31, 2012	216.75	180.63	209.76	4.32	336,953	36.63%	9,199	192,950
September 30, 2012	192.34	165.85	186.03	3.92	335,126	36.43%	9,199	171,122
June 30, 2012	184.24	154.00	166.24	3.52	335,221	36.44%	9,199	152,918
March 31, 2012	190.90	133.00	175.44	3.86	334,435	36.36%	9,199	161,380

2011								
December 31, 2011	179.45	134.00	134.6	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

* 1 GDR = 2 ordinary shares

Dividends & Bonus	2012		2011	
	(Mln)	%	(Mln)	%
Final cash dividend	2,760	30.0	2,509	30.0
3rd interim dividend	2,760	30.0	2,509	30.0
2nd interim dividend	3,679	40.0	2,509	30.0
1st interim dividend	2,760	30.0	2,509	30.0
Bonus	920	10.0	836	10.0



MCB Calendar

Calendar of Major Events

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

Financial Calendar

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

Directors' Report to the Members

I am pleased to place before you, on behalf of the Board of Directors, the 65th annual report of MCB Bank Limited for the year ended December 31, 2012.

Economy Review

The global economy is at crossroads. Every major region is moving through a state of transition. Lawmakers in the Euro-zone are fighting a number of crises and moving towards greater integration. Growth is steady in prominent economies however fiscal consolidation in short term is likely to push the economy towards stagnation and the future direction is dependent invariably on political stabilities and world order.

In Pakistan the focus remains on the upcoming elections rather than the much needed macro-economic reforms. Monetary policy remained accommodative in line with government's pro growth stance. SBP reduced its policy rate from 12% to 9.5% a decline of 250 basis points in the later half of 2012. Discount rate cuts were on the back of easing inflation which touched a 5 year low of 6.93% (YoY) in November 2012. Low inflation was driven by softer food inflation, cut in gas tariff, downward revision in CNG prices and base impact. The country's fiscal deficit swelled as efforts to boost its revenue mobilization were limited by the government's inability to gather enough political support. The government's growing needs to finance its deficit lead to higher borrowing from the banking system, which in turn, led to double digit growth in the money supply. On the external sector Pakistan's foreign exchange reserves continued to drop on account of loan re-payments to IMF. This was further exacerbated due to the deterioration in Financial Account and low Foreign Direct Investment (FDI).

In a nutshell Pakistan continued to fall short of its economic potential due to political and macro economic instability, deteriorating security and severe energy shortage; this in turn meant low growth and minimal foreign inflows to the country. The banking sector of the country showed sustainable performance despite the challenging economic front. Lending scenario remained slightly stable compared to the previous year. The discount rate cut targeted to spur private sector credit demand did not translate into

quantifiable results and the asset mix of banking sector reflected higher concentration of government securities. Spreads of the sector saw compression on the back of monetary policy rate cuts and increased floor rates on saving and fixed deposits. As a result, the focus primarily saw a shift to the cost cutting techniques and revenue generation from non-interest based avenues.

Most of 2012 has been a preparation for 2013 election scenario with political upheavals and instability creating mixed anticipations and expectations on an overall basis.

Economy Snapshot

Period Average Inflation FY13 Jul-Dec	10.4
Discount Rate December 31, 2012	9.5
KIBOR (6 month Offer)	
December 31, 2012	9.38
Exchange rate as on	
December 31, 2012	97.1497
Liquid Foreign Exchange Reserve	
USD Mln - as on December 31, 2012	13,858.7

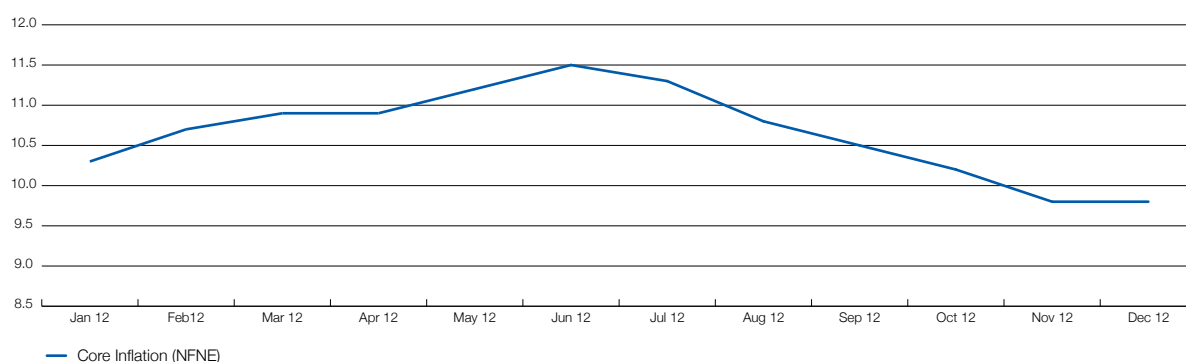
Inflation base year 07/08 =100

Group Reviews

Wholesale Banking Group

Despite a weak economy, the group has shown resilience in maintaining a relatively clean portfolio during 2012 and has managed to show growth in the loan book by extending credit to reputable corporate clients. NPLs remained at around 3.5%, as against a significantly higher number for the banking industry in general. Overseas operations also continued to show stable growth in the depressed global conditions. Overseas operations in Sri Lanka, Bahrain and EPZ showed an increase in advances by 17%.

The downward trend in the discount rates during the year and strong price competition in the top tier corporate clients in the industry had an adverse impact on spreads. Inspite of



this, the group managed to maintain its revenue stream at similar levels in comparison to last year. This was mainly on account of growth in fee based income through enhanced volumes of transaction banking business.

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

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

- Best Islamic Deal Award 2012 – “The Asset Triple A” in 2012 awarded to MCB, the Best Islamic Deal Pakistan Award for the Syndicated Long Term Multi Financing Facility arranged for Pakistan Mobile Communication Limited (PMCL) for PKR 7B in which MCB Bank Limited acted as lead advisor and arranger and an exclusive agent, trustee and investment agent.
- Deal of the Year Award 2012 – The Financial Times awarded ‘Deal of the Year Award 2012’ for Infrastructure and Project Finance - Asia Pacific to FFC ENERGY’S Rs.11B wind farm project where MCB led the transaction as the agent bank. The financing of Pakistan’s first wind energy project is a landmark achievement not only because it establishes a benchmark for future projects, but because such a project offers a potential lifeline to a country that has been afflicted by energy crises. This also shows MCB’s commitment and strong dedication towards taking responsible business initiatives and CSR activities.
- Best Deal, Pakistan 2012 – The Bank was the Joint Lead Arranger for the Syndicated Term Finance Facility of PKR 2B arranged for DH Fertilizer Limited to partially finance the acquisition cost of shares of Hub Power Company. This deal has been awarded as the Best Deal, Pakistan 2012 from “The Asset Triple A” during the year.

Transaction banking business made significant product progress and achieved all time high growths during 2012. Our throughput volumes are close to Rs. 1 Trillion. This growth has been achieved despite several challenges and constraints such as competition from other banks at highly competitive pricing, customers becoming more cost conscious in view of tight economic conditions and

demanding in terms of their requirement for technically advanced solutions.

MCB along with its foreign remittance houses tapped by the Transaction Banking team has become a household name in the field of Home Remittance. Our real time system allows payments in all our branches within minutes of being initiated overseas. While we have strong foot hold in traditional Middle East and Saudi Arabian markets, we have started opening European and American corridors. In 2012 we have particularly focused on branding our products both locally and overseas.

Given both the micro and macro level challenges, transaction banking would remain focused on cementing its relationship with customers through a strong cross sell strategy in order to increase throughput, revenue as well as to grow the customer base. The group’s emphasis on fee income and transaction volumes is likely to continue in 2013, focusing on transaction banking business as the key volume driver in 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.

Priorities in 2013

- Stay committed to corporate strategy
- Engagement in customer’s day-to-day needs
- Strengthening client relationship
- Proactive risk measures
- Lead in trade business, home remittance and collection and payments

Consumer Banking Group (Retail Banking Group)

Consumer Banking Group has continued to show impressive growth in profitability and revenue in 2012 while simultaneously curtailing losses and expenses. As part of our strategy, we have been focusing on right mix of product and services by shifting from lending to non lending avenues. Our non lending business is supported by 2 strong pillars i-e Remote Banking and Bancassurance. In Remote Banking, we launched a new variant of our Visa Debit Card namely Gold Plus Debit Card. This was country’s first mobile enabled debit card. By the end of 2012, we have been able to sell more than 450,000 debit cards. MCB Mobile has also continued to grow at a fast pace with 300 K customers. Our focus has been to maximize the value of our Alternate Delivery Channels (ADCs) including ATMS, Mobile Banking and Virtual Banking. This is part of our overall strategy to shift customer work load from branches to ADCs. MCB Bank’s ATM tally is now close to 700 making us one of the biggest networks in the country. Our call centre is also equipped to handle increasing call volume especially as a result of introduction of new products. Prepaid card which was launched in 2011 also got a kick start in 2012 and our aim is to aggressively grow this business.

The Bancassurance business also continued to grow at a fast pace with total premium closing in on PKR 2 billion mark. Our Investment Services business also showed impressive growth and this business is poised for further growth in 2013. Our privilege foot print increased from 6 to 9 branches. We intend to provide high value added services to our top depository clients through this set up.

In our lending business, we focused on non conventional products besides focusing on our core consumer products. In May 2012, MCB Bank signed an agreement with LUMS for extending personal loans to MBA students. This was a structured student loan programme and is a unique product in consumer banking industry of Pakistan. As part of this agreement, MCB Bank started disbursing the loans to LUMS students in second half of the year. We have also undertaken a thorough review of our internal policies related to consumer products before embarking on growth.

In December 2012, our commercial and consumer businesses were merged together to form Retail Banking Group. It is hoped that with the amalgamation of these two businesses, the Bank will benefit from the synergies of this merger in 2013.

Priorities in 2013

- Emphasis on ADCs i.e. virtual, mobile, call centre, ATMs and cards
- Sales entrenchment
- Resource optimization
- Hybrid product design and improvised solution
- Improve Bancassurance revenue
- Leveraging retail client base
- Best in class service quality
- Attract more deposits
- Lead in transacting convenience

Commercial Branch Banking Group (Retail Banking Group)

CBBG continued to make sustained progress in growing its deposits base in 2012. Representing 93% of MCB's total deposits, a growth of 11% was contributed by CBBG over last year, with a net amount of Rs 49.25B added to the deposit base.

A total of 8 branches were added to the CBBG network bringing the number of branches to 1,146 and the Bank continued its focus on sustainable low cost deposits.

The CBBG management placed special emphasis on managing operational risks and this was reflected in significant improvement in internal self assessment ratings. Responding to customer needs, MCB ATMs also recorded high uptimes throughout the year as management focused especially on uptimes during Eid and other public holidays.

For 2013, CBBG's goal is to continue growth of sustainable

and low-cost CASA deposits. Towards this end the group will introduce new liability products to address market needs. The group will also continue to focus on cross-selling, growing quality loans and aggressive volume growth in Trade.

Priorities in 2013

- Strategic relationship management
- Lead in trade business
- Accelerate use alternate delivery channels
- Reduce operational risk
- Better quality lending
- Rely on low cost account base
- Optimize usage of existing network

Islamic Banking Group

MCB- Islamic Banking Group provides Shariah Compliant products and services both on the liability and asset sides to various customers of all demographic segments to cater their wide range of needs of Working Capital, Capital Expenditures, Trade business and consumer's requirements. These product includes Murabaha, Car Ijarah, Equipment Ijarah Diminishing Musharka (Equipment), Musharka Export Finance, Shariah Compliant Bank Guarantee and Letter of Credit. In order to cater needs of its valued customers, MCB-Islamic banking is also under process of approval and launching of its new products of Shariah Compliance FCY deposit and Istisna Pre-Shipment Export Finance and repackaging of its existing Islamic Banking Deposit Products. Islamic banking group also provides customized solution to its valued customers for execution of complex financial transactions and Shariah advisory services in structuring of various syndicated transactions.

MCB-Islamic Banking has increased its outreach to the tune of 27 in 14 cities across the country. In the year 2012, MCB also focused on further improvement of MCB- Islamic Banking brand images. This was made possible through branding of all Islamic Banking products and dedicated Islamic Banking branches, interview of Sharia Advisor pertaining to Islamic Banking concepts on Radio in the month of Ramadan and participation of Head of Research and Product Development on TV programs regarding Islamic Banking on main stream media channel.

In line with regulator's strategy of spreading awareness of Islamic banking concepts and products, MCB – Islamic Banking Group intends to participate in various forums for awareness of its Islamic Banking Products through distribution of brochures, marketing campaigns, holding seminars and placing of stalls on Islamic Finance conferences etc.

During 2012, the group remained cost efficient in its business operations. To strengthen Islamic banking asset base, MCB Islamic banking has initiated generation of assets portfolio

in dedicated Islamic banking branches of 2nd tier cities and same is expected to continue in future.

To cater the Credit Risk management of Islamic financing portfolio, amendments in Bank's Credit policy have been approved by the BoD, to remain efficient on earning of Islamic banking assets side while other risks of Islamic Financing are being mitigated by following Bank's existing policies.

In 2012, IBG arranged ex-house and In-house training for its staff members and for other groups, on Shariah Compliant Products. The group shall continue trainings of its staff members to remain competitive and quality services provider and to mitigate the reputation risk of shariah non-compliance of Islamic banking transactions in 2013 as well.

Moreover, for 2013, Islamic banking Group has planned to centralize various processes of operations to remain cost efficient with specialized services and having better control of banking operations.

Special Assets Management Group

During 2012, SAMG achieved an all time highest recovery of Rs. 1.5 billion, exceeding the previous year by 12%. The recovery yield has also risen and has climbed up to 21% as compared to 19% last year. With a comprehensive strategy, covering multiple remedial measures, SAMG has been successful in settling a number of chronic, complex and protracted big ticket defaults during this period.

This exceptional recovery run rate will facilitate the industrial growth of the country with the expectation of MCB Bank to become a leading contributor. All this has become possible when the NPLs were pursued in a skillful manner and through timely actions. The above performance is all the more laudable considering that it was achieved against heavy odds; poor repayment capacity of the defaulters, unwholesome economic conditions of the country, sluggish court room activities and cumbersome litigation process. The efforts of SAMG establishment are exceptional and unprecedented since these are spread over the past five years in a row.

All the above was not achieved overnight. The visions were translated into actions through imparting training, inculcating necessary skills for the job at hand and also the qualities of perseverance and pursuing the goals patiently.

The year 2013 holds more challenges for the banking sector in the context of strained economy, un-conducive business conditions and above all the acute energy crises. But despite the heavy odds it is hoped that the SAMG team will rise to the occasions through dedication and shall continue to contribute towards the betterment of the institution and the country as well.

Treasury and FX Group

Treasury and FX Group continued to build on previous years' performance in all areas under its scope as 2012 witnessed record contributions by the Group towards Bank's top and bottom lines. Remarkable growth was registered in both the interest based and non-interest based revenues of the Group. The growth in Treasury's interest revenues resulted from a combination of growth in the Treasury's portfolio as well as preemptive management of it. The most important facet of this portfolio management function has been to gauge the future path of interest rates which continued their downward drift from last year, however, the outlook and market sentiment regarding the same and other related macro indicators progressed on a comparatively volatile path during the year. Treasury managed this challenge quite well by keeping abreast of the key developments on the economic and political fronts and changes in the composition of its portfolio over the year, are reflective of the Group's success in this regard.

The timely increase in the share of long term fixed income securities in Treasury's overall asset allocation in order to lock in higher yields and apposite use of yield enhancing strategies have provided the much needed stability to the Bank's revenues during times when the banking industry's spreads remained under pressure. This resulted in a material increase in the duration of Treasury's portfolio. Moreover, Treasury's portfolio continues to provide the requisite suppleness and liquidity to the Bank's balance sheet which augments its capability to adjust quickly in wake of any shifts in the economic scenario. On the non-interest income side, the Group managed to achieve growth despite multiple challenges through timely and effective decision making and by employing unconventional strategies.

Going forward, Treasury aims to focus on further strengthening its existing client relationships, penetrate into new markets and niches and enhance its product capabilities, especially the derivatives and structured products. This is in sync with Treasury's customer oriented marketing strategy and aims value-addition to our clients' business models. In order to complement these goals, and also as part of the Group's overall strategy, Treasury will fortify the alignment of objectives with other stakeholders within the bank.

Information Technology Group

MCB is a pioneer in delivering a range of 36 diverse products and services making it a market leader in the financial sector of Pakistan and targeting new milestones even beyond frontiers. This journey of successive achievements and global recognition could never have been possible without keeping abreast with the fast pace of cutting-edge technology as well as highly secured information storage and reliable processing. Hand in hand with industry-accredited teams of IT professionals, the IT Group of MCB

Bank has left no stone unturned in assuring the speedy and uninterrupted delivery of services as well as ensuring a safe and a secure environment to safeguard the valuable assets of the customers.

Enabling IT as a Strategic Resource that integrates technology into the framework of the Bank to enhance enterprise knowledge, improved Customer Service, strengthening information security and governance has been the vision behind the Group's setup.

The Information Technology Group (ITG) keeps itself aligned with MCB Bank's strategic goals and follows a comprehensive IT Strategy to improve enterprise systems uptime, data network stability and its redundancy. Organized nationwide data-links management, state of the art Data Centre Servers and Storage technology, project implementation and management through project governance, improved and effective development of in-house solutions and right approach for systems integration altogether with Business Continuity and Resiliency Services have been the focus to provide muscular wings to Business for the achievement of the collective goals.

Acquisition of the latest technology and the move towards integrated and centralized solutions is the core strategy adopted by the Bank having largest online branch set-up in the country. This will enable the technology function to deliver the best quality of services, to its internal and external customers. The Bank has been at the forefront of following IT initiatives in the industry:

- 1) State of the art Data Center Servers Technology (IBM Power 780) and SRDF based EMC VMAX Storage with Zero Data Loss and replication in Synchronous mode;
- 2) By adopting Microsoft collaboration and business productivity the MCB Bank has enhanced the efficiency of its staff to provide services to its customers by 30 percent and maintain its technological edge in banking sector;
- 3) Enhanced, secured and organized nationwide Dual Communication Media in 100% branches network and Campuses;
- 4) ECM (Electronic Content Management) based Email and File Archiving solution to ensure compliance with Regulator's instructions;
- 5) One of the largest footprint in ATM network

Year 2012 has witnessed an explosion of Information Technology (IT) based initiatives to strengthen bank's technology platforms which have brought about a sea change in quality of improved services. Major initiatives includes Symbols Database Performance Tuning, Improvement in ATM, Core and Branch Network uptime, EURONET (Switch) Upgrade from ITM 2.1 to 4.1, Service

Desk Process and Automation tools, Call Center Expansion, Network Access Controller Upgrade, Implementation of ORACLE ERP solution, VoIP (CISCO Telephony Solution) across campuses, Swift system Upgrade and Deployment of Environmental Monitoring System and STS at primary Datacenter.

Road-Ahead for the reporting year 2013

- SYMBOLS Oracle Database Upgrade to 11g
- Upgrade of OS, relevant DB and Application versions
- Implementation and Migration to Microsoft
- Contact Center (IVR, CTI, Nice & RDV) Upgrade and expansion
- CRM & RDV Upgrade
- State of the art systems integration through consolidation of services as Enterprise Service Bus (ESB) through acquisition of IBM WebSphere Message Broker (MB);
- Implementation of Internet banking (Oracle FCDB)
- MCB Tower Data Center and Islamabad IT Center retrofitting
- Core Banking Transformation and Upgrade to 8.5
 - o Power 780 Upgrade for Ambit 8.5
 - o Upgrade of Branch Primary and Secondary Media for ambit 8.5
- PCI DSS Compliance
- ATM Helpline Centralization
- Inter-Bank Funds Transfer
- Purchase of New ATMs and POS terminals
- Implementation of ATM Anti-Skimming Solution and Transaction Video solution
- Email and File Archiving solution for ECM
- Implementation of Real time Application Testing and ATS
- VmWare Revamp and Data Domain Upgrade to accommodate growing needs of data storage
- Data Replicator Accelerator to achieve Zero Data Loss
- In-house Development Business Critical Applications

Operations Group

The successful and sustainable model encompassing customer service; operational efficiency; and strengthened controls and compliance environment within the Bank remained the key priority of Operations Group. For disciplined and efficient cost management, 90% of the bank-wide administrative expenses are now being processed centrally whereas the centralized processing of account opening increased by 40% during 2012. Foot print of Trade Service Centers has reached out to Multan, completing the plan for 7 major cities housing TSCs for centralized trade processing in the country. Aggressive business targets related to existing and new products such as Visa Debit Cards, MCB Lite, MCB Mobile/UBP Telcos, new Credit Cards, MCB Prepaid Cards, Auto Loans and Motherland Accounts were fully complemented with operational expertise and processing support. The successful complaint management

model launched during 2011 was expanded to additional wholesale banking branches and was strengthened with the implementation of service indicator validation process. With an objective to improve customer experience the process of customer facilitation center was upgraded during the year. Operational controls have been improved through review of user roles of core banking system. Beside the successful migration of Payment Switch Application from EN 2.1 to 4.1 where Operations Group delivered as a functional lead, the Group has taken charge of the driving wheel of a very significant and key project of the Bank, i.e. Core Banking System Upgrade project, which is sailing through different phases with a target to go live in Q4, 2013. The Group is also leading the implementation of the State Bank mandated International Bank Account Number (IBAN) project for the Bank. Infrastructure projects for 60 new branches and offices including renovation of buildings were completed across the country. New revenue stream was identified and implemented related to usage of MCB's infrastructure by international electronic banking customers.

Priorities in 2013

- Implementation of core banking system (upgrade)
- Built-in focus on operational compliance
- Skill profiling programs
- Centralisation of time-intensive branch activities

Service Quality

The banking industry of Pakistan is now running in a dynamic challenge concerning both customer base and performance. Service quality, customer satisfaction, customer retention, customer loyalty and delight are now the major challenges in gripping the banking sector. Service quality plays a major role in getting customer satisfaction and creating brand loyalty in banking sector. Most of the literature reviews referred in the paper reveals that as compared to public sector, private sector bank customers' level of satisfaction is comparatively more in Pakistan. Human element acts an important role in perceived service quality as well as satisfaction. Public sector banks need to redefine the customer service parameter in order to compete with the nationalized private sector banks both in profitability and corporate image.

Compliance and Controls Group

In line with Management's endeavor to make MCB the most compliant bank in Pakistan, Compliance and Controls Group's (CCG) well integrated and robust framework identifies, manages and monitors all potential risks that could lead to breach of laws and regulations. The group has taken various measures to inculcate a strong compliance culture.

As a continuous process, efforts have been made to promote higher standards of control through implementation of internationally accepted COSO framework as required

under SBP Internal Control Guidelines. The implementation of Risk and Controls Self Assessment (RCSA) framework over both branch and non-branch entities accompanied with staff awareness program are additional milestones achieved during the year.

The Compliance Assurance function, which identifies and monitors resolution of compliance and control related gaps/lapses, has been revitalized with a qualitative approach through development of escalation process and an enhanced scope of review through addition of review areas and implementation of a more detailed review process with the result that 600+ branches were reviewed which brought significant improvement in resolution of issues.

With a view to bring automation into compliance monitoring and to inculcate proactive risk assessment culture, MANTAS, a transaction monitoring system is in place which generates alerts based on predefined thresholds and rules.

Bank has implemented Name Filtering systems, HOTSCAN and World-Check, to strengthen Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) process. 'HOTSCAN' scans information of new as well as existing clients, and has an ability to scan all swift messages; while World-Check is a Leading global provider of highly structured risk intelligence, comprising of almost a million profiles on heightened risk individuals and entities from 240 countries, including Politically Exposed Persons (PEPs).

To further strengthen KYC practices, Bank entered into an agreement with Bankers Accuity™ which is acclaimed industry-wide for its advance features and database, giving access to the most comprehensive data on PEPs and sanctioned individuals.

Regulatory Risk and Advisory Services is another key CCG function that provides 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. The function is also involved in managing CDD/AML aspects for Correspondent Banks and Money Services Business.

CCG has recently developed an Overseas Compliance Function with an objective to monitor regulatory compliance by overseas operations. This initiative will help the bank to effectively address all compliance related risks while serving the financial needs of overseas customers.

Issues Tracking and Monitoring (ITAM) Committee, with members comprising of Senior Management, is in place to ensure that issues (observations/recommendations by the internal auditors, external auditors and regulators) are properly tracked, monitored and closed. The committee ensured closure of substantial issues during 2012.

CCG is also involved in conducting trainings on Compliance and Controls across the board. Periodic Newsletters are circulated to keep the staff updated on Regulatory changes and industry compliance trends. A web based testing system CKAS (Compliance Knowledge Assessment Test) is in place to test staff on regulations and Bank's internal policies and procedures.

Audit and Risk and Review Group

Audit and RAR Group continued to strengthen its processes whilst enhancing its vital support towards improvement in Bank's overall control environment. The Group's structure helped in maintaining efficiency and effectiveness of audit activities. 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 thereby delivering on its commitment towards strengthening its partnership with the business teams. Recommendations on bringing further improvement to the Bank's control environment were shared with the Bank's management during the year who remained very receptive towards implementation thereof.

Whilst focusing on creativity and innovation, 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

HRMG throughout 2012 focused on improving service channels to better facilitate business strategy. MCB's core belief of recognizing it's people as its most valuable asset for generations has continued to be the guiding principle for the Human Resources Group.

The areas of compensation, performance management, Talent acquisition, Organization Development and Learning, remained to be the focal areas where efforts were made to introduce new channels, processes, policies and concepts to not only facilitate the organizational needs but align the practices with the best in class.

Performance Management Process was reviewed and revamped to make it more transparent, objective and geared towards rewarding performance at all levels, HR policies were reviewed with an objective of making them more customer centric yet inculcating strong controls and compliance measures. Talent Acquisition contributed to inducting over a 1000 employees in the bank during 2012, these induction varied from entry level to senior management levels, processes of hiring and induction were carefully reviewed to ensure quality resources are hired at all levels.

Organization structures and roles were also reviewed and re-assessed to ensure optimal resource utilization, resulting in job enrichments and career development.

To ensure retention and recognition of talent, various initiatives were undertaken from introduction of a process for identifying and developing top talent in the bank at senior levels to a High Potential Scheme for entry level, where the bank committed to invest generously in overall development of the employees. The learning and development contributed over 25000 man days of training in core banking areas of operations, credit, compliance, trade and management development programs in addition to streamlining various processes associated with the area.

The Human Resource Group, for 2013, will continue to contribute with the same zeal and commitment towards one of the key strategic enabler i.e. the People and throughout the year, will work closely with the businesses as a strategic partner to take the bank to the next level.

Priorities in 2013

- Strengthen cultural and brand values
- Re-engineer human resource processes
- Talent development and employee retention
- Training and skill enhancement program

Risk Management Framework

Prudent and effective Risk Management remains a cornerstone in your bank's march towards market leadership and stronger profitability. The Bank has successfully created a culture that encourages teams, both at risk management and business to work their way to evolve a business environment that collectively ensures, prudent and compliant business practices, higher operational efficiency, better customer services and thus leading towards enhanced value for the shareholder. This end is being achieved through continuous improvement in risk management initiatives across the organization. However, while doing so, interest of all stakeholders remains a key priority.

The Board of Directors and its Risk Management & Portfolio Review Committee have ensured formulation and implementation of a comprehensive Risk Management Framework. Under Board of Directors' guidance, the Bank continued to execute the risk strategy and undertake controlled risk-taking activities within this risk management framework, combining core policies, procedures and process design with active portfolio management. The Risk Management Framework has been kept compliant with the local regulations and has continued to evolve according to best international practices and State Bank of Pakistan guidelines.

During the year, various reviews and updates in the credit risk management area were approved by the Board of Directors and/or its sub-committee on Risk, covering Risk Strategy, Appetite and review of various policies relating to its local and offshore operations. The bank also revamped its internal credit rating model for corporate and large commercial customers with an objective to develop a PD based rating model as an initial step towards implementation of the FIRB approach.

The Risk Management & Portfolio Review committee of the Board of Directors reviewed different aspects of the loan portfolio, which included concentration, credit quality, trends, growth, cross sectional analysis and approval of terms of reference of Management Credit Committees. During the year, the Bank also instituted a Management Committee for Risk to discuss and deliberate key risk issues in the portfolio at the management level.

Through a comprehensive market risk management approach using different risk and position limits, the bank was able to keep its market risk exposures within an acceptable range. A number of metrics like VaR, Stress testing, sensitivities, position concentrations, market and notional values are used to capture and report the multi-dimensional aspects of market risk.

Bank will continue to pursue to have a risk return balanced portfolio to keep its market risk exposure in line within the approved risk appetite.

Bank's large and stable base of customer deposits, along with bank's strong capital base provided a source of strength and supported maintenance of strong liquidity position during the year. Bank has a comprehensive liquidity management framework enabling it to keep an eye on early warning indicators to enable effective decision making. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure. As per preliminary assessments, the Bank's Liquidity Coverage Ratio and Net Stable Funding Ratio are well within the Basel prescribed limits.

In accordance with the Operational Risk policy and framework, a database covering losses, control breaches and near misses is being maintained. Major risk events are analyzed from the control breaches perspective and mitigating controls are assessed on design and operating effectiveness. The bank has an internal Operational Risk awareness program which is aimed at building capacity and inculcating risk culture in the staff through workshops and on-job awareness. Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, the bank continues to pursue a number of initiatives for the adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) including business line mapping and risk and control self-assessment exercises.

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. 93.526 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, 2012 stands at Rs. 9.2 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, 2012 stood at 22.13% 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

MCB Bank Limited delivered remarkable results for the year ended December 31, 2012 inline with stakeholders' expectations and played its part in the overall sector growth.

Profit and Appropriation

The profit before and after taxation for the year ended December 31, 2012 together with appropriations is as under:

	Rs. in million
Profit before taxation	32,054
Taxation	(11,113)
Profit after taxation	20,941
Un-appropriated Profit Brought Forward	28,366
Transfer from Surplus on Revaluation of Fixed Assets (net of tax)	36
	28,402
Profit Available for Appropriation	49,343
Appropriations	
Statutory Reserve	2,094
Final Cash Dividend - December 2011	2,509
Issue of Bonus Share - December 2011	836
Interim Cash Dividend - March 2012	2,760
Interim Cash Dividend - June 2012	3,679
Interim Cash Dividend - September 2012	2,760
Total Appropriation	14,638
Un-appropriated Profit Carried Forward	34,705

Dividends

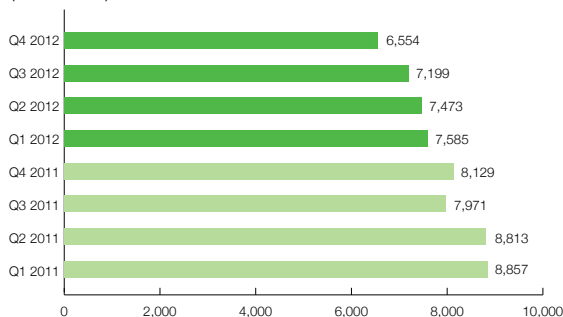
The Board has recommended a final cash dividend @ 30% and bonus shares @10% for the year ended December 31, 2012. This is in addition to 100% interim cash dividends announced during the year. The effect of the recommendation is not reflected in the aforementioned appropriations.

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

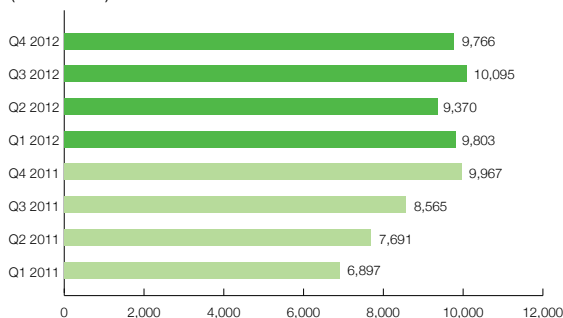
Profitability

Profit after tax of the Bank rose to Rs. 21 billion with an increase of 8% over last year while Profit before tax also increased to Rs. 32 billion with an increase of 2% over 2011. Markup income increased nominally by Rs. 210 million whereas non-markup income of the Bank registered a healthy increase of Rs. 1.04 billion owing to the increase in fee, commission and dividend income.

Markup Income on Advances (Rs. in Million)

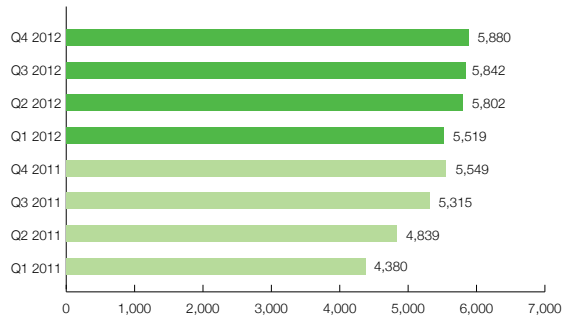


Markup Income on Investments (Rs. in Million)



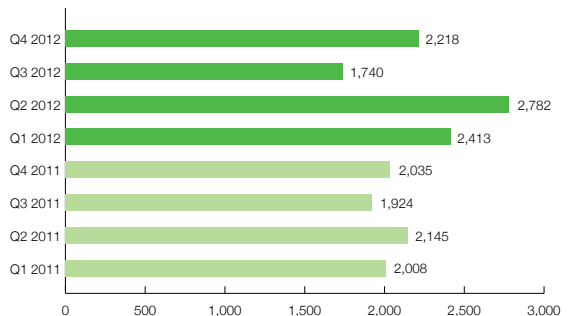
On the expense side, markup on deposits increased by 15% adding to the total increase of 16% in markup expense. This increase is partly contributed by the increase in minimum rate offered on saving / fixed deposits whereas the balancing is linked to the volumetric growth of deposits.

Markup Expense on Deposits (Rs. in Million)



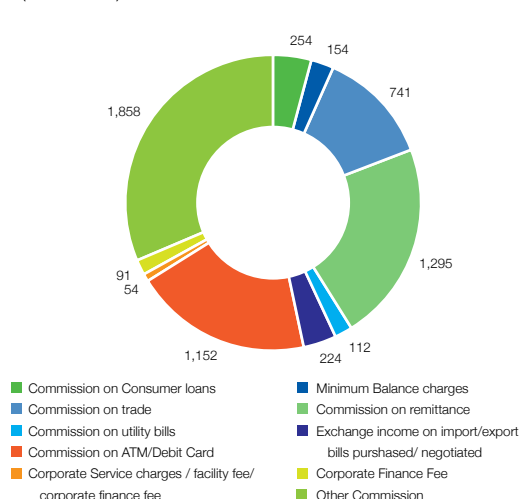
The Bank registered a growth of Rs. 1.04 billion in non-markup income owing to Rs. 817 million increase in fee, commission and brokerage income and Rs. 194 million increase in dividend income. Capital gains increased by Rs. 89 million while income from dealing in foreign currency decreased by Rs. 98 million over 2011. The overall increase has improved the ratio of non-markup income to net revenue to 18.3% from 15.41% in 2011.

Non-markup Income (Rs. in Million)



Components attributing to the increase in fee, commission and brokerage income this year were commission earned from ATM and Debit cards (+ Rs. 302 million) and remittances commission (+ Rs. 139 million) and commission on Bancassurance (+ Rs. 140 million).

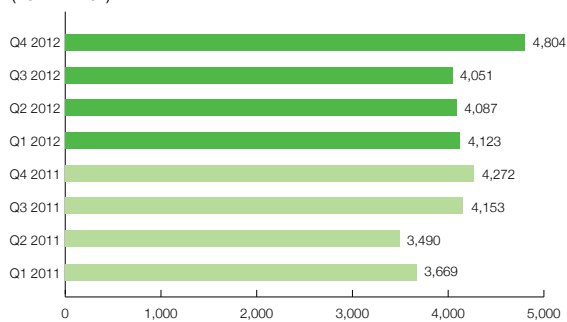
Fee, Commission & Brokerage Income (Rs. in Million)



Provisions (excluding other provisions) for the year decreased considerably by Rs. 3.2 billion mainly due to Rs. 2.3 billion decrease in provisions from loans and advances. Provision against investments decreased by Rs. 779 million over 2011.

Administrative Expenses

(Rs. in Million)



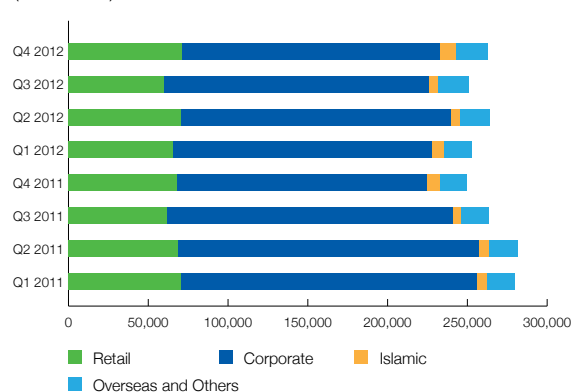
Operating expenses in 2012 were recorded at Rs. 17.47 billion decreasing by Rs. 24 million over last year. Administrative expenses (excluding pension fund reversal) increased by 10% in line with the targeted benchmark. Repairs and maintenance charges increased by Rs. 259 million (27%), personnel cost increased by Rs. 981 million (11%), credit card related expenses increased by Rs. 18 million (14%) and stationery and printing cost increased by Rs. 17 million (4%) over last year. Decrease was observed in most heads under the administrative block. Advertisement expenses recorded the highest decrease of Rs. 33 million (8%), petty capital item cost decreased by Rs. 21 million (38%), legal and professional charges decreased by Rs. 17 million (9%), subscriptions reduced by Rs. 10 million (35%) and instrument clearing charges also decreased by Rs. 10 million (5%) over 2011.

Statement of Financial Position

The Bank's total asset base strengthened with an increase of 17% to Rs. 766 billion. The increase was led by Rs. 85 billion increase in investments and Rs. 12 billion increase in advances.

Advances

(Rs. in Million)

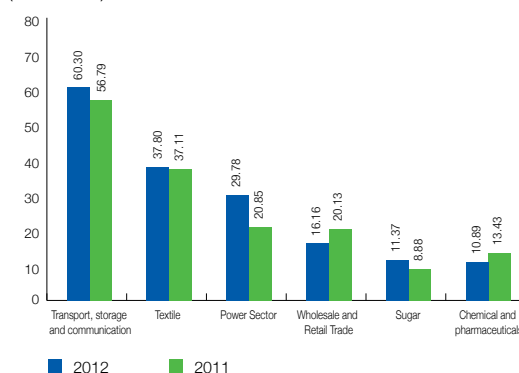


Gross advances gained a stable growth momentum this year and closed at Rs. 262 billion with an increase of Rs. 12 billion over 2011. This increase of 5% is attributed to commercial and corporate banking groups that contributed an increase of Rs. 6.7 billion (11%) and Rs. 5.7 billion (4%) respectively. The Islamic banking side also continued to grow and provided an increase of Rs. 1.6 billion (16%). As at December 31, 2012, the Bank's share in domestic industry advances stood at 6.46% (2011: 6.83%).

MCB Bank's lending to the public sector increased to Rs. 62 billion (2011: Rs. 49 billion) while lending to private sector remain stagnant at Rs. 200.5 billion (2011: Rs. 200.8 billion).

Sectorwise Advances - Major Concentration

(Rs. in Billion)

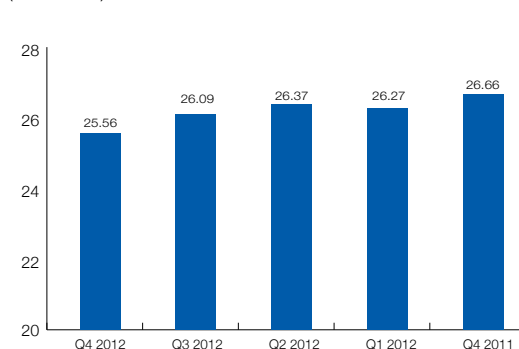


Among the Bank's industry specific analysis of advances, major increase of 43% was observed in power sector lending followed by 23% improvement in sugar sector. Transport, storage and communication with its highest proportion to total gross advances registered an increase of 6% over 2011. Decrease was recorded in the chemicals, pharmaceuticals and wholesale and retail trade.

Given the reviving positivity in the industry lending and the system's effort to improve the credit takeoff, the Advances to Deposits ratio of MCB Bank came to 48.14%.

Quarterly Trend in NPLs

(Rs. in Billion)

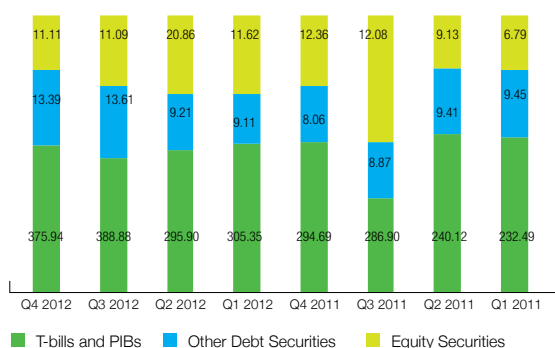


The Bank, with its strengthened risk management framework has been able to restrict the slashbacks of advances infection. As of December 31, 2012, the Bank was able to decrease its non-performing loans to Rs. 25.6 billion compared to Rs. 26.7 billion as at December 31, 2011.

The improvement in asset quality has reduced the infection ratio of the Bank to 9.74% compared to 10.67% at year end 2011. Coverage ratio has simultaneously also been improved to 89.23% (2011: 83.76%). MCB Bank remains well below the industry's average infection ratio and is determined to further improve the quality of its loans.

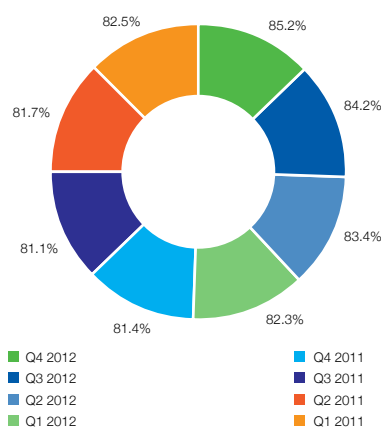
Investments registered an increase of Rs. 85 billion and closed at Rs. 402 billion. Major component remained investments in treasury bills (72% of net investments) registering a growth of Rs. 32 billion (12%) over 2011. Increase in PIBs (Pakistan Investment Bonds) was the highest during the year, growing by Rs. 49 billion over Rs. 36 billion reported for December 31, 2011. The other debt securities posted an increase of Rs. 5 billion (66%) while equity securities decreased by Rs. 1.3 billion (10%).

Investments (Rs. in Billion)

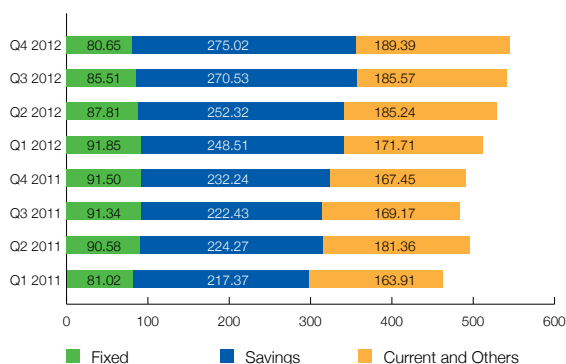


Increase in deposits were recorded at 11%, adding Rs. 54 billion during the year to a close at Rs. 545 billion. The CASA base depicted a healthy rise of Rs. 65 billion (16%) with saving deposits rising by Rs. 45 billion (20%) to Rs. 275 billion and current deposits rising by Rs. 22 billion (13%) to Rs. 189 billion as at December 31, 2012. This has improved the CASA ratio to 85% compared to 81% reported for 2011. Fixed deposits decreased by Rs. 13 billion (14%) to Rs. 81 billion as December 31, 2012.

CASA to Total Deposits



Deposits (Rs. in Billion)



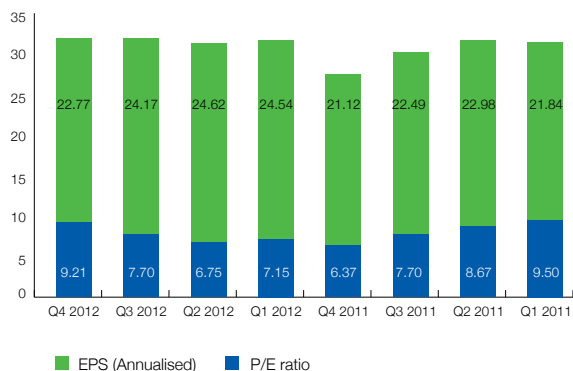
The above momentum in deposits is in line with the management emphasis on enhancing its cost effective deposit base. This strategy has helped the Bank to maintain a lower cost of deposits as compared to its peers.

Market Performance

The year 2012 was a remarkable year for equity investors as the index crossed the 16,500 barrier, yields in major sectors improved, overall turnover doubled and capitalisation improved significantly compared to the average of yearly performances since 2008. The KSE 100 Index closed at a record 16,905 which is 49% higher than last year.

	2012
Listed Companies	573
Listed Capital (Rs. in Billion)	1,094.37
Market Capitalization (Rs. in Billion)	4,242.28
Index KSE 100	
High	16,943.19
Low	10,909.12
Year End	16,905.33
Turnover (shares)	
Annual Turnover (Billion)	49.28
Average Daily Turnover (Billion)	0.196

MCB Bank's scrip remained the sector leader both in terms of price and free float on the local exchanges. Market capitalisation of the Bank was recorded at Rs. 193 billion and the share price closed at Rs. 209.76 (High: Rs. 216.75, Low: Rs. 133). The Bank has been able to improve its competitiveness in terms of returns to its shareholders with exceptional profitability.



Future Outlook

Going forward, 2013 is going to be another year of challenges for the economy as there are considerable downside risks particularly to the country's external account due to the upcoming foreign loan re-payments. However, overseas Pakistani's remittances will continue to show growth and help alleviate the pressure on external account. Moreover, as a result of election there may be a positive change on the political front. The inflation is likely to remain low in the first half of the year but may alleviate in the second half. Heavy government borrowing from the banking system is expected to continue and remains a major cause of concern. GDP growth expectations are on the lower side and fiscal deficit is expected to widen. The government must work together with all of its stakeholders and take decisive action on broadening its revenue base, restructuring its public sector enterprises and providing a solution to the incapacitating energy shortfall. The impact of monetary stance in 2012 may enable some positivity being carried on to the next year provided that substantial support is allotted to the end consumer. Fiscal and monetary collaboration is required in managing the structural gap between revenues and expenditures. Improved trade policies and the recent trade negotiations with neighbor countries are likely to create more venues of income generation and initiatives. For the banking sector, in foreseeable future, improving population literacy and penetration into the unbanked segments are prime opportunities for the banks to grasp. Branchless banking is one particular avenue, which the banking universe might be seen focusing on for such penetration. Moving forward, Islamic banking is expected to continue to grow while potential still remains to be explored in the areas of investment services, SMEs, agriculture and consumer lending.

Moving forward, MCB Bank Limited remains determined in maintaining its status as a leading bank, offering tailored products to meet the financial requirements of its customer base. The strength depicted in the financial position would continue to be translated into profits, ensuring quality asset reflection.

Corporate Awards and Recognitions - 2012

- Best Commercial Bank – Pakistan 2012 in the Banking Awards 2012 by the World Finance
- Best Bank in Pakistan by Euromoney Awards for Excellence 2012

- MCB won the Best Domestic Bank in Pakistan in The Asset Triple A Country Awards 2012
- MCB was also voted in the Best Deal – Pakistan for an acquisition in which MCB acted as the Joint lead arrangers. In another category of Best Islamic Deal – Pakistan, MCB acted as the Joint lead advisor and arranger and Exclusive agent/Trustee for the said award winning deal
- Ranked 2nd for Best Corporate Report Award 2011-Banks category, by the Joint Committee of Institute of Chartered Accountants Pakistan (ICAP) and Institute of Cost Management Accountants of Pakistan (ICMAP) in the 12th Best Corporate and Sustainability Reports Award ceremony
- Deal of the Year award 2012 by Financial Times for Pakistan's first wind energy project where MCB Bank acted as the lead agent
- Runner up for the Investor Relations award of the Year 2011 by CFA Pakistan
- Ranked 624 in the Top 1,000 World Banks 2012 list by The Banker with a Country ranking of 3
- MCB also won the CSR Business Excellence Award 2012 for Best Media Coverage by NFEH
- During the year 2012, the Bank received the 'Certificate of Recognition' from Pakistan Center of Philanthropy

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. 14.622 billion (2011: Rs. 14.737 billion) as income tax to Government treasury during 2012. Furthermore, the Bank contributed over Rs. 6 billion to the National Exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001.

The Bank's contribution to the national economy by way of value addition was Rs. 41.711 billion which was distributed to employees Rs. 9.87 billion, to government Rs. 11.75 billion and to shareholders Rs. 12.88 billion.

Credit Rating

The Pakistan Credit Rating Agency (PACRA) upgraded the long term entity credit rating to AAA [triple A] and maintained the short term rating to A1+ [A one plus], through its notification on February 04, 2013 (2012: AA+ [double A plus] and short term rating of A1+ [A one plus]).

Internal Control and Financial Reporting Framework

The Bank's internal control structure comprises of the Board of Directors, Senior Management, Risk Management Group, Compliance and 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 revaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 expedite the resolution / compliance of 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, Internal Control Policy and Internal 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.

Statement under Code of Corporate Governance

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

- The financial statements, prepared by the management of the Bank, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Bank have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from has been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored;

- There are no significant doubts upon the Bank's ability to continue as a going concern;
- Key operating and financial data of last six years is presented in the stakeholder's section of this report;
- Pattern of Shareholding, complying with the requirements prescribed by the code is annexed with the report;
- Statement of Compliance with Code of Corporate Governance is included in the Annual Report;
- The number of board and committees' meetings held during the year and attendance by each director is mentioned below;
- The Value of investment including accrued income of provident and pension fund as at June 30, 2012 on the basis of audited accounts is Rs. 14,621.720 Million and Rs. 18,967.548 Million respectively;
- Majority of the Board members have the prescribed education and experience required for exemption from training programs of Directors pursuant to Clause xi of the revised Code of Corporate Governance 2012.

Change in Board of Directors

In 2012, Datuk Abdul Farid Bin Alias, a nominee director Maybank, Malaysia was elected on the Board of Directors in Shareholders meeting on March 27, 2012 in place of Dato' Mohammed Hussein.

Change in President / CEO

On December 22, 2012, Mr. M. U. A. Usmani retired as the president and CEO and Mr. Imran Maqbool took charge of office as the new President and CEO of MCB Bank Limited.

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

	Board of Director		AC		BSDC		RM PRC		HR & RC		PPCA		IT		SBP RCMC	
	Meetings Held: 6		Meetings Held: 5		Meetings Held: 4		Meetings Held: 4		Meetings Held: 6		Meetings Held: 5		Meetings Held: 4		Meetings Held: 2	
	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance
Mian Mohammad Mansha	◆	6	-	-	◆	4	-	-	◆	6	-	-	-	-	-	-
S. M. Muneer	◆	6	-	-	◆	4	-	-	-	-	◆	3	-	-	◆	2
Tariq Rafi	◆	5	◆	4	-	-	-	-	-	-	◆	0	◆	0	-	-
Shahzad Saleem	◆	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sarmad Amin	◆	5	-	-	-	-	◆	3	-	-	◆	5	-	-	◆	2
Mian Raza Mansha	◆	5	-	-	◆	3	-	-	◆	5	-	-	◆	4	-	-
Dato' Mohammad Hussein	◆	2*	◆	1*	◆	1*	-	-	-	-	-	-	-	-	-	-
Datuk Abdul Farid Bin Alias	◆	3**	-	-	◆	2**	◆	1**	-	-	-	-	-	-	-	-
Aftab Ahmad Khan	◆	6	◆	5	-	-	-	-	-	-	-	-	◆	4	-	-
Dato' Seri Ismail Shahudin	◆	6	◆	5	◆	1***	-	-	-	-	-	-	-	-	-	-
Mian Umer Mansha	◆	6	-	-	◆	4	◆	4	-	-	◆	5	-	-	-	-
Manzar Mushtaq	◆	4	-	-	-	-	◆	4	-	-	-	-	-	-	-	-
Ahmad Alman Aslam	◆	5	◆	4	◆	3	-	-	◆	4	-	-	-	-	◆	1
MUA Usmani	◆	6	-	-	◆	4	◆	4	◆	5	◆	5	◆	4	◆	2

* Dato Mohammad Hussein stand retired on March 27, 2012 on completion of the term of his directorship. Hence he attended;
• Two Board of Directors meetings.
• One Audit Committee meeting.
• One Business Strategy & Development Committee meeting

** Datuk Abdul Farid Bin Alias was elected on the Board on March 27, 2012. Hence he attended;
• Three out of four Board of Directors meetings.
• Two out of three Business Strategy & Development Committee meetings after its reconstitution on March 29, 2012.
• One out of two Risk Management & Portfolio Review Committee meetings after its reconstitution on May 22, 2012 respectively.

*** Dato Seri Ismail Shahudin attended one meeting of Business Strategy & Development Committee till February 21, 2012. On March 29, 2012 the committee was reconstituted and Dato Seri Ismail Shahudin membership in the committee was replaced with Datuk Abdul Farid Bin Alias.

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, 2012, are as follows;

Directors	Self	Spouse & Minor Children	Total
Mian Mohammad Mansha	6,475	5,309,139	5,315,614
S. M. Muneer	1,702	2,006,600	2,008,302
Tariq Rafi	26,453,608	4,723,219	31,176,827
Shahzad Saleem	746	-	746
Sarmad Amin	2,357	-	2,357
Mian Raza Mansha	10,464,205	23,521,790	33,985,995
Mian Umer Mansha	26,435,024	-	26,435,024
Aftab Ahmad Khan	757	-	757
Manzar Mushtaq	550	-	550
Ahmad Alman Aslam	550	-	550
Datuk Abdul Farid Bin Alias	731	-	731
Dato' Seri Ismail Shahudin	554	-	554
Imran Maqbool	-	-	-
Other Executives	59,082	6,647	65,729

All trade in shares carried out by Directors, Executive and their spouses and minor children is reported as under:

Name	No. of Shares	Purchase/Sale/ Transfer
Mrs. Saeeda Parveen	25,000	Purchased
Datuk Abdul Farid Bin Alias	731	Transferred
Shahzad Saleem	168,834	Inherited
Shahzad Saleem	168,834	Sold

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 2013.

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 7, 2013

Corporate Social Responsibility

General Overview

MCB is the bank that firmly believes in the socio-economic betterment of the society in which it serves. To fulfil its vision towards the empowerment of society, it carried out numerous social development activities and welfare projects keeping in view the greater interest of its employees, customers and beloved country on priority basis.

The Bank takes it as its responsibility to construct and structure society through community services under its projects of Corporate Social Responsibility (CSR).

MCB Bank accomplished numerous projects and services in the field of education, health, environment, sports, social awareness and development, promotion of national cultural, welfare and charitable organizations, various training and development programs.

The acknowledgment of all the CSR activities that MCB Bank participated in was also recognized by the Pakistan Centre of Philanthropy

Bank For Employees

MCB Bank is proud to be an employer of the best leaders and human resource of the country. It ensures merit and appreciation culture for its employees without any discrimination of gender, race, religion, belief, ethnic, disability, age, citizenship, marital and civil status.

Adhering to these values, the teamwork produces high quality of work not only towards achievement of the targets but to satisfy requirements of customers and investors of the bank in true letter and spirit. The professional excellence could be observed at its best at all MCB Bank branches.

MCB Bank is the ideal organization for every talented person looking for a bright career where learning and capacity building opportunities are abundant.

The Bank polishes its human capital at its best in diversified fields through providing professionals equal opportunities along with monetary motivation for growing their talents and improving their performance with excellence and hard work.

Motivational Environment and Merit Culture

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

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

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

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

Training and Education

MCB Bank believes that Pakistan is the land of talented people where professionals are capable of making difference in the fields of banking services provided that they are encouraged, promoted and nurtured in highly learning corporate environment.

The Bank strongly adheres to the training and development of its employees in accordance with their skills, aptitude and interest. It ensures that the personal and professional development of its employees is utmost responsibility of the Bank.

A Bank for Life is always 'A Bank for Highly Skilled Employees' where the investment on professionals is indispensable as investment on banking operations.

MCB Bank ensures that its employees get basic training and specialist professional education on perpetual basis because their development has a deep impact on the bank's operations.

Sustainability Report

Understanding

MCB Bank speaks of numbers, volumes, strength and security. For the Bank this is the essence of a sustainable Bank that our stakeholders can rely on and remain connected to us with the ease that in every stance the Bank takes, it won't let them down. In all effort at its end, the Bank got involved in social, economical, environmental, cultural and innovational conduct besides the financial deliverables.

Purpose

Our aim is to float on products and services that could help improve the perception of quality banking in both conventional and Islamic sphere. In the past the Bank has developed a strong product portfolio that has brought innovative solutions, innovative front-end service and improvement in customer dependency.

Aim

A better future of convenience, for the customers of MCB Bank Limited. And convenience covers all aspects from service to personal care. Technology is one front via which we aim to work on centricity lags.

Bank For Life

MCB is the bank that truly adheres to its philosophy - "Bank for Life" - making easier the high living standard for its shareholders, employees and communities. It is the Bank's commitment to empower all its stakeholders with best corporate practices and constructive projects that help them in pursuing their goals and achievements.

The Bank maintains highly professional working culture in its organization which includes mandatory compliance towards the betterment of its staff members at every level. Hence various capacity building and health care projects have been initiated in the current years to promote the living standard of the employees to ensure their high performance and instill the sense of job satisfaction amongst them.

MCB Bank is committed to best banking services to its customers by empowering its employees with the culture of excellence, good governance, integrity, transparency and accountability. These values are practiced throughout the bank with high standards, rules, regulations and code of conduct.

Sustainability: External Efficiencies

- **Social Development Activities**

MCB Bank generously supported different NGOs and institutions having high influence and a consistent role in the development of the society. In this regard, the

bank has sponsored events such as, Karachi Union of Journalists Iftar Dinner, an event of the Old Hailians Association, the 3rd CEO International Summit, in order to celebrate our momentous independence day on the 14th August, sponsored an event organized by Jashn-e-Azadi Committee and an iftar dinner by KUJ was also sponsored. MCB Bank, under its Islamic banking platform sponsored an e-technologies and management event, along with the Islamic finance conference, 2012. The privilege banking platform at MCB Bank also sponsored a fundraising fair.

- **Industry Innovation and Energy**

The Bank financed Pakistan's first win energy project in Pakistan. Financial Times awarded 'Deal of the Year Award 2012' for Infrastructure and Project Finance - Asia Pacific to FFC ENERGY'S Rs.11B wind farm project where MCB Bank led the transaction as the agent bank. Such financing establishes a benchmark for future projects, offers a potential lifeline to a country that has been afflicted by energy crises and shows MCB Bank's commitment and strong dedication towards CSR activities.

- **Education and Training**

MCB Bank lays special emphasis over education of the young Pakistanis and extends maximum possible financial support to the individuals and institutions for the promotion of quality education in the country.

The Bank exclusively allocated funds for educational institutions such as National College of Arts, University of Agriculture - Faisalabad, University of Agriculture - Sargodha, SBP Rawalpindi-Hazara University, Hariipur, SPELT and Rehman Kayani Memorial Society.

- **Sports and Recreational Activities**

The Bank is always keen to play its pivotal role in organizing different sports, recreational and healthy activities in different parts of the country.

MCB Bank extended its generous support for various sports events such as Navy Station Head Quarters Tournament, Karachi Boat Club – Rowing Event, Chief of Naval Staff – Amateur Golf Championship, Together we Golf, Mushraf Memorial Golf Tournament, 3rd All Pakistan Multan Open Golf Championship, Wah Industries Shooting Championship, M/S Latif Ghee Group's squash tournament and Sapphire Group's Annual Cricket Tournament. Along with this, it also sponsored an event organized by the Pakistan Tennis Foundation. MCB Bank also played an active role in

sponsoring sports events for the regulatory body, the State Bank of Pakistan such as, 8th Governor Cup Cricket Tournament in Hyderabad and 9th Governor Cup Cricket Tournament in Multan and in Lahore.

- **Agriculture Development**

MCB Bank believes that the dream of economic progress in the country will never be true until development of agriculture sector in the country which is called agrarian as majority of its population is dependant for their livelihood on the agriculture sector, whereas industries and exports also heavily rely on the same sector.

MCB Bank has been an exclusive partner of State Bank of Pakistan for various agriculture development, modernizing and awareness events and programs in various cities including Hyderabad, Faisalabad, Muzaffarabad, Sargodha and Jhang.

- **Health and Environment**

MCB Bank recognizes health and environment as two major sectors which are closely related to the welfare of the people. It extended its full cooperation through funding various hospitals and NGOs working for environmental protection including Welfare Society for Patient Care, College of Physicians and Surgeons and WWF.

MCB Bank also made its significant contribution in the security projects such as establishment of Rescue-15 Post and Bank Square Mirpur.

- **Societies and Minorities**

MCB Bank has never forgotten the deprived and disabled individuals of the society neither it ignores Pakistanis with different faiths.

It sponsored various organizations and societies working for deprived people such as Hope-upliftment Foundation, Al-Khidmat Orphan Care, Sargodha Spirit Trust and Pakistan Poverty Alleviation Fund.

MCB Bank also sponsored events held for Christian Pakistanis at St. Anthony's Church and St. Patricks Cathedral Karachi.

Sustainability: Internal Efficiencies

- **Employee Health/ Insurance**

The Bank provides state of the art working environment across its branches and head offices. The setup is designed to meet the day to day needs of employees and customers. Regular maintenance and site inspection is done to make sure that the network is hazard free and meets the requirements to avoid an structural mishap. Each location of MCB Bank has fire control and exit facility. The head office staff is particularly trained for emergency fire drills.

- **Managing Turnaround**

MCB Bank has Employee benefit schemes, annual incentives, in-house rotation, annual appraisal and interviews, training

- **Business Continuity Planning**

Backup and crisis education and training, quarterly fire drills, annual tests, documentation of results on results of previous conduct, proper BCP division with involvement from all the groups and divisions, SLAs for required action and turn around.

- **Know Your Customer/ Anti-Money Laundering**

MCB Bank conducted another bank-wide test which was mandatory for all employees of the Bank to attend. The exercise is aimed to educate the Bank's employees to better understand the terminologies of KYC and AML, its requirements and hence minimize the chances of error/frauds and help the Bank to remain fully compliant of regulatory instructions.

- **Trainings and Skills Improvement**

During the year, the Bank organized 608 courses for training its employees with a total participation of 7,882 employees.

Sustainability: Customers

- **Service Quality**

Mystery shopping for 2012 was successfully conducted and up to date results were documented and shared across the branches to highlight the areas of their strength as well as weaknesses. The aim of such an exercise is to identify key areas of improvement and to monitor branch wise quality of service on offer to the end user (customer). The regionwise performance this year was an average of 70%-81%. On the consumer banking front, service levels were analysed product TAT (turn-around-time) and call centre performance.

For mobile, banking service levels mostly exceeded the target set for the year and averaged 94% during 2012.

- **Customer Satisfaction**

Customers are the center of our business and maintaining a strong customer franchise is essential for long term sustainability and repute. MCB Bank Limited has been one of the fortunate institutions to maintain majority of old accounts on its list. This solely is the key indicator of our variant banking solicitation. Our help desks are there to resolve queries and the performance this year was a record 98% resolution of the complaints received. On an average, 3,404 complaints were resolved per month during 2012.

	2012	2011
Total Complaints Received	41,828	39,985
Average Complaints per 1,000 customers	8.5	8.5
Total Complaints Resolved	40,852	30,315
% Complaints Resolved	98%	77%
Average Complaints resolved per 1,000 customers	8.28	6.47
Complaints Resolved (Avg TAT)	6.00	4.68

Sustainability: Employees

- **Equal Opportunity Employer**

MCB Bank'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 Bank also depicts a healthy, team based and cooperative environment. As of 2011, the Bank held a ratio of 88% male: 12% female ratio with approximately 1% of the employees from the minority population of the country.

- **Employee Protection**

MCB Bank considers providing conducive, safe, harassment free, trustworthy and respectable work environment to all its employees as its prime responsibility. MCB Bank 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.

- **Employee Rewards**

During 2012, a total of 1,119 cash awards were disbursed on a monthly basis on a group wide basis based on merit recommendations. In addition, 539 'employee of the month' certificates were also distributed across the bank based on one exceptional performer from each group every month. MCB Bank also recognizes the importance of collective efforts of employees and an award is presented to the most outperforming team from each respective group that is honored with the 'Team of the Quarter Award' every three months and a total of 40 awards were approved during 2012. On a larger scale, 7 'Team of the Year' awards were also disbursed to groups that attributed to the bank on a larger scale with significant benefits based on merit and target.

- **Front End Employee Training**

Service quality division of the Bank trained 1,852 employees during 2012 covering Bancassurance, Investment and Consumer Lending, Remote Banking and Service Excellence, Customer Relationship Management and Service Protocols and Management in 12 main cities.

Code of Conduct

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

ABIDANCE OF LAWS / RULES

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

INTEGRITY

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

PROFESSIONALISM

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

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

CONFLICT OF INTEREST

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

Political Participation

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

Financial Interest

Not indulge in any of the following activities:

- Borrow money from or in any way place myself under pecuniary obligation to a broker or moneylender or anyone, including but not limited to any firm, company or person having dealings with the Bank.
- Buy or sell stock, shares or securities of any description without funds to meet the full cost in the case of purchase or scripts for delivery in the case of sale.
- However, a bona-fide investment of own funds in such stocks, shares and securities as wished can be made.
- Lend money in private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government paper or any other securities.
- Act as agent for an insurance company otherwise than as agent for or on behalf of the Bank.
- Be connected with the formation or management of a joint stock company or hold office of a director.
- Engage in any other commercial business or pursuit, either on own account or as agent for another or others.
- Accept or seek any outside employment or office whether stipendiary or honorary.
- Undertake part-time work for a private or public body or private person, or accept fee thereof.

Gift, Favors Etc.

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

CONFIDENTIALITY

- Maintain the privacy and confidentiality (during the course of employment and after its termination for whatever reason), of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefit of any individual(s).
- Not use for self gain, or for that of others either directly or indirectly, all inside information about Bank's customers / affairs including customer data, product manuals, confidential research work, technical processes, operating manuals, marketing plans and strategies and other confidential financial and business information of the Bank etc.
- Not trade in relevant investments or indulge in giving tips to another person or dealing on behalf of relatives, friends or any other third parties, whilst in possession of non-public price sensitive information.
- Not disclose that a suspicious transaction or related information is being reported for investigation to the customer or any irrelevant quarter.

Data Security

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

Communication / Contact with Media

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

BUSINESS / WORK ETHICS

- Respect fellow colleagues and work as a team. To be, at all times, courteous and to not let any personal differences affect work.

- Treat every customer of the Bank with respect and courtesy.

Personal Responsibility

- Demonstrate commitment to the code through words and actions.
- Be responsible for data relating to official responsibilities and to not alter / modify / amend Bank's record so as to obtain any personal benefits, attempt which in doing so shall hold the person liable to disciplinary action as per Bank's policy.
- Safeguard as a personal responsibility, both the tangible and intangible assets of MCB and its customer(s) that are under personal control and to not use Bank's assets for personal benefits except where permitted by MCB.
- Not use any Bank facilities including a car or telephone to promote trade union activities, or carry weapons into Bank premises unless so authorized by the management, or to carry on trade union activities during office hours, or subject Bank officials to physical harassment or abuse.
- Not indulge in any kind of harassment or intimidation whether committed by or against any senior/ junior, 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 policies of the Bank, as announced by the management from time to time and will contribute utmost effort in maintaining a conducive work environment by meticulously adhering and ensuring adherence to Anti Harassment and SHE (Safety, Health & Environment) Policies of the Bank.

Usage of Communication Tools

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

REPORTING AND ACCOUNTABILITY

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

Ensure facts are not misinterpreted pertaining to:

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

Statement of Compliance with the Best Practices of Code of Corporate Governance for the year ended December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance - 2012 (CCG) contained in Regulation No. 35 of Chapter XI of Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the CCG in the following manner:

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present all the directors on the board are non-executive except for President.
2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Bank (excluding the listed subsidiaries of listed holding companies).
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Bank during the year.
5. The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Majority of the board members have the prescribed education and experience required for exemption from training programs of Directors pursuant to clause xi of CCG.
10. No new appointments of CFO and Head of Internal Audit were made during the year except for Company Secretary, whose contract was renewed, and his remuneration and terms and conditions of employment were approved by the Board of Directors.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises four (4) members; all of whom are non-executive directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises four (4) members, of whom three (3) are non-executive directors including the Chairman of the committee.
18. The board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank.
19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Bank's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.



(MIAN MOHAMMAD MANSHA)

Lahore

CHAIRMAN

February 07, 2013

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

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

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

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

Regulation 35(x) of the Listing Regulations requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2012.



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

Lahore

Dated: February 22, 2013



MCB Bank Limited

Financial Statements for the year ended December 31, 2012

Auditors' Report to the Members

We have audited the annexed unconsolidated statement of financial position of MCB Bank Limited as at December 31, 2012 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, 2012 and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



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

Lahore
Dated: February 22, 2013

Statement of Financial Position

As at December 31, 2012

	Note	2012	2011
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	6	57,420,129	53,122,522
Balances with other banks	7	1,191,974	2,281,263
Lendings to financial institutions	8	1,551,472	955,087
Investments - net	9	402,068,916	316,651,613
Advances - net	10	239,583,320	227,580,139
Operating fixed assets	11	23,738,454	22,007,903
Deferred tax assets - net		-	-
Other assets - net	12	40,344,727	30,634,696
		<u>765,898,992</u>	<u>653,233,223</u>
LIABILITIES			
Bills payable	14	9,896,284	9,466,818
Borrowings	15	78,951,103	39,100,627
Deposits and other accounts	16	545,060,728	491,188,710
Sub-ordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	17	9,142,098	6,294,886
Other liabilities	18	21,097,973	18,379,700
		<u>664,148,186</u>	<u>564,430,741</u>
NET ASSETS			
		<u>101,750,806</u>	<u>88,802,482</u>
Represented by			
Share capital	19	9,198,601	8,362,365
Reserves	20	44,253,270	42,186,467
Unappropriated profit		34,705,038	28,366,171
		<u>88,156,909</u>	<u>78,915,003</u>
Surplus on revaluation of assets - net of tax	21	13,593,897	9,887,479
		<u>101,750,806</u>	<u>88,802,482</u>
Contingencies and commitments			
	22		

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

Imran Maqbool

Imran Maqbool
President and Chief Executive

Umer Mansha

Mian Umer Mansha
Director

Dato' Seri Ismail Shahudin

Dato' Seri Ismail Shahudin
Director

Tariq Rafi

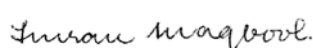
Tariq Rafi
Director

Profit and Loss Account

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	24	68,356,191	68,146,588
Mark-up / return / interest expensed	25	27,500,019	23,620,274
Net mark-up / interest income		40,856,172	44,526,314
Provision for diminution in the value of investments - net	9.3	(3,044)	778,526
Provision against loans and advances - net	10.5.2	480,903	2,846,523
Bad debts written off directly	10.6.1	206	28,565
		478,065	3,653,614
Net mark-up / interest income after provisions		40,378,107	40,872,700
Non-mark-up / interest income			
Fee, commission and brokerage income		5,934,472	5,117,196
Dividend income		1,197,615	1,003,272
Income from dealing in foreign currencies		822,856	921,262
Gain on sale of securities - net	26	824,539	735,639
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	27	373,849	334,822
Total non-mark-up / interest income		9,153,331	8,112,191
		49,531,438	48,984,891
Non-mark-up / interest expenses			
Administrative expenses	28	17,065,025	15,584,687
Other provision - net	12.3	(187,305)	514,646
Other charges	29	599,974	1,402,379
Total non-mark-up / interest expenses		17,477,694	17,501,712
Extra ordinary / unusual item		-	-
Profit before taxation		32,053,744	31,483,179
Taxation - Current year		9,600,760	9,724,467
- Prior years		116,725	1,037,910
- Deferred		1,395,563	1,295,896
	30	11,113,048	12,058,273
Profit after taxation		20,940,696	19,424,906
Unappropriated profit brought forward		28,366,171	21,414,955
Transfer from surplus on revaluation of fixed assets - net of tax		35,789	35,788
		28,401,960	21,450,743
Profit available for appropriation		49,342,656	40,875,649
Basic and diluted earnings - after tax Rupees per share			
	33	22.77	21.12

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



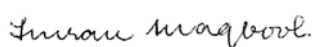
Tariq Rafi
Director

Statement of Comprehensive Income

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
Profit after tax for the year	20,940,696	19,424,906
Other comprehensive income		
Effect of translation of net investment in foreign branches	(27,267)	81,070
Comprehensive income transferred to equity	20,913,429	19,505,976
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	5,193,856	(35,958)
Deferred tax	(1,451,649)	(64,973)
	3,742,207	(100,931)
Total comprehensive income for the year	24,655,636	19,405,045

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



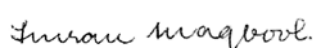
Tariq Rafi
Director

Cash Flow Statement

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Cash flows from operating activities			
Profit before taxation		32,053,744	31,483,179
Less: Dividend income		(1,197,615)	(1,003,272)
		30,856,129	30,479,907
Adjustments for non-cash charges			
Depreciation	11.2	1,378,970	1,114,998
Amortization	11.3	259,932	250,400
Provision against loans and advances - net	10.5.2	480,903	2,846,523
Provision for diminution in the value of investments - net	9.3	(3,044)	778,526
Provision against other assets - net	12.3	(187,305)	514,646
Bad debts written off directly	10.6.1	206	28,565
Provision for Workers' Welfare Fund	29	641,075	629,664
Charge / (reversal) for defined benefit plan	28	(2,019,845)	(1,787,640)
Gain on disposal of fixed assets - net	27	(22,586)	(24,291)
		528,306	4,351,391
		31,384,435	34,831,298
(Increase) / decrease in operating assets			
Lendings to financial institutions		(596,385)	3,446,694
Net investments in 'held for trading' securities		-	-
Advances - net		(12,888,489)	25,367,208
Other assets - net		(1,694,467)	932,443
		(15,179,341)	29,746,345
Increase / (decrease) in operating liabilities			
Bills payable		429,466	(798,719)
Borrowings		39,132,085	13,848,791
Deposits and other accounts		53,872,018	59,816,773
Other liabilities		2,055,177	2,146,455
		95,488,746	75,013,300
		111,693,840	139,590,943
Defined benefits paid		(370,756)	(394,097)
Income tax paid		(14,622,132)	(14,736,896)
Net cash flows from operating activities		96,700,952	124,459,950
Cash flows from investing activities			
Net investments in 'available for sale' securities		(81,386,276)	(107,698,843)
Net investments in 'held to maturity' securities		1,260,172	3,346,149
Investment in subsidiary company		(94,299)	-
Investment in associated undertaking		-	(52,521)
Dividends received		1,198,485	1,001,750
Investments in operating fixed assets		(3,404,698)	(2,446,649)
Sale proceeds of property and equipment disposed off		57,831	45,179
Net cash flows from investing activities		(82,368,785)	(105,804,935)
Cash flows from financing activities			
Dividend paid		(11,814,973)	(9,785,295)
Net cash flows from financing activities		(11,814,973)	(9,785,295)
Exchange differences on translation of the net investment in foreign branches		(27,267)	81,070
Increase in cash and cash equivalents		2,489,927	8,950,790
Cash and cash equivalents at beginning of the year		54,731,230	46,060,358
Effects of exchange rate changes on cash and cash equivalents		562,023	282,105
		55,293,253	46,342,463
Cash and cash equivalents at end of the year	34	57,783,180	55,293,253

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



Tariq Rafi
Director

Statement of Changes in Equity

For the year ended December 31, 2012

	Share capital	Capital Reserves			Statutory reserve	Revenue Reserves		Total
		Reserve for issue of bonus shares	Share premium	Exchange translation reserve		General reserve	Unappropriated profit	
(Rupees in '000)								
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
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
Profit after taxation for the year ended December 31, 2012	-	-	-	-	-	-	20,940,696	20,940,696
Exchange differences on translation of net investment in foreign branches	-	-	-	(27,267)	-	-	-	(27,267)
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	35,789	35,789
Transferred to statutory reserve	-	-	-	-	2,094,070	-	(2,094,070)	-
Transfer to reserve for issue of bonus shares	-	836,236	-	-	-	-	(836,236)	-
Issue of bonus shares - December 2011	836,236	(836,236)	-	-	-	-	-	-
Final cash dividend - December 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)
Interim cash dividend - March 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)
Interim cash dividend - June 2012	-	-	-	-	-	-	(3,679,441)	(3,679,441)
Interim cash dividend - September 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)
Balance as at December 31, 2012	9,198,601	-	9,702,528	399,782	15,550,960	18,600,000	34,705,038	88,156,909

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

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

Imran Maqbool

Imran Maqbool
President and Chief Executive

Umer Mansha

Mian Umer Mansha
Director

Seri Ismail Shahudin

Dato' Seri Ismail Shahudin
Director

Tariq Rafi

Tariq Rafi
Director

Notes to the Financial Statements

For the year ended December 31, 2012

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 (2011: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB -15 Main Gulberg, Lahore. The Bank operates 1,179 branches including 27 Islamic banking branches (2011: 1,165 branches including 22 Islamic banking branches) within Pakistan and 8 branches (2011: 8 branches) outside the country (including the Karachi Export Processing Zone branch).

2. BASIS OF PRESENTATION

2.1 These financial statements represent separate financial statements of MCB Bank Limited. The consolidated financial statements of the Group are being issued separately.

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

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

2.4 For the purpose of translation, rates of Rs. 97.1497 per US Dollar (2011: Rs. 89.9457) and Rs. 0.7611 per LKR (2011: Rs.0.7899) have been used.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

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

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

Notes to the Financial Statements

For the year ended December 31, 2012

SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.2 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year but not relevant to the Bank or do not have material impact

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

- IAS 34 - Interim Financial Reporting
- IAS 1 - Presentation of Financial Statements (Amendments)
- IFRIC 13 - Customer Loyalty Programmes
- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 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, 2013.

- 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 January 1, 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 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 1, 2013) . IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. 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 application of the amendments to IAS 19 would result in the recognition of cumulative unrecognized actuarial gain amounting Rs. 1,107.512 million in other comprehensive income in the period of initial application.

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

4. BASIS OF MEASUREMENT

- ### 4.1
- These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value.

Notes to the Financial Statements

For the year ended December 31, 2012

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

4.3 Critical accounting estimates and judgments

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

a) Classification of investments

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

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

b) Provision against advances

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

the borrowers and the requirements of the Prudential Regulations are considered.

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

c) Impairment of 'available for sale' equity investments

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

d) Taxation

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

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

Notes to the Financial Statements

For the year ended December 31, 2012

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.

International Accounting Standards (IAS) 16 "Property, Plant and Equipment" requires the review of residual value of assets, useful lives and depreciation method at each financial year end. The management has revised the depreciation method used to allocate the depreciable amount of "Furniture & Fixture" and "Electrical and Office Equipment" from the diminishing balance method (DBM) to straight line method (STL) and revised the depreciation rate on "Electrical & Office Equipment" from 20% based on DBM to 10% STL. The above change reflects a more systematic allocation of the depreciable amount of these assets over their estimated useful lives.

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of "International Accounting standard (IAS) 8, Accounting Policies, Changes in Accounting Estimates and errors." Accordingly, the effect of these changes in accounting estimates has been recognized prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been higher by Rs 53.888 million.

g) Staff retirement benefits

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Bank classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

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

c) Available for sale

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2012

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

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

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

5.2 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / repurchase 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 finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.4 Operating fixed assets and depreciation

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

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

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

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

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does

Notes to the Financial Statements

For the year ended December 31, 2012

not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

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

5.4.1 Intangible assets

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

5.4.2 Leases (Ijarah)

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

5.5 Impairment

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

exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.6 Staff retirement benefits

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

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

Notes to the Financial Statements

For the year ended December 31, 2012

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

Notes to the Financial Statements

For the year ended December 31, 2012

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) until the disposal of the net investment, at which time these are recognised in the profit and loss account.

5.10.4 Commitments

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

5.11 Acceptances

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

5.12 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas

regulatory authorities of countries where the branches operate. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.

- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Ijarah income is recognized on an accrual basis as and when the rental becomes due.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.

5.13 Operating leases

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

5.14 Assets acquired in satisfaction of claims

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

5.15 Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended December 31, 2012

5.16 Financial instruments

5.16.1 Financial assets and financial liabilities

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

5.16.2 Derivative financial instruments

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

5.16.3 Off setting

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

5.17 Borrowings / deposits

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

5.18 Segment reporting

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

segments. The Bank's primary format of reporting is based on business segments.

5.18.1 Business segments

Corporate Finance

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

Trading and Sales

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

Retail and Consumer Banking

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

Commercial Banking

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

5.18.2 Geographical segments

The Bank operates in three geographic regions being:

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

5.19 Dividend distribution and appropriation

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

5.20 Earnings per share

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

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	10,335,258	9,178,607
- foreign currencies		1,467,866	1,158,815
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	24,947,522	23,043,958
Foreign currency current account	6.3	366,370	43,029
Foreign currency deposit account	6.2	4,693,009	4,041,566
With other central banks in foreign currency current account	6.2	373,700	331,050
With National Bank of Pakistan in local currency current account		15,236,404	15,325,497
		57,420,129	53,122,522

6.1 This includes national prize bonds amounting to Rs. 116.073 million (2011: Rs. 95.889 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	2012 (Rupees in '000)	2011
7. BALANCES WITH OTHER BANKS			
Outside Pakistan			
- current account		978,930	1,654,924
- deposit account	7.1	213,044	626,339
		1,191,974	2,281,263

7.1 Balances with other banks outside Pakistan in deposit accounts carry interest rates ranging from 0.16% to 4.25% per annum (2011: 0.50% to 3% per annum).

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		-	-
Repurchase agreement lendings	8.2 & 8.3	1,551,472	955,087
		<u>1,551,472</u>	<u>955,087</u>
8.1 Particulars of lendings			
In local currency		1,482,973	907,693
In foreign currencies		68,499	47,394
		<u>1,551,472</u>	<u>955,087</u>

8.2 These carry mark up rates ranging from 7.50% to 9.15% per annum (2011 : 7% to 11.90%).

8.3 Securities held as collateral against lendings to financial institutions

	2012			2011		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	1,551,472	-	1,551,472	955,087	-	955,087
	<u>1,551,472</u>	<u>-</u>	<u>1,551,472</u>	<u>955,087</u>	<u>-</u>	<u>955,087</u>

Notes to the Financial Statements

For the year ended December 31, 2012

9. INVESTMENTS - NET

9.1 Investments by types

Note / Annexure	2012			2011			
	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	226,894,492	63,100,246	289,994,738	232,284,116	24,306,386	256,590,502
- Pakistan Investment Bonds	9.4	83,428,081	-	83,428,081	33,994,184	-	33,994,184
- Shares in listed companies	9.4 & Annexure I (note 1)	6,807,354	-	6,807,354	7,832,951	-	7,832,951
- Units in open ended mutual fund	9.4 & Annexure I (note 1)	4,050,000	-	4,050,000	4,000,000	-	4,000,000
- Shares in unlisted companies	9.4 & Annexure I (note 2)	244,217	-	244,217	523,951	-	523,951
- NIT units		5,253	-	5,253	5,253	-	5,253
- Sukuk Bonds	9.4 & Annexure I (note 3)	3,400,000	-	3,400,000	4,100,000	-	4,100,000
- Term Finance Certificates (TFCs)	9.4 & Annexure I (note 3)	1,912,343	-	1,912,343	1,949,543	-	1,949,543
		326,741,740	63,100,246	389,841,986	284,689,998	24,306,386	308,996,384
Held-to-maturity securities							
- Market Treasury Bills	9.5	771,355	67,824	839,179	1,817,297	483,000	2,300,297
- Pakistan Investment Bonds	9.5	1,676,918	-	1,676,918	1,804,197	-	1,804,197
- Provincial Government Securities		118	-	118	118	-	118
- Sukuk Bonds	Annexure I (note 4)	653,616	-	653,616	1,231,964	-	1,231,964
- Euro Bonds	Annexure I (note 4)	1,693,483	-	1,693,483	1,542,470	-	1,542,470
- Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 3 & 4)	2,831,442	-	2,831,442	2,075,882	-	2,075,882
		7,626,932	67,824	7,694,756	8,471,928	483,000	8,954,928
Subsidiaries							
- MNET Services (Private) Limited	Annexure I (note 5)	49,975	-	49,975	49,975	-	49,975
- MCB Trade Services Limited		77	-	77	77	-	77
- Arif Habib Investments Limited		320,123	-	320,123	320,123	-	320,123
- MCB Leasing Closed Joint Stock Company		178,832	-	178,832	84,533	-	84,533
- MCB Financial Services Limited		27,500	-	27,500	27,500	-	27,500
		576,507	-	576,507	482,208	-	482,208
Associates							
- Adamjee Insurance Company Limited	Annexure I (note 6)	943,600	-	943,600	943,600	-	943,600
- Euronet Pakistan (Private) Limited	9.6	52,521	-	52,521	52,521	-	52,521
- First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		1,059,421	-	1,059,421	1,059,421	-	1,059,421
Investments at cost							
		336,004,600	63,168,070	399,172,670	294,703,555	24,789,386	319,492,941
Less: Provision for diminution in value of investments	9.3	(2,783,347)	-	(2,783,347)	(3,327,065)	-	(3,327,065)
Investments (net of provisions)							
		333,221,253	63,168,070	396,389,323	291,376,490	24,789,386	316,165,876
Surplus / (Deficit) on revaluation of available for sale securities - net	21.2	5,634,413	45,180	5,679,593	472,254	13,483	485,737
Investments at revalued amounts - net of provisions							
		338,855,666	63,213,250	402,068,916	291,848,744	24,802,869	316,651,613

Notes to the Financial Statements

For the year ended December 31, 2012

	Note / Annexure	2012 (Rupees in '000)	2011
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	289,994,738	256,590,502
- Pakistan Investment Bonds	9.4	85,104,999	35,798,381
- Euro Bonds	Annexure I (note 4)	1,693,483	1,542,470
- Sukuk Bonds	Annexure I (note 3 & 4)	3,400,000	4,500,000
Overseas Government Securities			
- Market Treasury Bills - Sri Lanka		839,179	2,300,297
Provincial Government Securities		118	118
Subsidiaries and Associated Undertakings	9.6 & Annexure I (note 5 & 6)	1,635,928	1,541,629
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	6,744,069	7,771,349
- Unlisted companies / funds	Annexure I (note 2)	144,217	423,951
Units of Open Ended Mutual Funds	Annexure I (note 1)	4,050,000	4,000,000
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	63,285	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)	2,563,200	2,565,183
- Unlisted Term Finance Certificates	Annexure I (note 3)	1,979,818	1,213,783
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)	200,767	246,459
Other Investments:			
- Sukuk Bonds	Annexure I (note 4)	653,616	831,964
- NIT Units		5,253	5,253
Total investments at cost		399,172,670	319,492,941
Less: Provision for diminution in the value of investments	9.3	(2,783,347)	(3,327,065)
Investments (net of provisions)		396,389,323	316,165,876
Surplus on revaluation of available for sale securities - net	21.2	5,679,593	485,737
Investments at revalued amounts - net of provisions		402,068,916	316,651,613
9.3 Particulars of provision			
Opening balance		3,327,065	3,116,292
Charge during the year		42,637	786,923
Reversal made during the year		(45,681)	(8,397)
		(3,044)	778,526
Reversal on disposal of shares		(540,674)	(566,750)
Investment written off against provision		-	(1,003)
Closing balance		2,783,347	3,327,065
9.3.1 Particulars of provision in respect of Type and Segment			
Available-for-sale securities			
Listed shares / Certificates / Units		2,215,756	2,712,032
Unlisted shares		71,342	73,674
		2,287,098	2,785,706
Held-to-maturity securities			
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates		496,249	541,359
		2,783,347	3,327,065

Notes to the Financial Statements

For the year ended December 31, 2012

9.4 Quality of 'available for sale' securities

	Note	2012		2011	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	290,505,477	Unrated	256,558,203	Unrated
Pakistan Investment Bonds	9.4.1	86,166,935	Unrated	33,755,051	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		275,754	AA-	255,740	AA-
Bank Alfalah Limited		522,712	AA-	501,600	AA-
United Bank Limited		777,380	AA	758,654	AA
Allied Bank Limited		237,013	AA	231,294	AA-
NIB Bank limited		167,118	A+	163,443	A+
Pak Arab Fertilizers Limited		30,011	AA	74,332	AA
		2,009,988		1,985,063	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		19,645	Not available	13,532	Not available
Aisha Steel Mills Limited		1,690	A- & A2	-	-
Allied Bank Limited		496,754	AA+ & A1+	340,150	AA & A1+
Arif Habib Limited		2,686	Not available	1,111	Not available
Arif Habib Corporation Limited		44,650	AA & A1+	43,603	Not available
Askari Bank Limited		-	-	49,211	AA & A1+
Attock Cement Pakistan Limited		1,676	Not available	-	-
Attock Petroleum Limited		420,756	Not available	152,561	Not available
Attock Refinery Limited		37,270	AA & A 1+	17,224	AA & A1+
Bank Alfalah Limited		5,046	AA & A1+	-	AA & A1+
Bank Al-Habib Limited		201,959	AA+ & A1+	220,604	AA+ & A1+
Century Papers and Board Mills Limited		-	-	709	A+
Clariant Pakistan Limited		14,524	Not available	8,381	Not available
Fauji Fertilizer Bin Qasim Company Limited		112,374	Not available	631,540	Not available
Fauji Fertilizer Company Limited		1,175,148	Not available	1,525,308	Not available
First AI - Noor Modaraba		24,990	Not available	23,324	BBB & A-3
Glaxo Smithkline Pakistan Limited		-	-	37,389	Not available
Habib Bank Limited		317,869	AAA & A1+	94,715	AA+ & A-1+
Habib Metropolitan Bank Limited		2,168	AA+ & A1+	21,585	AA+ & A-1+
Hub Power Company Limited		18,096	AA+ & A1+	-	-
Ibrahim Fiber Limited		-	-	3,245	AA- & A1+
ICI Pakistan Limited		-	-	26,459	Not available
IGI Insurance Limited		-	-	18,502	AA
Indus Motors Company Limited		7,297	Not available	5,541	Not available
International Industries Limited		-	-	13,111	Not available
Kohinoor Energy Limited		1,238	AA & A1+	867	AA & A1+
Kot Addu Power Company Limited		145,083	AA+ & A1+	826	AA+ & A-1+
Masood Textile Mills Limited - preference shares		50,000	Not available	50,000	Not available
Meezan Bank Limited		10,743	AA- & A1+	-	-
Mehr Dastagir Textile Mills Limited		-	-	3,234	Not available
Millat Tractors Limited		50,582	Not available	149,708	Not available
Murree Brewery Company Limited		2,861	Not available	-	-
National Foods Limited		4,941	A+ & A1	-	-
National Refinery Limited		44,236	AAA & A1+	64,378	AAA & A1+
Nestle Pakistan Ltd Limited		25,314	Not available	-	-
* Next Capital Limited		9,555	Not available	8,240	Not available
Oil & Gas Development Company Limited		27,377	AAA & A1+	45,052	AAA & A-1+
Packages Limited		-	-	3,301	AA & A1+
Pakistan Cables Limited		-	-	1,367	Not available
Pakistan Oilfields Limited		510,038	Not available	478,134	Not available
Pakistan Petroleum Limited		140,515	Not available	216,217	Not available
Pakistan State Oil Company Limited		-	-	39,303	AA+ & A1+

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Note	2012		2011	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Pakistan Telecommunication Company Limited	-	-	2,338	Not available
Pakistan Tobacco Company Limited	3,310	Not available	2,720	Not available
Rafhan Maize Products Limited	23,858	Not available	12,086	Not available
Rupali Polyester Limited	3,994	Not available	4,974	Not available
Samba Bank Limited	75,216	AA- & A1	44,896	A+ & A-1
Searle Pakistan Limited	3,010	BBB & A-3	-	-
Soneri Bank Limited	-	-	17,300	AA- & A1+
Summit Bank Limited	-	-	1,170	A & A2
** Sui Northern Gas Pipelines Limited	1,165,180	AA- & A1+	787,311	AA & A1+
* Trust Securities & Brokerage Limited	1,050	Not available	330	Not available
Unilever Pakistan Limited	799,920	Not available	289,906	Not available
Unilever Pakistan Foods Limited	3,728	Not available	677	Not available
United Bank Limited	655,173	AA+ & A1+	382,733	AA+ & A-1+
Wateen Telecom Limited	-	-	9,114	Under review
Zulfiqar Industries Limited	3,183	Not available	1,007	Not available
	6,664,703		5,864,994	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	4,236,489	AA(f)	3,966,812	AM2
MCB Dynamic Stock Fund	61,506	4-STAR & 4-STAR	-	-
	4,297,995		3,966,812	
Shares in Un-listed Companies 9.4.2				
Khushhali Bank Limited	-	-	300,000	A & A-1
* National Investment Trust Limited	100	AM2-	100	AM2
* SME Bank Limited	10,106	BBB & A3	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	3,514	Not available	2,962	Not available
* Central Depository Company of Pakistan Limited	10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited	1,526	Not available	1,527	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
* Islamabad Stock Exchange Limited	30,346	Not available	-	-
Lanka Clearing (Private) Limited	761	Not available	790	Not available
Lanka Financial Services Bureau Limited	761	Not available	790	Not available
Credit Information Bureau of Srilanka	23	Not available	24	Not available
	172,875		442,037	
Other Investment				
Sukuk Bonds 9.4.1	3,412,836	Unrated	4,121,390	Unrated
N.I.T. Units	3,672	AM2-	2,865	AM2
	393,234,481		306,696,415	

9.4.1 These are Government of Pakistan guaranteed securities.

Notes to the Financial Statements

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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. 788.207 million (2011: 33.901 million shares valuing Rs. 532.591 million) which are held as strategic investment by the Bank.

9.5 "Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan. The market value of Pakistan Investment Bonds and Market Treasury Bills classified as 'held to maturity' as at December 31, 2012 amounted to Rs. 1,648.796 million and Rs. 839.179 million (2011: Pakistan Investment Bonds Rs. 1,651.687 million and Market Treasury Bills Rs. 2,300.297 million) respectively.

9.6 Investment of the Bank in Adamjee Insurance Company Limited is carried at cost amounting to Rs. 943.600 million (2011: Rs. 943.600 million) as at December 31, 2012. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2012 amounted to Rs. 2,455.336 million (2011: Rs. 1,675.927 million).

9.7 Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2011: 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 (2011: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

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

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

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
(Rupees in '000)			
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		227,631,192	217,243,968
Outside Pakistan		12,659,510	10,959,873
		<u>240,290,702</u>	<u>228,203,841</u>
Islamic Financing and related assets	10.2	10,212,292	8,579,604
Net investment in finance lease	10.3		
In Pakistan		1,004,316	1,226,014
Outside Pakistan		162,197	151,463
		<u>1,166,513</u>	<u>1,377,477</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		830,471	722,522
Payable outside Pakistan		9,892,365	11,030,137
		<u>10,722,836</u>	<u>11,752,659</u>
Advances - gross		<u>262,392,343</u>	<u>249,913,581</u>
Provision against advances	10.5		
Specific provision	10.3	(22,380,087)	(21,869,401)
General provision	10.5.3	(257,457)	(248,135)
General provision against consumer loans	10.5.5	(145,568)	(198,340)
General provision for potential lease losses (in Sri Lanka operations)		(25,911)	(17,566)
		<u>(22,809,023)</u>	<u>(22,333,442)</u>
Advances - net of provision		<u>239,583,320</u>	<u>227,580,139</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		238,824,837	224,441,499
In foreign currencies		23,567,506	25,472,082
		<u>262,392,343</u>	<u>249,913,581</u>
10.1.2 Short-term		189,280,979	188,142,528
Long-term		73,111,364	61,771,053
		<u>262,392,343</u>	<u>249,913,581</u>
10.2 Islamic Financing and related assets			
Islamic Financing		5,276,527	5,611,142
Inventories		3,319,864	1,645,331
Advance against Murabaha		1,394,444	1,108,334
Advance against future Ijara		25,778	39,044
Advance against Diminishing Musharaka		195,679	175,753
		<u>10,212,292</u>	<u>8,579,604</u>

Notes to the Financial Statements

For the year ended December 31, 2012

10.3 Net investment in finance lease

	2012				2011			
	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	324,519	858,392	-	1,182,911	490,982	737,402	69,615	1,297,999
Guaranteed residual value	68,700	83,560	-	152,260	176,521	132,488	-	309,009
Minimum lease payments	393,219	941,952	-	1,335,171	667,503	869,890	69,615	1,607,008
Finance charge for future periods	(61,722)	(106,936)	-	(168,658)	(73,228)	(144,313)	(11,990)	(229,531)
Present value of minimum lease payments	331,497	835,016	-	1,166,513	594,275	725,577	57,625	1,377,477

10.4 Advances include Rs.25,561.774 million (2011: Rs. 26,664.873 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2012								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees in '000)								
Other Assets Especially Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		285,883	-	285,883	36,090	-	36,090	36,090	-	36,090
Doubtful		845,875	4,024	849,899	421,841	2,012	423,853	421,841	2,012	423,853
Loss		19,829,029	4,596,963	24,425,992	19,714,184	2,205,960	21,920,144	19,714,184	2,205,960	21,920,144
		20,960,787	4,600,987	25,561,774	20,172,115	2,207,972	22,380,087	20,172,115	2,207,972	22,380,087
		(Rupees in '000)								
		2011								
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
		(Rupees in '000)								
Other Assets Especially Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		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
		22,391,410	4,273,463	26,664,873	20,154,999	1,714,402	21,869,401	20,154,999	1,714,402	21,869,401

10.4.1 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.

Notes to the Financial Statements

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

Note	2011				Total
	Specific	General	General provision against consumer loans	Leasing (general)	
(Rupees in '000)					
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	21,869,401	248,135	198,340	17,566	22,333,442

	2012			2011		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.5.1 Particulars of provisions against advances						
In local currency	20,172,115	403,025	20,575,140	20,154,999	446,475	20,601,474
In foreign currencies	2,207,972	25,911	2,233,883	1,714,402	17,566	1,731,968
	22,380,087	428,936	22,809,023	21,869,401	464,041	22,333,442

Note	2012		2011	
	(Rupees in '000)		(Rupees in '000)	
10.5.2 The following amounts have been charged to the profit and loss account:				
Specific provision		516,008		3,044,246
General provision	10.5.3	9,322		(26,009)
General provision against consumer loans	10.5.5	(52,772)		(159,012)
General provision for potential lease losses (in Sri Lanka operations)		8,345		(12,702)
		480,903		2,846,523

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

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

Notes to the Financial Statements

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

	Note	2012 (Rupees in '000)	2011
10.6 Particulars of write offs:			
10.6.1 Against provisions	10.5	106,400	109,939
Directly charged to the profit and loss account		206	28,565
		<u>106,606</u>	<u>138,504</u>
10.6.2 Write offs of Rs. 500,000 and above	10.6.3	90,372	109,030
Write offs of below Rs. 500,000		16,234	29,474
		<u>106,606</u>	<u>138,504</u>

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2012 is given at Annexure- III. However, this write off does not affect the Bank's right to recover the debts from these customers.

	Note	2012 (Rupees in '000)	2011
10.7 Particulars of advances to directors, executives, associated companies, etc.			
Debits 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		4,179,037	4,660,598
Loans granted during the year		527,091	955,974
Repayments		(822,109)	(1,437,535)
Balance at end of the year		<u>3,884,019</u>	<u>4,179,037</u>
Debits due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		580,774	167,022
Loans granted during the year		467,712	422,586
Repayments		(408,021)	(8,834)
Balance at end of the year		<u>640,465</u>	<u>580,774</u>
		<u>4,524,484</u>	<u>4,759,811</u>
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,460,403	1,594,094
Property and equipment	11.2	21,769,226	19,992,013
Intangible asset	11.3	508,825	421,796
		<u>23,738,454</u>	<u>22,007,903</u>
11.1 Capital work-in-progress			
Civil works		1,032,549	1,227,662
Advances to suppliers and contractors		240,852	315,908
Others		187,002	50,524
		<u>1,460,403</u>	<u>1,594,094</u>

Notes to the Financial Statements

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11.2 Property and equipment

Description	2012							
	Cost/ Revalued amount			Accumulated depreciation			Net book value at December 31, 2012	Annual rate of depreciation / estimated useful life
	At January 01, 2012	Additions / (disposals) / exchange and other adjustments	At December 31, 2012	At January 01, 2012	Charge for the year / (depreciation on disposals) / exchange and other adjustments	At December 31, 2012		
(Rupees in '000)								
Land - Freehold	10,788,123	1,269,276	12,057,399	-	-	-	12,057,399	-
Land - Leasehold	120,100	-	120,100	-	-	-	120,100	-
Buildings on freehold land	5,542,637	559,106	6,101,743	133,016	162,581	295,597	5,806,146	upto 50 years
Buildings on leasehold land	307,012	233,291	538,898	120,908	77,620	181,563	357,335	3 to 50 years
		(1,405)			(16,965)			
Furniture and fixture	901,776	82,857	982,427	432,210	107,373	538,266	444,161	10%
		(2,239)			(1,390)			
		33			73			
Electrical, Computers and office Equipment	7,150,209	562,062	7,662,200	4,746,335	813,470	5,536,781	2,125,419	10% to 25%
		(19,008)			(9,986)			
		(31,063)			(13,038)			
Vehicles	562,237	59,344	580,209	325,743	65,386	359,677	220,532	20%
		(40,216)			(30,987)			
		(1,156)			(465)			
Ijarah Assets								
Assets held under Ijarah - Car	105,537	206,629	285,284	30,031	45,172	61,550	223,734	20%
		(26,882)			(13,653)			
Assets held under Ijarah - Equipment	318,957	222,059	537,749	16,332	107,368	123,349	414,400	20%
		(3,267)			(351)			
	25,796,588	3,194,624	28,866,009	5,804,575	1,378,970	7,096,783	21,769,226	
		(91,612)			(56,367)			
		(33,591)			(30,395)			
2011								
Description	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	5,276,168	296,557	5,542,637	-	133,016	133,016	5,409,621	upto 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
		-			-			
		33,312			923			
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			

Notes to the Financial Statements

For the year ended December 31, 2012

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, 2012 would have been as follows:

	(Rupees in '000)
Land	2,911,186
Buildings	3,189,069

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

Furniture and fixture	248,585
Electrical, computers and office equipment	3,198,389
Vehicles	267,108
Intangible asset	934,305

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

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
12. OTHER ASSETS - NET			
Income / mark-up accrued on advances and investments - local currency		8,019,107	7,209,696
Income / mark-up accrued on advances and investments - foreign currencies		84,381	187,967
Advances, deposits, advance rent and other prepayments		959,630	880,302
Advance taxation (payments less provisions)		10,894,522	5,990,472
Compensation for delayed income tax refunds		44,802	44,802
Non-banking assets acquired in satisfaction of claims	12.1	1,398,703	994,504
Unrealised gain on derivative financial instruments	12.2	134,339	311,282
Stationery and stamps on hand		43,067	64,989
Prepaid exchange risk fee		169	537
Receivable from the pension fund	36.3	17,252,778	14,731,898
Others		2,645,206	1,507,934
		<u>41,476,704</u>	<u>31,924,383</u>
Less: Provision held against other assets	12.3	1,131,977	1,289,687
		<u>40,344,727</u>	<u>30,634,696</u>

12.1 The market value of non-banking assets with carrying value of Rs. 1,276.093 million (2011: Rs. 871.894 million) net of provision as per the valuation report dated December 31, 2012 amounted to Rs. 1,374.399 million (2011: Based on valuation as of December 31, 2011 Rs. 893.184 million).

12.2 Unrealised gain on derivative financial instruments

	Contracts / Notional amount		Unrealised gain	
	2012	2011	2012	2011
	(Rupees in '000)			
Unrealised gain on:				
Forward exchange contracts	22,169,486	29,327,087	134,339	311,282
	<u>22,169,486</u>	<u>29,327,087</u>	<u>134,339</u>	<u>311,282</u>

	2012 (Rupees in '000)	2011
12.3 Provision held against other assets		
Opening balance	1,289,687	768,275
Charge for the year	59,858	520,423
Reversal during the year	(247,163)	(5,777)
	(187,305)	514,646
Write off during the year	(12,324)	(18,286)
Exchange adjustments	41,919	25,052
Closing balance	<u>1,131,977</u>	<u>1,289,687</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2012 and December 31, 2011.

	2012 (Rupees in '000)	2011
14. BILLS PAYABLE		
In Pakistan	9,849,905	9,435,321
Outside Pakistan	46,379	31,497
	<u>9,896,284</u>	<u>9,466,818</u>

Notes to the Financial Statements

For the year ended December 31, 2012

		2012	2011
		(Rupees in '000)	
15. BORROWINGS			
In Pakistan		76,644,529	37,397,843
Outside Pakistan		2,306,574	1,702,784
		<u>78,951,103</u>	<u>39,100,627</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		76,644,529	37,397,843
In foreign currencies		2,306,574	1,702,784
		<u>78,951,103</u>	<u>39,100,627</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	8,780,720	9,903,657
Long term financing facility	15.4 & 15.5	3,448,638	2,026,175
Long term financing - export oriented projects scheme	15.4 & 15.5	555,277	949,375
Financing Facility for Storage of Agricultural Produce		768,806	219,932
Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas		-	450
		<u>13,553,441</u>	<u>13,099,589</u>
Borrowings from other financial institution	15.6	292,605	293,113
Repurchase agreement borrowings	15.7	63,158,913	24,781,254
		<u>77,004,959</u>	<u>38,173,956</u>
Unsecured			
Call borrowings	15.8	1,117,221	816,139
Overdrawn nostro accounts		828,923	110,532
		<u>1,946,144</u>	<u>926,671</u>
		<u>78,951,103</u>	<u>39,100,627</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 1.50% to 3.25% per annum (2011: 2.80% to 9.50% per annum).

15.7 These carry mark-up rates ranging from 6.50% to 12.82% per annum (2011: 6.30% to 12.50% per annum) and are secured against government securities of carrying value of Rs. 63,213.250 million (2011: Rs. 24,802.869 million). These are repayable by April, 2013.

15.8 These carry mark-up ranging from 0.8% to 1.45% per annum (2011: 2.24% to 9.10% per annum). These are repayable by April, 2013.

Notes to the Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	80,649,846	91,501,846
Saving deposits	268,927,052	225,920,953
Current accounts	183,176,846	161,680,596
Margin accounts	3,520,404	3,511,830
	536,274,148	482,615,225
Financial institutions		
Remunerative deposits	6,090,878	6,319,827
Non-remunerative deposits	2,695,702	2,253,658
	8,786,580	8,573,485
	545,060,728	491,188,710
16.1 Particulars of deposits		
In local currency	515,607,927	463,540,941
In foreign currencies	29,452,801	27,647,769
	545,060,728	491,188,710

16.2 Deposits include deposits from related parties amounting to Rs. 30,811.575 million (2011: Rs. 30,652.979 million).

	2012	2011
	(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	21.1 763,706	782,977
Accelerated tax depreciation	1,109,270	1,033,028
Receivable from pension fund	6,038,472	5,156,165
Surplus / deficit on revaluation of securities	21.2 1,501,042	49,393
	9,412,490	7,021,563
Deductible temporary differences on:		
Provision for bad debts	(12,632)	(414,114)
Provision for contributory benevolent scheme	-	(5,655)
Provision for post retirement medical benefits	(257,760)	(306,908)
	(270,392)	(726,677)
	9,142,098	6,294,886

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		7,699,434	7,101,705
Mark-up / return / interest payable in foreign currencies		65,112	68,145
Accrued expenses		5,765,580	3,528,593
Unclaimed dividend		520,567	628,228
Staff welfare fund		27,942	36,871
Unrealised loss on derivative financial instruments	18.1	107,194	434,278
Provision for employees' compensated absences	36.3	594,100	535,870
Provision for post retirement medical benefits	36.3	1,494,183	1,411,744
Provision for employees' contributory benevolent scheme	36.3	260,347	262,029
Security deposits received in respect of finance lease		279,832	391,952
Branch adjustment account		19,023	175,079
Retention money		31,634	33,382
Insurance payable against consumer assets		169,517	124,749
Others		4,063,508	3,647,075
		<u>21,097,973</u>	<u>18,379,700</u>

18.1 Unrealised loss on derivative financial instruments

	Contracts / Notional amount		Unrealised loss	
	2012	2011	2012	2011
(Rupees in '000)				
Unrealised loss on:				
Forward exchange contracts	25,074,183	38,099,258	107,194	434,278
	<u>25,074,183</u>	<u>38,099,258</u>	<u>107,194</u>	<u>434,278</u>

19. SHARE CAPITAL

19.1 Authorised Capital

2012	2011		2012	2011
(Number of shares)			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 each	<u>10,000,000</u>	<u>10,000,000</u>

19.2 Issued, subscribed and paid-up capital

2012			2011			2012	2011	
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	638,982,681	836,236,476	197,253,795	562,961,185	760,214,980	Opening balance	8,362,365	7,602,150
-	83,623,647	83,623,647	-	76,021,496	76,021,496	Shares issued during the year	836,236	760,215
<u>197,253,795</u>	<u>722,606,328</u>	<u>919,860,123</u>	<u>197,253,795</u>	<u>638,982,681</u>	<u>836,236,476</u>	Closing balance	<u>9,198,601</u>	<u>8,362,365</u>

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012 (Number of shares)	2011
19.3			
Number of shares held by the associated undertakings as at December 31, are as follows:			
Adamjee Insurance Company Limited		28,641,486	26,037,715
Nishat Mills Limited		66,611,481	59,201,892
D.G. Khan Cement Company Limited		84,526,640	76,842,402
Din Leather (Private) Limited		5,732,508	5,211,371
Siddiqsons Limited		11,798,731	10,726,120
Mayban International Trust (Labuan) Berhad		183,972,923	167,247,294
		<u>381,283,769</u>	<u>345,266,794</u>
20. RESERVES			
Share premium		9,702,528	9,702,528
Exchange translation reserve		399,782	427,049
Statutory reserve	20.1	15,550,960	13,456,890
General reserve		18,600,000	18,600,000
		<u>44,253,270</u>	<u>42,186,467</u>

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

	Note	2012 (Rupees in '000)	2011
21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX			
Surplus / (deficit) arising on revaluation (net of tax) of:			
- fixed assets	21.1	9,415,346	9,451,135
- available-for-sale securities	21.2	4,178,551	436,344
		<u>13,593,897</u>	<u>9,887,479</u>
21.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 01		10,234,112	10,289,171
Surplus during the year		-	-
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		(35,789)	(35,788)
Related deferred tax liability		(19,271)	(19,271)
		(55,060)	(55,059)
Surplus on revaluation of fixed assets as at December 31		<u>10,179,052</u>	<u>10,234,112</u>
Less: Related deferred tax liability on:			
Revaluation as at January 01		782,977	802,248
Surplus during the year		-	-
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)	(19,271)
		<u>763,706</u>	<u>782,977</u>
		<u>9,415,346</u>	<u>9,451,135</u>

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
21.2 Surplus / (deficit) on revaluation of available -for-sale securities - net of tax			
Federal Government Securities			
- Market Treasury Bills		510,739	(32,299)
- Pakistan Investment Bonds		2,738,854	(239,133)
Listed Securities			
- Shares / Certificates / Units		2,071,198	733,928
- Open Ended Mutual Funds		248,321	(33,669)
- Term Finance Certificates		97,645	35,520
		2,417,164	735,779
Sukuk Bonds		12,836	21,390
		5,679,593	485,737
Add: Related deferred tax (liability) / asset	17	(1,501,042)	(49,393)
		4,178,551	436,344
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring			
Government		5,129,432	5,395,819
Banks and financial institutions		3,585,501	2,552,463
Others		13,956,922	11,472,854
		22,671,855	19,421,136
22.2 Transaction-related contingent liabilities			
Guarantees in favour of			
Others		686,615	477,806
Suppliers' credit / payee guarantee		2,600,833	2,373,006
		3,287,448	2,850,812
22.3 Trade-related contingent liabilities		69,423,741	74,195,135
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		620,416	844,099
<p>These represent certain claims by third parties against the Bank, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.</p>			
22.5 Commitments to extend credit			
<p>The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.</p>			
		2012 (Rupees in '000)	2011
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		25,546,035	32,395,900
Sale		21,697,634	35,030,445
22.7 Commitments for the acquisition of fixed assets		555,398	276,277

Notes to the Financial Statements

For the year ended December 31, 2012

22.8 Taxation

For assessment year 1988-89 through tax year 2011, the tax department disputed Bank's treatment on certain issues, where the Bank's appeals are pending at various appellate forums, entailing an additional tax liability of Rs.9,639 million which has been paid. Such issues inter alia principally include disallowance of expenses for non deduction of withholding tax and non availability of underlying records, provision for non performing loans, attribution of expenses to heads of income other than income from business and disallowance of credit for taxes paid in advance / deducted at source.

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

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

23. DERIVATIVE INSTRUMENTS

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

The Bank 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 defined notional limits both for the portfolio and the counterparty.

Notes to the Financial Statements

For the year ended December 31, 2012

Note	2012	2011
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	28,810,967	33,769,826
On investments in:		
Held for trading securities	571,924	-
Available for sale securities	37,623,042	31,944,698
Held to maturity securities	838,773	1,174,867
	39,033,739	33,119,565
On deposits with financial institutions	40,446	11,828
On securities purchased under resale agreements	256,648	958,125
On money at call	23,438	71,626
Others	190,953	215,618
	<u>68,356,191</u>	<u>68,146,588</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	23,042,790	20,083,248
Securities sold under repurchase agreements	2,628,154	1,574,909
Other short-term borrowings	1,153,569	1,210,856
Discount, commission and brokerage	511,562	662,115
Others	163,944	89,146
	<u>27,500,019</u>	<u>23,620,274</u>
26. GAIN ON SALE OF SECURITIES - NET		
Federal Government Securities		
Market Treasury Bills	37,567	47,461
Pakistan Investment Bonds	25,516	8,717
Sukuk Bonds	3,000	13,500
Others		
- Shares and units- Listed	445,383	665,961
- Unlisted shares	313,073	-
	<u>824,539</u>	<u>735,639</u>
27. OTHER INCOME		
Rent on property / lockers	162,819	129,722
Net profit on sale of property and equipment	22,586	24,291
Bad debts recovered	48,817	39,140
Postal, SWIFT and other charges recovered	139,627	141,669
	<u>373,849</u>	<u>334,822</u>

Notes to the Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
(Rupees in '000)			
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		9,177,281	8,307,442
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(2,520,880)	(2,189,338)
- Post retirement medical benefits	36.7	222,861	169,629
- Employees' contributory benevolent scheme	36.7	38,563	51,422
- Employees' compensated absences	36.7	239,611	180,647
		(2,019,845)	(1,787,640)
Contributions to defined contribution plan - provident fund		188,417	176,510
Non-executive directors' fees		33,431	35,838
Rent, taxes, insurance and electricity		1,964,618	1,694,705
Legal and professional charges		176,615	227,562
Communications		931,840	935,531
Repairs and maintenance		1,208,462	952,689
Stationery and printing		402,458	385,384
Advertisement and publicity		393,092	426,513
Cash transportation charges		461,279	449,670
Instrument clearing charges		187,471	197,851
Donations	28.1	31,162	83,506
Auditors' remuneration	28.2	20,522	25,128
Depreciation	11.2	1,378,970	1,114,998
Amortization of intangible asset	11.3	259,932	250,400
Travelling, conveyance and fuel		745,277	728,167
Subscription		18,392	28,141
Entertainment		110,114	102,470
Training Expenses		30,429	46,298
Petty Capital items		34,890	55,907
Card Related Expenses		147,490	129,396
Outsourced security guards, tea services and janitorial expenses		957,965	798,431
CNIC verification charges		60,276	57,596
Others		164,487	162,194
		<u>17,065,025</u>	<u>15,584,687</u>

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:

	2012	2011
(Rupees in '000)		
Construction of houses in flood affected areas	12,088	77,988
Cancer Detection Center - Rotary Club of Colombo	-	783
Network equipment to PSWO	7,901	-
Hyderabad Relief & Rehabilitation Trust	3,832	-
Al-Shifa Trust, " Fighting Against Blindness"	1,000	-
Sindh Institute of Urology & Transplantation (SIUT)	5,000	-
Shoukat Khanum Memorial Trust	100	-
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation	1,241	4,735
	<u>31,162</u>	<u>83,506</u>
28.2 Auditors' remuneration		
Annual Audit fee	11,550	11,000
Fee for audit and other certifications of overseas branches	2,316	6,932
Tax and other sundry services	5,966	6,683
Out-of-pocket expenses	690	513
	<u>20,522</u>	<u>25,128</u>

Notes to the Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
29. OTHER CHARGES		
Provision for Penalties of State Bank of Pakistan	220,000	150,000
Workers welfare fund	641,075	629,664
VAT Sri Lanka	43,643	33,448
Provision against balance with banks	(304,744)	406,672
Loss on Sale of Non-Banking Assets	-	182,595
	599,974	1,402,379
30. TAXATION		
For the year		
Current	9,600,760	9,724,467
Deferred	1,395,563	1,153,561
	10,996,323	10,878,028
Prior years		
Current	116,725	1,037,910
Deferred	-	142,335
	116,725	1,180,245
	11,113,048	12,058,273
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	32,053,744	31,483,179
Tax rate	35%	35%
Tax on income	11,218,810	11,019,113
Tax effect on separate block of income (taxable at reduced rate)	(226,188)	(242,275)
Tax effect of permanent differences	87,907	81,727
Tax effect of prior years provisions	116,725	1,180,245
Others	(84,206)	19,463
Tax charge for the year	11,113,048	12,058,273
31. CREDIT RATING		
PACRA through its notification in June 2012, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] of the Bank (2011: AA+ [Double A plus] for long term and A1+ [A one plus] for short term rating).		
	2012	2011
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE - PRE TAX		
Profit before taxation	32,053,744	31,483,179
	(Number of Shares)	
Weighted average number of shares outstanding during the year	919,860,123	919,860,123
	(Rupees)	
Basic and diluted earnings per share - pre tax	34.85	34.23

Notes to the Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
33. BASIC AND DILUTED EARNINGS PER SHARE - AFTER TAX		
Profit after taxation	20,940,696	19,424,906
	(Number of Shares)	
Weighted average number of shares outstanding during the year	919,860,123	919,860,123
	(Rupees)	
Basic and diluted earnings per share - after tax	22.77	21.12

* Weighted average number of shares outstanding for 2011 have been restated to give effect of bonus shares issued during the year.

	Note	2012	2011
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	57,420,129	53,122,522
Balances with other banks	7	1,191,974	2,281,263
Overdrawn nostro accounts	15	(828,923)	(110,532)
		57,783,180	55,293,253
		(Numbers)	
35. STAFF STRENGTH			
Permanent		10,612	10,090
Temporary/on contractual basis		71	64
Bank's own staff strength at the end of the year		10,683	10,154
Outsourced	35.1	1,928	2,892
Total staff strength		12,611	13,046

35.1 This excludes outsourced security guards and tea services staff.

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

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

Notes to the 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, 2012. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
	(%)							
Valuation discount rate	12	13	12	13	12	13	12	13
Expected rate of return on plan assets	12	13	-	-	-	-	-	-
Salary increase rate	9	10	9	10	9	10	9	10
Medical cost inflation rate	-	-	-	-	6	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		
	2012	2011	2012	2011	2012	2011	2012	2011	
	(Rupees in '000)								
Present value of defined benefit obligations	36.5	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Fair value of plan assets	36.6	(22,688,154)	(19,543,388)	-	-	-	-	-	-
Net actuarial gains / (losses) not recognised		1,175,705	549,069	3,258	(21,448)	(71,451)	22,774	-	-
Net (receivable) / payable recognised as at the year-end		(17,252,778)	(14,731,898)	260,347	262,029	1,494,183	1,411,744	594,100	535,870

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, 2012 would be Rs. 95.010 million (2011: Rs. 81.262 million) and Rs. 80.020 million (2011: Rs. 69.891 million) respectively.

36.4 Movement in balance (receivable) / payable

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences		
	2012	2011	2012	2011	2012	2011	2012	2011	
	(Rupees in '000)								
Opening balance of (receivable) / payable		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792
Expense recognised	36.7	(2,520,880)	(2,189,338)	38,563	51,422	222,861	169,629	239,611	180,647
- Employees' contribution		-	-	8,708	9,694	-	-	-	-
Benefits paid		-	-	(48,953)	(61,350)	(140,422)	(132,178)	(181,381)	(200,569)
Closing balance of (receivable) / payable		(17,252,778)	(14,731,898)	260,347	262,029	1,494,183	1,411,744	594,100	535,870

Notes to the Financial Statements

For the year ended December 31, 2012

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	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Present value of obligation as at January 01,	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792
Current service cost	53,499	46,415	15,230	13,506	15,697	17,887	62,860	32,693
Interest cost	518,091	503,085	33,670	36,886	171,439	163,130	34,831	72,253
Benefits paid	(554,210)	(695,247)	(48,953)	(61,350)	(140,422)	(132,178)	(181,381)	(200,569)
Actuarial (gains) / losses	(20,130)	190,661	(26,335)	(19,979)	129,950	19,198	141,920	75,701
Present value of obligation as at December 31,	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Net assets as at January 01,	19,543,388	19,303,801	-	-	-	-	-	-
Expected return on plan assets	2,504,617	2,464,303	-	-	-	-	-	-
Benefits paid	(554,210)	(695,247)	-	-	-	-	-	-
Actuarial gain / (loss)	1,194,359	(1,529,469)	-	-	-	-	-	-
Net assets as at December 31,	22,688,154	19,543,388	-	-	-	-	-	-

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	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Current service cost	53,499	46,415	15,230	13,506	15,697	17,887	62,860	32,693
Interest cost	518,091	503,085	33,670	36,886	171,439	163,130	34,831	72,253
Expected return on plan assets	(2,504,617)	(2,464,303)	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(587,853)	(274,535)	(1,629)	10,724	35,725	(11,388)	141,920	75,701
Contributions employees	-	-	(8,708)	(9,694)	-	-	-	-
	(2,520,880)	(2,189,338)	38,563	51,422	222,861	169,629	239,611	180,647

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. 13.369 million (2011: Rs. 11.622 million) and Rs. 11.207 million (2011: Rs. 9.922 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Actual return on plan assets	3,698,976	934,834	-	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2012

36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2012		2011	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term deposit receipts	15,528,023	68.44	15,535,472	79.49
Listed equity shares	3,610,176	15.91	2,187,870	11.19
Open ended mutual funds units	234,619	1.03	182,438	0.93
Term Finance certificates	198,923	0.88	183,552	0.94
Cash and bank balances	3,116,413	13.74	1,454,056	7.44
Fair value of plan total assets	22,688,154	100	19,543,388	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	2,962,492		1,728,172	
TDRs with MCB	15,528,023		15,535,472	
Bank balance with MCB	3,100,321		1,442,065	
	21,590,836		18,705,709	

36.10 Other relevant details of above funds are as follows:

	2012	2011	2010	2009	2008
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,259,671	4,262,421	4,217,507	4,072,653	4,295,986
Fair value of plan assets	(22,688,154)	(19,543,388)	(19,303,801)	(18,254,967)	(15,953,712)
(Surplus) / deficit	(18,428,483)	(15,280,967)	(15,086,294)	(14,182,314)	(11,657,726)
Actuarial gain / (loss) on obligation					
Experience adjustment	20,130	(190,661)	(191,752)	(368,717)	167,695
Assumptions gain / (loss)	-	-	-	-	-
	20,130	(190,661)	(191,752)	(368,717)	167,695
Actuarial gain / (loss) on assets					
Experience adjustment	1,194,359	(1,529,469)	(852,657)	1,400,023	(476,313)
Assumptions gain / (loss)	-	-	-	-	-
	1,194,359	(1,529,469)	(852,657)	1,400,023	(476,313)
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	257,089	283,477	314,414	299,388	300,162
Fair value of plan assets	-	-	-	-	-
	257,089	283,477	314,414	299,388	300,162
Actuarial gain / (loss) on obligation					
Experience adjustment	26,335	19,979	(25,282)	(53,700)	-
Assumptions gain / (loss)	-	-	-	-	-
	26,335	19,979	(25,282)	(53,700)	-
Actuarial gain / (loss) on assets					
Experience adjustment	-	-	-	-	-
Assumptions gain / (loss)	-	-	-	-	-
	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2012

	2012	2011	2010	2009	2008
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,565,634	1,388,970	1,320,933	1,287,348	1,269,622
Fair value of plan assets	-	-	-	-	-
	1,565,634	1,388,970	1,320,933	1,287,348	1,269,622
Actuarial gain / (loss) on obligation					
Experience adjustment	(129,950)	(19,198)	30,671	2,101	159,682
Assumptions gain / (loss)	-	-	-	-	-
	(129,950)	(19,198)	30,671	2,101	159,682
36.10.4 Compensated absences					
Present value of defined benefit obligation	594,100	535,870	555,792	541,116	752,947
Fair value of plan assets	-	-	-	-	-
	594,100	535,870	555,792	541,116	752,947
Actuarial gain / (loss) on obligation	(141,920)	(75,701)	(81,138)	(5,687)	-

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

37. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 7,919 (2011: 7,331) employees where contributions are made by the Bank and employees at 8.33% per annum (2011: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 188.417 million (2011: Rs. 176.510 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 1,914 (2011: 1,999) employees who have opted for the new scheme, where contributions are made by the employees ranging from 8.33% to 12.5% per annum (2011: 8.33% to 12.5% 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 Chief Executive, Directors and Executives of the Bank as follows:

	President / Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	(Rupees in '000)					
Fees	-	-	33,431	35,838	-	-
Managerial remuneration	29,355	20,600	-	-	951,978	925,273
Bonus and others	17,576	11,071	-	-	535,357	484,211
Settlement benefits	23,831	-	-	-	-	-
Retirement benefits	-	-	-	-	64,942	61,583
Rent and house maintenance	10,142	9,200	-	-	345,304	355,603
Utilities	2,254	2,044	-	-	77,274	74,847
Medical	-	-	-	-	18,997	20,388
Conveyance	-	-	-	-	403,588	393,443
	83,158	42,915	33,431	35,838	2,397,440	2,315,348
Number of persons	2	1	13	14	774	863

38.1 This includes remuneration of ex-president and of the current president from December 22, 2012.

38.2 The chairman has been provided with free use of the Bank maintained car. In addition to the above, the Chief Executive and certain executives are provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

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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)				
2012					
Total income	89,316	40,707,112	13,551,653	23,161,441	77,509,522
Total expenses	(24,041)	(4,848,388)	(36,008,436)	(4,574,913)	(45,455,778)
Income tax expense	-	-	-	-	(11,113,048)
Net income	65,275	35,858,724	(22,456,783)	18,586,528	20,940,696
Segment assets - (Gross of NPL's provision)	-	437,346,978	139,860,996	200,176,583	777,384,557
Advance taxation (payments less provisions)	-	-	-	-	10,894,522
Total assets	-	437,346,978	139,860,996	200,176,583	788,279,079
Segment non performing loans	-	-	7,938,842	17,622,932	25,561,774
Segment specific provision required	-	-	6,950,690	15,429,397	22,380,087
Segment liabilities	-	71,503,558	549,796,800	33,705,730	655,006,088
Deferred tax liability	-	-	-	-	9,142,098
Total liabilities - net	-	71,503,558	549,796,800	33,705,730	664,148,186
Segment return on assets (ROA) (%)	-	11.34%	11.79%	12.63%	-
Segment cost of fund (%)	-	10.41%	4.43%	5.92%	-

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	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) (%)	-	12.59%	15.18%	14.27%	-
Segment cost of fund (%)	-	12.04%	4.25%	5.85%	-

41. RELATED PARTY TRANSACTIONS AND BALANCES

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

The Bank enters into transactions with related parties in the normal course of business. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to Chief Executive, Directors and Executives is disclosed in note 38 to these financial statements.

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	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)										
A. Balances										
Deposits										
Deposits at beginning 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
Deposits received during the year	4,888,505	4,536,986	11,121,938	6,379,533	1,531,424	986,420	38,267,581	29,141,521	1,168,053	830,780
Deposits repaid during the year	(6,423,387)	(2,227,216)	(10,911,683)	(6,568,160)	(1,500,817)	(1,019,609)	(36,810,826)	(28,425,109)	(1,172,192)	(871,418)
Deposits at end of the year	2,863,874	4,398,756	976,642	766,387	74,461	43,854	26,850,559	25,393,804	46,039	50,178
Advances (secured)										
Balance at beginning of the year	-	-	-	-	449,729	112,548	81,302	-	49,743	54,474
Loans granted / reclassification during the year	3,367	-	-	-	36,020	337,759	415,889	81,302	12,436	3,525
Repayments received during the year	(572)	-	-	-	-	(578)	(399,135)	-	(8,314)	(8,256)
Balance at end of the year	2,795	-	-	-	485,749	449,729	98,056	81,302	53,865	49,743
Outstanding Balance of credit card	852	1,137	-	-	-	-	-	-	951	856
Receivable from Pension fund	-	-	-	-	-	-	17,252,778	14,731,898	-	-

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

	Directors		Associates		Subsidiaries		Other related parties		Key management	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)										
Outstanding commitments and contingent liabilities	-	-	8,365	8,865	-	-	819,873	-	-	-
Forward foreign exchange contracts (Notional)	-	-	-	-	-	-	-	1,913,753	-	-
Unrealized loss on forward foreign exchange contracts	-	-	-	-	-	-	-	40,914	-	-
Trade payable	-	-	14,321	7,317	12,177	16,506	7,019	1,255	-	-
Markup payable	504	-	12,645	15,784	156	610	1,045,622	1,283,025	541	-
Advance receivable	-	-	-	-	-	-	20,000	20,000	-	-
Markup Receivable	-	-	-	-	4,448	4,265	2,237	1,701	-	-
Receivable for other expenses	-	-	-	-	2,145	3,477	-	-	-	-
Commission Receivable	-	-	-	-	9,826	1,924	-	-	-	-
Outstanding Investments in mutual funds	-	-	-	-	-	-	4,050,000	4,000,000	-	-
Divestment in Khushali Bank Limited	-	-	-	-	-	-	300,000	-	-	-
Capital injection	-	-	-	52,519	94,299	-	9,500	-	-	-
Insurance premium paid-net of refund	-	-	309,472	316,605	-	-	-	-	-	-
Insurance claim settled	-	-	39,193	55,452	-	-	-	-	-	-
Markup income on advances	-	-	-	-	25,180	14,946	7,640	5,425	2,848	3,126
Proceeds from sale of fixed assets	-	-	-	39,522	-	-	1,089	-	562	-
Rent Income Received	-	-	2,430	3,516	-	-	-	-	-	-
Dividend Income	-	-	54,051	90,084	83,153	127,847	408,639	285,017	-	-
Commission Income	-	-	509,698	334,665	36,074	8,529	699	85	-	-
Reimbursement of expenses	-	-	-	-	13,199	10,962	-	-	-	-
Brokerage expense	-	-	-	-	-	-	354	-	-	-
ATM Outsourcing expense	-	-	131,972	101,233	-	-	-	-	-	-
Outsourcing service expenses	-	-	-	-	76,366	74,739	-	-	-	-
Payment system managed service expense	-	-	-	-	-	8,599	-	-	-	-
Switch expense	-	-	-	-	8,313	261	-	-	-	-
Service expenses	-	-	-	-	-	-	18,332	20,898	-	-
Cash sorting expenses	-	-	-	-	-	-	42,528	32,286	-	-
Stationery Expenses	-	-	-	-	-	-	176,234	185,832	-	-
Security guard expenses	-	-	-	-	-	-	255,033	226,417	-	-
Remuneration of key management personnel	-	-	-	-	-	-	-	-	324,266	238,783
Mark-up expense on deposits	321,897	140,834	55,657	78,244	2,096	1,593	2,983,890	2,571,745	3,333	2,732
Clearing expenses paid to NIFT	-	-	-	-	-	-	115,958	123,198	-	-
Contribution to provident fund	-	-	-	-	-	-	188,417	176,510	-	-
Gas Charges	-	-	-	-	-	-	12,770	13,064	-	-
Rent Paid	-	-	-	-	-	-	211	191	-	-
Other miscellaneous expenses	-	-	-	-	-	-	16,945	11,326	-	-

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

Notes to the Financial Statements

For the year ended December 31, 2012

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) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The Bank manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and 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.9 billion paid up capital (net of losses) by the end of the financial year 2012. The paid up capital of the Bank for the year ended December 31, 2012 stands at Rs. 9.2 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, 2012 is 22.13% 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 % of 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 3 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 retention of profits, improvement in the asset quality at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

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

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

	Note	2012	2011
		(Rupees in '000)	
42.3 Capital Structure			
Tier 1 Capital			
Shareholders equity /assigned capital		9,198,601	8,362,365
Share premium		9,702,528	9,702,528
Reserves		34,150,960	32,056,890
Unappropriated profits		34,705,038	28,366,171
		87,757,127	78,487,954
Deductions:			
Book value of intangible		626,621	630,734
Other deductions	42.3.1	789,988	827,293
		1,416,609	1,458,027
Total Tier 1 capital		86,340,518	77,029,927
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		428,936	464,041
Revaluation reserves up to 45%		7,136,390	4,823,932
Foreign exchange translation reserves		399,782	427,049
		7,965,108	5,715,022
Deductions:			
Other deductions	42.3.1	779,211	731,228
Total Tier 2 Capital		7,185,897	4,983,794
Total Regulatory Capital Base	A	93,526,415	82,013,721

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

Notes to the 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	
	2012	2011	2012	2011
(Rupees in '000)				
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	14,277,047	13,386,165	128,517,980	119,181,894
Banks / DFIs	624,298	611,137	5,619,755	5,526,096
Public sector entities	26,590	68,081	239,360	615,611
Sovereigns / cash & cash equivalents	488,269	472,916	4,395,264	4,276,258
Loans secured against residential property	163,963	178,010	1,475,946	1,609,627
Retail	1,716,864	2,238,162	15,454,725	20,238,188
Past due loans	373,033	545,338	3,357,942	4,931,118
Operating fixed assets	2,567,491	2,364,123	23,111,833	21,377,169
Other assets	3,934,621	2,677,701	35,418,353	26,072,770
	24,172,176	22,541,633	217,591,158	203,828,731
Off-Balance Sheet				
Non-market related	5,754,998	4,355,994	51,804,884	39,388,306
Market related	24,609	29,718	221,521	268,724
	5,779,607	4,385,712	52,026,405	39,657,030
Equity Exposure Risk in the Banking Book				
Listed	201,697	198,799	1,815,624	1,797,606
Unlisted	45,887	91,698	413,058	829,160
	247,584	290,497	2,228,682	2,626,766
Total Credit Risk	30,199,367	27,217,842	271,846,245	246,112,527
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,962,205	2,004,519	37,027,567	25,056,492
Equity position risk	1,622,811	1,483,230	20,285,136	18,540,375
Foreign exchange risk	277,798	167,728	3,472,470	2,096,602
Total Market Risk	4,862,814	3,655,477	60,785,173	45,693,469
Operational Risk				
Capital requirement for operational risks	7,196,157	6,770,883	89,951,965	84,636,037
Total	B 42,258,338	37,644,202	422,583,383	376,442,033
(Rupees in '000)				
Capital Adequacy Ratio			2012	2011
Total eligible regulatory capital held	A	93,526,415	82,013,721	
Total Risk Weighted Assets	B	422,583,383	376,442,033	
Capital Adequacy Ratio	A / B	22.13%	21.79%	

* As SBP capital requirement of 10% (10% in 2011) 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

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB helps to mitigate and counter any foreseeable risk in its line of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, 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), the senior management and its relevant committees, i.e. the Risk 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.

Bank's ability to identify, measure, report and monitor risk is helped by its risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are also considered and basis are 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 monitoring 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 borrowers, 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

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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 on an ongoing process.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-II requirements. The approach 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 and commercial borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

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

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

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

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

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

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

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within 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. 10.5 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

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

Stress Testing

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 quarterly basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

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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.

	2012					
	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	2,474,463	0.94	46,722,076	8.57	1,362,196	0.95
Mining and quarrying	510,819	0.19	762,435	0.14	1,957,783	1.36
Textile	37,796,532	14.40	2,839,175	0.52	9,675,745	6.73
Chemical and pharmaceuticals	10,886,973	4.15	2,852,601	0.52	8,700,793	6.05
Cement	1,340,198	0.51	545,143	0.10	812,238	0.56
Sugar	11,373,856	4.33	1,246,046	0.23	1,126,804	0.78
Footwear and leather garments	3,351,288	1.28	185,094	0.03	1,211,665	0.84
Automobile and transportation equipment	350,182	0.13	1,655,254	0.30	883,112	0.61
Electronics and electrical appliances	2,581,319	0.98	1,442,975	0.26	1,133,798	0.79
Construction	512,732	0.20	2,504,747	0.46	1,718,908	1.20
Power (electricity), gas, water, sanitary	29,778,732	11.35	10,474,169	1.92	5,596,136	3.89
Wholesale and Retail Trade	16,155,626	6.16	31,693,748	5.81	1,669,454	1.16
Exports / imports	4,374,769	1.67	1,155,293	0.21	3,464,399	2.41
Transport, storage and communication	60,303,139	22.98	2,963,980	0.54	8,605,809	5.98
Financial	2,625,187	1.00	7,529,434	1.38	43,797,027	30.46
Insurance	100,145	0.04	1,933,344	0.35	9,428	0.01
Services	8,408,320	3.20	103,086,339	18.91	15,323,823	10.66
Individuals	14,525,679	5.54	304,770,547	55.91	27,556	0.02
Others	54,942,384	20.94	20,698,328	3.80	36,725,853	25.54
	262,392,343	100	545,060,728	100	143,802,527	100

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
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	37,114,234	14.85	2,733,369	0.56	16,803,887	10.18
Chemical and pharmaceuticals	13,430,355	5.37	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	3.55	1,414,904	0.29	631,717	0.38
Footwear and leather garments	3,935,811	1.57	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	1.17	1,698,872	0.35	1,031,045	0.62
Construction	2,357,006	0.94	2,331,527	0.47	3,068,731	1.86
Power (electricity), gas, water, sanitary	20,846,124	8.34	7,435,537	1.51	8,769,317	5.31
Wholesale and Retail Trade	20,128,987	8.05	32,261,864	6.57	4,385,744	2.66
Transport, storage and communication	56,787,492	22.72	3,714,596	0.76	3,228,083	1.96
Financial	3,444,795	1.38	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	2.23	91,900,646	18.71	13,820,292	8.38
Individuals	17,455,692	6.97	267,484,500	54.45	1,337,904	0.80
Others	51,365,663	20.54	22,119,302	4.49	37,455,327	22.69
	249,913,581	100	491,188,710	100	165,013,804	100

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	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	61,853,400	23.57	14,204,857	2.61	64,122,798	44.59
Private	200,538,943	76.43	530,855,871	97.39	79,679,729	55.41
	262,392,343	100	545,060,728	100	143,802,527	100

	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	49,079,118	19.64	15,279,097	3.11	43,860,105	26.58
Private	200,834,463	80.36	475,909,613	96.89	121,153,699	73.42
	249,913,581	100	491,188,710	100	165,013,804	100

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

	2012		2011	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	312,154	312,154	416,111	416,111
Mining and quarrying	-	-	251	251
Textile	5,209,642	5,198,660	5,225,087	4,166,475
Chemical and pharmaceuticals	196,304	196,304	203,886	203,886
Cement	295,603	295,603	362,230	362,230
Sugar	1,035,221	1,035,221	1,265,828	1,265,828
Footwear and leather garments	103,951	103,951	126,591	126,591
Automobile and transportation equipment	54,984	47,781	68,865	53,860
Electronics and electrical appliances	451,436	451,436	340,410	340,410
Construction	127,365	127,365	172,091	170,245
Power (electricity), gas, water, sanitary	180,086	90,070	10	10
Wholesale and retail trade	4,075,703	4,075,582	4,631,382	4,621,737
Exports / imports	596,963	596,796	305,992	305,824
Transport, storage and communication	645,059	335,919	125,852	83,183
Financial	1,107,782	918,893	1,447,782	1,117,472
Services	721,978	721,978	938,661	924,310
Individuals	3,393,709	3,265,164	3,625,053	2,979,078
Others	7,053,834	4,607,210	7,408,791	4,731,900
	25,561,774	22,380,087	26,664,873	21,869,401

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

Public/ Government	-	-	-	-
Private	25,561,774	22,380,087	26,664,873	21,869,401
	25,561,774	22,380,087	26,664,873	21,869,401

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43.1.1.5 Geographical segment analysis

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	31,534,708	753,169,984	101,265,089	138,333,357
Asia Pacific (including South Asia)	305,084	8,500,160	286,887	5,012,636
Middle East	213,952	4,228,848	198,830	456,534
	<u>32,053,744</u>	<u>765,898,992</u>	<u>101,750,806</u>	<u>143,802,527</u>
	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>

Total assets employed include intra group items of Rs. NIL (2011: Rs. NIL).

43.1.2 Credit Risk - General Disclosures

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

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

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

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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	2012			2011		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	19,892,545	-	19,892,545	21,642,750	-	21,642,750
	2	18,297,215	-	18,297,215	13,722,126	-	13,722,126
	3,4	60,937	-	60,937	867,994	-	867,994
	5,6	61,960	-	61,960	172,685	-	172,685
	Unrated	115,236,986	-	115,236,986	106,865,261	-	106,865,261
Bank	1	17,947,964	-	17,947,964	17,953,697	-	17,953,697
	2,3	2,244,629	-	2,244,629	1,808,433	-	1,808,433
	4,5	417,248	-	417,248	165,978	-	165,978
	6	306,199	-	306,199	245,538	-	245,538
	Unrated	140,624	-	140,624	1,060,436	-	1,060,436
Public Sector Entities in Pakistan	1	218,872	-	218,872	1,428,701	-	1,428,701
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	60,212,217	59,821,046	391,171	48,544,287	47,884,545	659,742
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash		44,378,128	-	44,378,128	40,491,533	-	40,491,533
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	1,212,879	-	1,212,879	4,276,258	-	4,276,258
	6	2,075,915	-	2,075,915	-	-	-
	Unrated	68,513	-	68,513	-	-	-
Mortgage		4,216,989	-	4,216,989	4,598,934	-	4,598,934
Retail		20,606,300	-	20,606,300	26,984,250	-	26,984,250

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

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

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

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

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

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MCB manage 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. 720,858.534 million (2011: Rs. 612,822.990 million) the financial assets which are subject to credit risk amounting to Rs. 709,055.410 million (2011: Rs. 602,485.568 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 380,193.220 million (2011: Rs. 298,431.353 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 30,380.601 million (2011: Rs. 27,459.603 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, 2012 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	-	10,862,607	1,263,723
Equity investments - others	-	244,217	372,205
Total value	-	11,106,824	1,635,928

Classification of equity investments

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

- Investments - Held for trading
- Investments - Available for sale
- Investments in 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 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 directly.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative realized gain of Rs. 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. 42.065 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, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign Exchange Group and the Capital Market Group. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Risk Management Committee of management, ALCO and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile for senior management, the Board of Directors and regulators. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

In line with regulatory requirements, MCB has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. These Limits are compared with the numbers generated by the market risk management systems based on the trading activity and the outstanding positions.

Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests of both banking and trading books as per SBP guidelines is also in place and the results are also shared with the Senior Management.

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

43.2.1 Foreign Exchange Risk Management

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

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

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenors in major currencies are in place to control risk. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential

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loss under normal conditions. Stress testing of foreign exchange portfolio are also performed and reported to senior management. All these activities are performed on a daily basis.

	2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	746,362,355	640,991,607	(3,872,810)	101,497,938
United States Dollar	18,433,247	16,701,045	(1,551,243)	180,959
Pound Sterling	481,165	2,857,211	2,383,939	7,893
Japanese Yen	42,693	70	(40,618)	2,005
Euro	548,178	3,598,253	3,080,732	30,657
Other currencies	31,354	-	-	31,354
	765,898,992	664,148,186	-	101,750,806
	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
	653,233,223	564,430,741	-	88,802,482

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index using internal assumptions. In addition to this stress testing, historical scenario analysis on equities is also performed periodically as advised by the State Bank of Pakistan through Guidelines on Stress Testing.

43.2.3 Country Risk

The world is changing rapidly and interdependencies and inter linkages of banks operating in different countries are ever increasing. Thus the banks having cross border exposures whether on-balance sheet or off-balance sheet are susceptible to the changing conditions in various countries of the world. Therefore, it becomes very important for institutions to effectively manage their cross border exposures to avoid any unfavorable situation.

MCB understands the risks involved in taking cross border exposure and to cater it; Country Risk Policy, in line with SBP guidelines, is already in place. The Policy not only envisages a centralized approach to measure, monitor and manage country risk but also strengthen overall risk management framework in the Bank.

Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns and exposures on foreign domiciled counter parties. Additionally, business product wise sub limits involving cross border exposure are also implemented. Monitoring of these limits is a regular feature of Risk Management.

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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	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	57,420,129	2,974,718	-	-	-	-	-	-	-	-	-	54,445,411
Balances with other banks	1,191,974	213,044	-	-	-	-	-	-	-	-	-	978,930
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-	-	-
Investments - net	400,432,988	70,089,687	84,030,767	86,070,863	70,079,870	10,033,783	18,130,830	39,966,823	11,041,110	-	-	10,989,245
Advances - net	239,583,320	215,465,679	5,744,170	3,662,752	2,844,820	4,303,281	3,361,396	2,243,752	1,539,201	418,269	-	20,678,661
Other assets - net	20,678,661	-	-	-	-	-	-	-	-	-	-	-
	720,858,534	290,294,610	89,774,937	89,733,615	72,924,690	14,337,064	21,492,226	42,210,575	12,580,311	418,269	-	87,092,237
Liabilities												
Bills payable	9,896,284	-	-	-	-	-	-	-	-	-	-	9,896,284
Borrowings	78,951,103	64,277,738	5,510,285	4,390,360	2,386,360	2,386,360	-	-	-	-	-	-
Deposits and other accounts	545,060,728	291,582,202	19,310,368	10,782,925	32,527,042	301,052	162,009	774,707	227,471	-	-	189,392,952
Other liabilities	18,343,294	-	-	-	-	-	-	-	-	-	-	18,343,294
	652,251,409	355,859,940	24,820,653	15,173,285	34,913,402	2,887,412	162,009	774,707	227,471	-	-	217,632,530
	68,607,125	(65,565,330)	64,954,284	74,560,330	38,011,288	11,649,652	21,330,217	41,435,868	12,352,840	418,269	-	(130,540,293)
Off-balance sheet financial instruments												
Foreign exchange contracts Purchase	25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-	-
Cross currency swaps - long position	-	-	-	-	-	-	-	-	-	-	-	-
	25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-	-
Foreign exchange contracts Sale	21,697,634	12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-	-
Cross currency swaps - short position	-	-	-	-	-	-	-	-	-	-	-	-
	21,697,634	12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-	-
	3,848,401	3,696,171	358,444	(342,536)	136,322	-	-	-	-	-	-	-
	(61,869,159)	(61,869,159)	65,317,728	74,217,794	38,147,610	11,649,652	21,330,217	41,435,868	12,352,840	418,269	-	202,995,819
Total yield / interest risk sensitivity gap												
Cumulative yield / interest risk sensitivity gap												

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For the year ended December 31, 2012

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk							Not exposed to Yield/ Interest Risk	
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years		Above 5 to 10 years
2011 (Rupees in '000)										
On-balance sheet financial instruments										
Assets										
Cash and balances with treasury banks	53,122,522	2,974,718	-	-	-	-	-	-	-	50,147,804
Balances with other banks	2,281,263	626,339	-	-	-	-	-	-	-	1,654,924
Lendings to financial institutions	955,087	47,394	907,693	-	-	-	-	-	-	-
Investments - net	315,109,984	32,389,246	75,507,096	72,587,281	90,520,065	18,704,852	4,483,175	2,288,814	-	10,126,709
Advances - net	227,580,139	203,297,657	4,234,489	4,993,885	1,678,579	2,094,281	2,699,373	1,478,536	163,687	-
Other assets - net	13,773,995	-	-	-	-	-	-	-	-	13,773,995
	612,822,990	239,335,354	80,649,278	77,581,166	92,198,644	20,789,133	7,182,548	3,747,350	163,687	75,703,432
Liabilities										
Bills payable	9,466,818	-	-	-	-	-	-	-	-	9,466,818
Borrowings	39,100,627	25,282,290	5,484,553	1,597,966	5,137,852	1,597,966	-	-	-	-
Deposits and other accounts	491,188,710	251,863,386	23,935,840	26,469,225	18,912,035	362,204	302,486	588,453	-	167,446,084
Other liabilities	15,168,748	-	-	-	-	-	-	-	-	15,168,748
	554,924,903	277,150,676	29,420,393	28,067,191	24,049,887	1,960,170	302,486	588,453	-	192,081,650
On-balance sheet gap	57,898,087	(37,815,322)	51,228,885	49,513,975	68,148,757	19,485,136	6,880,062	3,158,897	163,687	(116,378,218)
Off-balance sheet financial instruments										
Foreign exchange contracts Purchase	32,395,900	17,321,000	10,873,338	377,791	3,823,771	-	-	-	-	-
Gross currency swaps - long position	-	-	-	-	-	-	-	-	-	-
	32,395,900	17,321,000	10,873,338	377,791	3,823,771	-	-	-	-	-
Foreign exchange contracts Sale	35,030,445	14,883,187	14,064,664	195,598	5,886,996	-	-	-	-	-
Gross currency swaps - short position	-	-	-	-	-	-	-	-	-	-
	35,030,445	14,883,187	14,064,664	195,598	5,886,996	-	-	-	-	-
Off-balance sheet gap	(2,634,545)	2,437,813	(3,191,326)	182,193	(2,063,225)	-	-	-	-	-
Total yield / interest risk sensitivity gap	(55,528,592)	(35,377,509)	48,037,559	49,696,168	66,085,532	13,512,228	6,880,062	3,158,897	163,687	-
Cumulative yield / interest risk sensitivity gap	(55,377,509)	(35,377,509)	12,660,050	128,441,750	141,953,978	168,319,176	148,834,040	171,478,073	171,641,760	-

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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Reconciliation to total assets	2012	2011	Reconciliation to total liabilities	2012	2011
	(Rupees in '000)			(Rupees in '000)	
Balance as per balance sheet	765,898,992	653,233,223	Balance as per balance sheet	664,148,186	564,430,741
Less: Non financial assets			Less: Non financial liabilities		
Investments	1,635,928	1,541,629	Other liabilities	2,754,679	3,210,952
Operating fixed assets	23,738,454	22,007,903	Deferred tax liability	9,142,098	6,294,886
Other assets	19,666,076	16,860,701		11,896,777	9,505,838
	45,040,458	40,410,233			
Total financial assets	720,858,534	612,822,990	Total financial liabilities	652,251,409	554,924,903

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial, particularly during periods of adverse conditions. Liquidity management is among the most important activities that the MCB conducts during both normal and stress periods. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

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

Liquidity Management

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

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury Policy, Investment policy, Contingency Funding Plan, Liquidity Strategy and Limit Structure which are reviewed and

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approved regularly by the senior management /Board members. MCB Bank also conducts Liquidity Risk Analysis on regular basis. MCB liquidity Risk Policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure.

Intraday Liquidity Management

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

Managing Funding Sources

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

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

		2012									
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	57,420,129	-	-	-	-	-	-	-	-	-	
Balances with other banks	1,191,974	-	-	-	-	-	-	-	-	-	
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-	
Investments - net	402,068,916	72,532,723	82,776,324	80,886,735	79,674,892	15,153,955	18,777,827	43,493,387	13,137,145	1,635,928	
Advances - net	239,583,320	55,075,924	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405	
Operating fixed assets	23,738,454	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,277,804	8,194,510	7,349,434	
Deferred tax assets	270,392	4,096	8,191	12,287	37,206	49,148	49,148	98,296	12,020	-	
Other assets - net	40,344,727	9,876,574	10,914,951	9,608	1,014,723	-	-	18,528,871	-	-	
	766,169,384	197,789,467	117,116,779	95,692,686	81,104,554	62,581,672	59,212,365	107,584,102	35,531,992	9,555,767	
Liabilities											
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-	-	
Borrowings	78,951,103	64,277,738	4,390,360	2,386,360	2,386,360	2,386,360	-	-	-	-	
Deposits and other accounts	545,060,728	480,975,154	19,310,368	10,782,924	32,527,042	301,053	162,009	774,707	227,471	-	
Deferred tax liabilities	9,412,490	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328	570,996	
Other liabilities	21,097,973	10,079,693	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	961,778	-	
	664,418,578	565,278,870	26,887,663	18,964,156	36,806,732	5,157,074	681,573	7,879,937	2,191,577	570,996	
Net assets	101,750,806	(367,489,403)	90,229,116	76,728,530	44,297,822	57,424,598	58,530,792	99,704,165	33,340,415	8,984,771	
Share capital	9,198,601										
Reserves	44,259,270										
Unappropriated profit	34,705,038										
Surplus on revaluation of assets - net of tax	13,593,897										
	101,750,806										

Notes to the Financial Statements

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

		2011									
		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	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	227,580,139	63,691,550	19,336,804	13,652,050	12,953,186	37,466,915	34,380,423	32,944,547	13,005,239	149,365	
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	30,634,696	6,970,265	7,067,746	61,114	931,579	-	-	15,603,992	-	-	
	653,959,900	148,195,596	103,118,294	106,113,219	94,959,968	50,894,469	44,478,113	71,063,530	25,091,794	10,044,917	
Liabilities											
Bills payable	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	302,486	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	(315,139,231)	72,060,731	79,430,036	65,309,146	46,690,434	43,630,190	63,849,652	23,516,874	9,454,650	
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, 2012

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

	2012									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	57,420,129	-	-	-	-	-	-	-	-	-
Balances with other banks	1,191,974	1,191,974	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-
Investments - net	402,068,916	72,532,723	82,776,324	80,886,735	73,674,892	15,153,955	18,777,827	43,493,387	13,137,145	1,635,928
Advances - net	239,583,320	55,075,924	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405
Operating fixed assets	23,738,454	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,277,804	8,194,510	7,349,434
Deferred tax assets	270,392	4,096	8,191	12,287	37,206	49,148	49,148	98,296	12,020	-
Other assets - net	40,344,727	9,876,574	10,914,951	9,608	1,014,723	-	18,528,871	-	-	-
	766,169,384	197,789,467	117,116,779	95,692,686	81,104,554	62,581,672	59,212,365	107,584,102	35,531,992	9,555,767
Liabilities										
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-	-
Borrowings	78,951,103	64,277,738	5,510,285	4,390,360	2,386,360	2,386,360	-	-	-	-
Deposits and other accounts	545,060,728	37,848,059	36,103,026	46,614,760	32,949,491	117,300,456	117,020,596	117,914,926	39,309,414	-
Deferred tax liabilities	9,412,490	50,001	59,965	92,970	285,599	341,260	179,674	6,829,697	1,002,328	570,996
Other liabilities	21,097,973	10,079,683	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	961,778	-
	664,418,578	122,151,775	43,680,321	54,795,992	37,229,181	122,156,477	117,540,160	125,020,156	41,273,520	570,996
Net assets	101,750,806	75,637,692	73,436,458	40,896,694	43,875,373	(59,574,805)	(58,327,795)	(17,436,054)	(5,741,528)	8,984,771
Share capital	9,198,601	-	-	-	-	-	-	-	-	-
Reserves	44,253,270	-	-	-	-	-	-	-	-	-
Unappropriated profit	34,705,038	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net of tax	13,593,897	-	-	-	-	-	-	-	-	-
	101,750,806	-	-	-	-	-	-	-	-	-

Liquidity Gap Reporting

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity. Bank regularly conducts an objective and systematic behavioral study using regression analysis technique to ascertain the maturity of its non-contractual assets and liabilities. Core and non-core parts of the non-contractual assets and liabilities are segregated through the behavioral study. Non Core part is placed among the short term maturity buckets i.e. up to 1 Year based on the results, whereas core part is distributed among the longer term buckets based on the discussion and decision by the ALCO.

Currently following percentages are being used to distribute the core assets and liabilities among longer term buckets:

Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years
30%	30%	30%	10%

Notes to the Financial Statements

For the year ended December 31, 2012

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

	2011							Above 10 years	
	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
(Rupees in '000)									
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
Advances - net	227,580,139	63,691,550	19,336,804	13,652,050	12,953,186	37,466,915	34,380,423	32,944,547	13,005,239
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
Deferred tax assets	726,677	5,645	11,289	11,852	230,188	253,319	46,262	92,524	75,598
Other assets - net	30,634,696	6,970,265	7,067,746	61,114	931,579	-	-	15,603,992	-
	653,959,900	148,195,596	103,118,294	106,113,219	94,959,968	50,894,469	44,478,113	71,063,530	25,091,794
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
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
Net assets	88,802,482	61,436,075	50,073,811	53,859,854	64,887,726	(51,864,019)	(54,783,789)	(34,845,274)	(9,416,553)
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, 2012

43.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank. Going forward, the Bank will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard interest of depositors.

43.5.1 Operational Risk-Disclosures Basel II Specific

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

Operational loss data pertaining to key risk events is also collected on bank-wide basis. Periodic review and analysis is prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events with root cause analysis and recommendations for further improvements.

44. GENERAL

The corresponding figures have been changed due to application of SBP BSD Circular No. 3 of 2013 dated January 22, 2013, requiring all financing, advances, inventories and other related item(s) pertaining to Islamic mode of financing under 'Islamic Financing and Related Assets'. No significant reclassification has been made except for as follows:

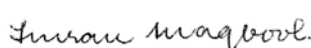
Description	Amount (Rupees in '000)	Reclassified	
		From	To
Advance against future Murabaha	1,645,331	Other assets	Advances
Advances, deposits, advance rent and other prepayments	214,797	Other assets	Advances

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 07, 2013 has announced a final cash dividend in respect of the year ended December 31, 2012 of Rs. 3.0 per share (2011: Rs. 3.0 per share) and bonus shares of 10% (2011: 10%). These financial statements for the year ended December 31, 2012 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 07, 2013.



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



Tariq Rafi
Director

Annexure I

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

Investee Entities	Note	Number of Ordinary and preference shares/certificates/units held	Paid-up value per share/ certificate/ unit	Total paid-up/ nominal value	Cost as at December 31, 2012
			Rupees	(Rupees in '000)	
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Aisha Steel Mills Limited		168,286	10	1,683	1,683
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					63,285
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		85,600	10	856	15,908
Allied Bank Limited		6,759,474	10	67,595	438,762
Arif Habib Limited		87,041	10	870	13,908
Arif Habib Corporation Limited		1,851,148	10	18,511	214,004
Attock Cement Pakistan Limited		16,790	10	168	1,329
Attock Petroleum Limited		821,805	10	8,218	368,735
Attock Refinery Limited		222,400	10	2,224	34,060
Bank Alfalah Limited		300,000	10	3,000	5,404
Bank Al-Habib Limited		6,364,935	10	63,649	156,637
Clariant Pakistan Limited		56,250	10	563	9,145
Fauji Fertilizer Bin Qasim Company Limited		2,912,000	10	29,120	139,349
Fauji Fertilizer Company Limited		10,032,000	10	100,320	738,906
Habib Bank Limited		2,698,149	10	26,981	325,296
Habib Metropolitan Bank Limited		115,000	10	1,150	3,195
Hub Power Company Limited		400,000	10	4,000	18,195
Indus Motor Company Limited		27,027	10	270	5,566
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		2,937,500	10	29,375	140,286
Meezan Bank Limited		357,500	10	3,575	10,830
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		89,596	10	896	41,328
Murree Brewery Company Limited		21,500	10	215	2,818
National Foods Limited		17,100	10	171	4,778
National Refinery Limited		208,956	10	2,090	64,984
Nestle Pakistan Ltd Limited		5,348	10	53	21,613
Next Capital Limited		1,950,000	10	19,500	19,500
Oil & Gas Development Company Limited		142,135	10	1,421	19,954
Pakistan Oilfields Limited		1,165,695	10	11,657	414,044
Pakistan Petroleum Limited		794,815	10	7,948	114,025
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		5,967	10	60	15,178
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		25,155,710	10	251,557	119,551
Searle Pakistan Limited		70,000	10	700	2,903
Sui Northern Gas Pipelines Limited		50,115,263	10	501,153	2,205,253
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		79,200	50	3,960	387,447
Unilever Food Pakistan Limited		867	10	9	1,364
United Bank Limited		7,830,440	10	78,304	566,154
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					6,683,463

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, 2012
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'					6,807,354
Provision for diminution in value of investments					(2,213,849)
Surplus on revaluation of securities					2,071,198
Market value as at December 31, 2012					6,664,703

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, 2012
Metro-Bank Pakistan Sovereign Fund —Perpetual (MSF)	Arif Habib Investments Limited	84,493,205	50	4,224,660	4,000,000
MCB Dynamic Stock Fund	Arif Habib Investments Limited	580,464	100	58,046	50,000
National Investments Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Carrying value before revaluation & provision					4,055,253
Provision for diminution in value of investments					(1,907)
Deficit on revaluation of securities					248,321
Market value as at December 31, 2012					4,301,667

- 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, 2012	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	19,402	June 30, 2012	Mr. Ashfaq A. Berdi
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	169,298	June 30, 2012	Mr. Mohammad Hanif Jakhura
			21,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		275,000	2,500	2,762	June 30, 2012	Mr. Shahzad Jawahar
National Institute of Facilitation Technology Private Limited		1,478,227	1,526	61,221	June 30, 2012	Mr. M.M. Khan
National Investment Trust Limited		79,200	100	111,090	June 30, 2012	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	11,078	June 30, 2012	Mr. Naseer Durrani
Arabian Sea Country Club		500,000	5,000	3,514	June 30, 2012	Mr. Arif Ali Khan Abbasi
Islamabad Stock Exchange Limited		3,034,603	30,346	-	Not available	Mian Ayyaz Afzal
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	6,052	December 31, 2011	Mr. Lazara Campos
Credit Information Bureau of Srilanka		300	23	10,451	December 31, 2011	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	761	3,839	March 31, 2012	Mr. S. B. Weerasooriya
Lanka Financial Services Bureau Limited		100,000	761	991	March 31, 2012	Mr. Minindu Rajaratne
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.*		2,636,100	26,362	-	-	-
			122,717			
Cost of unlisted shares/ certificates/ units			244,217			
Provision against unlisted shares			(71,342)			
Carrying value of unlisted shares/ certificates/ units			172,875			

* 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, 2012	Name of Chief Executive
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.	249,700	Mr.R. Mehakri
Bank Alfalah Limited - issue no. IV	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi -annual installment starting from the 84th month.	499,400	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.	30,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited - issue no. IV	152,399	5,000	761,995,000	6 months KIBOR + 0.85% p.a for first five years & 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.	732,640	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90%	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,803	Mr. Khalid A. 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	181,255	Mr. Khalid A. Sherwani
NIB Bank Limited	33,400	5,000	167,000,000	6 months KIBOR + 1.15% p.a.	0.02% of principal amount in the first 10 equal semi annual instalments and remaining principal will be paid in six equal semi -annual installment from the sixth-sixth month onward	163,545	Mr. Baddar Kazmi
Carrying value before revaluation						1,912,343	
Surplus on revaluation of securities						97,645	
Market value of listed TFCs (revalued amount)						2,009,988	

SUKUK BONDS - available for sale	Terms of Redemption		Rate of interest	Currency	
	Principal	Interest			
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR	3,400,000
Surplus on revaluation of securities					12,836
Market value of sukuk bonds					3,412,836

Annexure I

TERM FINANCE CERTIFICATES - held to maturity

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2012	Name of Chief Executive
						(Rupees)	
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.	99,620	Mr.R. Mehakri
	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.	98,767	--do--
	39,980		199,900,000				
Bank Alfalah Limited - 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.	130,447	Mr. Atif Bajwa
	72,800	5,000	364,000,000	6 months KIBOR + 1.25% p.a.	0.3% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity in the 96th month	364,000	--do--
	112,520		562,600,000				
Bank Al Habib Limited - issue no. IV	20,000	5,000	100,000,000	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% for next 5 years	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each	99,940	Mr. Abbas D. Habib
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	209,328	Mr. Suleman Lalani
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.	37,211	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.	188,490	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	231,722	Mr. Khalid A. 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	75,000	Mr. Jehangir Khan Tareen
Azgard Nine Limited	13,878	5,000	69,390	NIL	In 7 semi-annual installments starting from 24th month	69,390	Mr. Ahmed Shaikh
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a. from March 2012	In 10 equal semi-annual installments starting from March 2012 .	72,000	Mr. Ahsan Saleem
Pakistan Mobile Communication Limited	200,000	5,000	1,000,000,000	3 Month KIBOR +2.65% p.a.	In 17 equal quarterly installments starting from 12th month after first disbursement and subsequently every three months.	941,176	Mr. Rashid Khan
Carrying value of TFCs - HTM						2,617,091	

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, 2012 (Rupees in ‘000)
	Principal	Interest				
Debentures						
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75%	LKR	250,000	190,275
Sukuk Bonds						
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments.	Half-yearly	6 Month KIBOR+1.70%	PKR	-	364,828
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.50%	PKR	-	60,000
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments.	Quarterly	3 Month KIBOR+1.25%	PKR	-	58,333
Sitara Energy Limited	In 8 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.15%	PKR	-	70,455
Century Paper and Boards Mills Limited Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+1.35%	PKR	-	100,000
					-	653,616
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875%	US\$	17,432	1,693,483

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.

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
2012							
Euronet Pakistan (Private) Limited (unaudited based on December 31, 2012)	Pakistan	222,073	36,480	185,593	200,242	8,589	30%
First Women Bank Limited (unaudited based on September 30, 2012)	Pakistan	17,822,172	15,716,519	2,105,653	663,988 *	71,746	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2012)	Pakistan	25,372,524	13,630,640	11,741,884	4,300,489 **	841,941	29.13%
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%

* 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 2012 of Banking Operations of MCB Islamic banking Group (MCB IBG). The fundamental objective of Islamic Banking Group is to fabricate unique Shari'ah compliant efficient products & services, rather being disciple of conventional banking products.

A lot of work is being done on existing and new Liability side products and variety of assets products catering financial needs & demand of all walk of society, are in finalization stage.

During the year MCB IBG developed and executed a number of Islamic Commercial Banking Products in consultation with the Shari'ah Advisor of the Bank. Currently the Bank is offering a number of Shari'ah Compliant Banking Products on both asset and liability sides which include:

LIABILITY SIDE:

For general deposits and treasury functions (Based on Islamic contract of Mudarabah & Qard):

Existing Products:

- Hifazat Saving Account (A Mudarabah based Saving Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Hifazat Plus Saving Account (A Slab based Mudarabah Saving Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Na'mat Term Deposit Account (A Mudarabah based Term Deposit Receipt (TDR) Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Hidayat Current Account (A Qard based Current Account Product for general depositors, corporate entities, non-banking financial institutions and mutual funds).
- Receiving funds from MCB Treasury based on Mudarabah.

Annexure II

Repackaging of Products:

- Following repackaging of existing current & saving accounts has been made keeping in view need of corporate customers:
 - o Hidayat Business Current Account
 - o Hifazat Business Saving Account.

Upcoming Products:

- FCY Deposit Product to generate foreign currency deposits.

Tailor-Made products:

- In addition to above, Islamic Banking Group also catered the specific needs of the customers and structured unique tailor made products.

ASSETS SIDE:

Existing Products:

- Corporate Banking Products (Based on Islamic contracts of Murabaha, Ijarah, and Musharakah - Shirkat-ul-Milk & Shirkat-ul-Aqd)
 - **Maeeshat Murabaha** (A Murabaha based facility for working capital finance)
 - For Medium & Long Term Finance for Plant, Machinery & Equipment
 - o **Rafaqat Musharakah Financing** (A Musharakah based facility for tangible asset financing)
 - o **San'at Equipment Ijarah** (An Ijarah based facility for tangible assets financing)
 - **Salamat Car Ijarah** (An Ijarah based motor vehicles financing product)
 - Islamic Export Refinance Scheme (IERS)
- **Trade Finance facilities**
 - **Bar'aamad Export Financing** (A Musharakah based Shari'ah Compliant substitute for conventional banking Foreign Bill Purchased (FBP Product))

- **Letters of Credit** (Sight & Usance) local and foreign.
- **Kafalat Bank Guarantee** (Non funds based facility to issue different guarantees based on Islamic contract of Kafalah)

Upcoming Products:

- Corporate Banking
 - Pre-shipment Export Financing - Foreign based on Istis'na

Tailor-Made products:

- In addition to above, Islamic Banking Group has catered the specific needs by structuring Shari'ah compliant Ijarah facility customized for the employees of a big corporate entity.

CHARITY

PKR 7,739,458/- received from customers on account of charity due to late payments of Bank dues). During the period under review, the Bank has disbursed PKR 1,925,000/- to registered charitable institutions. Although, bank has to distribute the full amount of charity during the same period, however, the same could not possible. Accordingly, the balance amount of charity will be disbursed in the First Quarter of 2013.

SHARI'AH ADVISORY

Shari'ah Advisory services have been extended by Islamic Banking Group for Syndicated Structuring.

SHARI'AH COMPLIANCE

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

During the year, I also reviewed/verified the assignment of weightages to various depositors, calculation of profit on monthly basis and its' distribution, application of profit

and loss sharing ratios to distributable profit and allocation of funds, which were found satisfactory from Shari'ah perspective.

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

1. In some Murabaha cases, I advised that soon after the goods are procured by the customer as bank's agent, offer & acceptance should be executed without allowing any further period to the customer, because at this particular stage, all risk pertaining to ownership of asset remains with the bank. In case, the asset is not insured, and faces partial/full destruction within this grace period, bank shall have to bear the loss, as it may lead to expose Shari'ah/bank risks.
2. Though, the bank has started the process of making Takaful arrangement instead of conventional insurance, yet Islamic Banking Portfolio must continue the conversion of conventional insurance into Takaful arrangement.
3. Alhamdulillah, the Bank is hiring experienced Islamic Bankers and training must be kept continued to new staff members, where required. Internal training should be initiated & participation in external training programs should also be made.
4. It is observed that in most of the cases Invoices are being allowed in the name of agent, though the same is allowed under regulations with the approval of Shari'ah Advisor, however, it is advised that branches should start obtaining invoices in the name of MCB on best efforts basis.
5. If possible, the senior management of MCB Bank Limited should think over the separation of treasury functions for Islamic Banking operations.
6. Staff Provident Fund of Islamic Banking Group should be managed under Shari'ah guidelines & invested in Shari'ah compliant avenues.

7. Though, the Islamic Banking Group has developed Shari'ah Compliant Staff Financing and HR Policy & Implementation Manual, duly approved by BoD, but the same is still not available to the staff of Islamic Banking Group.

IBG is in the process of development and refinement of its products to make the products competitive in the market, conforming to the preferred standard of Shari'ah Compliance.

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.

Regards,



Dr. Muhammad Zubair Usmani

Shari'ah Advisor
MCB Islamic Banking Group
21st Floor, MCB Tower,
I.I Chundrigar Road, Karachi

Dated: January 22, 2013

Islamic Banking Business

Annexure II

The Bank operates 28 Islamic banking branches including 1 overseas branch at the end of December 31, 2012 (2011: 23 branches including 1 overseas).

Statement of Financial Position

As at December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
ASSETS			
Cash and balance with treasury banks		708,174	334,398
Balance with other banks		-	-
Due from Financial Institution		-	-
Investments - net		1,955,421	2,938,706
Islamic Financing & Related Assets	A-II.1	10,212,292	8,579,604
Operating fixed assets		1,308,436	1,008,863
Deferred Tax Assets		-	-
Other Assets		608,973	362,424
Total Assets		14,793,296	13,223,995
LIABILITIES			
Bill payable		88,464	45,297
Due to Financial Institution		581,051	1,664,996
Deposits and other accounts			
- Current Accounts		1,557,227	1,022,099
- Saving Accounts		2,979,011	1,563,840
- Term Deposits		3,324,085	2,723,733
- Others		4,826	81,503
Deposits from Financial Institution - Remunerative		2,516,102	1,914,585
Deposits from Financial Institution - Non Remunerative		21	21
Due to head Office		1,889,975	2,558,624
Deferred tax liability		-	-
Other liabilities		499,071	449,517
		13,439,833	12,024,215
Net Assets		1,353,463	1,199,780
REPRESENTED BY			
Islamic banking fund		1,300,000	1,000,000
Other reserves		186	70
Unappropriated profit		44,371	176,334
		1,344,557	1,176,404
Surplus on revaluation of assets - net of tax		8,906	23,376
		1,353,463	1,199,780
Remuneration to Shariah Advisor / Board		1,944	1,849
CHARITY FUND			
Opening balance		782	1,763
Additions during the year			
Received from customers on delayed payments		7,739	1,397
Profit on charity saving account		296	122
		8,035	1,519
Payments / utilization during the year			
Social Welfare		(1,300)	(1,500)
Health		(625)	(1,000)
Education		-	-
Relief and disaster recovery		-	-
		(1,925)	(2,500)
Closing balance		6,892	782

Islamic Banking Business

Annexure II

Profit and Loss Account

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
Income / return / profit earned	1,237,924	1,422,236
Income / return / profit expensed	985,283	979,325
	252,641	442,911
Provision against loans and advances - net	129	(5,530)
Provision for diminution in the value of investments	-	42,273
Bad debts written off directly	-	-
	129	36,743
Net profit / income after provisions	252,512	406,168
Other income		
Fees, commission and brokerage income	248,742	101,700
Dividend income	-	-
Income from dealing in foreign currencies	10,030	9,668
Other Income	4,929	3,150
Total other income	263,701	114,518
	516,213	520,686
Other expenses		
Administrative expenses	470,385	342,988
Other provisions / write offs	-	-
Other charges (penalty paid to SBP)	1,457	1,365
Total other expenses	471,842	344,353
Extra ordinary / unusual items	-	-
Profit before taxation	44,371	176,333
Taxation - Current	-	-
- Prior years	-	-
- Deferred	-	-
	-	-
Profit after taxation	44,371	176,333

Islamic Banking Business

Annexure II

Cash Flow Statement

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
Cash flows from operating activities		
Profit before taxation	44,371	176,334
Less: Dividend income	-	-
	44,371	176,334
Adjustments for non-cash charges		
Depreciation on fixed assets	176,960	44,407
Provision against loans and advances - net	129	(5,530)
Provision / (reversal) for diminution in the value of investments - net	-	42,273
Gain on disposal of fixed assets - net	(556)	(292)
	176,533	80,858
	220,904	257,192
(Increase) / decrease in operating assets		
Net investment in held for trading securities	-	-
Islamic Financing & Related Assets	(1,632,818)	(2,235,365)
Other assets - net	(246,549)	590,757
	(1,879,367)	(1,644,608)
Increase / (decrease) in operating liabilities		
Bills payable	43,167	(29,038)
Due to Financial Institution	(1,083,945)	585,996
Deposits and other accounts	3,075,491	(7,382)
Other liabilities	49,555	44,428
	2,084,268	594,004
	425,805	(793,412)
Income tax paid	-	-
Net cash flows from operating activities	425,805	(793,412)
Cash flows from investing activities		
Net investments in available-for-sale securities	400,000	(1,000,000)
Net investments in held-to-maturity securities	568,815	195,479
Due to Head office	(668,649)	2,425,111
Profit remitted to Head Office	(176,334)	(122,548)
Sale proceeds of operating fixed assets disposed off	16,487	5,270
Investment in operating fixed assets	(492,464)	(1,051,946)
Net cash flows from investing activities	(352,145)	451,366
Cash flows from financing activities		
Increase in share capital	300,000	150,000
Net cash flows from financing activities	300,000	150,000
Exchange difference on translation of net investment in foreign Islamic branch	116	67
Increase in cash and cash equivalents	373,776	(191,979)
Cash and cash equivalents at beginning of the period	334,398	526,377
Cash and cash equivalents at end of period	708,174	334,398

Islamic Banking Business

Annexure II

Notes to the Annexure II

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
A-II.1 Islamic Financing and Related Assets			
Murabaha	A-II.1.1	8,464,984	7,111,425
Ijarah	A-II.1.2	107,681	133,616
Diminishing Musharaka	A-II.1.3	1,639,627	1,334,563
		10,212,292	8,579,604
A-II.1.1 Murabaha			
Financing/Investments/Receivables		3,750,676	4,357,760
Advances		1,394,444	1,108,134
Assets/Inventories		3,319,864	1,645,531
Others		-	-
		8,464,984	7,111,425
A-II.1.2 Ijarah			
Financing/Investments/Receivables		81,902	94,572
Advances		25,779	39,044
Assets/Inventories		-	-
Others		-	-
		107,681	133,616
A-II.1.3 Diminishing Musharakah			
Financing/Investments/Receivables		1,443,949	1,158,810
Advances		195,678	175,753
Assets/Inventories		-	-
Others		-	-
		1,639,627	1,334,563

A-II.2 MCB Islamic Banking Division is maintaining following pools for profit declaration & distribution.

- I) General Pool
- II) IERS Musharaka Pool

Features, risks & rewards of each pool is given below:

- I) **General Pool**
 - a) **Priority of utilization of Funds in the general pool shall be**
 - Equity Funds
 - Depositor Funds
 - Placements/ Investments of other IBI
 - Mudaraba placements of MCB (Principal Office)

Notes to the Annexure II

For the year ended December 31, 2012

b) Weightages for distribution of profit in general pool

Assignment of weight-age for profit distribution to different type of profit bearing sources of funds is as follows:

While considering weight-ages emphasis shall be given to the quantum, type and the period of risk assessed by following factors.

- Contracted period, nature and type of deposit/ fund.
- Payment cycle of profit on such deposit/ fund, i.e. monthly, quarterly or on maturity
- Magnitude of risk
- Weight-ages for general pool shall be determined & declared on monthly basis prior to commencement of next month's business in order to provide an opportunity to the customers/ fund providers to exercise their option of either to keep or withdraw their deposits/ funds.

Any change in profit sharing weight-age of any category of deposit/ fund providers shall be applicable from the next month.

c) Identification and allocation of pool related income & expenses

The allocation of income and expenses to different pools is being done based on pre-defined basis and accounting principles as mentioned below:

The direct expenses shall be charged to respective pool, while indirect expenses including the establishment cost shall be borne by MCB IBIs as Mudarib. The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities etc, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; MCB IBIs pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

d) Parameters associated with risk & rewards

Following are the consideration attached with risk & reward of general pool:

- Period, return, safety, security and liquidity of investment
- Financing proposals under process at various stages and likely to be extended in the near future.
- Expected withdrawals of deposits according to the maturities affecting the deposit base.
- Expected amount of procurement of deposit during coming days as a result of concerted marketing efforts of Islamic Banking Branches & MCB-IBD.
- Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organizations as regulated in Pakistan.
- Element of Risk attached to various types of investments.
- SBP rules & Shariah Clearance.

II) IERS Musharaka Pool

All the features and other detail of this pool are in accordance with the SBP IERS Scheme and all circulars and instructions issued from time to time in this regard.

Islamic Banking Business

Annexure II

Notes to the Annexure II

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
A-II.3 Avenues/sectors of economy/business where Mudaraba based deposits have been deployed:		
Chemical and Pharmaceuticals	639,761	608,411
Agribusiness	200,228	-
Textile	1,638,054	2,606,837
GOP Ijarah Sukuk	1,700,000	1,700,000
Sugar	195,738	97,222
Production and transmission of energy	70,450	942,878
Commerce / Trade	30,879	59,247
Transport, Storage and Communication Services	1,666	-
Individuals	68,750	101,666
Ship Breaking	221	2,343
Food & Tobacco Except Sugar	2,788,694	1,801,933
Others	3,751,546	2,678,356
	1,190,719	1,010,809
	12,276,706	11,609,702

A-II.4 Basis of Profit Allocation:

From January 2012 to November 2012, the profit was distributed between Mudarib & Rabbul Maal with below profit sharing ratio based upon Net Income approach (Gross Income less Administrative Expenses)

Rabbul Maal	70%
Mudarib	30%

From December 2012, the Profit was distributed between Mudarib & Rabbul Maal with below profit sharing ratio based upon Gross Income approach (Gross Income less Direct Expenses)

Rabbul Maal	50%
Mudarib	50%

Charging Expenses

The direct expenses is being charged to respective pool, while indirect expenses including the establishment cost is being borne by MCB IB as Mudarib. The direct expenses to be charged to the pool may include depreciation of Ijarah assets, cost of sales of inventories, insurance / Takaful expenses of pool assets, stamp fee or documentation charges, brokerage fee for purchase of securities/commodities etc, impairment / losses due to physical damages to specific assets in pools etc. However, this is not an exhaustive list; IBI pool management framework and the respective pool creation memo may identify and specify these and any other similar expenses to be charged to the pool.

Provisions

Specific provision of Rs.0.128 million has been made against Car Ijarah during the year 2012.

Islamic Banking Business

Annexure II

Notes to the Annexure II

For the year ended December 31, 2012

	2012		2011	
	(Rupees in '000)	%	(Rupees in '000)	%
A-II.5 Mudarib Share (in amount and Percentage of Distributable income)				
Rabbul Maal	593,356	68%	698,099	70%
Mudarib	277,821	32%	299,185	30%
Distributable Income	871,177		997,284	
			2012	2011
			(Rupees in '000)	
A-II.6 Amount & percentage of Mudarib share transferred to depositors through Hiba				
Mudarib Share			277,821	299,185
Hiba			193,822	130,383
Hiba percentage of Mudarib Share			70%	44%
			2012	2011
A-II.7 Profit Rate Earned vs Profit rate Distributed to the depositors during the year:				
*Profit Rate Earned			11.19%	13.50%
Profit Rate distributed to Depositors			8.06%	9.38%

* The profit rate earned means the return on earning assets.

Annexure III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2012

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	Interests/ Mark up Written off	Other Fin. Reliefs Provided	Total	
		Name	CNIC No.		Principal	Int/Acc/Mup	Others					Total
1	Bama International Sialkot Road, Haji Pura, Wazirabad.	Waseem Ahmad	34101-2575493-5	Mian Barkat Ali	74,995	52,039	-	127,034	74,995	-	52,039	127,034
2	Mukhtar Ahmad Chatta & Co Machli Mandi Qadirabad Road, Ali Pur Chatta, Distt Gujranwala	Ch Mukhtar Ahmad Chatta	34104-6502402-3	Nazir Ahmad	4,000	1,552	104	5,656	-	-	1,391	1,391
3	Ali Rice Mills Village Sitra, Pasur Road, Daska Distt Sialkot	Asif Ejaz Sindhu	34601-0725019-9	Ejaz Rasol	9,184	5,638	180	15,002	-	-	3,316	3,316
4	Liaqat Ali House # 21 Ittehad Colony, Mouza Pakki Thati, Multan Road, Lahore (Khasra # 4930/604)	Liaqat Ali	35202-4986390-7	Ch Muhammad Ali	4,471	1,775	258	6,504	-	-	2,025	2,025
5	Shan Traders Kutchery Road, Narowal.	Zeeshan Haider	34501-2460711-5	Sheikh Daulat Ali	2,450	1,030	57	3,537	-	-	1,087	1,087
6	Afzal Sons 756-Neezam Block A.I.Town Lahore	Sh.M.Afzal	35202-2071707-3	Sh.M.Yousaf	2,661	847	94	3,602	-	-	1,048	1,048
7	Creative Group 75-L Gulber Ili Lahore	Sohail Riaz Rehana Fizzaq Khan Nadira Pervaiz Ayesta Sohail Azra Haneef	35202-7266748-5 35200-1463350-6 35202-2624403-6 35202-9692866-5 35202-1913462-6	Riaz Uli Hassan Dr Abdul Razzaq Khan Pervaiz Hashmi Rustam Ali Khan Abbas Shafi	5,700	3,302	355	9,357	-	-	3,654	3,654
8	Muhammad Raheel Siddiqui House No 6, Block 3, Sector B-1 Township Lahore	Muhamamd Raheel Siddiqui	35202-5514691-5	Muhaamad Jamil Siddiqui	969	1,137	72	2,178	-	-	1,175	1,175
9	East End Export (Pvt) Limited 114 Industrial Estate, Kotlakhpat, Lahore	Mr. Malik Abdul Pehman Mr. Malik Muhammad Abid Mrs. Rubna Malik Mrs. Naila Tabassum	274-52-304911 35202-2504397-5 274-56-304235 35202-2262625-3 274-54-304912 35202-2551400-2 271-64-130719 35202-2189489-2	Malik M. Abdullah Malik M. Abdullah Malik Abdul Rehman Malik Muhammad Abid	1,921	7,148	728	9,797	-	-	7,877	7,877
10	Ali Abid H No 92-G4, Phase 1, Wapda Town Lahore	Ali Abid	35202-2467312-3	Akhter Ali	2,480	591	17	3,088	-	-	607	607
11	Abdullah Mehmood H 133-194 Block E Nawab Town Lahore	Abdullah Mehmood Nudrat Abdullah	35202-7127819-5 35202-1694101-0	Malik Kareem Buksh Malik Abdullah Mehmood Khokhar	13,316	3,781	120	17,217	-	-	3,856	3,856

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		Name	CNIC No.		Principal	Int/Acc/Mup	Others				
12	Muhammad Shehbaz H No Skviii-38S-12/D, Kamal Street Ichra Road Lahore	Muhammad Shehbaz	35202-2730416-3	Siraj Din	4,767	12,223	-	16,990	-	12,223	12,223
13	M/S Skin Care Clinic Bhimber Road, Gujrat	Dr. Azhar Mahmood	34202-8799924-7	Ch. Hakim Ali	912	961	76	1,949	-	950	950
14	M/S. Al-Noor Ice Factory Chak 5, Sanibar, Shahkot	Mr Khawar Shaheen	35202-3804291-7	Abdul Rahim	-	883	39	922	-	863	863
15	M/S. Akaso Leather 27-G Block, Uggoki, Model Town, Sialkot	Mujahid Iqbal Tahir Iqbal	34603-8094380-3 34603-1035597-9	Muhammad Bashir Muhammad Bashir	8,683	14,878	780	24,341	-	15,658	15,658
16	New Gujranwala Sanitary Store 40-41 Kaam Park, Block No.1, Lahore	Muhammad Aslam	35202-2196294-3	Haji Feroze Din	241	1,583	290	2,114	-	1,764	1,764
17	Malik Amir Waseem 17/4, Aziz Avenue, Canal Bank, Gulberg V, Lahore	Malik Amir Waseem Malik Wasim Akhter	35202-2781949-3 35202-3180015-5	Malik Muhammad Amin Malik Muhammad Amin	12,629	4,000	72	16,701	-	4,072	4,072
18	M. Sadiq, M. Yousaf Shop No 58, Fruit Market, Badami Bagh Lahore	Ch. M. Sadiq	35202-0738622-3	Ch. Abdul Aziz	1,149	1,081	122	2,352	-	1,152	1,152
19	Ghuman Rice Processing Mills Daska Road, Sialkot	Ch. Muhammad Hanif Ghuman	34603-2275058-9	Ch. Abdul Latif	95,244	19,897	2,533	117,474	1,859	22,230	24,089
20	Kwality Traders 2-Race Course Road, New Civil Lines, Faisalabad.	Ghulam Mustafa	33100-9041634-3	Muhammad Ismail	5,488	4,286	-	9,784	-	4,288	4,288
21	Mustafa Brothers Outside Ghallah Mandi, Toba Road, Jhang.	Zia Ul Mustafa Raza Ul Mustafa	33202-1371772-3 33202-1371769-1	Muhammad Baqir Muhammad Baqir	2,200	1,415	-	3,615	-	1,315	1,315
22	Madina Traders Outside Ghallah Mandi, Toba Road, Jhang.	Zia Ul Mustafa	33202-1371772-3	Muhammad Baqir	800	941	-	1,741	-	891	891
23	Riasat Ali House No.P-165, Street No. 05, Almasoom Town, Faisalabad.	Riasat Ali	33100-0923549-7	Muhammad Irshad Khan	5,296	1,169	-	6,465	-	1,169	1,169
24	Zam Zam Weaving & Processing Mills Bazar - 1, Razaabad, Faisalabad.	Riasat Tufail	33100-6146314-1	Tufail Muhammad	-	1,381	75	1,456	-	1,381	1,381
25	Al Bial Cotton Giners & Oil Mills Chowk Rahmy Shah, Tandlianwala, Distt. Faisalabad	Mian Mohammad Arif Asghar Ali Ramay Mian M Sabir	252-76-32882-6 252-58-47178-7 252-91-32882-0	Mian M Sabir M. Yaqoob M. Edoo	6,929	5,730	70	12,729	-	5,539	5,539

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		Name	CNIC No.		Principal	Intt/Acc/Mup	Others				
26	Muhammad Khurshid House No. 4-S-65, Street No. 08, Block B, Sargodha.	Muhammad Khurshid	38403-2265308-7	Abdul Haq	2,562	938	50	3,540	-	540	540
27	Amir Abduallah Khan & Brothers Multan Manwali Road, Manwali.	Zia Ullah Khan	38302-1068041-7	Muhammad Khan Ilyas Haji	2,499	1,549	51	4,099	-	1,549	1,549
28	Saihal Traders Aadhi Circle, Tehsil Noor Pur, Distt. Khushab	Malik Ghulam Hassan	235-69-288371	Said Rasool	4,970	2,422	70	7,462	-	2,462	2,462
29	Muhammad Asif 962-Harley Street, Rawalpindi	Muhammad Asif	37405-9996983-3	Haji Muhammad Shafi	-	3,422	138	3,560	-	3,668	3,668
30	Muhammad Nisar 252-Street No. 37 G-9/1, Islamabad	Muhammad Nisar	61101-2030398-1	Muhammad Rafique	6,965	941	80	7,986	-	1,055	1,055
31	Anwer Majeed House No 1148-B, Sattelite Town Rawalpindi	Anwer Majeed	37405-4880292-7	Aman Ullah Khan	3,059	1,004	130	4,193	-	1,013	1,013
32	Malik Auangzeb Khan Blial Market Near Malik Brothers CNG, Charsadda Road PWR & Nawaz Abad, Zaryab Colony Peshawar	Malik Auangzeb Khan	17301-1028503-9	Malik Sher Ahmed	-	674	-	674	-	674	674
33	Shehri Shah Electronics House No 63, Street No 09, Block C, Sattelite Town Rawalpindi	Jahangir Khan	37405-4627789-9	Shahsi Khan	1,782	841	68	2,691	-	964	964
34	Qadri Travellers Bela Noor Shah Muzzaifarabad A.J.K.	Azam Ahmed Qadri Kh. Adnan Qadri	82203-1424843-7 90403-0120229-5	Kh. Ghulam Sabir Qadri Muhammad Siddique Qadri	551	2,331	160	3,042	-	1,919	1,919
		Kh. Muhammad Abbas Sardar Arshad Iqbal Shafoqat Haidri	82203-3388653-3 82203-6099855-3 82203-8262386-1	Kh. Sabir Qadri Sardar Muhammad Iqbal Ghulam Mustafaa Haidri							
35	Rocksun Glass Industries (Pvt.) Limited Plot No F-13, Industrial Estate, Jammrud Road, Peshawar	Abdul Ghafoor Saeed Shah Syed Wajid Ali Shah	17301-1375646-9 17301-1340925-3 17301-1536136-1	Muhammad Ali Syed Ghulam Shah Syed Jamaat Ali Shah	2,498	3,061	624	6,183	-	3,721	3,721
36	Bashir Ahmad Javed Chak # 174Wb, Adda Ghulam Hussain Tehsil & Distt. Vehari.	Bashir Ahmad Javed	324-49-468106	Khushi Muhammad	-	1,335	-	1,335	-	1,335	1,335

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		Name	CNIC No.		Principal	Int/Acc/Mup	Others				
37	M/S Waqas Cotton Gimers Puli Chatta Vehari Road Multan.	Mr. Mehmood Ahmad Mr. Zair Maqbool Mr. Shaikat Ali Shahzad	36302-3599114-1 36302-8529306-9 36303-0912264-7	Ch. Abdul Haq Ch. Abdul Haq Ch. Abdul Haq	-	3,565	-	-	-	3,565	3,565
38	M/S Muhammad Hayat & Sons Mandi Bazar Pakpattan	Mr. Muhammad Anwar Mr. Muhammad Siddique (Deceased)	36402-9442852-1 36402-8096091-1	Mr. Muhammad Hayat Mr. Muhammad Hayat	1,497	1,025	61	2,583	-	904	904
39	M/S Shahzeb Trading Company Mauza Shatab Garh, Vehari	Mr. Muhammad Akram Khan	36602-6789477-1	Mr. Shah Muhammad Khan	-	1,708	-	1,708	-	1,702	1,702
40	M/S Bismillah Corporation Khanewal Road Vehari	Mr. Muhammad Jamil	36603-3270116-9	Mr. Muhammad Bux	3,995	2,065	100	6,160	-	2,167	2,167
41	M/S Daha Motors 160/G Near DHO Hospital Sharqi Colony, Vehari.	Mr. Fazal Hussain	36603-1431659-5	Mr. Muhammad Hussain	2,500	1,275	55	3,830	-	1,087	1,087
42	M/S Al-Hand Petroleum Service. KLP Road Kachi Muhammad Khan, P.O Tinda Muhammad Parah, Tehsil Liaquatpur.	Malik Khalid Mehmood	31302-2152648-5	Malik Jind Wadda	3,986	1,365	50	5,401	-	1,431	1,431
43	M/S Azam Nasir Industries Pvt. Ltd. Kot Islam, Tehsil Kabinwala, Distt. Khanewal.	Ch. Shekoo Ahmad. Mr. Mumtaz Ahmad Ramzan. Sughran Btbi	36302-4141189-3 36103-3077065-9 36102-3791209-2	Ch. Nasir Ud Din Haji Muhammad Mr. Muhammad Iqbal	-	1,040	-	1,040	-	1,040	1,040
44	M/S D.G Oil Pvt. Ltd Jampur Road, Choti Zareen, D.G Khan	Sardar Awais Ahmad Khan Laghari Sardar Muhammad Jamal Khan Laghari	309-71-544143 309-66-544140	Sardar Farooq Ahmad Khan Laghari Sardar Farooq Ahmad Khan Laghari	2,755	3,670	-	6,425	-	3,670	3,670
45	M/S Kamran & Co. Khanewal Road Near Bismillah Oil Mills Vehari.	Ch. Ghulam Rasool	36603-9666592-5	Ch. Sher Muhammad	4,500	2,081	100	6,681	-	2,236	2,236
46	Sh. Riaz Ahmad Chowk Shahzadi Bahawalpur.	Sheikh Riaz Ahmad	31202-0265527-9	Sheikh Muhammad Bashir	2,999	790	67	3,856	-	854	854
47	Y2K Industries (Pvt) Limited 1-G & H, Sector-15, Korangi Industrial Area Karachi	Atia Moosavi Danish Iqbal Rabia Begum Roshan Ara Begum Saira Yasir Shah Sheikh Atif Iqbal Sheikh Muhammad Iqbal	518-75-542580 42201-1112920-8 517-80-510019 42301-1208643-9 518-46-228626 517-52-510194 42301-1261994-6 517-78-572048 42301-3491546-0 517-76-481271 42301-6368138-9 517-50-227997 42301-0771362-5	Moosavi Sheikh Muhammad Iqbal Muhammad Iqbal W/O Sheikh Muhammad Iqbal W/O Yasir Bin Shah Sheikh Muhammad Iqbal Muhammad Usman	-	2,256	-	2,256	-	2,256	2,256

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		Name	CNIC No.		Principal	Intt/Acc/Mup	Others				
48	Good Luck Trading Co 164-M, PECHS Unit No.5, Block-III, Karachi.	Abdul Hafeez Jangda	517-50-055185 42201-1067894-9	Haji Abdul Latif	90	3,616	128	3,894	-	3,488	3,488
49	Kenny Mart International Behind Indus Valley School Near Bilawal House Clifton Food Centre Karachi	Faiza Iqbal Khan Iqbal Ahmed Khan	501-66-465846 42301-4539518-9 501-89-465843 42301-1202124-3	Iqbal Ahmad Khan Muhammad Yaqoob Khan	1,320	1,144	-	2,464	-	1,064	1,064
50	Zeeshan Builder R-Washiq Centre Block-14, Gulshan-E-Iqbal Karachi	Haji Anwar Mohammad Iqbal Khan Mrs. Sadia	511-55-050588 42101-16315377 501-45-476427 510-93-526004	ismail Noor Mohammad W/O Kamran	16,600	237,297	-	253,897	11,600	237,297	248,897
51	Shandar Builder 3rd Floor, R-Washiq Centre Block-14, Gulshan-E-Iqbal Karachi	Mst. Khairunissa Mohammad Iqbal Khan Mst.Safia Rehmatalillah	501-89-135448 501-45-476427 501-88-525998	W/O Mohammad Iqbal Noor Mohammad W/O Rehmatalillah	-	118,947	-	118,947	-	118,947	118,947
52	Crystal Chemicals Limited 7-Turner Road, Lahore	Maqsood A. Sheikh Mehmmood A. Sheikh Sheikh M. Rasheed Mrs. Saeeda Begum Mrs. Seema Mahmood Mrs. Suriya Begum Ahmed Imran Hanif	35201-8341741-7 35201-0559699-3 35202-3623845-5 35202-3168785-4 35201-3186664-2 35202-7110559-4 35202-3364209-7	Bashir A. Sheikh Bashir A. Sheikh Sheikh Muhammad Siddique Sheikh Muhammad Rasheed N/A Sheikh Muhammad Hanif N/A	2,340	9,663	35	12,037	-	9,697	9,697
53	M/S. Lodi & Sons Masjid Road, Quetta.	Ejaz Khan Lodhi, Proprietor	54400-9066253-7	Mukhtiar Khan Lodhi	982	1,319	74	2,385	-	1,393	1,393
54	Kohinoor Mills Ltd 8 K.M. Manga Raiwind Road, District Kasur	Mr. Amir Fayyaz Sheikh Mr. Asad Fayyaz Sheikh Mr. Ali Fayyaz Sheikh Mr. Rashid Ahmed Mr. Amir Amin Mr. Kamran Shahid Mr. Muhammad Amir Aslam Qureshi	35201-8176773-1 35201-5994314-7 35201-2652212-9 35201-1567987-1 42201-2174093-9 35202-1844194-7 35201-7355505-5	Muhammad Fayyaz Sheikh Muhammad Fayyaz Sheikh Muhammad Fayyaz Sheikh Ch. Muhammad Din Muhammad Amin Umer Sheikh Muhammad Yousaf Muhammad Akhtar Aslam Qureshi	121,189	64,728	-	185,917	-	76,781	76,781
55	Naveed Alam St # 2, New Multan	Naveed Alam	36302-0460068-5	Habib Ahmed Khan	1,124	480	-	1,604	-	621	621
56	Fazle Mateen Qureshi 83/1, St# 21, Khy: Badar, Phase-VI, D.H.A, Karachi	Fazal Mateen Qureshi	42201-4742374-5	Fazle Mubeen Qureshi	5,204	64	-	5,268	-	686	686

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		Name	CNIC No.		Principal	Int/Acc/Mup	Others				
57	Muhammad Arif Qureshi H# 80, Block 5, Liaquatabad, Karachi	Arif Qureshi	42101-1829664-3	Muhammad Aqil	3,263	230	-	3,493	-	519	519
58	Shoaib Ashfaq Choudary Block X Scheme Z Gulistan E Iqbal Rahim Yar Khan	Shoaib Ashfaq	36502-1349352-9	Ashfaq Ahmed Chaudry	101	329	-	430	101	806	907
59	Malik Waqas Ahmed Nai Abadi, Habib Pura, Hamza Ghouse Road, Sialkot	Malik Waqas Ahmad	34603-8424097-5	Malik Mohammad Asghar	64	210	-	274	64	638	702
60	Sohail Iqbal St# 21, Aziz Colony, Mandala Road, Shahdara, Lahore	Sohail Iqbal	35401-0609887-3	Nazir Ahmed	73	181	-	254	64	734	798
61	Muhammad Khalid St# 1, Income Tax Colony, Bosan Road, Multan	Mohammad Khalid	36302-0743325-3	Muhammad Aslam	212	341	-	553	88	766	854
62	Farrukh Mumtaz Chak No 96-PDakkhana Chak 97-P, St No 2 Rahim Yar Khan	Farrukh Mumtaz	31303-5168596-5	Ch Nusrat Ullah Wairich	716	350	-	1,066	-	500	500
63	Amjad Ghori H# 63, St# 5, Khan Avenue, Chaklala Scheme-III, Rawalpindi	Amjad Ghori	37405-3711513-9	Muhammad Jamil Ghori	2,110	672	-	2,781	-	1,207	1,207
64	Danish Raza Jatoi Flat # 6 Country Club Apartment Block E Ground Floor Phase 5 Dha Karachi	Danish Raza Jatoi	42301-4456406-7	Nazim Uddin Jatoi	16,071	3,706	-	19,777	-	8,784	8,784
65	Amir Munawar H# 5, St# 18, Sant Nagar, Lahore	Amir Munawar Khan	35202-2868201-1	M Munawar Khan	1,788	994	-	2,782	-	1,836	1,836
66	Atta Jilani H No 442 Mohala Block No 2 Sector C I Township, Lahore	Atta Jilani	35202-3647654-5	Sheikh Sultan Khan	2,755	512	-	3,267	-	851	851
67	Umer Yar H # 474, St# 51, G 9/1, Islamabad	Umer Yar	13503-0621961-3	Wali Ur Rehman	12,484	3,014	-	15,498	-	3,394	3,394
68	Mohammad Yaqoob H# 267, Skander Block, Allama Iqbal Town, Lahore	Mohammad Yaqoob	35202-2587297-3	Shiekh Siahodin	3,983	1,306	-	5,289	-	2,660	2,660

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69	Muhammad Saleem Akhtar 33-X, 101, Sosan Road, Madina Town, Faisalabad	Muhammad Saleem Akhtar	33100-9151807-1	Sheikh Muhammad Ibrahim	1,566	1,174	-	2,740	-	4,831	4,831
70	Malik Ahmed Karim Qaswar 308-G1, MA Johar Town, Lahore	Malik Ahmed Karim Qaswar	35202-2516722-3	Malik Ghulam Ahmed	2,289	2,667	-	4,956	-	4,807	4,807
71	Ghulam Haider House No# R-559 Sector 15-A/3 Buffer Zone North Karachi.	Ghulam Haider	42101-0519442-1	Ameer Dad Khan	3,114	746	12	3,872	-	758	758
72	M/S Motor Cade 210-211 Sector 15-B North Karachi	Zia Ul Islam	42101-1713987-3	Anwar-Ul-Islam	7,999	2,687	8	10,694	-	2,006	2,006
73	Sajid Ali Qureshi House# B-283 Block-10 EB, Area Karachi	Sajid Ali Qureshi	42101-0373069-9	Abid Ali Qureshi	6,596	949	42	7,587	-	991	991
74	Waseem Uddin House # D-39, Ground Floor Block-N North Nazimabad Karachi	Waseem Uddin	42101-9452833-3	Ahtesham Uddin	1,400	1,071	-	2,471	-	1,071	1,071
75	M/S Rizq Marble Industry R-1195, Sector 15-Buffer Zone North Karachi	Riaz Ahmed	42101-6149550-1	Muhammad Shafi	4,863	1,564	-	6,427	-	662	662
76	Azhar Jamil House No. 29-B, Central Avenue, Phase-II, DHA Karachi	Azhar Jamil	42301-8396801-7	Khalid Jamil	-	3,593	-	3,593	-	3,593	3,593
77	Sameen Ehtesham M-52, Muzanine Floor, Al-Rehman Trade Centre, Shahrah-E-Liaquat Karachi	Sameen Ehtesham	42301-3514693-6	Syed Ehtesham Hussain	1,600	6,841	-	8,441	1,600	6,841	8,441
78	Bushra Rahat A-73, Block-6, P.E.C.H.S. Karachi	Bushra Rahat	42201-2861364-8	Muhammad Khalil-Ur-Rehman Bajwa	-	2,247	36	2,283	-	2,283	2,283
79	Javed Akhter House # 1/34, Street # 25, Khayaban-N-Mujahid, Phase-V, Dha Karachi	Javed Akhter	42301-2742529-3	Muhammad Siddique Ismail	-	3,099	155	3,254	-	3,254	3,254
80	Ghulam Nabi Water Supply Contractor House # B-150/II, Khudabad Colony, Karachi	Ghulam Nabi	42201-5924552-1	Bashir Aqmed	-	804	-	804	-	603	603
81	Hussain Associates Kamra Road Attock	Malik Shah Nawaz	37101-7581392-9	Malik Ghulam Hussain	-	874	-	874	-	674	674

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		Name	CNIC No.		Principal	Int/Acc/Mup	Others				
82	Rana Gold Centre 18-Mecklegon Road Lahore	Rana Muhammad Razzak	35202-0410311-3	Muhammad Shafi	-	543	-	543	-	543	543
83	Mustafa Ind. Pvt Ltd. 48-A/2 Gulberg III Lahore	Mian Bilal Mustafa Mian Abdul Rezzak Mrs. Ambar Bilal	35200-9220844-3 35200-9124799-3 35202-5111134-0	Mian Abdul Razzak Mian Abdul Aziz Mian Bilal Mustafa	-	2,363	-	2,363	-	2,363	2,363
84	Crown Chemical Ind. Pvt. Ltd. 16-D Aabpara Stop Wahdat Road Lahore	Ch. Bashir Ahmed Nasim Hassan Bashir	35201-6666414-3 35201-6072185-5	Ch. Umer Din Bashir Ahmed Nasim	19,986	3,283	-	23,269	-	2,383	2,383
85	Fauzia Zubair, Hassan Zubair 100-A/3 Saint John'S Park, Cantt Lahore	Fouzia Zubair Sheikh Hassan Zubair Sheikh	35201-1538777-8 35201-1670274-7	Sheikh Muhammad Zubair Sheikh Muhammad Zubair	19,073	2,233	252	21,558	-	2,485	2,485
86	Fatima Traders IBL House 10-G Johar Town Lahore	Hafiz Abdul Rauf Zia Ullah Mughal	35202-6771821-3 35202-0799747-7	Abdul Hafeez Haji Muhammad Siddique	-	3,135	-	3,135	-	1,435	1,435
87	Travel Easy Pvt Ltd. Venus Plaza, 7-E, Edgerton Road Lahore	Nishat Mummunka Muhammad Akhter Mummunka Russie M Dinshaw Fareeda Dinshaw Akhtiar Iqbal	35201-8837604-2 35201-7080375-9 42000-0452158-9 42000-0416475-6 35201-1603809-8	Muhammad Akhtiar Mummunka Mian Ghulam Muhammad Menuchar N.E. Russie M Dinshaw Muhammad Iqbal	16,068	3,712	-	19,770	-	3,712	3,712
88	Muhammad Akhtiar Mummunka H.No. 17-A/295 Sarwar Road Lahore Cantt.	Muhammad Akhtiar Mummunka	35201-7030375-9	Mian Ghulam Muhammad	14,281	4,596	142	19,019	-	4,738	4,738
89	Nishat Mummunka H.No.17/295 Sarwar Road Lahore Cantt.	Nishat Mummunka	35201-8837604-2	Muhammad Akhtiar Mummunka	17,384	5,172	-	22,506	-	5,172	5,172
90	Mian Maqbool Hussain 67-G Pa Society Lahore	Mian Maqbool Hussain	35202-5536766-1	Mian Muhammad Din	4,775	864	13	5,652	-	877	877
91	Muhammad Akram Plot No. 38 New Canal Park Phase III Lahore	Muhammad Akram	35201-1623669-5	Maqsood Khan	386	768	-	1,154	-	694	694
92	Chemlon Traders 14-A Canal Berg Off Canal Housing Society Lahore	Shahzad Hussain Azhar Hussain	35202-6926407-5 35202-8191072-9	Muzaffar Hussain Muzaffar Hussain	-	1,131	-	1,131	-	791	791
93	Plastic Centre 240-S Quaid-e-Azam Industrial Estate, Kot Lakhpat Lahore	Sheikh Zia Ullah	35202-1829813-3	Sheikh Din Muhammad	3,102	944	-	4,046	-	944	944

Annexure III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2012

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	Interests/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	CNIC No.		Principal	Int/Acc/Mup	Others				
94	Happy Printers & Embossors Opposite Rustam Sornab Factory, Sheikhupura Road Shahdara	Muhammad Kashif	35202-3345668-3	Sheikh Javed Akhtar	977	1,025	-	2,002	-	1,025	1,025
95	Hassas Construction 147-B/ST No.11, Cavalry Ground Extension, Lahore Cantt.	Naveed Aziz Sheikh	35201-2667977-9	Abdul Shakoor Aziz	4,988	3,485	317	8,800	-	3,092	3,092
96	Scottish Knitwear 147-B/ST No.11, Cavalry Ground Extension, Lahore Cantt.	Khuram Naveed	35201-2782072-9	Muhammad Naveed	10,399	5,082	319	15,800	-	3,892	3,892
97	Khawaja Izhar UJ Haq 292 M, Model Town Lahore	Khawaja Izhar UJ Haq Nayyara Izhar Mrs.	35202-2812360-5 35202-2649279-6	Khawaja Chiragh Hussain Khawaja Izhar UJ Haq	9,306	2,987	47	12,340	-	2,493	2,493
98	Fida Muhammad Khan 21-J Model Town Lahore	Fida Muhammad Khan	35202-4828859-7	Atta Muhammad Khan	9,939	1,087	49	11,075	-	1,136	1,136
99	Al-Macca CNG Station Chak # 1-A/4-L Opposite Convent Church, GT Road Mohallah Jalakot Dakkili Tehsil & District Okara	Ghulam Sarwar	34601-4936687-9	Muhammad Khan	-	641	-	641	-	641	641
100	Ishtaq Ahmed 1184/A Ward # 6M Mouza Taraf Juma Khalsa Mohallah Neel Gran Outside Dehli Gate Multan	Ishtaq Ahmed	36302-1138375-5	Khadim Hussain	-	1,186	-	1,186	-	1,186	1,186
101	Babar Goods Transport Co Near General Bus Stand Behwalpur Road Multan	Khalid Khan Mehmood	36302-6220213-9	Amer Khan Mehmood	-	978	-	978	-	978	978
102	GF Enterprises Pull Chatha Tattay Pur Road, Multan	Abdul Rasheed Khan	36302-0248911-3	Ghulam Furgan	-	589	-	589	-	589	589
103	Haleem Sons Timber Market Near Grain Market Khanawal	Khalil U Rehman	36103-5906689-3	Abdul Haleem	-	561	-	561	-	561	561
104	Khawaja Filling Station 11-Km, Sargodha Road, Faisalabad.	Kh. Mansoor Sadiq Kh. Muhammad Amin Sadiq Kh. Hassan Mansoor Mr. Bilal Amin Mst. Tabassam Khawaja Mst. Abida Amin Butt	33100-6872156-1 33100-9179151-5 33100-0153559-1 33100-0543992-3 33100-5193969-2 33100-1604901-6	Alhaj Kh. Ghulam Sadiq Alhaj Kh. Ghulam Sadiq Kh. Mansoor Sadiq Kh. Amin Sadiq Kh. Muhammad Mansoor Sadiq Kh. Muhammad Amin Sadiq	-	703	-	703	-	703	703

Annexure III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2012

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	Int/Acc/Mup	Others	Total				
105	Warisha Industries 10-Km, Jaranwala Road, 1-Km Kararawala Road, Faisalabad.	Sikandar Umer	42301-6208945-5	Muhammad Umer	-	2,590	-	2,590	-	-	1,858	1,858
106	Syed Abdul Qadir Flat # B-409, 4Th Floor, Ruffi Lake Drive, Block 18 KDA Scheme No.36, Gulistan-E-Jauhar Karachi.	Syed Abdul Qadir	42401-4986476-9	Syed Abdul Rehman	3,640	1,814	10	5,464	-	-	807	807
107	DJM Securities Pvt. Limited Suite # 203, 2nd Floor, Business & Finance Centre, II, Chundrigar Road, Karachi	Faisal Dayala	42000-3212511-2	Iqbal Dayala	175,359	72,813	-	248,172	-	-	28,861	28,861
108	Muhammad Ali House # B-41, Sector 11-C/1, Sir Syed Town Karachi	Muhammad Ali	42101-1644296-5	Muhammad Ajmal	-	594	34	628	-	-	628	628
109	Green Land Group Of Companies Gunner House, Kamal Abad, PO Gulehra Gali, Tehsil Murree, Distt Rawalpindi	Siraj Ul Haq Raja	37404-1646183-7	Raja Muhammad Azeem	-	615	-	615	-	-	615	615
110	Shamim Alam Lodhi House # 424, Sector F-10/2, Islamabad	Shamim Alam Lodhi	61101-1943854-1	Noor Alam Lodhi	6,718	516	25	7,259	-	-	602	602
111	Muhammad Sadiq Qureshi H No 55-A/5, Block A, Satellite Town, Rawalpindi.	Muhammad Sadiq Qureshi	37405-5755181-3	Muhammad Ayub Qureshi	2,930	934	-	3,864	-	-	934	934
112	National Cigarette Distributors H # 32, St #61, F-10/3, Islamabad	Shahid Pervaz	61101-7950259-3	Yaqeen Ud Din	10,845	3,061	-	13,906	-	-	3,061	3,061
113	Pan Asia Food Products F-7/12, Satellite Town, Rawalpindi	Rehan Javed	61101-4118687-3	Yaqeen Ud Din	-	2,921	-	2,921	-	-	2,921	2,921
114	Muhammad Hayat Khan Mohallah Habat Khan Sherbaz Khel Mianwali	Muhammad Hayat Khan	61101-6610654-5	Rustam Khan	-	2,569	-	2,569	-	-	825	825
115	Abdul Aziz Enterprises 576-A, Satellite Town, Sargodha	Rao Rashid Aziz	38403-3430198-1	Abdul Aziz Khan	-	827	-	827	-	-	597	597
116	Shadab Traders Khushab Road, Sargodha	Malik Shaukat Hayat	38403-4589153-1	Muhammad Khan	-	684	-	684	-	-	684	684

Annexure III

Statement showing written-off loans or any other financial relief of five hundred thousand or above provided during the year 2012

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
117	Khalid Nawaz Kot Khano, P/O Vanikay Tarrar, Tehsil And Distt Hafizabad	Khalid Nawaz	34301-2431265-9	Noor Muhammad	12,025	1,259	824	14,108	-	-	824	824
118	Al-Karam Steel Furnace Plot # 24, 25-A, SE # 2, Gujranwala	Shafique-Ur-Rehman Malik Abdul Mannan Malik Imtiaz Ahmed Abu Bakar Islam	34101-2902432-1 34603-6808244-7 34603-0412717-5 34603-6512986-9	Malik Bashir Ahmed Malik Bashir Ahmed Malik Ameer Islam M. Islam	19,999	5,662	327	25,988	-	-	2,254	2,254
119	Zaheen Academy Allama Iqbal Town, Gujranwala Cantt	M. Javed Rabbani Mrs. Nasreen Javed	210-45-840109 210-85-458176	Ch. Ayub Rabbani W/O Javed Rabbani	598	623	1	1,222	-	-	625	625
120	Muhammad Ashraf/Five Star Traders Allama Iqbal Market Quaid-e-Azam Road Malisi	Muhammad Ashraf	36602-5893024-7	Muhammad Hanif	738	652	25	1,415	-	-	516	516
121	Fayyaz Ahmad 392-Mehran Block Allama Iqbal Town Lahore	Fayyaz Ahmad	35202-0758340-9	Manzoor Ahmed	193	611	15	819	-	-	684	684
					901,826	816,174	10,734	1,728,734	90,372	-	790,472	880,844

Annexure IV

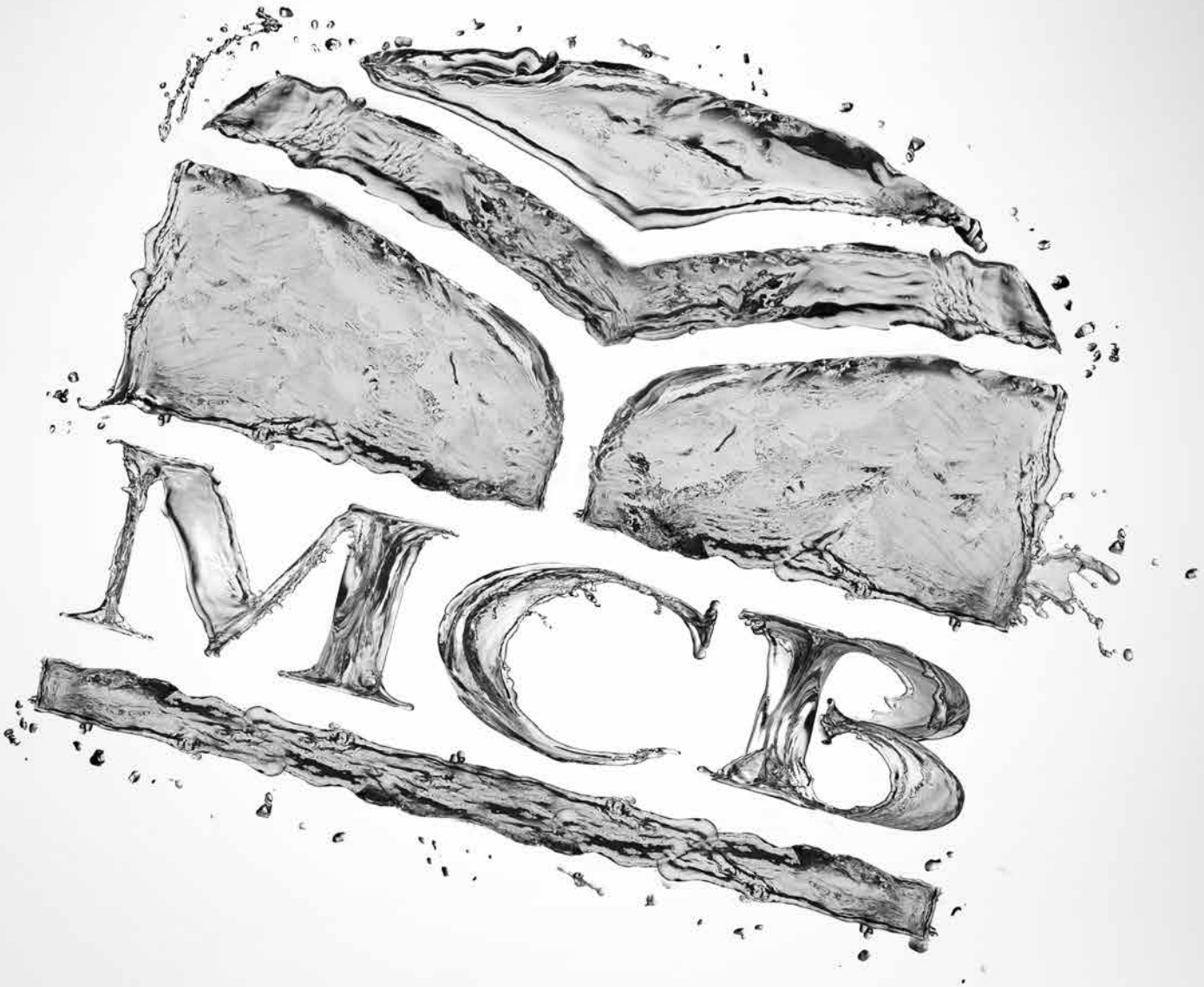
Disposal of operating fixed assets (refer note 11.2.3)

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	1,680	1,615	65	93	Quotations	Abdur Razak & Brothers	Lahore
	4,912	3,950	962	1,755	Claim	Adam Jee Insurance Company	Karachi
	9,725	1,824	7,901	7,901	Donation	PSWO	Lahore
	1,008	966	42	128	Quotations	Muhammad Shabir	Multan
	558	207	351	154	Cash payment	Mr. Naseem / Mr. Atta-ur-Rehman	Dubai
	17,883	8,562	9,321	10,031			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	3,364	2,814	550	778	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	2,810	2,248	562	562	Bank Car Policy	Mr. Raheel Ijaz	Lahore
Honda Accord	1,439	345	1,094	1,300	Claim	Adam Jee Insurance Company	Karachi
Toyota Corolla	1,389	759	630	1,050	Claim	Adam Jee Insurance Company	Karachi
Toyota Corolla	1,351	666	685	1,089	Sale	MCB Employee Foundation	Karachi
Toyota Corolla	1,209	967	242	861	Auction	Mr. Attiq Ur Rehman	Karachi
Toyota Corolla	1,169	935	234	751	Auction	Mr. Irfan Mahmood	Karachi
Honda Civic	3,532	3,531	1	2,556	Sale	Mr. Madhawa Wickramaratne	Colombo, Sri Lanka
	12,899	9,451	3,448	8,169			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	27,317	21,536	5,781	22,366	Auction/Quotation	Different Buyers	All Pakistan
Ijara Assets							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	950	575	375	445	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota XLI	1,339	627	712	712	Purchased By Lessee	Dr. Muhammad Aslam	Faisalabad
Honda City	1,436	946	490	566	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota GLI	1,578	285	1,293	1,352	Purchased By Lessee	Interloop Limited	Faisalabad
Suzuki-Cultus	924	199	725	786	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota GL	1,197	127	1,070	1,081	Purchased By Lessee	Pakistan Tobacco Company	Islamabad
Toyota Altis	1,399	99	1,300	1,315	Purchased By Lessee	Pakistan Tobacco Company	Islamabad
Toyota GLI	1,309	31	1,278	1,289	Purchased By Lessee	Pakistan Tobacco Company	Islamabad
Toyota Altis	1,489	97	1,392	1,407	Purchased By Lessee	Pakistan Tobacco Company	Islamabad
Dhaisu Coure CX CNG ECO Matic New	773	266	507	527	Purchased By Lessee	Muhammad Asaad Chohan	Hyderabad
Suzuki Cultus	859	726	133	133	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Corolla Xli	1,318	811	507	508	Purchased By Lessee	Grand Parent Poultry (Pvt.) Ltd	Lahore
Suzuki Alto	696	412	284	284	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Corolla Xli	1,318	811	507	508	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Corolla Xli	1,321	814	507	508	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Suzuki Mehran	543	464	79	79	Purchased By Lessee	Grand Parent Poultry (Pvt.) Ltd	Lahore
Suzuki Mehran	543	464	79	79	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Suzuki Alto	660	564	96	96	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Hino Bus	2,859	2,312	547	548	Purchased By Lessee	Leiner Pak Gelatine Ltd	Lahore
Suzuki Cultus	828	655	173	173	Purchased By Lessee	Leiner Pak Gelatine Ltd	Lahore
Suzuki Mehran	425	150	275	275	Purchased By Lessee	Attiq-ur-Rehman	Lahore
Suzuki Ravi Pickup	513	414	99	99	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Corolla 2D	1,371	1,174	197	198	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Suzuki Mehran	541	334	207	207	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Suzuki Alto	693	296	397	397	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Computerized Measuring Machines	3,267	351	2,916	2,915	Purchased By Lessee	Ravi Autos (Pvt.) Ltd	Lahore
	30,149	14,004	16,145	16,487			
2012	91,612	56,367	35,245	57,831			
2011	108,733	87,845	20,888	45,179			

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, 2012

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 and MCB Leasing Closed Joint Stock Company for the year ended December 31, 2012.

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

	(Rs. in '000)
Profit before taxation	32,476,487
Taxation	11,241,252
Profit after taxation	21,235,235
Profit attributable to minority interest	(82,050)
Profit attributable to ordinary shareholders	21,153,185
Un-appropriated Profit Brought Forward	30,259,449
Transfer from Surplus on Revaluation of Fixed Assets (net of tax)	36,056
	30,295,505
Profit Available for Appropriation	51,448,690
Appropriations:	
Statutory Reserve	2,094,070
Final Cash Dividend - December 2011	2,508,709
Issue of Bonus Shares - December 2011	836,236
Interim Cash Dividend - March 2012	2,759,581
Interim Cash Dividend - June 2012	3,679,441
Interim Cash Dividend - September 2012	2,759,581
Total Appropriations	14,637,618
Un-appropriated Profit Carried Forward	36,811,072

Pattern of Shareholding

The pattern of shareholding as at December 31, 2012 is annexed in annual report.

Earnings per Share

The consolidated financial statements reflect Rs. 23.00 earnings per share for the year under review.

On behalf of Directors



Mian Mohammad Mansha
Chairman

February 07, 2013

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, 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'consolidated financial statements') for the year then ended. These consolidated financial statements include unaudited certified returns from the branches except for fifty branches which have been audited by us and eight branches audited by auditors abroad. We have also expressed separate opinions on the financial statements of MCB Bank Limited and MNET Services (Private) Limited. While the subsidiary Arif Habib Investments Limited was subject to a limited scope review by us. The financial statements of subsidiary companies MCB Financial Services Limited, MCB Trade Services Limited and MCB Leasing Closed Joint Stock Company were audited by other firms of chartered accountants, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors. The amounts included in respect of associates are based on unaudited financial statements.

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, 2012 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore
Dated: February 22, 2013



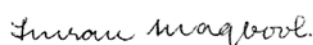
A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner
Imran Farooq Mian

Consolidated Statement of Financial Position

As at December 31, 2012

	Note	2012	2011
(Rupees in '000)			
Assets			
Cash and balances with treasury banks	6	57,420,211	53,122,620
Balances with other banks	7	1,236,736	2,357,418
Lendings to financial institutions	8	1,551,472	955,087
Investments - net	9	405,601,313	319,005,983
Advances - net	10	239,788,511	227,573,618
Operating fixed assets	11	24,144,242	22,418,450
Deferred tax assets - net		-	-
Other assets - net	12	40,540,056	30,891,631
		770,282,541	656,324,807
Liabilities			
Bills payable	14	9,896,284	9,466,818
Borrowings	15	79,064,351	39,100,627
Deposits and other accounts	16	544,988,091	491,146,798
Sub-ordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	17	9,381,242	6,497,097
Other liabilities	18	21,197,446	18,459,162
		664,527,414	564,670,502
Net assets		105,755,127	91,654,305
Represented by			
Share capital	19	9,198,601	8,362,365
Reserves	20	44,620,928	42,412,588
Unappropriated profit		36,811,072	30,259,449
		90,630,601	81,034,402
Minority interest		501,256	492,497
		91,131,857	81,526,899
Surplus on revaluation of assets - net of tax	21	14,623,270	10,127,406
		105,755,127	91,654,305
Contingencies and commitments	22		

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



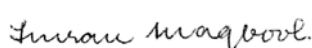
Tariq Rafi
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Mark-up / return / interest earned	24	68,443,744	68,215,902
Mark-up / return / interest expensed	25	27,503,496	23,632,615
Net mark-up / interest income		40,940,248	44,583,287
Provision for diminution in the value of investments - net	9.3	(3,044)	778,526
Provision against loans and advances - net	10.5.2	480,903	2,846,523
Bad debts written off directly	10.6.1	206	28,565
		478,065	3,653,614
Net mark-up / interest income after provisions		40,462,183	40,929,673
Non-mark-up / interest income			
Fee, commission and brokerage income		6,384,757	5,412,925
Dividend income		1,060,411	785,549
Income from dealing in foreign currencies		823,838	924,236
Gain on sale of securities - net	26	857,405	761,890
Unrealized gain on revaluation of investments classified as held for trading	9.5	30,285	16,616
Other income	27	384,459	340,044
Total non-mark-up / interest income		9,541,155	8,241,260
		50,003,338	49,170,933
Non-mark-up / interest expenses			
Administrative expenses	28	17,410,747	15,860,242
Other provision - net	12.3	(187,305)	514,646
Other charges	29	600,054	1,402,756
Total non-mark-up / interest expenses		17,823,496	17,777,644
Share of profit of associates	9.7 & 9.8	296,645	(71,507)
Extra ordinary / unusual item		-	-
Profit before taxation		32,476,487	31,321,782
Taxation - Current year		9,646,189	9,739,369
- Prior years		126,396	1,038,662
- Deferred		1,432,496	1,312,316
Share of tax of associates		36,171	(71,048)
	30	11,241,252	12,019,299
Profit after taxation		21,235,235	19,302,483
Profit attributable to minority interest		(82,050)	(28,167)
Profit attributable to ordinary share holders		21,153,185	19,274,316
Unappropriated profit brought forward		30,259,449	23,458,429
Transfer from surplus on revaluation of fixed assets - net of tax		36,056	36,182
		30,295,505	23,494,611
Profit available for appropriation		51,448,690	42,768,927
Basic and diluted earnings – after tax	Rupees per share	23.00	20.95

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



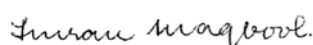
Tariq Rafi
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
Profit after tax for the year	21,235,235	19,302,483
Other comprehensive income		
Effect of translation of net investment in foreign branches and subsidiaries		
- Equity shareholders of the bank	(20,630)	83,661
- Minority interest	339	142
	(20,291)	83,803
Share of exchange translation reserve of associates	134,900	-
Comprehensive income transferred to equity	21,214,944	19,386,286
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	5,248,262	(33,008)
Deferred tax	(1,451,649)	(64,973)
Share of other comprehensive income of associates - net of tax	735,563	(509,974)
	4,532,176	(607,955)
Total comprehensive income for the year	25,747,120	18,778,331

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




Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director




Tariq Rafi
Director

Consolidated Cash Flow Statement

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Cash flows from operating activities			
Profit before taxation		32,476,487	31,321,782
Less: Dividend income and share of profit of associates		(1,357,056)	(714,042)
		31,119,431	30,607,740
Adjustments for non-cash charges			
Depreciation	11.2	1,394,788	1,130,102
Amortization	11.3	261,901	252,187
Provision against loans and advances - net	10.5.2	480,903	2,846,523
(Reversal) / provision for diminution in the value of investments - net	9.3	(3,044)	778,526
Provision against other assets - net	12.3	(187,305)	514,646
Bad debts written off directly	10.6.1	206	28,565
Provision for Workers' Welfare Fund	29	641,155	630,041
Reversal for defined benefit plan	28	(2,018,225)	(1,787,294)
Gain on disposal of fixed assets - net	27	(22,520)	(25,372)
Unrealized gain on revaluation of 'held for trading' securities	9.5	(30,285)	(16,616)
		517,574	4,351,308
		31,637,005	34,959,048
(Increase) / decrease in operating assets			
Lendings to financial institutions		(596,385)	3,446,694
Net investments in 'held for trading' securities		(181,078)	43,760
Advances - net		(13,100,201)	25,895,645
Other assets - net		(1,659,033)	424,951
		(15,536,697)	29,811,050
Increase / (decrease) in operating liabilities			
Bills payable		429,466	(798,719)
Borrowings		39,245,333	13,848,791
Deposits and other accounts		53,841,293	59,851,299
Other liabilities		2,073,488	2,159,362
		95,589,580	75,060,733
Defined benefits paid		111,689,888	139,830,831
Income tax paid		(370,756)	(394,097)
		(14,651,062)	(14,840,108)
Net cash flows from operating activities		96,668,070	124,596,626
Cash flows from investing activities			
Net investments in 'available for sale' securities		(81,315,947)	(107,745,893)
Net investments in 'held to maturity' securities		1,260,172	3,346,149
Net inflow of cash on acquisition of subsidiary		-	41,573
Investment in associated undertaking		-	(52,521)
Proceeds from issue of share to minority interest		4,963	-
Dividends received		1,115,332	874,111
Investments in operating fixed assets		(3,418,725)	(2,451,200)
Sale proceeds of property and equipment disposed off		58,764	46,660
Net cash flows from investing activities		(82,295,441)	(105,941,121)
Cash flows from financing activities			
Dividend paid		(11,893,820)	(9,785,295)
Net cash flows from financing activities		(11,893,820)	(9,785,295)
Exchange differences on translation of the net investment in foreign branches and subsidiaries		(20,291)	83,803
Increase in cash and cash equivalents		2,458,518	8,954,013
Cash and cash equivalents at beginning of the year		54,804,989	46,132,466
Effects of exchange rate changes on cash and cash equivalents		564,517	283,027
		55,369,506	46,415,493
Cash and cash equivalents at end of the year	34	57,828,024	55,369,506

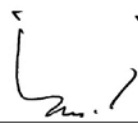
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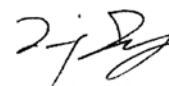
Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



Tariq Rafi
Director

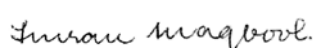
Consolidated Statement of Changes in Equity

For the year ended December 31, 2012

	Capital Reserves			Statutory reserve	Revenue Reserves		Sub total	Minority interest	Total	
	Share capital	Reserve for issue of bonus shares	Share premium		Exchange translation reserve	General reserve				Unappropriated profit
(Rupees in '000)										
Balance as at December 31, 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
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
Profit after taxation for the year ended December 31, 2012	-	-	-	-	-	-	21,235,235	21,235,235	-	21,235,235
Profit attributable to minority interest	-	-	-	-	-	-	(82,050)	(82,050)	82,050	-
Profit after taxation for the year ended December 31, 2012 attributable to ordinary shareholders of the group	-	-	-	-	-	-	21,153,185	21,153,185	82,050	21,235,235
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	-	(20,630)	-	-	-	(20,630)	339	(20,291)
Share of exchange translation reserve of associates	-	-	-	134,900	-	-	-	134,900	-	134,900
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	36,056	36,056	254	36,310
Transferred to statutory reserve	-	-	-	-	2,094,070	-	(2,094,070)	-	-	-
Transfer to reserve for issue of bonus shares	-	836,236	-	-	-	-	(836,236)	-	-	-
Issue of bonus shares - December 2010	836,236	(836,236)	-	-	-	-	-	-	-	-
Share capital issued attributable to minority shareholders	-	-	-	-	-	-	-	-	4,963	4,963
Share of dividend attributable to minority interest	-	-	-	-	-	-	-	-	(78,847)	(78,847)
Final cash dividend - December 2011	-	-	-	-	-	-	(2,508,709)	(2,508,709)	-	(2,508,709)
Interim cash dividend - March 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)	-	(2,759,581)
Interim cash dividend - June 2012	-	-	-	-	-	-	(3,679,441)	(3,679,441)	-	(3,679,441)
Interim cash dividend - September 2012	-	-	-	-	-	-	(2,759,581)	(2,759,581)	-	(2,759,581)
Balance as at December 31, 2012	9,198,601	-	9,924,438	545,530	15,550,960	18,600,000	36,811,072	90,630,601	501,256	91,131,857

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

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



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



Tariq Rafi
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited

Subsidiary companies

	Percentage holding of MCB Bank Limited %
- MCB Financial Services Limited	99.999
- MNET Services (Private) Limited	99.950
- MCB Trade Services Limited	100.000
- 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 (2011: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB -15 Main Gulberg, Lahore. The Bank operates 1,179 branches including 27 Islamic banking branches (2011: 1,165 branches including 22 Islamic banking branches) within Pakistan and 8 branches (2011: 8 branches) outside the country (including the Karachi Export Processing Zone branch).

MCB Financial Services Limited (MFSL)

MFSL was incorporated on February 12, 1992 under the Companies Ordinance, 1984 as a private limited company. The company converted its status from Private Limited Company to Unlisted Public Limited Company on June 19, 2009. The principal objects of the company are to act as Trustee of investment trust schemes, voluntary pension schemes, real estate investment trust schemes, to provide custodian services and to act as transfer agent/share registrar of securities of listed and non listed companies and mutual funds etc. The Company's main source of income is from trusteeship services provided to mutual funds. Its registered office is located at Karachi.

MNET Services (Private) Limited

MNET Services (Private) Limited is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984 on September 7, 2001. The company's registered office and principal place of business are situated at MCB Building, F-6 / G-6, Jinnah Avenue, Islamabad and Sheikh Sultan Trust Building, Beaumont Road, Karachi respectively. The core objective of the company is to provide services in Information Technology and to develop computer software and other data processing equipment for planning, designing, management and execution of all types of financial, personal, organizational and institutional activities.

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 August 30, 2000, as an unquoted public limited company under the Companies Ordinance, 1984. During 2008, the Company was listed on the Karachi Stock Exchange by way of offer for sale of shares by a few of the existing shareholders of the Company to the general public. 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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 4, 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 4, 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

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

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

2. BASIS OF PRESENTATION

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

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

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

2.4 For the purpose of translation, rates of Rs. 97.1497 per US Dollar (2011: Rs. 89.9457), Rs. 0.7611 per LKR (2011: Rs.0.7899) and Rs. 123.7576 per AZN (2011: Rs. 114.36) have been used.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

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

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006,

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.2 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year but not relevant to the Bank or do not have material impact

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2012:

- IAS 34 - Interim Financial Reporting
- IAS 1 - Presentation of Financial Statements (Amendments)
- IFRIC 13 - Customer Loyalty Programmes
- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 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 1, 2013.

- 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 January 1, 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 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 1, 2013) . IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. 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 application of the amendments to IAS 19 would result in the recognition of cumulative unrecognized actuarial gain amounting Rs. 1,107.512 million in other comprehensive income in the period of initial application.

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

4. BASIS OF MEASUREMENT

- 4.1 These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments and commitments in respect of certain forward exchange contracts

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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.

4.3 Critical accounting estimates and judgments

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

a) Classification of investments

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

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

b) Provision against advances

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

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

c) Impairment of 'available for sale' equity investments

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

d) Taxation

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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.

International Accounting Standards (IAS) 16 "Property, Plant and Equipment" requires the review of residual value of assets, useful lives and depreciation method at each financial year end. The management has revised the depreciation method used to allocate the depreciable amount of "Furniture & Fixture" and "Electrical and Office Equipment" from the diminishing balance method (DBM) to Straight Line Method (STL) and revised the depreciation rate on "Electrical & Office Equipment" from 20% based on DBM to 10% STL. The above change reflects a more systematic allocation of the depreciable amount of these assets over their estimated useful lives.

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of "International Accounting standard (IAS) 8, Accounting Policies, Changes in Accounting Estimates and errors." Accordingly, the effect of these changes in accounting estimates has been recognized prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been higher by Rs 53.888 million.

g) Staff retirement benefits

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- a) The consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of associates are accounted for under the equity basis of accounting.
- b) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries are disposed off. The assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the financial statements as at December 31, 2012 and the carrying value of investments held by the Bank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-group balances and transactions have been eliminated.
- c) Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter for the post-acquisition change in the Group's share of net assets of the associate, the cumulative post-acquisition movements are adjusted in the carrying amount of the investment. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group's share in an associate has been accounted for on the basis of the financial statements for the year ended December 31, 2012.
- 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

5.2 Investments

The Group classifies its investments as follows:

a) Held for trading

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

b) Held to maturity

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

c) Available for sale

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

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

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

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

Unquoted equity securities (excluding investments in subsidiaries and associates) are

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate and subsidiary at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. 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 in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on

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For the year ended December 31, 2012

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. Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

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

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

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

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

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

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

5.5.1 Intangible assets

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

5.5.2 Leases (Ijarah)

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

5.6 Impairment

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

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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
 - an approved pension fund; and
 - 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

Deferred

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

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

5.10 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) until the disposal of the net investment, at which time these are recognised in the profit and loss account.

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 prevailing at the date of the statement of financial position.

5.12 Acceptances

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

5.13 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of countries where the branches operate. Where debt securities are purchased at premium or discount, such premium / discount is amortized through the profit and loss account over the remaining period of maturity.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Ijarah income is recognized on an accrual basis as and when the rental becomes due.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.
- Outsourcing revenue, payment system managed service income, subscription fee in Switch product revenue and networking services revenue is recognised on an accrual basis when the related services are rendered.
- Revenue for acting as trustee is recognized on Net Assets Value (NAV) of respective funds.
- Management / advisory fee is calculated on a daily / monthly basis by charging specified rates to the net assets value / income of the Collective Investment Schemes. Advisory fee from the discretionary portfolio is calculated in accordance with the respective agreements with the clients. Management fee from the pension funds is calculated by charging the specified rates to the average net assets value.

5.14 Operating leases

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

term of the lease arrangements.

5.15 Assets acquired in satisfaction of claims

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

5.16 Cash and cash equivalents

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

5.17 Financial instruments

5.17.1 Financial assets and financial liabilities

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

5.17.2 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.

5.17.3 Off setting

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

5.18 Borrowings / deposits

Borrowings / deposits are recorded at the proceeds received. The cost of borrowings / deposits is

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

recognized as an expense in the period in which this is incurred.

5.19 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.

5.19.1 Business segments

Corporate Finance

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

Trading and Sales

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

Retail and Consumer Banking

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

Commercial Banking

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

Asset Management

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

5.19.2 Geographical segments

The Group operates in four geographic regions being:

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

5.20 Dividend distribution and appropriation

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

5.21 Earnings per share

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	10,335,283	9,178,652
- foreign currencies		1,467,923	1,158,868
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	24,947,522	23,043,958
Foreign currency current account	6.3	366,370	43,029
Foreign currency deposit account	6.2	4,693,009	4,041,566
With other central banks in foreign currency			
current account	6.2	373,700	331,050
With National Bank of Pakistan in local currency			
current account		15,236,404	15,325,497
		<u>57,420,211</u>	<u>53,122,620</u>

6.1 This includes national prize bonds amounting to Rs. 116.073 million (2011: Rs. 95.889 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	2012 (Rupees in '000)	2011
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- current account		2,212	4,323
- deposit account	7.1	6,094	47,123
Outside Pakistan			
- current account		1,015,386	1,679,631
- deposit account	7.1	213,044	626,341
		<u>1,236,736</u>	<u>2,357,418</u>

7.1 Balances with other banks outside Pakistan in deposit account carry interest rates ranging from 0.16% to 7% per annum (2011: 0.50% to 8% per annum).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		-	-
Repurchase agreement lendings	8.2 & 8.3	1,551,472	955,087
		<u>1,551,472</u>	<u>955,087</u>
8.1 Particulars of lendings			
In local currency		1,482,973	907,693
In foreign currencies		68,499	47,394
		<u>1,551,472</u>	<u>955,087</u>

8.2. These carry mark up rates ranging from 7.50% to 9.15% per annum (2011 : 7% to 11.90%).

8.3 Securities held as collateral against lendings to financial institutions

	2012			2011		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	1,551,472	-	1,551,472	955,087	-	955,087
	<u>1,551,472</u>	<u>-</u>	<u>1,551,472</u>	<u>955,087</u>	<u>-</u>	<u>955,087</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

9. INVESTMENTS – NET

9.1 Investments by types

	Note / Annexure	2012			2011		
		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)	543,296	-	543,296	345,602	-	345,602
Available-for-sale securities							
- Market Treasury Bills	9.4	226,894,492	63,100,246	289,994,738	232,284,116	24,306,386	256,590,502
- Pakistan Investment Bonds	9.4	83,428,081	-	83,428,081	33,994,184	-	33,994,184
- Shares in listed companies	9.4 & Annexure I (note 1)	6,807,354	-	6,807,354	7,832,951	-	7,832,951
- Units in open ended mutual fund	9.4 & Annexure I (note 1)	4,291,933	-	4,291,933	4,312,262	-	4,312,262
- Shares in unlisted companies	9.4 & Annexure I (note 3)	244,217	-	244,217	523,951	-	523,951
- NIT units		5,253	-	5,253	5,253	-	5,253
- Sukuk Bonds	9.4 & Annexure I (note 4)	3,400,000	-	3,400,000	4,100,000	-	4,100,000
- Term Finance Certificates (TFCs)	9.4 & Annexure I (note 4)	1,912,343	-	1,912,343	1,949,543	-	1,949,543
		326,983,673	63,100,246	390,083,919	285,002,260	24,306,386	309,308,646
Held-to-maturity securities							
- Market Treasury Bills	9.5	771,355	67,824	839,179	1,817,297	483,000	2,300,297
- Pakistan Investment Bonds	9.5	1,676,918	-	1,676,918	1,804,197	-	1,804,197
- Provincial Government Securities		118	-	118	118	-	118
- Sukuk Bonds	Annexure I (note 5)	653,616	-	653,616	1,231,964	-	1,231,964
- Euro Bonds	Annexure I (note 5)	1,693,483	-	1,693,483	1,542,470	-	1,542,470
- Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4 & 5)	2,831,442	-	2,831,442	2,075,882	-	2,075,882
		7,626,932	67,824	7,694,756	8,471,928	483,000	8,954,928
Associates							
- Adamjee Insurance Company Limited	9.7	4,176,476	-	4,176,476	3,101,352	-	3,101,352
- Euronet Pakistan (Private) Limited	9.8	55,679	-	55,679	53,917	-	53,917
- First Women Bank Limited	9.9	63,300	-	63,300	63,300	-	63,300
		4,295,455	-	4,295,455	3,218,569	-	3,218,569
Investments at cost		339,449,356	63,168,070	402,617,426	297,038,359	24,789,386	321,827,745
Less: Provision for diminution in value of investments	9.3	(2,783,347)	-	(2,783,347)	(3,327,065)	-	(3,327,065)
Investments (net of provisions)		336,666,009	63,168,070	399,834,079	293,711,294	24,789,386	318,500,680
Surplus on revaluation of available for sale securities - net	21.2	5,691,769	45,180	5,736,949	475,204	13,483	488,687
Surplus on revaluation of 'held for trading' securities - net	9.5	30,285	-	30,285	16,616	-	16,616
Investments at revalued amounts - net of provisions		342,388,063	63,213,250	405,601,313	294,203,114	24,802,869	319,005,983

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	Note / Annexure	2012 (Rupees in '000)	2011
9.2 Investments by segments			
Federal Government Securities:			
- Market Treasury Bills	9.4	289,994,738	256,590,502
- Pakistan Investment Bonds	9.4	85,104,999	35,798,381
- Euro Bonds	Annexure I (note 5)	1,693,483	1,542,470
- Sukuk Bonds	Annexure I (note 4 & 5)	3,400,000	4,500,000
Overseas Government Securities			
- Market Treasury Bills - Sri Lanka		839,179	2,300,297
Provincial Government Securities		118	118
Associated Undertakings	9.7, 9.8, 9.9 & Annexure I (note 6)	4,295,455	3,218,569
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed companies / mutual funds / modarabas	Annexure I (note 1)	6,744,069	8,116,951
- Unlisted companies / funds	Annexure I (note 3)	144,217	423,951
Units of Open Ended Mutual Funds	Annexure I (note 1)	4,835,229	4,312,262
Fully Paid-up Preference Shares:			
- Listed Companies	Annexure I (note 1)	63,285	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)	2,563,200	1,949,543
- Unlisted Term Finance Certificates	Annexure I (note 4)	1,979,818	714,183
- Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 5)	200,767	1,361,699
Other Investments:			
- Sukuk Bonds	Annexure I (note 5)	653,616	831,964
- NIT Units		5,253	5,253
Total investments at cost		402,617,426	321,827,745
Less: Provision for diminution in the value of investments	9.3	(2,783,347)	(3,327,065)
Investments (net of provisions)		399,834,079	318,500,680
Surplus on revaluation of available for sale securities - net	21.2	5,736,949	488,687
Surplus on revaluation of held for trading securities - net	9.5	30,285	16,616
Investments at revalued amounts - net of provisions		405,601,313	319,005,983

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
9.3 Particulars of provision		
Opening balance	3,327,065	3,116,292
Charge during the year	42,637	786,923
Reversal made during the year	(45,681)	(8,397)
	(3,044)	778,526
Reversal on disposal of shares	(540,674)	(566,750)
Investment written off against provision	-	(1,003)
Closing balance	2,783,347	3,327,065
9.3.1 Particulars of provision in respect of Type and Segment		
Available-for-sale securities		
Listed shares / Certificates / Units	2,215,756	2,712,032
Unlisted shares	71,342	73,674
	2,287,098	2,785,706
Held-to-maturity securities		
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates	496,249	541,359
	2,783,347	3,327,065

9.4 Quality of 'available for sale' securities

	Note	2012		2011	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	290,505,477	Unrated	256,558,203	Unrated
Pakistan Investment Bonds	9.4.1	86,166,935	Unrated	33,755,051	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		275,754	AA-	255,740	AA-
Bank Alfalah Limited		522,712	AA-	501,600	AA-
United Bank Limited		777,380	AA	758,654	AA
Allied Bank Limited		237,013	AA	231,294	AA-
NIB Bank limited		167,118	A+	163,443	A+
Pak Arab Fertilizers Limited		30,011	AA	74,332	AA
		2,009,988		1,985,063	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		19,645	Not available	13,532	Not available
Aisha Steel Mills Limited		1,690	A- & A2	-	-
Allied Bank Limited		496,754	AA+ & A1+	340,150	AA & A1+
Arif Habib Limited		2,686	Not available	1,111	Not available
Arif Habib Corporation Limited		44,650	AA & A1+	43,603	Not available
Askari Bank Limited		-	-	49,211	AA & A1+
Attock Cement Pakistan Limited		1,676	Not available	-	-
Attock Petroleum Limited		420,756	Not available	152,561	Not available
Attock Refinery Limited		37,270	AA & A 1+	17,224	AA & A1+
Bank Alfalah Limited		5,046	AA & A1+	-	AA & A1+
Bank Al-Habib Limited		201,959	AA+ & A1+	220,604	AA+ & A1+
Century Papers and Board Mills Limited		-	-	709	A+
Clariant Pakistan Limited		14,524	Not available	8,381	Not available

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	2012		2011	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Fauji Fertilizer Bin Qasim Company Limited	112,374	Not available	631,540	Not available
Fauji Fertilizer Company Limited	1,175,148	Not available	1,525,308	Not available
First AI - Noor Modaraba	24,990	Not available	23,324	BBB & A-3
Glaxo Smithkline Pakistan Limited	-	-	37,389	Not available
Habib Bank Limited	317,869	AAA & A1+	94,715	AA+ & A-1+
Habib Metropolitan Bank Limited	2,168	AA+ & A1+	21,585	AA+ & A-1+
Hub Power Company Limited	18,096	AA+ & A1+	-	-
Ibrahim Fiber Limited	-	-	3,245	AA- & A1+
ICI Pakistan Limited	-	-	26,459	Not available
IGI Insurance Limited	-	-	18,502	AA
Indus Motors Company Limited	7,297	Not available	5,541	Not available
International Industries Limited	-	-	13,111	Not available
Kohinoor Energy Limited	1,238	AA & A1+	867	AA & A1+
Kot Addu Power Company Limited	145,083	AA+ & A1+	826	AA+ & A-1+
Masood Textile Mills Limited - preference shares	50,000	Not available	50,000	Not available
Meezan Bank Limited	10,743	AA- & A1+	-	-
Mehr Dastagir Textile Mills Limited	-	-	3,234	Not available
Millat Tractors Limited	50,582	Not available	149,707	Not available
Murree Brewery Company Limited	2,861	Not available	-	-
National Foods Limited	4,941	A+ & A1+	-	-
National Refinery Limited	44,236	AAA & A1+	64,378	AAA & A1+
Nestle Pakistan Ltd Limited	25,314	Not available	-	-
* Next Capital Limited	9,555	Not available	8,240	Not available
Oil & Gas Development Company Limited	27,377	AAA & A1+	45,052	AAA & A-1+
Packages Limited	-	-	3,301	AA & A1+
Pakistan Cables Limited	-	-	1,367	Not available
Pakistan Oilfields Limited	510,038	Not available	478,134	Not available
Pakistan Petroleum Limited	140,515	Not available	216,217	Not available
Pakistan State Oil Company Limited	-	-	39,303	AA+ & A1+
Pakistan Telecommunication Company Limited	-	-	2,338	Not available
Pakistan Tobacco Company Limited	3,310	Not available	2,720	Not available
Rafhan Maize Products Limited	23,858	Not available	12,086	Not available
Rupali Polyester Limited	3,994	Not available	4,974	Not available
Samba Bank Limited	75,216	AA- & A1	44,896	A+ & A-1
Searle Pakistan Limited	3,010	Not available	-	-
Soneri Bank Limited	-	-	17,300	AA- & A1+
Summit Bank Limited	-	-	1,170	A & A2
** Sui Northern Gas Pipelines Limited	1,165,180	AA- & A1+	787,311	AA & A1+
* Trust Securities & Brokerage Limited	1,050	Not available	330	Not available
Unilever Pakistan Limited	799,920	Not available	289,906	Not available
Unilever Pakistan Foods Limited	3,728	Not available	677	Not available
United Bank Limited	655,173	AA+ & A1+	382,732	AA+ & A-1+
Wateen Telecom Limited	-	-	9,114	Under review
Zulfqar Industries Limited	3,183	Not available	1,007	Not available
	6,664,703		5,864,992	
Open Ended Mutual Fund				
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	4,236,489	AA(f)	3,967,713	AA(f)
MCB Dynamic Stock Fund	61,506	Not applicable	-	-
Pakistan Pension Fund	140,646	Not applicable	115,365	Not applicable
Pakistan Islamic Pension Fund	137,952	Not applicable	113,811	Not applicable
AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF)	20,691	Not applicable	30,876	Not applicable
Pakistan Capital Protected Fund - Fixed Income Securities (FIS)	-	-	1,439	Not applicable
MCB Islamic Income Fund	-	-	52,820	Not rated
	4,597,284		4,282,024	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

Note	2012		2011	
	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
* National Investment Trust Limited	100	AM2-	100	AM2
* SME Bank Limited	10,106	BBB & A3	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	3,514	Not available	2,962	Not available
* Central Depository Company of Pakistan Limited	10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited	1,526	Not available	1,527	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
* Islamabad Stock Exchange Limited	30,346	Not available	-	-
Lanka Clearing (Private) Limited	761	Not available	790	Not available
Lanka Financial Services Bureau Limited	761	Not available	790	Not available
Credit Information Bureau of Srilanka	23	Not available	24	Not available
	172,875		442,037	
Other Investment				
Sukuk Bonds	9.4.1	Unrated	4,121,390	Unrated
N.I.T.Units		AM2-	2,865	AM2
	<u>393,533,770</u>		<u>307,011,625</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. 788.207 million (2011: 33.901 million shares valuing Rs. 532.591 million) which are held as strategic investment by the Bank.

9.5 Unrealized gain on revaluation of investments classified as 'held for trading'

Investee Company	Unrealized gain		Cost	
	2012	2011	2012	2011
	(Rupees in '000)			
MCB Dynamic Cash Fund	22,774	10,088	462,749	234,433
MCB Cash Management Optimizer Fund	-	3,567	-	61,042
MCB Sarmaya Mahfooz Fund 1	-	2,961	-	50,127
MCB Dynamic Allocation Fund	5,897	-	53,547	-
Pakistan Cash Management Fund	1,614	-	27,000	-
	<u>30,285</u>	<u>16,616</u>	<u>543,296</u>	<u>345,602</u>

9.6 "Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan. The market value of Pakistan Investment Bonds and Market Treasury Bills classified as 'held to maturity' as at December 31, 2012 amounted to Rs. 1,648.796 million and Rs. 839.179 million (2011: Pakistan Investment Bonds Rs. 1,651.687 million and Market Treasury Bills Rs. 2,300.297 million) respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

- 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, 2012 amounted to Rs. 2,455.336 million (2011: Rs. 1,675.927 million).

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

	2012	2011
	(Rupees in '000)	
Opening Balance	3,101,352	3,703,265
Share of profit / (loss) for the year before tax	293,349	(73,069)
Dividend from associate	(54,051)	(90,084)
Share of tax	(34,637)	71,214
	204,661	(91,939)
Share of other comprehensive income	870,463	(509,974)
Closing Balance	4,176,476	3,101,352

- 9.8** Investment of the Group in Euronet Pakistan Private Limited has been accounted for under the equity method of accounting in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'.

Investment in Euronet Pakistan Private Limited under equity method - holding 30%

	2012	2011
	(Rupees in '000)	
Opening Balance	53,917	-
Investment made during the year	-	52,521
Share of profit for the year before tax	3,296	1,562
Share of tax	(1,534)	(166)
Closing Balance	1,762	1,396
	55,679	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 (2011: 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 (2011: 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, 2012

	Note	2012	2011						
(Rupees in '000)									
10. ADVANCES – NET									
Loans, cash credits, running finances, etc.									
In Pakistan		227,631,192	217,243,968						
Outside Pakistan		12,176,644	10,511,019						
		<u>239,807,836</u>	<u>227,754,987</u>						
Islamic Financing and related assets	10.2	10,212,292	8,579,604						
Net investment in finance lease	10.3								
In Pakistan		1,004,316	1,226,014						
Outside Pakistan		850,254	593,796						
		<u>1,854,570</u>	<u>1,819,810</u>						
Bills discounted and purchased (excluding treasury bills)									
Payable in Pakistan		830,471	722,522						
Payable outside Pakistan		9,892,365	11,030,137						
		<u>10,722,836</u>	<u>11,752,659</u>						
Advances - gross		<u>262,597,534</u>	<u>249,907,060</u>						
Provision against advances	10.5								
Specific provision	10.3	(22,380,087)	(21,869,401)						
General provision	10.5.3	(257,457)	(248,135)						
General provision against consumer loans	10.5.5	(145,568)	(198,340)						
General provision for potential lease losses (in Sri Lanka operations)		(25,911)	(17,566)						
		<u>(22,809,023)</u>	<u>(22,333,442)</u>						
Advances - net of provision		<u>239,788,511</u>	<u>227,573,618</u>						
10.1 Particulars of advances (gross)									
10.1.1 In local currency		238,339,089	224,434,978						
In foreign currencies		24,258,445	25,472,082						
		<u>262,597,534</u>	<u>249,907,060</u>						
10.1.2 Short-term		189,486,170	188,136,007						
Long-term		73,111,364	61,771,053						
		<u>262,597,534</u>	<u>249,907,060</u>						
10.2 Islamic Financing and related assets									
Islamic Financing		5,276,527	5,611,142						
Inventories		3,319,864	1,645,331						
Advance against Murabaha		1,394,444	1,108,334						
Advance against future Ijara		25,778	39,044						
Advance against Diminishing Musharaka		195,679	175,753						
		<u>10,212,292</u>	<u>8,579,604</u>						
10.3 Net investment in finance lease									
		2012	2011						
		Not later than one year	Not later than one year						
		Later than one and less than five years	Later than one and less than five years						
		Over five years	Over five years						
		Total	Total						
(Rupees in '000)									
Lease rentals receivable		802,286	1,218,681	-	2,020,967	757,371	1,019,082	71,903	1,848,356
Guaranteed residual value		68,700	83,560	-	152,260	176,521	132,488	-	309,009
Minimum lease payments		870,986	1,302,241	-	2,173,227	933,892	1,151,570	71,903	2,157,365
Finance charge for future periods		(163,028)	(155,629)	-	(318,657)	(142,909)	(182,563)	(12,083)	(337,555)
Present value of minimum lease payments		707,958	1,146,612	-	1,854,570	790,983	969,007	59,820	1,819,810

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

- 10.4** Advances include Rs.25,561.774 million (2011: Rs. 26,664.873 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Note	2012								
		Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		285,883	-	285,883	36,090	-	36,090	36,090	-	36,090
Doubtful		845,875	4,024	849,899	421,841	2,012	423,853	421,841	2,012	423,853
Loss		19,829,029	4,596,963	24,425,992	19,714,184	2,205,960	21,920,144	19,714,184	2,205,960	21,920,144
		<u>20,960,787</u>	<u>4,600,987</u>	<u>25,561,774</u>	<u>20,172,115</u>	<u>2,207,972</u>	<u>22,380,087</u>	<u>20,172,115</u>	<u>2,207,972</u>	<u>22,380,087</u>
2011										
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.4.1	-	-	-	-	-	-	-	-	-
Substandard		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>

- 10.4.1** 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	2012				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
(Rupees in '000)					
10.5 Particulars of provision against advances					
Opening balance	21,869,401	248,135	198,340	17,566	22,333,442
Exchange adjustments	101,078	-	-	-	101,078
Provision made during the year	4,881,254	9,322	-	8,345	4,898,921
Reversals	(4,365,246)	-	(52,772)	-	(4,418,018)
	516,008	9,322	(52,772)	8,345	480,903
Amounts written off	10.6.1	(106,400)	-	-	(106,400)
Closing balance	<u>22,380,087</u>	<u>257,457</u>	<u>145,568</u>	<u>25,911</u>	<u>22,809,023</u>
2011					
Note	Specific	General	General provision against consumer loans	Leasing (general)	Total
(Rupees in '000)					
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)
	3,044,246	(26,009)	(159,012)	(12,702)	2,846,523
Amounts written off	10.6.1	(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>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	2012			2011		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.5.1 Particulars of provisions against advances						
In local currency	20,172,115	403,025	20,575,140	20,154,999	446,475	20,601,474
In foreign currencies	2,207,972	25,911	2,233,883	1,714,402	17,566	1,731,968
	<u>22,380,087</u>	<u>428,936</u>	<u>22,809,023</u>	<u>21,869,401</u>	<u>464,041</u>	<u>22,333,442</u>

	Note	2012	2011
(Rupees in '000)			
10.5.2 The following amounts have been charged to the profit and loss account:			
Specific provision		516,008	3,044,246
General provision	10.5.3	9,322	(26,009)
General provision against consumer loans	10.5.5	(52,772)	(159,012)
General provision for potential lease losses (in Sri Lanka operations)		8,345	(12,702)
		<u>480,903</u>	<u>2,846,523</u>

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

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

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

	Note	2012	2011
(Rupees in '000)			
10.6 Particulars of write offs:			
10.6.1 Against provisions	10.5	106,400	109,939
Directly charged to the profit and loss account		206	28,565
		<u>106,606</u>	<u>138,504</u>
10.6.2 Write offs of Rs. 500,000 and above	10.6.3	90,372	109,030
Write offs of below Rs. 500,000		16,234	29,474
		<u>106,606</u>	<u>138,504</u>

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2012 is given at Annexure- III in standalone financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
10.7	Particulars of advances to directors, executives, associated companies, etc.		
	Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons		
	Balance at beginning of the year	4,179,054	4,660,598
	Loans granted during the year	530,074	955,991
	Repayments	(824,209)	(1,437,535)
	Balance at end of the year	3,884,919	4,179,054
	Debts due by controlled firms, managed modarabas and other related parties		
	Balance at beginning of the year	131,903	54,474
	Loans granted during the year	435,357	85,685
	Repayments	(410,564)	(8,256)
	Balance at end of the year	156,696	131,903
		4,041,615	4,310,957
11.	OPERATING FIXED ASSETS		
	Capital work-in-progress	1,470,141	1,599,602
	Property and equipment	21,885,408	20,117,286
	Intangible asset	788,693	701,562
		24,144,242	22,418,450
11.1	Capital work-in-progress		
	Civil works	1,032,549	1,227,662
	Advances to suppliers and contractors	240,852	315,908
	Others	196,740	56,032
		1,470,141	1,599,602

Notes to the Consolidated Financial Statements

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11.2 Property and equipment

Description	2012							
	Cost/ Revalued amount			Accumulated depreciation			Net book value at December 31, 2012	Annual rate of depreciation / estimated useful life
	At January 01, 2012	Additions / (disposals) / exchange and other adjustments	At December 31, 2012	At January 01, 2012	Charge for the year / (depreciation on disposals) / exchange and other adjustments	At December 31, 2012		
	(Rupees in '000)							
Land - Freehold	10,788,123	1,269,276	12,057,399	-	-	-	12,057,399	-
Land - Leasehold	120,100	-	120,100	-	-	-	120,100	-
Buildings on freehold land	5,632,100	559,106	6,191,206	146,330	166,405	319,280	5,871,926	upto 50 years
					6,545			
Buildings on leasehold land	307,012	233,291	538,898	127,453	77,620	181,563	357,335	3 to 50 years
		(1,405)			(23,510)			
Furniture and fixture	918,961	83,854	1,001,163	436,368	109,553	544,725	456,438	10%
		(2,374)			(1,407)			
		722			211			
Electrical, Computers and office Equipment	7,205,306	567,874	7,722,797	4,760,614	820,438	5,557,447	2,165,350	10% to 25%
		(20,032)			(10,845)			
		(30,351)			(12,760)			
Vehicles	568,394	59,344	585,513	330,076	68,232	366,787	218,726	20% to 25%
		(41,170)			(31,225)			
		(1,055)			(296)			
Ijarah Assets								
Assets held under Ijarah - Car	105,537	206,629	285,284	30,031	45,172	61,550	223,734	20%
		(26,882)			(13,653)			
Assets held under Ijarah - Equipment	318,957	222,059	537,749	16,332	107,368	123,349	414,400	20%
		(3,267)			(351)			
	25,964,490	3,201,433	29,040,109	5,847,204	1,394,788	7,154,701	21,885,408	
		(93,725)			(57,481)			
		(32,089)			(29,810)			
	2011							
Description	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	33,312	918,961	390,099	923	436,368	482,593	10% to 33%
		120,749			54,201			
		(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% to 25%
		(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			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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, 2012 would have been as follows:

	Rupees in '000
Land	2,911,186
Buildings	3,254,849

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

Furniture and fixture	248,585
Electrical, computers and office equipment	3,198,389
Vehicles	267,108
Intangible asset	934,305

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	2012							
	Cost			Accumulated amortization			Net book value at December 31, 2012	Annual rate of amortization %
	At January 01, 2012	Additions / exchange and other adjustments	At December 31, 2012	At January 01, 2012	Amortization for the year / exchange and other adjustments	At December 31, 2012		
(Rupees in '000)								
Computer software	1,513,604	350,382 12,626	1,876,612	1,086,169	261,901 13,976	1,362,046	514,566	25% to 33%
Goodwill	82,127	-	82,127	-	-	-	82,127	
Management rights	192,000	-	192,000	-	-	-	192,000	
	<u>1,787,731</u>	<u>350,382</u> <u>12,626</u>	<u>2,150,739</u>	<u>1,086,169</u>	<u>261,901</u> <u>13,976</u>	<u>1,362,046</u>	<u>788,693</u>	
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	25% to 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>	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
12. OTHER ASSETS – NET			
Income / mark-up accrued on advances and investments - local currency		8,019,107	7,210,511
Income / mark-up accrued on advances and investments - foreign currencies		98,249	187,967
Advances, deposits, advance rent and other prepayments		975,662	890,181
Advance taxation (payments less provisions)		10,969,681	6,091,803
Compensation for delayed income tax refunds		44,802	44,802
Non-banking assets acquired in satisfaction of claims	12.1	1,398,703	994,504
Unrealised gain on derivative financial instruments	12.2	134,339	311,282
Stationery and stamps on hand		43,067	64,989
Prepaid exchange risk fee		169	537
Receivable from the pension fund	36.3	17,252,778	14,731,898
Others		2,735,476	1,652,844
		<u>41,672,033</u>	<u>32,181,318</u>
Less: Provision held against other assets	12.3	1,131,977	1,289,687
		<u>40,540,056</u>	<u>30,891,631</u>

12.1 The market value of non-banking assets with carrying value of Rs. 1,276.093 million (2011: Rs. 871.894 million) net of provision as per the valuation report dated December 31, 2012 amounted to Rs. 1,374.399 million (2011: Based on valuation as of December 31, 2011 Rs. 893.184 million).

12.2 Unrealised gain on derivative financial instruments

	Contracts / Notional amount		Unrealised gain	
	2012	2011	2012	2011
	(Rupees in '000)			
Unrealised gain on:				
Forward exchange contracts	22,169,486	29,327,087	134,339	311,282
	<u>22,169,486</u>	<u>29,327,087</u>	<u>134,339</u>	<u>311,282</u>

	2012 (Rupees in '000)	2011
12.3 Provision held against other assets		
Opening balance	1,289,687	768,275
Charge for the year	59,858	520,423
Reversal during the year	(247,163)	(5,777)
	(187,305)	514,646
Write off during the year	(12,324)	(18,286)
Exchange adjustments	41,919	25,052
Closing balance	<u>1,131,977</u>	<u>1,289,687</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2012 and December 31, 2011.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
14. BILLS PAYABLE			
In Pakistan		9,849,905	9,435,321
Outside Pakistan		46,379	31,497
		<u>9,896,284</u>	<u>9,466,818</u>
15. BORROWINGS			
In Pakistan		76,644,529	37,397,843
Outside Pakistan		2,419,822	1,702,784
		<u>79,064,351</u>	<u>39,100,627</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		76,644,529	37,397,843
In foreign currencies		2,419,822	1,702,784
		<u>79,064,351</u>	<u>39,100,627</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	8,780,720	9,903,657
Long term financing facility	15.4 & 15.5	3,448,638	2,026,175
Long term financing - export oriented projects scheme	15.4 & 15.5	555,277	949,375
Financing Facility for Storage of Agricultural Produce		768,806	219,932
Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas		-	450
		<u>13,553,441</u>	<u>13,099,589</u>
Borrowings from other financial institution	15.6	405,853	293,113
Repurchase agreement borrowings	15.7	63,158,913	24,781,254
		<u>77,118,207</u>	<u>38,173,956</u>
Unsecured			
Call borrowings	15.8	1,117,221	816,139
Overdrawn nostro accounts		828,923	110,532
		<u>1,946,144</u>	<u>926,671</u>
		<u>79,064,351</u>	<u>39,100,627</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 1.50% to 11.50% per annum (2011: 2.80% to 9.50% per annum).		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

15.7 These carry mark-up rates ranging from 6.50% to 12.82% per annum (2011: 6.30% to 12.50% per annum) and are secured against government securities of carrying value of Rs. 63,213.250 million (2011: Rs. 24,802.869 million). These are repayable by April, 2013.

15.8 These carry mark-up ranging from 0.8% to 1.45% per annum (2011: 2.24% to 9.10% per annum). These are repayable by April, 2013.

	2012	2011
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	80,649,846	91,476,846
Saving deposits	268,923,547	225,916,109
Current accounts	183,107,714	161,668,528
Margin accounts	3,520,404	3,511,830
	<u>536,201,511</u>	<u>482,573,313</u>
Financial institutions		
Remunerative deposits	6,090,878	6,319,827
Non-remunerative deposits	2,695,702	2,253,658
	<u>8,786,580</u>	<u>8,573,485</u>
	<u>544,988,091</u>	<u>491,146,798</u>
16.1 Particulars of deposits		
In local currency	515,529,011	463,499,029
In foreign currencies	29,459,080	27,647,769
	<u>544,988,091</u>	<u>491,146,798</u>

16.2 Deposits include deposits from related parties amounting to Rs. 30,737.114 million (2011: Rs. 30,609.125 million).

	Note	2012	2011
		(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	768,800	788,352
Accelerated tax depreciation		1,142,867	1,057,564
Receivable from pension fund		6,038,472	5,156,165
Investments in associates		213,604	193,138
Surplus on revaluation of securities	21.2	1,501,042	49,393
Others		-	10,219
		<u>9,664,785</u>	<u>7,254,831</u>
Deductible temporary differences on:			
Provision for bad debts		(12,632)	(414,436)
Provision for gratuity		(1,519)	(1,019)
Provision for contributory benevolent scheme		-	(5,656)
Provision for post retirement medical benefits		(257,760)	(306,908)
Taxable losses		(11,632)	(29,715)
		<u>(283,543)</u>	<u>(757,734)</u>
		<u>9,381,242</u>	<u>6,497,097</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		7,699,278	7,096,928
Mark-up / return / interest payable in foreign currencies		65,112	68,145
Accrued expenses		5,812,141	3,543,270
Unclaimed dividend		520,567	628,228
Staff welfare fund		27,942	36,871
Unrealised loss on derivative financial instruments	18.1	107,194	434,278
Provision for employees' compensated absences	36.3	594,100	535,870
Provision for post retirement medical benefits	36.3	1,494,183	1,411,744
Provision for employees' contributory benevolent scheme	36.3	260,347	262,029
Provision for gratuity		4,340	2,910
Security deposits received in respect of finance lease		288,471	391,952
Branch adjustment account		19,023	175,079
Retention money		31,634	33,382
Insurance payable against consumer assets		169,517	124,749
Others		4,103,597	3,713,727
		<u>21,197,446</u>	<u>18,459,162</u>

18.1 Unrealised loss on derivative financial instruments

	Contract / Notional amount		Unrealised loss	
	2012	2011	2012	2011
(Rupees in '000)				
Unrealised loss on:				
Forward exchange contracts	25,074,183	38,099,258	107,194	434,278
	<u>25,074,183</u>	<u>38,099,258</u>	<u>107,194</u>	<u>434,278</u>

19. SHARE CAPITAL

19.1 Authorised Capital

2012	2011		2012	2011
(Number of shares)			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 each	<u>10,000,000</u>	<u>10,000,000</u>

19.2 Issued, subscribed and paid-up capital

2012			2011			2012	2011
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	638,982,681	836,236,476	197,253,795	562,961,185	760,214,980	Opening balance	8,362,365
-	83,623,647	83,623,647	-	76,021,496	76,021,496	Shares issued during the year	836,236
<u>197,253,795</u>	<u>722,606,328</u>	<u>919,860,123</u>	<u>197,253,795</u>	<u>638,982,681</u>	<u>836,236,476</u>	Closing balance	<u>9,198,601</u>
							<u>8,362,365</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012 (Number of shares)	2011
19.3	Number of shares held by the associated undertakings as at December 31, are as follows:		
	Adamjee Insurance Company Limited	28,641,486	26,037,715
	Nishat Mills Limited	66,611,481	59,201,892
	D.G. Khan Cement Company Limited	84,526,640	76,842,402
	Din Leather (Private) Limited	5,732,508	5,211,371
	Siddiqsons Limited	11,798,731	10,726,120
	Mayban International Trust (Labuan) Berhad	183,972,923	167,247,294
		<u>381,283,769</u>	<u>345,266,794</u>
20.	RESERVES		
	Share premium	9,924,438	9,924,438
	Exchange translation reserve	545,530	431,260
	Statutory reserve	15,550,960	13,456,890
	General reserve	18,600,000	18,600,000
		<u>44,620,928</u>	<u>42,412,588</u>
20.1	Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
21. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX			
Surplus / (deficit) arising on revaluation (net of tax) of:			
- fixed assets	21.1	9,425,431	9,461,743
- available-for-sale securities	21.2	4,235,907	439,294
Surplus / (deficit) arising on revaluation of assets of associated undertaking (net of tax)		961,932	226,369
		14,623,270	10,127,406
21.1 Surplus on revaluation of fixed assets–net of tax			
Surplus on revaluation of fixed assets as at January 01		10,250,095	10,305,760
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		(36,312)	(36,182)
Related deferred tax liability		(19,552)	(19,483)
		(55,864)	(55,665)
Surplus on revaluation of fixed assets as at December 31		10,194,231	10,250,095
Less: Related deferred tax liability on:			
Revaluation as at January 01		788,352	808,054
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		(19,552)	(19,483)
		768,800	788,352
		9,425,431	9,461,743

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
21.2 Surplus / (deficit) on revaluation of available-for-sale securities – net of tax			
Federal Government Securities			
- Market Treasury Bills		510,739	(32,299)
- Pakistan Investment Bonds		2,738,854	(239,133)
Listed Securities			
- Shares / Certificates / Units		2,071,198	733,928
- Open Ended Mutual Funds		305,677	(30,719)
- Term Finance Certificates		97,645	35,520
		2,474,520	738,729
Sukuk Bonds		12,836	21,390
		5,736,949	488,687
Add: Related deferred tax (liability) / asset	17	(1,501,042)	(49,393)
		4,235,907	439,294
22. CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Contingent liabilities in respect of guarantees given favouring:			
Government		5,129,432	5,395,819
Banks and financial institutions		3,585,501	2,552,463
Others		13,956,922	11,472,854
		22,671,855	19,421,136
22.2 Transaction-related contingent liabilities			
Guarantees in favour of:			
Others		686,615	477,806
Suppliers' credit / payee guarantee		2,600,833	2,373,006
		3,287,448	2,850,812
22.3 Trade-related contingent liabilities		69,500,795	74,195,135
22.4 Other contingencies			
Claims against the Bank not acknowledged as debts		620,416	844,099
<p>These represent certain claims by third parties against the Bank, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.</p>			
22.5 Commitments to extend credit			
<p>The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.</p>			
		2012	2011
		(Rupees in '000)	
22.6 Commitments in respect of forward foreign exchange contracts			
Purchase		25,546,035	32,395,900
Sale		21,697,634	35,030,445
22.7 Commitments for the acquisition of fixed assets		555,398	276,277

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

22.8 Taxation

For assessment year 1988-89 through tax year 2011, the tax department disputed Bank's treatment on certain issues, where the Bank's appeals are pending at various appellate forums, entailing an additional tax liability of Rs.9,639 million which has been paid. Such issues inter alia principally include disallowance of expenses for non deduction of withholding tax and non availability of underlying records, provision for non performing loans, attribution of expenses to heads of income other than income from business and disallowance of credit for taxes paid in advance / deducted at source.

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

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

23. DERIVATIVE INSTRUMENTS

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

The Bank 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 Consolidated Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	28,895,369	33,831,320
On investments in:		
- Held for trading securities	571,924	-
- Available for sale securities	37,623,042	31,944,698
- Held to maturity securities	838,773	1,174,867
	39,033,739	33,119,565
On deposits with financial institutions	43,597	19,648
On securities purchased under resale agreements	256,648	958,125
On money at call	23,438	71,626
Others	190,953	215,618
	<u>68,443,744</u>	<u>68,215,902</u>
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	23,040,670	20,083,248
Securities sold under repurchase agreements	2,628,154	1,574,909
Other short-term borrowings	1,159,156	1,223,045
Discount, commission and brokerage	511,562	662,115
Others	163,954	89,298
	<u>27,503,496</u>	<u>23,632,615</u>
26. GAIN ON SALE OF SECURITIES - NET		
Federal Government Securities		
Market Treasury Bills	37,567	47,461
Pakistan Investment Bonds	25,516	8,717
Sukuk Bonds	3,000	13,500
Other		
- Shares and units - Listed	478,249	692,212
- Unlisted shares	313,073	-
	<u>857,405</u>	<u>761,890</u>
27. OTHER INCOME		
Rent on property / lockers	162,819	129,722
Net profit on sale of property and equipment	22,520	25,372
Bad debts recovered	48,817	39,140
Postal, SWIFT and other charges recovered	139,627	141,669
Switch and outsourcing revenue	10,676	4,141
	<u>384,459</u>	<u>340,044</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	Note	2012 (Rupees in '000)	2011
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		9,394,064	8,461,039
Charge / (reversal) for defined benefit plans and other benefits:			
- Approved pension fund	36.7	(2,520,880)	(2,189,338)
- Post retirement medical benefits	36.7	222,861	169,629
- Employees' contributory benevolent scheme	36.7	38,563	51,422
- Employees' compensated absences	36.7	239,611	180,647
- Gratuity scheme		1,620	346
		(2,018,225)	(1,787,294)
Contributions to defined contribution plan - provident fund		188,417	176,510
Non-executive directors' fees		34,431	35,838
Rent, taxes, insurance and electricity		1,994,797	1,724,806
Legal and professional charges		198,392	207,274
Communications		933,010	940,832
Repairs and maintenance		1,236,604	960,689
Stationery and printing		410,758	388,792
Advertisement and publicity		395,292	440,878
Cash transportation charges		461,504	449,670
Instrument clearing charges		187,471	197,851
Donations	28.1	31,162	83,506
Auditors' remuneration	28.2	22,941	27,262
Depreciation	11.2	1,394,788	1,130,102
Amortization of intangible asset	11.3	261,901	252,187
Travelling, conveyance and fuel		749,310	731,552
Subscription		27,316	41,010
Entertainment		112,379	104,156
Training Expenses		30,429	46,298
Petty Capital items		34,890	55,907
Card Related Expenses		147,490	129,396
Outsourced security guards, tea services and janitorial expenses		957,965	798,431
CNIC verification charges		60,276	57,596
Others		163,385	205,954
		<u>17,410,747</u>	<u>15,860,242</u>

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:

	2012 (Rupees in '000)	2011
Construction of houses in flood affected areas	12,088	77,988
Cancer Detection Center - Rotary Club of Colombo	-	783
Network equipment to PSWO	7,901	-
Hyderabad Relief & Rehabilitation Trust	3,832	-
Al-Shifa Trust, " Fighting Against Blindness"	1,000	-
Sindh Institute of Urology & Transplantation (SIUT)	5,000	-
Shoukat Khanum Memorial Trust	100	-
Cost of establishing of centre of learning in collaboration with CISCO system and CARE foundation	1,241	4,735
	<u>31,162</u>	<u>83,506</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
28.2 Auditors' remuneration		
Annual Audit fee	3,137	2,988
Fee for the audit of branches	4,162	3,964
Fee for the audit of subsidiaries	1,390	714
Fee for the audit of overseas subsidiary	993	1,392
Fee for audit and other certifications of overseas branches	2,802	6,932
Fee for half year review	1,398	1,331
Special certifications and sundry advisory services	8,388	9,308
Out-of-pocket expenses	671	633
	22,941	27,262
29. OTHER CHARGES		
Provision for Penalties of State Bank of Pakistan	220,000	150,000
Workers welfare fund	641,155	630,041
VAT Sri Lanka	43,643	33,448
Provision against balance with banks	(304,744)	406,672
Loss on Sale of Non-Banking Assets	-	182,595
	600,054	1,402,756
30. TAXATION		
For the year		
Current	9,646,189	9,739,369
Deferred	1,432,496	1,169,981
	11,078,685	10,909,350
Prior years		
Current	126,396	1,038,662
Deferred	-	142,335
	126,396	1,180,997
Share of tax of associates	36,171	(71,048)
	11,241,252	12,019,299
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	32,476,487	31,321,782
Tax rate	35%	35%
Tax on income	11,366,770	10,962,624
Tax effect on separate block of income (taxable at reduced rate)	(226,188)	(242,275)
Tax effect of permanent differences	87,907	81,317
Tax effect of prior years provisions	126,396	1,180,997
Others	(113,633)	36,636
Tax charge for the year	11,241,252	12,019,299
31. CREDIT RATING		
PACRA through its notification in June 2012, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2011: 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, 2012

	2012	2011
	(Rupees in '000)	
32. BASIC AND DILUTED EARNINGS PER SHARE – PRE TAX		
Profit before taxation	32,476,487	31,321,782
	(Number of shares)	
Weighted average number of shares outstanding during the year	919,860,123	919,860,123
	(Rupees)	
Basic and diluted earnings per share – pre tax	35.31	34.05
	(Rupees in '000)	
33. BASIC AND DILUTED EARNINGS PER SHARE – AFTER TAX		
Profit after taxation attributable to ordinary share holders	21,153,185	19,274,316
	(Number of shares)	
Weighted average number of shares outstanding during the year	919,860,123	919,860,123
	(Rupees)	
Basic and diluted earnings per share – after tax	23.00	20.95

* Weighted average number of shares outstanding for 2011 have been restated to give effect of bonus shares issued during the year.

	Note	2012	2011
		(Rupees in '000)	
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	57,420,211	53,122,620
Balances with other banks	7	1,236,736	2,357,418
Overdrawn nostro accounts		(828,923)	(110,532)
		57,828,024	55,369,506

	2012	2011
	(Number)	
35. STAFF STRENGTH		
Permanent	10,867	10,199
Temporary/on contractual basis	71	69
Bank's own staff strength at the end of the year	10,938	10,268
Outsourced	35.1	3,087
Total staff strength	12,934	13,355

35.1 This excludes outsourced security guards and tea services staff.

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

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

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, 2012. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
	(%)							
Valuation discount rate	12	13	12	13	12	13	12	13
Expected rate of return on plan assets	12	13	-	-	-	-	-	-
Salary increase rate	9	10	9	10	9	10	9	10
Medical cost inflation rate	-	-	-	-	6	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	
		2012	2011	2012	2011	2012	2011	2012	2011
		(Rupees in '000)							
Present value of defined benefit obligations	36.5	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870
Fair value of plan assets	36.6	(22,688,154)	(19,543,388)	-	-	-	-	-	-
Net actuarial gains / (losses) not recognised		1,175,705	549,069	3,258	(21,448)	(71,451)	22,774	-	-
Net (receivable) / payable recognised as at the year-end		(17,252,778)	(14,731,898)	260,347	262,029	1,494,183	1,411,744	594,100	535,870

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, 2012 would be Rs. 95.010 million (2011: Rs. 81.262 million) and Rs. 80.020 million (2011: Rs. 69.891 million) respectively.

36.4 Movement in balance (receivable) / payable

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2012	2011	2012	2011	2012	2011	2012	2011
		(Rupees in '000)							
Opening balance of (receivable) / payable		(14,731,898)	(12,542,560)	262,029	262,263	1,411,744	1,374,293	535,870	555,792
Expense recognised	36.7	(2,520,880)	(2,189,338)	38,563	51,422	222,861	169,629	239,611	180,647
- Employees' contribution		-	-	8,708	9,694	-	-	-	-
Benefits paid		-	-	(48,953)	(61,350)	(140,422)	(132,178)	(181,381)	(200,569)
Closing balance of (receivable) / payable		(17,252,778)	(14,731,898)	260,347	262,029	1,494,183	1,411,744	594,100	535,870

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

36.5 Reconciliation of the present value of the defined benefit obligations

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Present value of obligation as at January 01,	4,262,421	4,217,507	283,477	314,414	1,388,970	1,320,933	535,870	555,792
Current service cost	53,499	46,415	15,230	13,506	15,697	17,887	62,860	32,693
Interest cost	518,091	503,085	33,670	36,886	171,439	163,130	34,831	72,253
Benefits paid	(554,210)	(695,247)	(48,953)	(61,350)	(140,422)	(132,178)	(181,381)	(200,569)
Actuarial (gains) / losses	(20,130)	190,661	(26,335)	(19,979)	129,950	19,198	141,920	75,701
Present value of obligation as at December 31,	4,259,671	4,262,421	257,089	283,477	1,565,634	1,388,970	594,100	535,870

36.6 Changes in fair values of plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Net assets as at January 01,	19,543,388	19,303,801	-	-	-	-	-	-
Expected return on plan assets	2,504,617	2,464,303	-	-	-	-	-	-
Benefits paid	(554,210)	(695,247)	-	-	-	-	-	-
Actuarial gain / (loss)	1,194,359	(1,529,469)	-	-	-	-	-	-
Net assets as at December 31,	36.9	22,688,154	19,543,388	-	-	-	-	-

36.7 Charge for defined benefit plans and other benefits

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

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Current service cost	53,499	46,415	15,230	13,506	15,697	17,887	62,860	32,693
Interest cost	518,091	503,085	33,670	36,886	171,439	163,130	34,831	72,253
Expected return on plan assets	(2,504,617)	(2,464,303)	-	-	-	-	-	-
Net actuarial (gain) / loss recognised	(587,853)	(274,535)	(1,629)	10,724	35,725	(11,388)	141,920	75,701
Contributions employees	-	-	(8,708)	(9,694)	-	-	-	-
	(2,520,880)	(2,189,338)	38,563	51,422	222,861	169,629	239,611	180,647

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. 13.369 million (2011: Rs. 11.622 million) and Rs. 11.207 million (2011: Rs. 9.922 million) respectively.

36.8 Actual return on plan assets

Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Actual return on plan assets	3,698,976	934,834	-	-	-	-	-	-

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36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2012		2011	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term Deposit Receipts	15,528,023	68.44	15,535,472	79.49
Listed equity shares	3,610,176	15.91	2,187,870	11.19
Open ended mutual funds units	234,619	1.03	182,438	0.93
Term Finance certificates	198,923	0.88	183,552	0.94
Cash and bank balances	3,116,413	13.74	1,454,056	7.44
Fair value of plan total assets	22,688,154	100	19,543,388	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	2,962,492		1,728,172	
TDRs of MCB	15,528,023		15,535,472	
Bank balance with MCB	3,100,321		1,442,065	
	21,590,836		18,705,709	

36.10 Other relevant details of above funds are as follows:

	2012	2011	2010	2009	2008
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,259,671	4,262,421	4,217,507	4,072,653	4,295,986
Fair value of plan assets	(22,688,154)	(19,543,388)	(19,303,801)	(18,254,967)	(15,953,712)
(Surplus) / deficit	(18,428,483)	(15,280,967)	(15,086,294)	(14,182,314)	(11,657,726)
Actuarial gain / (loss) on obligation					
Experience adjustment	20,130	(190,661)	(191,752)	(368,717)	167,695
Assumptions gain / (loss)	-	-	-	-	-
	20,130	(190,661)	(191,752)	(368,717)	167,695
Actuarial gain / (loss) on assets					
Experience adjustment	1,194,359	(1,529,469)	(852,657)	1,400,023	(476,313)
Assumptions gain / (loss)	-	-	-	-	-
	1,194,359	(1,529,469)	(852,657)	1,400,023	(476,313)
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	257,089	283,477	314,414	299,388	300,162
Fair value of plan assets	-	-	-	-	-
	257,089	283,477	314,414	299,388	300,162
Actuarial gain / (loss) on obligation					
Experience adjustment	26,335	19,979	(25,282)	(53,700)	-
Assumptions gain / (loss)	-	-	-	-	-
	26,335	19,979	(25,282)	(53,700)	-
Actuarial gain / (loss) on assets					
Experience adjustment	-	-	-	-	-
Assumptions gain / (loss)	-	-	-	-	-
	-	-	-	-	-

Notes to the Consolidated Financial Statements

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	2012	2011	2010	2009	2008
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,565,634	1,388,970	1,320,933	1,287,348	1,269,622
Fair value of plan assets	-	-	-	-	-
	1,565,634	1,388,970	1,320,933	1,287,348	1,269,622
Actuarial gain / (loss) on obligation					
Experience adjustment	(129,950)	(19,198)	30,671	2,101	159,682
Assumptions gain / (loss)	-	-	-	-	-
	(129,950)	(19,198)	30,671	2,101	159,682
36.10.4 Compensated absences					
Present value of defined benefit obligation	594,100	535,870	555,792	541,116	752,947
Fair value of plan assets	-	-	-	-	-
	594,100	535,870	555,792	541,116	752,947
Actuarial gain / (loss) on obligation	(141,920)	(75,701)	(81,138)	(5,687)	-

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

37. DEFINED CONTRIBUTION PLAN

37.1 MCB Bank Limited (holding company)

The Bank operates an approved contributory provident fund for 7,919 (2011: 7,331) employees where contributions are made by the Bank and employees at 8.33% per annum (2011: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 188.417 million (2011: Rs. 176.510 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 1,914 (2011: 1,999) employees who have opted for the new scheme, where contributions are made by the employees ranging from 8.33% to 12.5% per annum (2011: 8.33% to 12.5% 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	
	2012	2011	2012	2011	2012	2011
	(Rupees in '000)					
Fees	-	-	33,431	35,838	-	-
Managerial remuneration	29,355	20,600	-	-	1,027,331	999,603
Bonus and others	17,576	11,071	-	-	552,921	484,800
Settlement benefits	23,831	-	-	-	-	-
Retirement benefits	-	-	-	-	67,863	64,205
Rent and house maintenance	10,142	9,200	-	-	362,302	369,438
Utilities	2,254	2,044	-	-	81,118	77,922
Medical	-	-	-	-	22,488	23,256
Conveyance	-	-	-	-	414,912	402,579
	83,158	42,915	33,431	35,838	2,528,935	2,421,803
Number of persons	2	1	13	14	821	906

38.1 This includes remuneration of ex-president and of the current president from December 22, 2012.

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38.2 The chairman has been provided with free use of the Bank maintained car. In addition to the above, the Chief Executive and certain executives are provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to these consolidated financial statements.

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

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

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Elimination	Total
(Rupees in '000)							
2012							
Total income	116,196	40,897,378	13,648,960	23,327,750	401,829	(110,569)	78,281,544
Total expenses	(46,001)	(4,901,022)	(36,056,607)	(4,657,244)	(254,752)	110,569	(45,805,057)
Income tax expense	-	-	-	-	-	-	(11,241,252)
Net income	70,195	35,996,356	(22,407,647)	18,670,506	147,077	-	21,235,235
Segment assets - (Gross of NPL's provision)	46,604	439,582,311	140,699,718	201,166,042	1,415,967	(1,217,695)	781,692,947
Advance taxation (payments less provisions)	-	-	-	-	-	-	10,969,681
Total assets	46,604	439,582,311	140,699,718	201,166,042	1,415,967	(1,217,695)	792,662,628
Segment non performing loans	-	-	7,938,842	17,622,932	-	-	25,561,774
Segment specific provision required	-	-	6,950,690	15,429,397	-	-	22,380,087
Segment liabilities	7,262	72,200,317	550,015,481	34,011,569	129,238	(1,217,695)	655,146,172
Provision for taxation	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	9,381,242
Total liabilities - net	7,262	72,200,317	550,015,481	34,011,569	129,238	(1,217,695)	664,527,414
Segment return on assets (ROA) (%)	-	11.34%	11.79%	12.63%	28.50%	-	-
Segment cost of fund (%)	-	10.41%	4.43%	5.92%	-	-	-

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	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 provisions)	-	-	-	-	-	-	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 assets (ROA) (%)	-	12.59%	15.18%	14.27%	25.33%	-	-
Segment cost of fund (%)	-	12.04%	4.25%	5.85%	-	-	-

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.

The Group enters into transactions with related parties in the normal course of business. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment. Remuneration to Chief Executive, Directors and Executives is disclosed in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

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	Directors		Associates		Other related parties		Key management	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
A. Balances								
Deposits								
Deposits at beginning of the year	4,398,756	2,088,985	766,387	955,014	25,393,804	24,677,392	50,178	90,816
Deposits received during the year	4,888,505	4,536,986	11,121,938	6,379,533	38,267,581	29,141,521	1,168,053	830,780
Deposits repaid during the year	(6,423,387)	(2,227,216)	(10,911,683)	(6,568,160)	(36,810,826)	(28,425,109)	(1,172,192)	(871,418)
Deposits at end of the year	2,863,874	4,398,756	976,642	766,387	26,850,559	25,393,804	46,039	50,178
Advances (secured)								
Balance at beginning of the year	-	-	-	-	81,302	-	50,601	54,474
Loans granted / reclassification during the year	3,367	-	-	-	415,889	81,302	16,101	4,383
Repayments received during the year	(572)	-	-	-	(399,135)	-	(10,857)	(8,256)
Balance at end of the year	2,795	-	-	-	98,056	81,302	55,845	50,601
Outstanding Balance of credit card	852	1,137	-	-	-	-	951	856
Receivable from Pension fund	-	-	-	-	17,252,778	14,731,898	-	-

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

	Directors		Associates		Other related parties		Key management	
	2012	2011	2012	2011	2012	2011	2012	2011
(Rupees in '000)								
Outstanding commitments and contingent liabilities	-	-	8,365	8,865	819,873	-	-	-
Forward foreign exchange contracts (Notional)	-	-	-	-	-	1,913,753	-	-
Unrealized loss on forward foreign exchange contracts	-	-	-	-	-	40,914	-	-
Trade payable	-	-	14,321	7,317	7,019	1,255	-	-
Markup payable	504	-	12,645	15,784	1,045,622	1,283,025	541	-
Advance receivable	-	-	-	-	20,000	20,000	-	-
Markup Receivable	-	-	-	-	2,237	1,701	-	-
Outstanding Investments in mutual funds	-	-	-	-	4,835,229	4,657,863	-	-
Divestment in Khushali Bank Limited	-	-	-	-	300,000	-	-	-
Capital injection	-	-	-	52,519	9,500	-	-	-
Insurance premium paid-net of refund	-	-	309,472	316,605	-	-	-	-
Insurance claim settled	-	-	39,193	55,452	-	-	-	-
Markup income on advances	-	-	-	-	7,640	5,425	2,848	3,126
Proceeds from sale of fixed assets	-	-	-	39,522	1,089	-	562	-
Rent Income Received	-	-	2,430	3,516	-	-	-	-
Dividend Income	-	-	54,051	90,084	408,639	285,017	-	-
Commission Income	-	-	509,698	334,665	669	85	-	-
Management fee	-	-	-	-	750,555	370,683	-	-
Brokerage expense	-	-	-	-	354	-	-	-
ATM Outsourcing expense	-	-	131,972	101,233	-	-	-	-
Service expenses	-	-	-	-	18,332	20,898	-	-
Cash sorting expenses	-	-	-	-	42,528	32,286	-	-
Stationery Expenses	-	-	-	-	176,234	185,832	-	-
Security guard expenses	-	-	-	-	255,033	226,417	-	-
Remuneration of key management personnel	-	-	-	-	-	-	324,266	238,783
Mark-up expense on deposits	321,897	140,834	55,657	78,244	2,983,890	2,571,745	3,333	2,732
Clearing expenses paid to NIFT	-	-	-	-	115,958	123,198	-	-
Contribution to provident fund	-	-	-	-	188,417	176,510	-	-
Gas Charges	-	-	-	-	12,770	13,064	-	-
Rent Paid	-	-	-	-	211	191	-	-
Other miscellaneous expenses	-	-	-	-	16,945	11,326	-	-

The details of director's compensations are given in note 38 to these 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) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The Bank manages its capital to attain following objectives and goals:

- an appropriately capitalized status, as defined by banking regulations;
- acquire strong credit ratings that enable an optimized funding mix and liquidity sources at lesser costs;
- cover all risks underlying business activities;
- retain flexibility to harness future investment opportunities; build and expand even in stressed times.

Statutory minimum capital requirement and 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. 9 billion paid up capital (net of losses) by the end of the financial year 2012. The paid up capital of the Bank for the year ended December 31, 2012 stands at Rs. 9.2 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 Group's CAR as at December 31, 2012 is 22.16% 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 % of 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 group currently does not have any Tier 3 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 at the existing volume level, ensuring better recovery management and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of the credit risk, market risk and operational risk.

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

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

	Note	2012 (Rupees in '000)	2011
42.3 Capital structure			
Tier 1 Capital			
Shareholders equity /assigned capital		9,198,601	8,362,365
Share premium		9,924,438	9,924,438
Reserves		34,150,960	32,056,890
Unappropriated profits		36,811,072	30,259,449
Minority interest		501,256	492,497
		90,586,327	81,095,639
Deductions:			
Book value of intangible		906,489	910,500
Other deductions	42.3.1	2,143,160	1,690,053
		3,049,649	2,600,553
Total Tier 1 capital		87,536,678	78,495,086
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		428,936	464,041
Revaluation reserves up to 45%		7,834,984	4,989,169
Foreign exchange translation reserves		545,530	431,260
		8,809,450	5,884,470
Deductions:			
Other deductions	42.3.1	2,132,383	1,593,988
Total Tier 2 Capital		6,677,067	4,290,482
Total Regulatory Capital Base	A	94,213,745	82,785,568

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

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	
	2012	2011	2012	2011
	(Rupees in '000)			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance Sheet				
Corporate portfolio	14,250,470	13,145,367	128,103,672	118,732,165
Banks / DFIs	626,863	614,240	5,635,142	5,547,969
Public sector entities	26,627	68,157	239,360	615,611
Sovereigns / cash & cash equivalents	488,937	473,444	4,395,264	4,276,258
Loans secured against residential property	164,671	178,724	1,480,301	1,614,282
Retail	1,769,857	2,276,357	15,910,016	20,560,618
Past due loans	373,543	545,946	3,357,942	4,931,118
Operating fixed assets	2,585,007	2,381,241	23,237,753	21,507,950
Other assets	3,961,727	2,915,079	35,613,683	26,329,705
	24,247,702	22,598,555	217,973,133	204,115,676
Off-Balance Sheet				
Non-market related	5,764,578	4,360,855	51,820,295	39,388,306
Market related	24,642	29,752	221,521	268,724
	5,789,220	4,390,607	52,041,816	39,657,030
Equity Exposure Risk in the Banking Book				
Listed	201,973	199,021	1,815,624	1,797,606
Unlisted	38,137	83,732	342,832	756,292
	240,110	282,753	2,158,456	2,553,898
Total Credit Risk	30,277,032	27,271,915	272,173,405	246,326,604
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	2,962,205	2,004,519	37,027,567	25,056,492
Equity position risk	1,762,470	1,591,619	22,030,876	19,895,235
Foreign exchange risk	277,798	167,728	3,472,470	2,096,602
Total Market Risk	5,002,473	3,763,866	62,530,913	47,048,329
Operational Risk				
Capital requirement for operational risks	7,236,294	6,793,149	90,453,679	84,914,368
Total	42,515,799	37,828,930	425,157,997	378,289,301

B

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		2012	2011
		(Rupees in '000)	
Capital Adequacy Ratio			
Total eligible regulatory capital held	A	94,213,745	82,785,568
Total Risk Weighted Assets	B	425,157,997	378,289,301
Capital Adequacy Ratio	A / B	22.16%	21.88%

* As SBP capital requirement of 10% (10% in 2011) 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

Risk is an inherent part of banking business activities. The risk management framework and governance structure at MCB helps to mitigate and counter any foreseeable risk in its line of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, 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), the senior management and its relevant committees, i.e. the Risk 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.

Bank's ability to identify, measure report and monitor risk is helped by its risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are also considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

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

Notes to the Consolidated Financial Statements

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- 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 monitoring 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 borrowers, 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 on an ongoing process.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel-II requirements. The approach 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 and commercial borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, 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.

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:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

- 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. 10.5 for reconciliation of changes in specific and general provisions.

Management of Non Performing Loans

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

Stress Testing

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 quarterly 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.

Notes to the Consolidated Financial Statements

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	2012					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	61,853,400	23.55	14,204,857	2.61	64,122,798	44.57
Private	200,744,134	76.45	530,783,234	97.39	79,756,783	55.43
	<u>262,597,534</u>	<u>100</u>	<u>544,988,091</u>	<u>100</u>	<u>143,879,581</u>	<u>100</u>
	2011					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	49,079,118	19.64	15,279,097	3.11	43,860,105	26.58
Private	200,827,942	80.36	475,867,701	96.89	121,153,699	73.42
	<u>249,907,060</u>	<u>100</u>	<u>491,146,798</u>	<u>100</u>	<u>165,013,804</u>	<u>100</u>

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

	2012		2011	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	312,154	312,154	416,111	416,111
Mining and quarrying	-	-	251	251
Textile	5,209,642	5,198,660	5,225,087	4,166,475
Chemical and pharmaceuticals	196,304	196,304	203,886	203,886
Cement	295,603	295,603	362,230	362,230
Sugar	1,035,221	1,035,221	1,265,828	1,265,828
Footwear and leather garments	103,951	103,951	126,591	126,591
Automobile and transportation equipment	54,984	47,781	68,865	53,860
Electronics and electrical appliances	451,436	451,436	340,410	340,410
Construction	127,365	127,365	172,091	170,245
Power (electricity), gas, water, sanitary	180,086	90,070	10	10
Wholesale and retail trade	4,075,703	4,075,582	4,631,382	4,621,737
Exports / imports	596,963	596,796	305,992	305,824
Transport, storage and communication	645,059	335,919	125,852	83,183
Financial	1,107,782	918,893	1,447,782	1,117,472
Services	721,978	721,978	938,661	924,310
Individuals	3,393,709	3,265,164	3,625,053	2,979,078
Others	7,053,834	4,607,210	7,408,791	4,731,900
	<u>25,561,774</u>	<u>22,380,087</u>	<u>26,664,873</u>	<u>21,869,401</u>
43.1.1.4 Details of non-performing advances and specific provisions by sector				
Public/ Government	-	-	-	-
Private	25,561,774	22,380,087	26,664,873	21,869,401
	<u>25,561,774</u>	<u>22,380,087</u>	<u>26,664,873</u>	<u>21,869,401</u>

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43.1.1.5 Geographical segment analysis

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees in '000)			
Pakistan	31,944,419	756,788,976	105,110,747	138,410,411
Asia Pacific (including South Asia)	305,084	8,500,160	286,887	5,012,636
Middle East	213,952	4,228,848	198,830	456,534
Eurasia (Azerbaijan)	13,032	764,557	158,663	-
	<u>32,476,487</u>	<u>770,282,541</u>	<u>105,755,127</u>	<u>143,879,581</u>
	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and 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>

Total assets employed include intra group items of Rs. NIL (2011: Rs. NIL).

43.1.2 Credit Risk – General Disclosures

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

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

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

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

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

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumerical 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.

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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	2012			2011		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
(Rupees in '000)							
Corporate	1	19,892,545	-	19,892,545	21,642,750	-	21,642,750
	2	18,297,215	-	18,297,215	13,722,126	-	13,722,126
	3,4	60,937	-	60,937	867,994	-	867,994
	5,6	61,960	-	61,960	172,685	-	172,685
	Unrated	114,822,679	-	114,822,679	106,415,532	-	106,415,532
Bank	1	17,955,785	-	17,955,785	18,004,538	-	18,004,538
	2,3	2,245,114	-	2,245,114	1,809,039	-	1,809,039
	4,5	438,213	-	438,213	187,510	-	187,510
	6	306,199	-	306,199	245,538	-	245,538
	Unrated	156,116	-	156,116	1,063,612	-	1,063,612
Public Sector Entities in Pakistan	1	218,872	-	218,872	1,428,701	-	1,428,701
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
	Unrated	60,212,217	59,821,046	391,171	48,544,287	47,884,545	659,742
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash		44,378,210	-	44,378,210	40,491,631	-	40,491,631
	1	-	-	-	-	-	-
	2	-	-	-	-	-	-
	3	-	-	-	-	-	-
	4,5	1,212,879	-	1,212,879	4,276,258	-	4,276,258
	6	2,075,915	-	2,075,915	-	-	-
	Unrated	68,513	-	68,513	-	-	-
Mortgage		4,229,432	-	4,229,432	4,612,235	-	4,612,235
Retail		21,213,354	-	21,213,354	27,414,157	-	27,414,157

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 balance sheet 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. 722,160.736 million (2011: Rs. 613,817.208 million) the financial assets which are subject to credit risk amounting to Rs. 710,357.530 million (2011: Rs. 603,479.688 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 380,193.220 million (2011: Rs. 298,431.353 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 30,380.601 million (2011: Rs. 27,459.603 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, 2012 the composition of equity investments and associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Associates
(Rupees in '000)			
Equity investments – publicly traded	543,296	11,104,540	4,176,476
Equity investments – others	–	2,44,217	118,979
Total value	543,296	11,348,757	4,295,455

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 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 directly.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

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The cumulative realized gain of Rs. 791.322 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 2,376.875 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. 42.065 million has been charged to profit and loss account.

43.2 Market Risk Management

Market Risk arises from changes in market rates such as Interest Rates, Foreign Exchange Rates, Equity Prices, credit spreads and/or commodity prices as well as their correlations and volatilities resulting in a loss to earnings and capital. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign Exchange Group and the Capital Market Group. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk.

The Bank's Market Risk Management structure consists of Risk Management & Portfolio Review Committee (RM&PRC) of the Board, Risk Management Committee of management, ALCO and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Bank and to define market risk policies and procedures. Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile for senior management, the Board of Directors and regulators. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

In line with regulatory requirements, MCB has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently, mostly on daily basis, valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market Risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. These Limits are compared with the numbers generated by the market risk management systems based on the trading activity and the outstanding positions.

Beside conventional methods, the Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Thresholds for different positions are established to compare the expected losses at a given confidence level and over a specified time horizon.

A framework of stress testing, scenario analysis and reverse stress tests of both banking and trading books as per SBP guidelines is also in place and the results are also shared with the Senior Management.

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

Notes to the Consolidated Financial Statements

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43.2.1 Foreign Exchange Risk Management

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

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

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenors in major currencies are in place to control risk. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio are also performed and reported to senior management. All these activities are performed on a daily basis.

	2012			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	750,745,904	641,370,835	(3,872,810)	105,502,259
United States Dollar	18,433,247	16,701,045	(1,551,243)	180,959
Pound Sterling	481,165	2,857,211	2,383,939	7,893
Japanese Yen	42,693	70	(40,618)	2,005
Euro	548,178	3,598,253	3,080,732	30,657
Other currencies	31,354	-	-	31,354
	<u>770,282,541</u>	<u>664,527,414</u>	<u>-</u>	<u>105,755,127</u>
	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>

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43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR analysis and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index using internal based assumptions. In addition to this stress testing, historical scenario analysis on equities is also performed periodically as advised by the State Bank of Pakistan through Guideline on Stress Testing.

43.2.3 Country Risk

The world is changing rapidly and interdependencies and inter linkages of banks operating in different countries are ever increasing. Thus the banks having cross border exposures whether on-balance sheet or off-balance sheet are susceptible to the changing conditions in various countries of the world. Therefore, it becomes very important for institutions to effectively manage its cross border exposures to avoid any unfavorable situation.

MCB understands the risks involved in taking cross border exposure and to cater it; Country Risk Policy, in line with SBP guidelines, is already in place. The Policy not only envisages a centralized approach to measure, monitor and manage country risk but also strengthen overall risk management framework in the Bank.

Country Exposure Limits are in place, which broadly capture direct exposure on sovereigns and exposures on foreign domiciled counter parties. Additionally, business product wise sub limits involving cross border exposure are also implemented. Monitoring of these limits is a regular feature of Risk Management.

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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	Total	2012										Not exposed to Yield/Interest Risk
		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	57,420,211	2,974,718	-	-	-	-	-	-	-	-	-	54,445,493
Balances with other banks	1,236,736	219,138	-	-	-	-	-	-	-	-	-	1,017,598
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-	-	-
Investments - net	401,305,858	78,985,239	82,864,148	79,214,299	70,080,381	10,033,782	18,130,830	39,966,824	11,041,110	-	-	10,989,245
Advances - net	239,788,511	215,670,870	5,744,170	3,662,752	2,844,820	4,303,281	3,361,396	2,243,752	1,539,201	418,269	-	20,857,948
Other assets - net	20,857,948	-	-	-	-	-	-	-	-	-	-	-
	722,160,736	299,401,437	88,608,318	82,877,051	72,925,201	14,337,063	21,492,226	42,210,576	12,580,311	418,269	-	87,310,284
Liabilities												
Bills payable	9,886,284	-	-	-	-	-	-	-	-	-	-	9,886,284
Borrowings	79,064,351	64,277,738	5,511,015	4,391,090	2,498,148	2,386,360	-	-	-	-	-	-
Deposits and other accounts	544,988,091	291,578,697	19,310,368	10,782,925	32,527,042	301,062	162,009	774,707	227,471	-	-	189,323,820
Other liabilities	18,438,427	-	-	-	-	-	-	-	-	-	-	18,438,427
	652,387,153	355,856,435	24,821,383	15,174,015	35,025,190	2,687,412	162,009	774,707	227,471	-	-	217,655,531
On-balance sheet gap	69,773,583	56,454,998	63,786,935	67,703,036	37,900,011	11,649,651	21,330,217	41,435,869	12,352,840	418,269	-	(130,348,247)
Off-balance sheet financial instruments												
Foreign exchange contracts Purchase	25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-	-
	25,546,035	16,633,257	6,066,271	2,610,409	236,098	-	-	-	-	-	-	-
Foreign exchange contracts Sale	21,697,634	12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-	-
	21,697,634	12,937,086	5,707,827	2,952,945	99,776	-	-	-	-	-	-	-
Off-balance sheet gap	3,848,401	3,696,171	358,444	(342,536)	136,322	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		(52,753,827)	64,145,379	67,380,500	38,036,333	11,649,651	21,330,217	41,435,869	12,352,840	418,269	-	-
Cumulative yield / interest risk sensitivity gap		(52,753,827)	11,386,552	78,747,052	116,783,385	128,433,036	149,763,253	191,199,122	203,551,962	203,970,231	-	-

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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	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		Above 10 years	
2011 (Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0%	53,122,620	2,974,816	-	-	-	-	-	-	-	-	50,147,804
Balances with other banks	0.55%	2,357,418	673,464	-	-	-	-	-	-	-	-	1,683,954
Lendings to financial institutions	7% to 11.90%	955,087	47,394	907,693	-	-	-	-	-	-	-	-
Investments - net	4.5% to 15%	315,787,414	32,389,246	75,507,096	90,520,065	72,587,281	8,522,746	4,483,175	18,704,852	2,268,814	-	10,804,139
Advances - net	14.75%	227,573,618	203,297,657	4,234,489	1,678,579	4,993,885	6,949,652	2,699,373	2,077,760	1,478,536	163,687	-
Other assets - net		14,021,051	-	-	-	-	-	-	-	-	-	14,021,051
		613,817,208	239,382,577	80,649,278	92,198,644	77,581,166	15,472,398	7,182,548	20,782,612	3,747,350	163,687	76,656,948
Liabilities												
Bills payable		9,466,818	-	-	-	-	-	-	-	-	-	9,466,818
Borrowings	2.24 % to 12.50 %	39,100,627	25,282,290	5,484,553	5,137,852	1,597,966	1,597,966	-	-	-	-	-
Deposits and other accounts	5% to 13.7%	491,146,798	251,826,474	23,935,840	18,912,035	26,469,225	362,204	302,486	1,303,997	588,453	-	167,446,084
Other liabilities		15,248,210	-	-	-	-	-	-	-	-	-	15,248,210
		554,962,453	277,108,764	29,420,393	24,049,887	28,067,191	1,960,170	302,486	1,303,997	588,453	-	192,161,112
		58,854,755	(37,726,187)	51,228,885	68,148,757	49,513,975	13,512,228	6,880,062	19,478,615	3,158,897	163,687	(115,504,164)
On-balance sheet gap												
Off-balance sheet financial instruments												
Foreign exchange contracts Purchase		32,395,900	17,321,000	10,873,338	3,823,771	377,791	-	-	-	-	-	-
		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	-	-	-	-	-	-
		35,030,445	14,883,187	14,064,664	5,886,996	195,598	-	-	-	-	-	-
Off-balance sheet gap		(2,634,545)	2,437,813	(3,191,326)	(2,063,225)	182,193	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		(35,286,374)	(35,286,374)	48,037,559	66,085,632	49,696,168	13,512,228	6,880,062	19,478,615	3,158,897	163,687	-
Cumulative yield / interest risk sensitivity gap		(35,286,374)	(35,286,374)	12,749,185	78,834,717	128,530,885	142,043,113	148,923,175	168,401,790	171,560,687	171,724,374	-

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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Reconciliation to total assets	2012 (Rupees in '000)	2011	Reconciliation to total liabilities	2012 (Rupees in '000)	2011
Balance as per balance sheet	770,282,541	656,324,807	Balance as per balance sheet	664,527,414	564,670,502
Less: Non financial assets			Less: Non financial liabilities		
Investments	4,295,455	3,218,569	Other liabilities	2,759,019	3,210,952
Operating fixed assets	24,144,242	22,418,450	Deferred tax liability	9,381,242	6,497,097
Other assets	19,682,108	16,870,580		12,140,261	9,708,049
	48,121,805	42,507,599			
Total financial assets	722,160,736	613,817,208	Total financial liabilities	652,387,153	554,962,453

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial, particularly during periods of adverse conditions, liquidity management is among the most important activities that the MCB conducts during both normal and stress periods. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

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

Liquidity Management

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

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury Policy, Investment policy, Contingency Funding Plan, Liquidity Strategy and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB Bank also conducts Liquidity Risk Analysis on regular basis. MCB liquidity Risk Policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in balance sheet structure.

Intraday Liquidity Management

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

Managing Funding Sources

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

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

		2012								
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
		(Rupees in '000)								
Assets										
	Cash and balances with treasury banks	57,420,211	-	-	-	-	-	-	-	-
	Balances with other banks	1,236,736	-	-	-	-	-	-	-	-
	Lendings to financial institutions	1,551,472	-	-	-	-	-	-	-	-
	Investments - net	405,601,313	73,127,015	80,853,810	73,501,106	15,156,954	18,368,469	42,701,819	14,672,541	4,295,455
	Advances - net	239,788,511	55,281,115	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405
	Operating fixed assets	24,144,242	136,575	273,150	409,726	819,451	1,638,902	3,602,792	8,194,510	7,430,234
	Deferred tax assets	283,543	17,247	8,191	12,287	37,206	49,148	98,296	12,020	-
	Other assets - net	40,540,056	10,071,903	10,914,951	1,014,723	-	-	18,528,871	-	-
		770,566,084	198,842,274	117,264,599	80,930,768	62,584,671	58,803,007	107,117,522	37,067,388	12,296,094
	Liabilities									
	Bills payable	9,896,284	-	-	-	-	-	-	-	-
	Borrowings	79,064,351	5,511,015	4,391,090	2,498,148	2,886,360	-	-	-	-
	Deposits and other accounts	544,988,091	64,277,738	10,782,924	32,527,042	301,053	162,009	774,707	227,471	-
	Deferred tax liabilities	9,664,785	480,902,517	93,327	285,777	341,260	179,674	6,829,698	1,002,328	823,291
	Other liabilities	21,197,446	50,001	59,429	1,607,731	2,128,401	339,890	275,533	961,778	-
		664,810,957	10,179,166	2,007,045	3,697,902	5,157,074	681,573	7,879,938	2,191,577	823,291
	Net assets	105,755,127	(366,463,432)	90,376,742	76,694,518	44,012,070	57,427,597	58,121,434	34,875,811	11,472,803
	Share capital	9,198,601								
	Reserves	44,620,928								
	Unappropriated profit	36,811,072								
	Minority interest	501,256								
	Surplus on revaluation of assets - net of tax	14,623,270								
		105,755,127								

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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
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	53,122,620	-	-	-	-	-	-	-	-	-
Balances with other banks	2,357,418	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	227,573,618	63,691,550	19,336,804	13,652,050	12,953,186	37,466,915	34,380,423	32,938,026	13,005,239	149,365
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	757,794	36,702	11,289	11,852	230,188	253,319	46,262	92,524	75,598	-
Other assets - net	30,891,631	6,970,265	7,067,746	61,114	931,579	-	-	15,860,927	-	-
	657,082,541	148,819,987	103,118,294	106,113,219	94,959,968	50,894,469	44,478,113	71,313,944	25,091,794	12,292,753
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	(314,634,432)	72,102,643	79,430,036	65,309,146	46,690,434	43,630,190	64,100,066	23,516,874	11,509,348
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									

Notes to the Consolidated 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

	2012									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	57,420,211	-	-	-	-	-	-	-	-	-
Balances with other banks	1,236,736	1,236,736	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,551,472	1,551,472	-	-	-	-	-	-	-	-
Investments - net	405,601,313	73,127,015	82,924,144	80,853,810	73,501,106	15,156,954	18,368,469	42,701,819	14,672,541	4,295,455
Advances - net	239,788,511	55,281,115	23,144,163	14,374,330	5,558,282	45,739,667	38,746,488	42,185,744	14,188,317	570,405
Operating fixed assets	24,144,242	136,575	273,150	409,726	819,451	1,638,902	1,638,902	3,602,792	8,194,510	7,430,234
Deferred tax assets	283,543	17,247	8,191	12,287	37,206	49,148	49,148	98,296	12,020	-
Other assets - net	40,540,056	10,071,903	10,914,951	9,608	1,014,723	-	18,528,871	-	-	-
	770,566,084	198,842,274	117,264,599	95,659,761	80,930,768	62,584,671	58,803,007	107,117,522	37,067,388	12,296,094
Liabilities										
Bills payable	9,896,284	9,896,284	-	-	-	-	-	-	-	-
Borrowings	79,064,351	64,277,738	5,511,015	4,391,090	2,498,148	2,386,360	-	-	-	-
Deposits and other accounts	544,988,091	37,775,422	36,103,026	46,614,760	32,949,491	117,300,456	117,020,596	117,914,926	39,309,414	-
Deferred tax liabilities	9,664,785	50,001	59,429	93,327	285,777	341,260	179,674	6,829,698	1,002,328	823,291
Other liabilities	21,197,446	10,179,166	2,007,045	3,697,902	1,607,731	2,128,401	339,890	275,533	961,778	-
	664,810,957	122,178,611	43,680,515	54,797,079	37,341,147	122,156,477	117,540,160	125,020,157	41,273,520	823,291
Net assets	105,755,127	76,663,663	73,584,084	40,862,682	43,589,621	(59,571,806)	(58,737,153)	(17,902,635)	(4,206,132)	11,472,803
Share capital	9,198,601									
Reserves	44,620,928									
Unappropriated profit	36,811,072									
Minority interest	501,256									
Surplus on revaluation of assets - net of tax	14,623,270									
	105,755,127									

Liquidity Gap Reporting

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity. Bank regularly conducts an objective and systematic behavioral study using regression analysis technique to ascertain the maturity of its non-contractual assets and liabilities. Core and non-core parts of the non-contractual assets and liabilities are segregated through the behavioral study. Non Core part is placed among the short term maturity buckets i.e. up to 1 Year based on the results, whereas core part is distributed among the longer term buckets based on the discussion and decision by the ALCO.

Currently following percentages are being used to distribute the core assets and liabilities among longer term buckets:

Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years
30%	30%	30%	10%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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							Above 10 years	
	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
(Rupees in '000)									
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
Advances - net	227,573,618	63,691,550	19,336,804	13,652,050	12,953,186	37,466,915	34,380,423	32,938,026	13,005,299
Operating fixed assets	22,418,450	524,330	227,566	341,350	682,699	1,365,398	1,365,398	2,730,796	6,625,990
Deferred tax assets	757,734	36,702	11,289	11,852	230,188	253,319	46,282	92,524	75,598
Other assets - net	30,891,631	6,970,265	7,067,746	61,114	931,579	-	-	15,860,927	-
	657,082,541	148,819,987	103,118,294	106,113,219	94,959,968	50,894,469	44,478,113	71,313,944	25,091,794
	9,466,818	9,466,818	-	-	-	-	-	-	-
	39,100,627	25,282,290	5,484,553	5,137,852	1,597,966	1,597,966	-	-	-
	491,146,798	42,697,252	45,922,760	44,482,217	26,890,645	98,916,656	98,716,465	99,998,923	33,521,880
	7,254,831	55,716	61,576	69,512	118,276	329,706	208,133	5,523,061	105,446
	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	86,837,201	53,044,483	52,253,365	30,072,242	102,758,487	99,261,902	105,908,804	34,508,347
Net assets	91,654,305	61,982,786	50,073,811	53,859,854	64,887,726	(51,864,018)	(54,763,789)	(34,594,860)	(9,416,553)
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								

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

43.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

The Bank's operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organizational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

Operational Risk Management helps the Bank understand risks and improve mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank. Going forward, the Bank will further strengthen its risk function, policies and procedures to facilitate its operations and improve quality of assets to safeguard interest of depositors.

43.5.1 Operational Risk-Disclosures Basel II Specific

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

Operational loss data pertaining to key risk events is also collected on bank-wide basis. Periodic review and analysis is prepared for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events with root cause analysis and recommendations for further improvements.

44. GENERAL

The corresponding figures have been changed due to application of SBP BSD Circular No. 3 of 2013 dated January 22, 2013, requiring all financing, advances, inventories and other related item(s) pertaining to islamic mode of financing under 'Islamic Financing and Related Assets'. No significant reclassification has been made except for as follows:

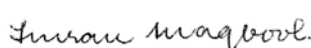
Description	Amount (Rupees in '000)	Reclassified	
		From	To
Advance against future Murabaha	1,645,331	Other assets	Advances
Advances, deposits, advance rent and other prepayments	214,797	Other assets	Advances

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 07, 2013 has announced a final cash dividend in respect of the year ended December 31, 2012 of Rs. 3.0 per share (2011: Rs. 3.0 per share) and bonus shares of 10% (2011: 10%). These consolidated financial statements for the year ended December 31, 2012 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 07, 2013.



Imran Maqbool
President and Chief Executive



Mian Umer Mansha
Director



Dato' Seri Ismail Shahudin
Director



Tariq Rafi
Director

Annexure I

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

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit (Rupees)	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2012
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Aisha Steel Mills Limited		168,286	10	1,683	1,683
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					63,285
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		85,600	10	856	15,908
Allied Bank Limited		6,759,474	10	67,595	438,762
Arif Habib Limited		87,041	10	870	13,908
Arif Habib Corporation Limited		1,851,148	10	18,511	214,004
Attock Cement Pakistan Limited		16,790	10	168	1,329
Attock Petroleum Limited		821,805	10	8,218	368,735
Attock Refinery Limited		222,400	10	2,224	34,060
Bank Alfalah Limited		300,000	10	3,000	5,404
Bank Al-Habib Limited		6,364,935	10	63,649	156,637
Clariant Pakistan Limited		56,250	10	563	9,145
Fauji Fertilizer Bin Qasim Company Limited		2,912,000	10	29,120	139,349
Fauji Fertilizer Company Limited		10,032,000	10	100,320	738,906
Habib Bank Limited		2,698,149	10	26,981	325,296
Habib Metropolitan Bank Limited		115,000	10	1,150	3,195
Hub Power Company Limited		400,000	10	4,000	18,195
Indus Motor Company Limited		27,027	10	270	5,566
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		2,937,500	10	29,375	140,286
Meezan Bank Limited		357,500	10	3,575	10,830
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Millat Tractors Limited		89,596	10	896	41,328
Murree Brewery Company Limited		21,500	10	215	2,818
National Foods Limited		17,100	10	171	4,778
National Refinery Limited		208,956	10	2,090	64,984
Nestle Pakistan Ltd Limited		5,348	10	53	21,613
Next Capital Limited		1,950,000	10	19,500	19,500
Oil & Gas Development Company Limited		142,135	10	1,421	19,954
Pakistan Oilfields Limited		1,165,695	10	11,657	414,044
Pakistan Petroleum Limited		794,815	10	7,948	114,025
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rafhan Maize Products Limited		5,967	10	60	15,178
Rupali Polyester Limited		153,045	10	1,530	10,801
Samba Bank Limited		25,155,710	10	251,557	119,551
Searle Pakistan Limited		70,000	10	700	2,903
Sui Northern Gas Pipelines Limited		50,115,263	10	501,153	2,205,253
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		79,200	50	3,960	387,447
Unilever Food Pakistan Limited		867	10	9	1,364
United Bank Limited		7,830,440	10	78,304	566,154
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					6,683,463

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, 2012
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'					6,807,354
Provision for diminution in value of investments					(2,213,849)
Surplus on revaluation of securities					2,071,198
Market value As at December 31, 2012					6,664,703
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, 2012
Metro-Bank Pakistan Sovereign Fund—Perpetual (MSF)	Arif Habib Investments Limited	84,493,205	50	4,224,660	4,000,000
MCB Dynamic Stock Fund	Arif Habib Investments Limited	580,646	100	58,046	50,000
National Investment Trust	National Investment Trust Limited	110,602	50	5,530	5,253
Pakistan Pension Fund	Arif Habib Investments Limited	900,000	100	90,000	113,329
Pakistan Islamic Pension Fund	Arif Habib Investments Limited	900,000	100	90,000	111,534
AH Dow Jones SAFE Pakistan Titans 15 Index Fund (AHDJPF)	Arif Habib Investments Limited	423,942	50	21,197	17,070
Carrying value before revaluation & provision					4,297,186
Provision for diminution in value of investments					(1,907)
Surplus on revaluation of securities					305,677
Market value as at December 31, 2012					4,600,956

- 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, 2012
MCB Dynamic Cash Fund	4,780,781	100	478,078	462,749
MCB Dynamic Allocation Fund	753,686	100	75,369	53,547
Pakistan Cash Management Fund	570,723	50	28,536	27,000
			581,983	543,296

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, 2012	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	19,402	June 30, 2012	Mr. Ashtaq A. Berdi
Central Depository Company of Pakistan Limited	10.00%	6,500,000	10,000	220,087	June 30, 2012	Mr. Mohammad Hanif Jakhura
			21,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		250,000	2,500	2,762	June 30, 2012	Mr. Shahzad Jawahar
National Institute of Facilitation Technology Private Limited		985,485	1,526	61,221	June 30, 2012	Mr. M.M. Khan
National Investment Trust Limited		79,200	100	111,090	June 30, 2012	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	11,078	June 30, 2012	Mr. Naseer Durrani
Arabian Sea Country Club		500,000	5,000	3,514	June 30, 2012	Mr. Arif Ali Khan Abbasi
Islamabad Stock Exchange Limited		3,034,603	30,346	-	Not available	Mian Ayyaz Afzal
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	6,052	December 31, 2011	Mr. Lazara Campos
Credit Information Bureau of Srilanka		300	23	10,451	December 31, 2011	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	761	3,839	March 31, 2012	Mr. S. B. Weerasooriya
Lanka Financial Services Bureau Limited		100,000	761	991	March 31, 2012	Mr. Minindu Rajaratne
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.*		2,636,100	26,362	-	-	-
			122,717			
Cost of unlisted shares/ certificates/ units			244,217			
Provision against unlisted shares			(71,342)			
Carrying value of unlisted shares/ certificates/ units			172,875			

* 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, 2012	Name of Chief Executive
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.	249,700	Mr.R. Mehakri
Bank Alfalah Limited - issue no. IV	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi -annual installment starting from the 84th month.	499,400	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.	30,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited - issue no. IV	152,399	5,000	761,995,000	6 months KIBOR + 0.85% p.a for first five years & 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.	732,640	Mr. Atif R. Bokhari
Allied Bank Limited - issue no. I	11,196	5,000	55,980,000	6 months KIBOR + 1.90%	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,803	Mr. Khalid A. 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	181,255	Mr. Khalid A. Sherwani
NIB Bank Limited	33,400	5,000	167,000,000	6 months KIBOR + 1.15% p.a.	0.02% of principal amount in the first 10 equal semi annual installments and remaining principal will be paid in six equal semi -annual installment from the sixth-sixth month onward	163,545	Mr. Baddar Kazmi
Carrying value before revaluation						1,912,343	
Surplus on revaluation of securities						97,645	
Market value of listed TFCs (revalued amount)						2,009,988	
SUKUK BONDS – available for sale							
	Terms of Redemption		Rate of interest	Currency			
	Principal	Interest					
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR		3,400,000	
Surplus on revaluation of securities						12,836	
Market value of sukuk bonds						3,412,836	

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, 2012 (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.	99,620	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.	98,767	--do--
	39,980		199,900,000				
Bank Alfalah Limited - 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.	130,447	Mr. Atif Bajwa
- issue no. V	72,800	5,000	364,000,000	6 months KIBOR + 1.25% p.a.	0.3% of the principal will be redeemed in the first 90 months and remaining principal of 99.70% at maturity in the 96th month	364,000	--do--
	112,520		562,600,000				
Bank Al Habib Limited- issue no. IV	20,000	5,000	100,000,000	Payable six monthly at 15.00% p.a. for first 5 years and 15.50% for next 5 years	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each	99,940	Mr. Abbas D. Habib
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, Starting I from 8-1/2 years from December 2004.	209,328	Mr. Suleman Lalari
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.	37,211	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.	188,490	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	231,722	Mr. Khalid A. 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	75,000	Mr. Jehangir Khan Tareen
Azgard Nine Limited	13,878	5,000	69,390	NIL	In 7 semi-annual installments starting from 24th month	69,390	Mr. Ahmed Shaikh
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a. from March 2012	In 10 equal semi-annual installments starting from March 2012 .	72,000	Mr. Ahsan Saleem
Pakistan Mobile Communication Limited	20,000	5,000	100,000,000	3 Month KIBOR +2.65% p.a.	In 17 equal quarterly installments starting from 12th month after first disbursement and subsequently every three months.	941,176	Mr. Rashid Khan
Carrying value of TFCs - HTM						2,617,091	

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, 2012 (Rupees in ‘000)
	Principal	Interest				
Debentures						
Bank of Ceylon	At maturity	Half-yearly	Weighted Average Six Month T Bill Rate (Before Tax) + 0.75 %	LKR	250,000	190,275
Sukuk Bonds						
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments.	Half-yearly	6 Month KIBOR+1.70%	PKR	-	364,828
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.50%	PKR	-	60,000
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments.	Quarterly	3 Month KIBOR+1.25%	PKR	-	58,333
Sitara Energy Limited	In 8 equal semi-annual installments.	Half-yearly	6 Month KIBOR+1.15%	PKR	-	70,455
Century Paper and Boards Mills Limited Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+1.35%	PKR	-	100,000
					-	653,616
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875%	US\$	17,432	1,693,483

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)					
2012							
Euronet Pakistan (Private) Limited (unaudited based on September 30, 2012)	Pakistan	342,171	157,117	185,054	144,790	8,050	30%
First Women Bank Limited (unaudited based on September 30, 2012)	Pakistan	17,822,172	15,716,519	2,105,653	663,988*	71,746	15.46%
Adamjee Insurance Company Limited (unaudited based on September 30, 2012)	Pakistan	25,372,524	13,630,640	11,741,884	4,300,489**	394,204	29.13%
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%

* 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	1,680	1,615	65	93	Quotations	Abdur Razak & Brothers	Lahore
	4,912	3,950	962	1,755	Claim	Adam Jee Insurance Company	Karachi
	9,725	1,824	7,901	7,901	Donation	PSWO	Lahore
	1,008	966	42	128	Quotations	Muhammad Shabir	Multan
	558	207	351	154	Cash payment	Mr. Naseem / Mr. Atta-ur-Rehman	Dubai
	17,883	8,562	9,321	10,031			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	4,523	3,690	833	995	Auction/ Quotation/ Cash	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	2,810	2,248	562	562	Bank Car Policy	Mr. Raheel Majeed	Lahore
Honda Accord	1,439	345	1,094	1,300	Claim	Adam Jee Insurance Company	Karachi
Toyota Corolla	1,389	759	630	1,050	Claim	Adam Jee Insurance Company	Karachi
Toyota Corolla	1,351	666	685	1,089	Sale	MCB Employee Foundation	Karachi
Toyota Corolla	1,209	967	242	861	Auction	Mr. Attiq Ur Rehman	Karachi
Toyota Corolla	1,169	935	234	751	Auction	Mr. Irfan Mahmood	Karachi
Toyota Camray	954	238	716	716	Cheque	Mr. Nasim Beg	Karachi
Honda Civic	3,532	3,531	1	2,556	Sale	Mr. Madhawa Wickramaratne	Colombo, Sri Lanka
	13,853	9,689	4,164	8,885			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	27,317	21,536	5,781	22,366	Auction/Quotation	Different Buyers	All Pakistan
Ijara Assets							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	950	575	375	445	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota XLI	1,339	627	712	712	Purchased By Lessee	Dr. Muhammad Aslam	Faisalabad
Honda City	1,436	946	490	566	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota GLI	1,578	285	1,293	1,352	Purchased By Lessee	Interloop Limited	Faisalabad
Toyota GLI	924	199	725	786	Purchased By Lessee	Interloop Limited	Faisalabad
Suzuki-Cultus	1,197	127	1,070	1,081	Purchased By Lessee	Pakistan Tobacco Compnay	Islamabad
Toyota GL	1,399	99	1,300	1,315	Purchased By Lessee	Pakistan Tobacco Compnay	Islamabad
Toyota Altis	1,309	31	1,278	1,289	Purchased By Lessee	Pakistan Tobacco Compnay	Islamabad
Toyota Altis	1,489	97	1,392	1,407	Purchased By Lessee	Pakistan Tobacco Compnay	Islamabad
Dhaisu Coure CX CNG ECO Matic New	773	266	507	527	Purchased By Lessee	Muhammad Asaad Chohan	Hyderabad
Suzuki Cultus	859	726	133	133	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Corolla Xli	1,318	811	507	508	Purchased By Lessee	Grand Parent Poultry (Pvt.) Ltd	Lahore
Suzuki Alto	696	412	284	284	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Corolla Xli	1,318	811	507	508	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Corolla Xli	1,321	814	507	508	Purchased By Lessee	Big Feed (Pvt.) Ltd	Lahore
Suzuki Mehran	543	464	79	79	Purchased By Lessee	Grand Parent Poultry (Pvt.) Ltd	Lahore
Suzuki Mehran	543	464	79	79	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Suzuki Alto	660	564	96	96	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Hino Bus	2,859	2,312	547	548	Purchased By Lessee	Leiner Pak Gelatine Ltd	Lahore
Suzuki Cultus	828	655	173	173	Purchased By Lessee	Leiner Pak Gelatine Ltd	Lahore
Suzuki Mehran	425	150	275	275	Purchased By Lessee	Attiq-ur-Rehman	Lahore
Suzuki Ravi Pickup	513	414	99	99	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Corolla 2D	1,371	1,174	197	198	Purchased By Lessee	Premier Dairies (Pvt.) Ltd	Lahore
Suzuki Mehran	541	334	207	207	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Suzuki Alto	693	296	397	397	Purchased By Lessee	Big Bird Poultry Breeders (Pvt.) Ltd	Lahore
Computerized Measuring Machines	3,267	351	2,916	2,915	Purchased By Lessee	Ravi Autos (Pvt.) Ltd	Lahore
	30,149	14,004	16,145	16,487			
2012	93,725	57,481	36,244	58,764			
2011	114,600	93,312	21,288	46,660			

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

As on December 31, 2012

COMMERCIAL BRANCH BANKING GROUP					
Circle / No. of Branches		Region		No. of Branches	No. of Sub Branches
Retail Banking Group – South					
1.	KARACHI CITY 44	01.	Karachi City	21	-
		02.	Karachi North	23	-
2.	KARACHI EAST 39	03.	Karachi East	20	-
		04.	Karachi South	19	-
3.	KARACHI WEST 42	05.	Karachi Central	21	-
		06.	Karachi West	21	-
4.	HYDERABAD 64	07.	Hyderabad	35	-
		08.	Nawabshah	29	1
5.	QUETTA 38	09.	Makran	08	-
			Quetta Circle	30	-
TOTAL RBG - SOUTH				227	01
Retail Banking Group – East					
1.	BAHAWALPUR 90	01.	Bahawalpur	33	-
		02.	Rahim Yar Khan	29	-
		03.	Vehari	28	-
2.	MULTAN 98	04.	Dera Ghazi Khan	32	-
		05.	Multan	29	1
		06.	Sahiwal	37	-
3.	SUKKUR 63	07.	Larkana	32	2
		08.	Sukkur	31	-
TOTAL RBG - EAST				251	03
Retail Banking Group – Central					
1.	LAHORE 93	01.	Lahore Central	22	-
		02.	Lahore City	22	-
		03.	Lahore East	25	-
		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 RBG - CENTRAL				375	05
Retail Banking Group – North					
1.	ISLAMABAD 81	01.	Chakwal	25	-
		02.	Islamabad	28	-
		03.	Rawalpindi	28	-
2.	JHELUM 54	04.	Jhelum	23	-
		05.	Muzaffarabad A.K.	31	-
3.	PESHAWAR 73	06.	Kohat	22	-
		07.	Mardan	25	1
		08.	Peshawar	26	1
4.	ABBOTTABAD 71	09.	Abbottabad	25	-
		10.	Attock	28	3
		11.	Swat	18	-
TOTAL RBG - NORTH				279	05

Branch Network

As on December 31, 2012

	No. of Branches
Wholesale Banking Branches	10
Islamic Banking	27
Privilege Banking	10

OVERSEAS OPERATION

Circle / No. of Branches	No. of Branches
1. Colombo	1
2. EPZ	1
3. Kandy	1
4. Maradana	1
5. Offshore Banking Unit (OBU) - Bahrain	1
6. Pettah	1
7. Wellawatte	1
8. Batticaloa	1
TOTAL	8
Dubai (Rep. Office)	1

SUMMARY

Group	Circles	Regions	No. of Branches	No. of Sub Branches
RBG-South	5	9	227	1
RBG-East	3	8	251	3
RBG-Central	4	13	375	5
RBG-North	4	11	279	5
Privilege Banking	-	-	10	-
Wholesale Banking	4	6	10	-
Islamic Banking	-	-	27	-
Total	20	47	1,179	14
Overseas	-	-	7	-
EPZ	-	-	1	-
Grand Total	20	47	1,187	14

PROVINCE-WISE

Province / Territory	Branches	Sub-Branches	Total
Azad Jammu & Kashmir	26	-	26
Balochistan	40	-	40
Federal Capital Territory	26	-	26
Federally Administered Tribal Areas (FATA)	6	-	6
Gilgit-Baltistan	4	-	4
Khyber Pakhtunkhwa	113	2	115
Punjab	699	9	708
Sindh	265	3	268
Domestic Total	1,179	14	1,193
Overseas	7	-	7
EPZ	1	-	1
Grand Total	1,187	14	1,201

Pattern of Shareholding

As of December 31, 2012

Share Holders	Having Shares		No. of Shares	Percentage
	From	To		
15,395	1	100	606,920	0.0660%
12,275	101	500	3,030,274	0.3294%
5,418	501	1,000	3,856,900	0.4193%
7,472	1,001	5,000	11,357,442	1.2347%
265	5,001	10,000	1,849,334	0.2010%
224	10,001	50,000	4,531,583	0.4926%
46	50,001	100,000	3,126,305	0.3399%
65	100,001	500,000	17,043,972	1.8529%
35	500,001	1,000,000	25,604,040	2.7835%
51	1,000,001	5,000,000	114,188,482	12.4137%
4	5,000,001	10,000,000	23,712,523	2.5778%
6	10,000,001	15,000,000	71,105,379	7.7300%
2	15,000,001	25,000,000	39,130,706	4.2540%
11	25,000,001	Above	600,716,263	65.3052%
41,269			919,860,123	100.0000%

Categories of shareholders

	No of Share Holders	Shares held	Percentage
Directors, CEO & Children	16	98,928,007	10.7547%
Associated Companies	5	197,310,846	21.4501%
NIT & ICP	2	486,497	0.0529%
Banks, DFI & NBFIs	17	3,175,647	0.3452%
Insurance Companies	13	60,756,081	6.6049%
Modarabas & Mutual Funds	35	1,153,092	0.1254%
Public Sector Companies & Corporations	12	27,079,155	2.9438%
General Public (Local)	37,475	135,480,447	14.7284%
General Public (Foreign)	3,403	2,541,784	0.2763%
Foreign Companies	109	333,904,991	36.2995%
Others	182	59,043,576	6.4188%
Company Total	41,269	919,860,123	100.0000%

Pattern of Shareholding under Code of Corporate Governance As of December 31, 2012

Associated Companies, Undertakings and Related Parties

Adamjee Insurance Company Limited	28,641,486
Din Leather (Pvt.) Limited	5,732,508
Siddiqsons Limited	11,798,731
Maybank International Trust (Labuan) Berhad	183,972,023
D. G. Khan Cement Company Limited	84,526,640
Nishat Mills Limited	66,611,481
CDC - Trustee Mcb Dynamic Stock Fund	8,119
CDC - Trustee Pakistan Stock Market Fund	10,054
CDC - Trustee Pakistan Premier Fund	10,070
CDC - Trustee Pakistan Strategic Allocation Fund	100
MCBFSL - Trustee Ah Dow Jones Safe Pak Titans 15 Index Fund	23,034
Trustee - MCB Employees Pension Fund	14,123,244
Trustee - MCB Provident Fund Pak Staff	28,422,860
Nishat (Chunian) Limited Employees Provident Fund	7,320
Nishat Mills Ltd. Employees Provident Fund Trust	6,846,605
Trustees D.G.Khan Cement Company Limited Employees Provident Fund	220,000
Trustees of Adamjee Insurance Company Limited Employees Provident Fund	73,205

Mutual Funds:

Safeway Fund (Pvt) Ltd.	1,365
Growth Mutual Fund Limited	251
Pak Asian Fund Limited	135
Prudential Stock Fund Ltd.	149
CDC - Trustee Pakistan Stock Market Fund	10,054
CDC - Trustee Pakistan Strategic Allocation Fund	100
CDC - Trustee AKD Index Tracker Fund	86,437
Tri. Star Mutual Fund Ltd.	624
MCFSL - Trustee JS KSE-30 Index Fund	18,553
CDC - Trustee Nafa Multi Asset Fund	20
CDC - Trustee MCB Dynamic Stock Fund	8,119
CDC - Trustee HBL - Stock Fund	148,195
CDC - Trustee HBL Multi - Asset Fund	81,820
CDC - Trustee KASB Asset Allocation Fund	670
First Capital Mutual Fund Limited	10,000
CDC - Trustee IGI Stock Fund	22,300
CDC - Trustee NIT-Equity Market Opportunity Fund	654,928
CDC - Trustee First Habib Stock Fund	7,100
CDC - Trustee Crosby Dragon Fund	74
MCBFSL - Trustee Ursf-Equity Sub Fund	8,050
MCBFSL - Trustee Ah Dow Jones Safe Pak Titans 15 Index Fund	23,034
CDC - Trustee NAFA Asset Allocation Fund	955
CDC - Trustee Pakistan Premier Fund	10,070
CDC - Trustee NAFA Savings Plus Fund - MT	36,000
CDC - Trustee PICIC Income Fund - MT	3,300
CDC - Trustee KASB Asset Allocation Fund - MT	5,000
CDC - Trustee HBL PF Equity Sub Fund	9,000
MCBFSL - Trustee Namco Balanced Fund - MT	1,000
MCBFSL - Trustee Namco Income Fund - MT	1,000
CDC - Trustee Lakson Income Fund - MT	1,100

Pattern of Shareholding under Code of Corporate Governance As of December 31, 2012

Directors and their spouse(s) and minor children:

Mian Mohammad Mansha	6,475
Naz Mansha	5,309,139
S. M. Muneer	1,702
Saeeda Parveen	2,006,600
Tariq Rafi	26,453,608
Nighat Tariq	4,723,219
Shahzad Saleem	746
Sarmad Amin	2,357
Mian Raza Mansha	10,464,205
Ammil Raza	23,521,790
Mian Umer Mansha	26,435,024
Aftab Ahmad Khan	757
Dato' Seri Ismail Shahudin	554
Abdul Farid Bin Alias	731
Manzar Mushtaq	550
Ahmad Alman Aslam	550

Executives 65,729

Public Sector Companies and Corporations: 27,079,155

**Banks, Development Finance Institutions, Non-Banking
Finance Companies, Insurance Companies, Takaful,
Modarabas and Pension funds:** 115,356,431

Shareholders holding Five percent (5%) or more:

Maybank International Trust (Labuan) Berhad	183,972,023
D. G. Khan Cement Company Limited	84,526,640
*JP Morgan Chase Bank	77,445,332
Nishat Mills Limited	66,611,481

All trades in shares carried out by Directors, Executives and their spouses and minor children is reported as under:

Name	No. of Shares	Purchase / Sale / Transfer
Mrs. Saeeda Parveen	25,000	Purchased
Abdul Farid Bin Alias	731	Transferred
Shahzad Saleem	168,834	Inherited
Shahzad Saleem	168,834	Sold

* JP Morgan Luxembourg SA, in the capacity of custodian and depository, on behalf of Templeton Asset Management Limited, is maintaining two CDC Accounts through Standard Chartered Bank Karachi. The Accounts are in the name of Franklin Templeton Investment Funds - Templeton Asset Management Ltd (holding 45,133,959) and Templeton Emerging Markets Investment Trust Plc - Templeton Asset Management Ltd (holding 32,311,373). JP Morgan has no beneficial interest in these securities.

Notice of 65th Annual General Meeting

Notice is hereby given that 65th Annual General Meeting of the members of MCB Bank Limited will be held at Pearl-Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore, on Wednesday, March 27, 2013, at 11:00 AM to transact the following business:

Ordinary Business:

1. To confirm the minutes of 64th Annual General Meeting held on March 27, 2012.
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, 2012 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors for the year ending December 31, 2013 till the conclusion of next Annual General Meeting and fix their remuneration. The retiring Auditors, M/s A.F. Ferguson & Company, Chartered Accountants, being eligible, have offered themselves for re-appointment.
4. To approve, as recommended by the Directors, payment of Final Cash Dividend @ 30% i.e., PKR 3.0 per share for the financial year 2012, in addition to 100% (30% 1st, 40% 2nd and 30% 3rd quarter) Interim Cash Dividends already paid.

Special Business:

5. To approve the issue of Bonus Shares in the ratio of 10 shares for every 100 shares held (i.e. 10%) as declared and recommended by the Board of Directors, and if thought fit, pass the following Resolutions as Ordinary Resolutions:

"Resolved that a sum of PKR 919.860 million out of reserves of the Bank available for appropriation as at December 31, 2012, be capitalized and applied for issue of 91,986,012 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 14, 2013 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 2012."

"Further Resolved that fractional entitlement of the members shall be consolidated into whole shares

and sold on the Karachi Stock Exchange and the Company Secretary is authorized to pay the proceeds of sale when realized, to any recognized charitable institution(s)."

"Further Resolved that the Company Secretary be and is hereby authorized and empowered to give effect to this ordinary resolution and to do or cause to do all acts, deeds and things that may be necessary or required for issue, allotment and distribution of bonus shares."

6. To consider and, 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 600,000/- (Rupees Six Hundred Thousand only) to CARE Foundation as Bank's Corporate Social Responsibility."
 - b. "Resolved that approval be and is hereby accorded for donation of PKR 1.000 million (Rupees One Million only) to Al-Shifa Trust Cause 'Fighting against Blindness' on behalf of MCB Bank Limited."
 - c. "Resolved that approval be and is hereby granted for donation of IT obsolete equipment/accessories procured during the period from 2003 to 2008 having estimated value of PKR 9,724,619/- to Peace Social and Welfare Organization (PSWO) as Bank's Corporate Social Responsibility."
 - d. "Resolved that the post fact approval be and is hereby granted for expenses incurred in connection with 'Escort Vehicle' including hiring of guards and maintenance of vehicle provided to the Bank's Chairman on the specific advice of the security experts and security warnings received from the Ministries of Interior and Defence, Government of Pakistan, with effect from the date the Armored Vehicle was provided to the Chairman."
7. To consider and if thought fit, approve the increase in Authorized Share Capital of the Bank and to pass, with or without modification, the following resolutions as 'Special Resolution' and to make consequent amendments in the Memorandum and Articles of Association of the Bank in accordance with the provisions of Section 92 read with Section 94 of the Companies Ordinance, 1984:

Notice of 65th Annual General Meeting

“Resolved that the Authorized Share Capital of the Bank be and is hereby increased from PKR 10,000,000,000 (Rupees ten billion) divided into 1,000,000,000 (One billion) Ordinary Shares of PKR 10/- each, to PKR 15,000,000,000 (Rupees fifteen billion) divided into 1,500,000,000 (One billion and five hundred million) Ordinary Shares of PKR 10/- each.”

“Further Resolved that the Memorandum and Articles of Association of the Bank be and is hereby amended as follows:

Clause 5 of the Memorandum of Association:

The Capital of the Company is PKR 15,000,000,000/- divided into 1,500,000,000 Ordinary Shares of PKR 10/- each.

Article 4 of the Articles of Association:

The Capital of the Company is PKR 15,000,000,000/- divided into 1,500,000,000 Ordinary Shares of PKR 10/- each.”

“Further 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 increase in Authorized Share Capital 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 consequent alteration in the Memorandum and Articles of Association of the Bank.”

8. To consider and if thought fit, pass the following resolutions as ‘Special Resolution’ with or without modification and to approve alteration in the Articles of Association of the Bank in accordance with the provisions of Section 28 of the Companies Ordinance, 1984:

“Resolved that the post fact approval be and is hereby granted to increase the limit of four chartered plane round trips (domestic and/or international) by the Chairman for Bank business in a calendar year to six chartered plane round trips (domestic and/or international) starting July, 2012 and any additional such trips may be paid by the Chairman out of his annual compensation.”

“Further Resolved that the Para 4 of Article 94 of the Articles of Association of the Bank be and is hereby substituted as follows:

Para 4 of Article 94 of the Articles of Association:

The chartered plane round trips (domestic and/or international) by the Chairman for Bank business will be limited to six in a calendar year starting July, 2012 and any additional such trips may be paid by the Chairman out of his annual compensation. The details of the six chartered plane round trips (domestic and/or international) by the Chairman, allowed by the Board on annual basis and approved by the shareholders, shall be placed before the Board for its information and record.”

“Further Resolved that the Company Secretary be and is hereby authorized to take all steps necessary, ancillary and incidental for registering and altering the Articles of Association of the Bank but not limited to filing of all requisite documents/statutory forms as may be required to be filed with the Registrar of Companies and complying with all other legal requirements so as to effectuate the alteration in the Articles of Association.”

9. 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, 2013
Lahore.

ABDUS S. SAMI
Company Secretary

Notice of 65th Annual General Meeting

Notes:

1. The Shares Transfer Books of MCB Bank Limited will remain closed from March 15, 2013 to March 27, 2013 (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 14, 2013 will be treated as being in time for the purpose of the entitlement of cash dividend and bonus shares.
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or not.
3. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarized certified copy of the power of attorney or authority in order to be effective must be deposited at the Share Registrar and Transfer Agent Office of the Bank not less than 48 hours before the time for holding the meeting, and must be duly stamped, signed and witnessed.
4. Members are requested to immediately notify the change, if any, in their registered addresses to the Share Registrar and Transfer Agent of the Bank.
5. CDC Accountholders will further have to follow the under mentioned guidelines as laid down by Circular No. 1, dated January 26, 2000, issued by Securities and Exchange Commission of Pakistan.

For Attending of Meeting:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For Appointing of Proxies:

- i. In case of individuals, the Accountholder and/or Sub-Accountholder whose registration details are uploaded as per the CDC regulations, shall submit the proxy form as per above requirements.
- ii. The proxy form shall be witnessed by the two persons whose name, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.
- v. In case of 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 65th Annual General Meeting of the Bank.

Agenda No. 5 – Issue of Bonus Shares:

The Directors are of the view that the reserves/profits are adequate for capitalization of a sum of PKR 919.860 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. 6 – Approval for Donations to Charitable Institutions / Expenses for Escort Vehicle and Security Guards:

- a. The CARE Foundation has planned that through its Centre of Learning, a centralized teacher training center would be initiated at CARE Teacher Training Centre, Lahore, along with the construction of virtual classrooms at different locations. The Board as a part of its CSR activities acceded the request of CARE for chairs at teaching training center.

Notice of 65th Annual General Meeting

- b. Al-Shifa Trust, a non-government charitable organization, is fighting against blindness in Pakistan and abroad. Its main objective is to prevent and control blindness by providing standard and suitable eye care services. The Board, realizing the responsibility towards providing good health care facilities, approved a donation to help the trust to continue its operations at subsidized/free of cost for the poor & needy patients under project 'Fighting against Blindness'.
- c. The Bank, during the period from 2003 to 2008, procured few IT (Information Technology) networking equipment/accessories for different IT projects and these equipments were lying idle i.e. became obsolete having no market value due to rapid change in technology and system advancement. Therefore, Board decided to donate such equipments to Peace Social and Welfare Organization (PSWO) a reputable NGO, providing emergency relief efforts under natural or man-made disasters and leading development programs such as health, physical rehabilitation, microfinance, economic empowerment, orphan support program, education and water for life etc. with a unique vision and direction.
- d. During 2010, on the security warning received from the Ministry of Defense, as well as Ministry of Interior, Government of Pakistan, shareholders of the Bank approved Armored Vehicle for the Chairman's security. Keeping in view the law & order situation in the country, Security Experts also advised that more extensive measures should be taken for protection of Chairman of the Bank and recommended to provide Escort Vehicle with Security Guards within country to ensure adequate protection to avoid any probable untoward accident/mishap and the Bank arranged the same accordingly.

In view of the above, the shareholders' post facto approval is solicited against the expenses pertaining to the payments made to Guards and Escort Vehicle which was provided to the Chairman during his stay in Lahore, Karachi and Islamabad.

- The Directors have no interest in above mentioned donations.

Agenda No. 7 – Increase in Authorized Share Capital:

In the past several years, the Bank's Board of Directors and the shareholders have approved issuance of bonus shares at the end of each financial year; therefore, the Board has recommended increase in the Authorized Share Capital from PKR 10 billion (one billion Ordinary Shares of PKR 10/- each) to PKR 15 billion (one billion and five hundred million Ordinary Shares of PKR 10/- each) through amendments in the relevant Clauses of the Memorandum and Articles of Association of the Bank in order to facilitate the issue of further capital as may be necessary from time to time. The Directors have no direct or indirect interest in the above said special business other than their own shareholding in the Bank.

Agenda No. 8 – Chairman's Travel on Official Visits on Chartered Flights:

Due to prevailing law & order situation in the country, the Chairman has to travel on chartered plane, for bank's business, quite frequently on short notice to build liaison with federal government, national and international business forums and groups and the limit of four chartered plane round trips (domestic and/or international) which was duly approved by the shareholders in their Annual General Meeting held on March 26, 2010 had been found inadequate. Hence, the shareholders' post facto approval is solicited to increase the limit from four to six chartered plane round trips (domestic and/or international) in a calendar year starting July, 2012; however, any additional such trips may be paid by the Chairman out of his annual compensation.

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 companies for which there is a book

Glosary of Terms

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

65th 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 65th Annual General Meeting of the Bank to be held on **Wednesday, March 27, 2013 at 11:00 AM** at Pearl-Continental Hotel, Shahrah-e-Quaid-e-Azam, Lahore, and at any adjournment thereof.

As witness my / our hand/Seal this _____ day of _____ 2013

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 instrument of proxies are deposited by a member with the Share Registrar, all such instruments of proxy shall be rendered invalid.

3. For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met:

- Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- The proxy shall produce his original CNIC or passport at the time of the meeting.
- In case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted along with proxy form to the Company.

