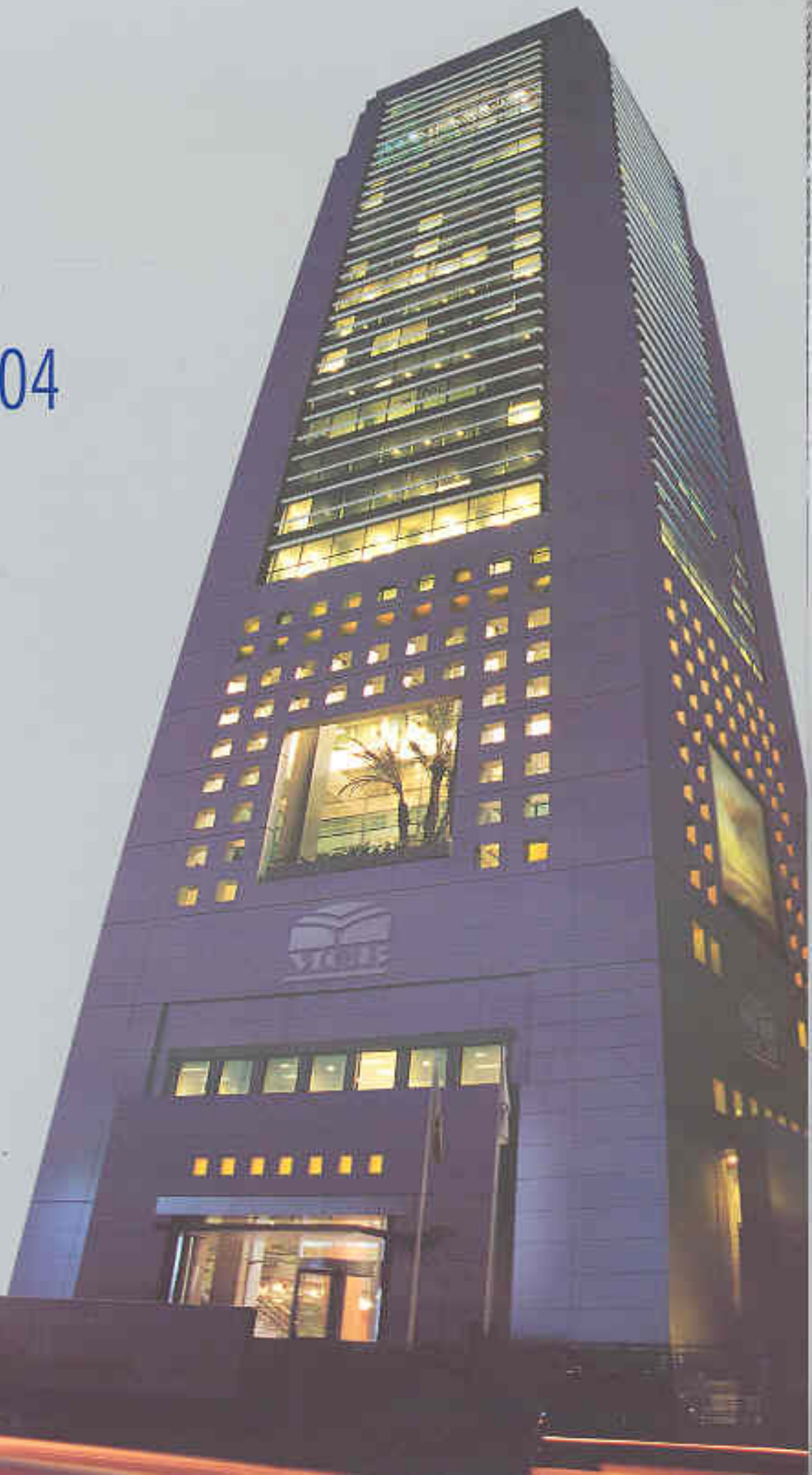




Annual Report 2004



MCB Tower - A soaring accomplishment signifying the turning of a tall dream into a taller reality. A monumental manifestation of MCB's many achievements. A proud landmark symbolizing the many heights of banking excellence.

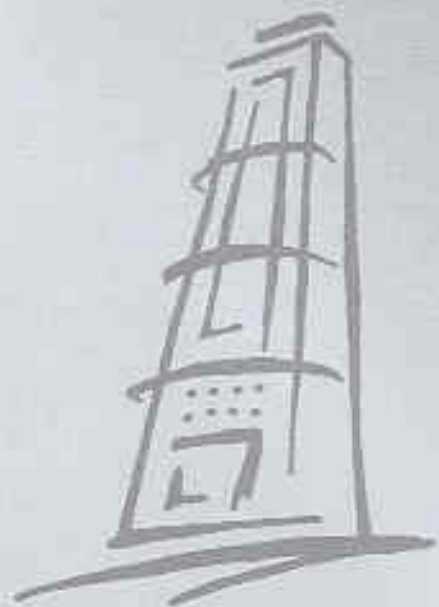
Building a tall dream...

With MCB Tower, not only have we built Pakistan's tallest building, but have also stretched our unending quest to keep building the tallest standards possible in modern banking. We stand the tallest when it comes to a bank building its reputation on strong bonds, cutting edge technology, proven reliability and unmatched convenience.





into a taller reality...



Building

MCB Tower is by far the most technologically sophisticated building in the country. It achieves an unprecedented level of power/energy saving through a custom built power generation and cooling system. The focus on minimising energy consumption is also reflected in the double insulated glazing that not only reduces heat loss by upto 30% and lowers noise levels significantly, but also plays an important role in the unique temperature control system installed throughout the building.

DING



The Special Temperature Control system plays a critical role in making the Tower a pleasant place to work in. It allows for spectacular 'breathing spaces' at various levels in the building which let natural light flood the interior while maintaining an ambient comfort level.



Building Technology

Acquiring and implementing cutting edge technology is vital for any modern organization. MCB understands well the direct relationship modern banking has with modern technology. It is a powerful way and means to create value and convenience for the present day customer. That's why MCB has been at the forefront in investing heavily into upgrading its technological edge and backbone. Today it is a leader in continuously acquiring and utilizing modern banking technology for setting new standards in the banking industry.

Technology

With more than 760 automated branches, 315 online branches, over 210 MCB ATMs in 35 cities across Pakistan and a network of 14 banks on the ATM switch, MCB continuously designs products and services that harness the best technology for the sole benefit of the customers.



Building

MCB Tower represents the importance the bank places in building a strong bond between the bank and its customers and between the employers and the employees. The Tower has not only brought all the relevant departments under one roof but its open-plan layout also facilitates interaction between employees.

DING



Working spaces epitomise the best corporate workplace in the financial sector in the country, be it private rooms of the executive level, cubicles of the management staff or the open-plan floors.



Building Bonds

For many years MCB has been building strong bonds with its customers. Our professional insights about their banking needs have made them feel comfortable and well looked after. We respond to them, listening carefully to what they need and serving them with the best possible advice and service. We grow stronger together.

MCB's 57 years of banking excellence has been about giving its customers exactly what they expect. Be it financing for personal or business related needs, funds transfer and trade related facilities or a need for different types of deposit accounts, we make sure our services and products are customized to satisfy their individual needs.

Bonds

BONDS



Building

The whole concept of convenience is an important part of the Tower's aesthetic and architectural make-up, whether its convenience to conduct business or navigation through the building. This can be experienced through spacious meeting rooms; well-lit corridors and offices that stretch across the length and breadth of the building. The powerful high-speed elevators with their unique Call System is another convenience. Moreover, the 3-level basement parking for upto 136 cars is a much needed relief on the busy I.I.Chundrigar Road.

DING



Meeting and conference facilities range from small to large meeting and board rooms. It also has a state-of-the-art auditorium with a seating capacity of over 250 people.

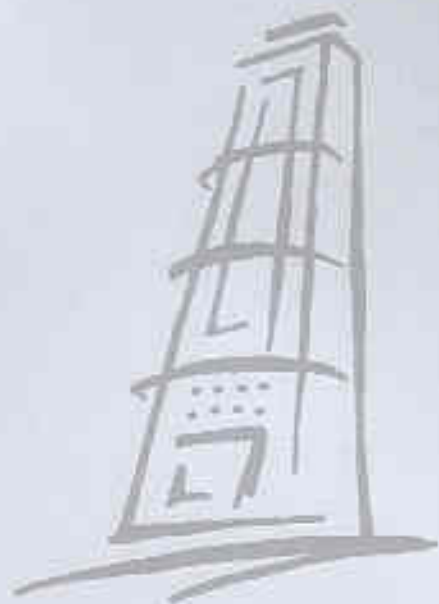


Building Convenience

Getting convenience is always on the top of every customer's agenda. Providing convenience is on top of ours. Whether it is the 24-hour cash convenience of our ATM network or the easy availability of the financing of your personal needs, complex business financing requirements, simple opening of an account or round-the-clock internet banking, MCB has tailored its products and services to make your life easier.

Convenience

CONVENIEN



Building

MCB Tower has some of the most integrated safety and security features. They further enhance the trust and reliability the bank's consumers and employees expect from MCB. These safety features include 24x7 surveillance systems including smart card access to prevent unauthorised entry at any level and a state-of-the-art fire prevention system.



Materials and finishings used throughout the building, especially in heavy usage areas have been specially selected and designed for maximum reliability and endurance.



Building Reliability

A strong financial base, a dynamic team and the right banking resources have made MCB a reliable partner. We have an astute understanding of the special needs of the business, trading and agriculture sectors. Strategically located branches in towns and cities across Pakistan provide excellent and highly reliable services to both big and small businessmen and traders.

We speak their language, providing them sound advice and tangible results.

With a solid foundation of over half a century,

MCB has grown even stronger to lead the banking sector of the country towards a bigger, brighter and better Pakistan.

Reliability

RELIABILITY

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Annual Report 2004

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Corporate Information

Board of Directors

Mian Mohammad Mansha
Chairman

S.M. Munoor
Vice Chairman

Tariq Rafi
Sheikh Mukhtar Ahmed
Mohammad Arshad
Shahzad Saleem
Sarmad Amin
Mian Umer Mansha
Aftab Ahmad Khan

Mohammad Aftab Manzoor
President & Chief Executive

Advisor

Raza Mansha

Audit Committee

Mian Mohammad Mansha - Chairman
Shaikh Mukhtar Ahmed - Member
Aftab Ahmad Khan - Member

Chief Financial Officer

Ali Munir

Secretary

Tameez-ul-Haque

Auditors

A.F. Ferguson & Co,
Chartered Accountants

Riaz Ahmad & Co.
Chartered Accountants

Legal Advisors

Mandiwalla & Zafar
Advocates & Legal Consultants

Registered Office

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

Principal Office

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

Registrar's and Share Registration Office

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



Board of Directors

(sitting left to right)

Sheikh Mukhtar Ahmed

Mian Mohammad Mansha

Mohammad Arshad

Tariq Rafi

(standing left to right)

Mohammad Aftab Manzoor

Aftab Ahmed Khan

Sarmad Amin

Mian Umer Mansha

Shahzad Saleem

S.M. Muneer



Mohamed Albet Manzoor



Asim Hassan Zaidi



Ali Malik



Zahar Amir Moqvi



Shohid Sattar

Management Committee



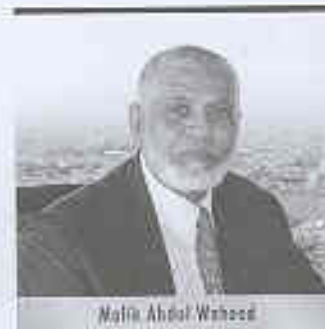
Shoaib Gurehri



Merad Ali Jaz



M.U.A. Usmani



Malik Abdul Wahed



Salman Ahmed Usmani



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



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



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

Corporate Financing

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



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



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

Instant Financing

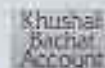
Get a loan in an instant at any MCB branch. Offering same day financing facility against liquid collateral at competitive pricing.



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



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



One of the most popular deposit accounts offered by MCB, offering profit on a daily product basis with other exciting features.



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



The largest network of over 315 on-line branches in the country and growing. Providing customers with 24x7 real time on-line transaction facilities.



MCB Network for Electronic Transactions is an electronic hub for ATM sharing plus other touch points. Members include 14 locally operating financial institutions enjoying ATM sharing and bureau services. The nation's largest operating switch with the highest transaction volume.

Product and



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



Remit Express

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



Your business helped you build a home, now your home will help you build your business! MCB Business Sarmaya is a Running Finance facility against your residential property that allows you to unlock your investment in your home and grow your business or avail lucrative opportunities with absolute satisfaction of cash flows without compromising on your life style. Key features include up to 2 crore of Running Finance, extremely low mark-up, BTP facility at competitive rates and free Gold Smart Card for the first year.



your power move!

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



MCB Islamic Banking provides Riba free and Shariah Compliant solutions to various customer segments in a growing number of cities. Whether it is an asset that you want to acquire, or surplus funds on which you want to earn Shariah based profits, MCB Islamic Banking branch is the best place to visit. With the help of a fine blend of Shariah specialists, experienced lawyers & professional commercial bankers, we have the best solutions tailor-made to cater to your needs - the Islamic way.



MCB Easy Bill Pay is the most convenient bill payment solution to pay your Utility and Mobile Phone bills or recharge your prepaid mobile phone account. With this facility, MCB ATM Card or MCB SmartCard holders can easily pay their bills through three convenient options of MCB ATMs, MCB Virtual Internet Banking and MCB Call Centre anywhere, any time with security and peace of mind.



MCB brings you MCB SmartCard - a secure instrument of payment, offering Cash Free convenience. MCB SmartCard is the most powerful debit and ATM



card providing 24-hour direct access to your bank account and unmatched functionalities like purchasing, cash withdrawals, bill payments, funds transfer, mobile banking, internet banking, balance inquiry and mini-statements.

MCB has the privilege to be the first bank to offer a truly global debit card accepted not only at 2,700 merchants in 16 cities locally but also accepted internationally.



MCB Pyara Ghar is an ideal Home Finance product from your own bank that lets you Purchase, renovate or construct your home the way you have always wanted. Competitive financing rates, financing upto 20 years, for amount upto Rs.10 million, service at your doorstep, pre-approved Auto Finance and BTP at competitive rates are some of its exciting benefits. So, having your home was never so easy, at *Pyara Ghar Ki Baat Hai!*

Service Catalogue



MCB, the leader in banking technology, now provides the convenience of banking on the internet. Whether you are in your office, at home or traveling you can log on to www.mcb.com.pk and enjoy 24-hour access to all your accounts at MCB. It provides the widest range of services which include Bill Payments, Bank Account Statements, Cheque Book Requests, Standing Orders, Funds Transfers, Personalized Alerts, Bulk Salary Payments and Fund Management.

Directors' Report to Members

I am pleased to place before you, on behalf of the Board of Directors, the 57th annual report of your Bank for the year ended December 31, 2004.

Economy

During the year, Pakistan's economy gained further ground, thanks to the continuity in economic policies, increase in investment and consumption, improved performance of the agriculture sector and investors' confidence. Annual GDP growth is reaching 7 percent which is a result of broad based growth in different sectors of the economy while the environment remains conducive to growth. Better global economic conditions and rising international demand have helped in increasing our exports. The exchange rates remained stable almost throughout the year. Foreign Direct Investment has shown more than 60 percent increase in the first half of the fiscal year 2004-05. The domestic demand is also surging due to rise in investment, credit intake and consistent upward trend in remittances. All Stock Exchanges of the country are flourishing, showing investors' confidence in the economy.

Imports have been growing at a faster rate than expected due to the growing needs of the economy for further investment in capacity building. As a result, the trade deficit has been increasing. High international oil prices have maintained a constant pressure on the growth momentum throughout the year. These factors coupled with increase in money supply have impacted inflation and increased interest rates. The continued trend might lead to double-digit inflation in the near future if underlying factors continue the same trend. However, the State Bank of Pakistan has started taking more aggressive steps to contain inflation while ensuring that it does not stifle growth. During the last six months, the yields on 3-month and 12-month Treasury Bills have been raised more aggressively. By and large, anticipated mild inflation should not derail the economy's positive momentum.

The banking sector has not only benefited from substantial growth in the economy during the past few years but has also been an engine of growth. Confidence in the economy coupled with low interest rates and accommodative monetary policy in the past couple of years has improved investment and credit intake. The net credit to the private sector during the year 2004 was exceptionally high which not only showed a hundred percent growth from the previous year but was also more than the cumulative net credit expansion in the preceding four years because of strong demand from corporate and consumer sectors. Similarly, growth in agriculture financing has also been very impressive.

Bank's Performance Review

You will be pleased to know that your Bank is well cognizant of the growing competition and customer sophistication. The Bank is taking initiatives to stay ahead of the competition and retain its leadership position. The consistent profitability of your Bank in the face of an ever changing business environment has been made

possible through a wide range of initiatives including emphasis on technology, risk management, asset quality, restructuring, realigning different activities with the industry's best practices and cost control. During the year under review, the focus of your Bank was to boost revenues in the core business areas and to increase its non-fund based revenue while maintaining strict cost and risk discipline. The advances of the Bank showed tremendous growth of more than 41 percent. The decline in interest revenues and total interest expenses was due to the overall decline in interest rates in the marketplace. As low interest rates were prevalent during most of the year, special emphasis was placed on non-fund based revenue to support the bottom line from less volatile sources of income generation. As a result, share of fee-based revenue has increased substantially.

Performance of Corporate as well as Commercial Banking has been impressive, especially in the areas of credit expansion and profitability of the Bank. This is despite the fact that considerable time & effort were put in organizational restructuring, including reinvigorating Investment Banking and beefing up our relationship teams in line with the industry's best practices. The Bank increased focus on customer service at the branch level and re-engineered some of the processes in order to improve the turnaround time. The Bank also streamlined the Cash Management services for valued customers and this initiative has shown very positive results in the first year. A separate SME Financing Division was set up to provide customized financing solutions to this very important segment of the economy. One of the other important initiatives that was taken includes revitalization of the leasing business which would not only provide more financing options to the customers but is also expected to expand the asset base of the branches. The Bank also put more emphasis on agriculture sector and as a result the Bank's share has increased in the seasonal financing needs of the sector and in tractor financing.

Your Bank has further reinforced its position in the Consumer Banking arena by streamlining and re-launching the consumer financing products and introducing more convenience based solutions. With the re-launch of auto finance and house finance products, the Bank pushed the products with full thrust. Similarly, despite the fact that this was virtually the first year of operations in mortgages, your Bank was able to carve a place in the industry. The Bank has also recently launched a running finance facility against mortgage of property.

Technology continued to play an important role in improving and expanding product offerings. During the year 2004, the Bank introduced more IT based products to cater to the changing lifestyles and needs of the customers. MCB Virtual-Internet Banking was launched with wide ranging banking solutions for the customers ranging from individual to corporate customers and it has become the most preferred Internet banking solution in the country.

MCB also had the privilege of being the first Bank in Pakistan to launch the comprehensive bill payment facility through its alternate

delivery channels which include Internet Banking, ATMs and MCB Call Centre, currently with six payment partners. Similarly, your Bank also took initiatives to increase the usage of debit facility. A couple of cardholders' promotions were offered during the shopping seasons to increase the card spend which has resulted in significant improvement in card usage. Furthermore, POS (Point Of Sale) network was expanded to cover more major cities. To provide timely and updated information, MCB has also provided a new look to its website which is user friendly and considerably easy to browse.

The Islamic Banking initiative has been very successful in attracting new customer, both individuals and companies. Similarly, those relationships which were confined only to current account facility have grown into stronger business relationships. The branch network was expanded to Lahore and Multan during the last year and recently been extended to Hyderabad and Faisalabad. The Bank plans to further expand its Islamic Banking branch network to other metropolitan areas and also to introduce new sharia compliant banking solutions to a wider range of customers for satisfying their individual and business needs.

Some wide-ranging new strategic initiatives were also taken up during the year which will be important for the Bank in years to come. A private company has been formed in Hong Kong (fully owned subsidiary of MCB) in partnership with standard Chartered Bank, handling trade transactions of select countries in the Asia-Pacific region. It is projected to earn US\$ 1 million in its first year of operations. To increase its international presence, the Bank will be opening its representative office in Dubai and entering into major strategic alliances with banks in the UAE, especially for marketing our consumer banking products to non-resident Pakistanis. Furthermore, feasibility is also being carried out for entering other international markets.

MCB's operations continued to be streamlined with focus on rationalization of expenses, re-alignment of back-end processing to increase productivity, enhancement of customer service standards, process efficiency and controls. The Bank has taken the lead in introducing the innovative concept of centralizing Trade Services in the country by providing centralized foreign trade services to branches with a view to improve efficiency, expertise and reduce delivery cost.

Management of Human Resources has been one of our core focus areas. We are committed towards attracting, retaining and motivating outstanding people. Our challenge is to provide an environment in which every employee can better realize their potential. During 2004, the Bank introduced 'reward for performance' where high potential officers were identified and rewarded accordingly. In view of the competitive environment, the Bank is focusing on performance and introducing a more robust performance management system. MCB is also strongly committed to training its staff at all levels.

During 2004, the Bank received more international accolades in recognition of its consistency in growth and performance. The Bank not only received the Asia Money Award 2004 for "The Best Domestic Bank in Pakistan" but also had the privilege of receiving the EuroMoney Award for Excellence for the fourth time in the last five years as "The Best Bank in Pakistan".

MCB has also accomplished another landmark in its history by constructing MCB Tower, the tallest building in Pakistan. The state of the art and sophisticated design of the building is a testament of Bank's leadership position in modern banking. Inaugurated by Mr. Shaukat Aziz, Prime Minister of Pakistan in the beginning of this year, MCB Tower is now the Principal Office of the Bank.

Future Outlook:

The overall revival in the economy and confidence in the policies will continue to brighten the business prospects and credit quality of the Bank. Pakistan's exports which are skewed towards textiles and its allied products are expected to increase as a result of abolition of quotas, better global economic conditions and rising international demand. One of the major challenges facing the sector during 2005 will be rising interest rates, which would not only raise funding costs but may also slow down the credit intake. However, for the rest of 2005 at least, the negative repercussions of rising rates are expected to be more than offset by the benefits that accompany economic growth and balance sheets of banks will continue to grow in line with a growing economy. We are also determined to continue our efforts to increase efficiency and optimize our product and service range. The comprehensive portfolio of business initiatives is aimed at capturing additional profit growth potential. While further credit expansion is high on our agenda, we will remain vigilant and continue to closely manage risk-weighted assets. Similarly, to ensure availability of sufficient funds for building assets, we will be focusing on mobilization of cost effective funds. Continued cost discipline will remain a clear priority and we are committed to maintain our rigorous attitude to reducing our cost base, constantly improving the efficiency of our businesses, infrastructure platforms and internal processes.

Financials

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

	Rs. in'000
Profit before taxation	4,207,443
Taxation	1,663,449
Profit after Taxation	2,539,994
Un-appropriated profit brought forward	281,636
Transfer from surplus on revaluation of fixed assets (net of tax)	23,839
Profit available for appropriation	2,847,469

Appropriations

Statutory Reserve	307,999
General Reserve	800,000
Interim dividend - first 10% Cash	537,180
Interim dividend - second 15% Cash	505,770
Final dividend - 10% bonus shares	337,180
Total appropriations	2,488,129
Un-appropriated profit carried forward	359,340

Issue of right shares

The board of directors also decided to issue right shares at 15 percent at a premium of Rs. 15 per share in proportion of 15 shares for every 100 shares. 10% bonus shares recommended as final dividend shall also be entitled for right shares. The said right issue will not be entitled for interim payment, if any, for the first quarter of 2005.

The issue of right shares shall improve the lending limit and provide room for growth and expansion of the credit resulting in overall growth of the Bank. This will also help to meet capital requirement under Basel Accord II, which will be effective from 2007.

Earning per share

During the year under review pre-tax and after tax basic earning per share was Rs. 12.47 and Rs. 7.53 respectively. In note 30 & 31 to the financial statements its computation has been reported.

Pattern of shareholding

The pattern of shareholding as at December 31, 2004 is annexed with the report.

Corporate and Financial Reporting Framework

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

- The financial statements, together with the notes thereon present fairly the Company's state of affairs, result of its operations, cash flow and change in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied, except for the change as discussed in note 5.I to financial statements, in preparation of financial statements

and accounting estimates are based on reasonable and prudent judgment.

- The International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data is available in the annual report.
- The number of board meetings held during 2004 were 5 and attended by directors as under:

S. No.	Name	Meeting Attended
01	Mian Mohammad Mansha	05
02	S.M. Munoor	02
03	Sheikh Mukhtar Ahmed	05
04	Tariq Rafi	05
05	Mohammad Arshad	05
06	Shahzad Saleem	02
07	Mian Umer Mansha	04
08	Sarmad Amin	04
09	Aftab Ahmad Khan	04
10	Muhammad Aftab Manzoor, CEO	05

- Value of investment including accrued income of provident and pension fund as at June 30, 2004 on the basis of audited accounts is:

Provident Fund Pak Staff	Rs. 3,316,958 M
Pension fund	Rs. 5,671,126 M

- The aggregate shares held by following is:

a) Associated Companies, undertakings & related parties	No. of shares
1. Siddiqusons Denim Mills Ltd.	17,078,760
2. Din Leather (Pvt) Ltd.	2,242,875
3. Adamjee Insurance Co. Ltd.	5,188,910
4. MCB Employees Pension Fund	33,390,113
5. MCB Provident Fund Pakistan Staff	16,817,863

b) NIT

c) ICP

357,574

d) Directors

	Self	Spouse	Total Shares
1 Mian Mohammad Mansha	2,535	15,120,707	15,123,242
2 S.M. Munoor	11,669	21,429	33,098
3 Tariq Rafi	1,375,602	38,059	1,413,661
4 Sheikh Mukhtar Ahmed	10,388,361	-	10,388,361
5 Mohammad Arshad	1,894,209	495,750	2,389,959
6 Shahzad Saleem	924	-	924
7 Sarmad Amin	924	-	924
8 Mian Umer Mansha	3,162	-	3,162
9 Aftab Ahmad Khan	1,100	-	1,100

e) Executives

39,535

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

	Purchase	Sale
Tariq Rafi, Director	25,000	300,000
Mohammad Arshad, Director	115,300	-

Statement on Internal Controls:

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

The Management is responsible for establishing and maintaining a system of adequate internal controls and procedures for implementing strategies and policies as approved by the Board of Directors designed to provide reasonable assurance as to the integrity and reliability of those controls and reports produced therefrom; developing processes that identify measures, monitor and control risks incurred by the Bank; maintaining an organizational structure that clearly assigns responsibilities, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; monitoring the adequacy and effectiveness of the Internal Control System through evaluation and validation by internal auditors who have been entrusted the supervisory function with respect to review of internal controls, the internal auditors reporting significant findings directly to the Audit Committee of the Board; and taking timely due cognizance of the observations/ recommendations concerning the system of internal controls made by the internal auditors, external auditors and the regulators.

In view of the above and based on its supervision the Management has evaluated the effectiveness of the Bank's internal controls that encompassed material matters and reports that the System of Internal Control is sound in design and has been effectively implemented and monitored.

However, keeping in view the risk exposure and the identification, evaluation and management of significant risks faced by the Bank and based on regular review of internal controls and reports on their soundness, improvements are brought about by the Management with the approval of the Board of Directors in the internal controls and the policies and procedures which are continuously being reviewed and updated not only to conform to and achieve full compliance with State Bank of Pakistan's Guidelines on Internal Controls in letter and spirit both, but also to conform, wherever feasible and practicable, with international best practices and good corporate governance models. This is and will continue to be an ongoing process to which the Board of Directors and the Management remain fully committed and supportive.

It needs to be stated that systems are designed to manage, rather

than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

Auditors

The auditors M/s. A.F. Ferguson & Co. Chartered Accountants and Kiaz Ahmad & Co. Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Board of Directors on the suggestion of Audit Committee recommended the appointment of M/s. A.F. Ferguson & Co. Chartered Accountants and Kiaz Ahmad & Co. Chartered Accountants as statutory auditors till the conclusion of next AGM.

On behalf of directors I am thankful to customers for their support, SBP & SECP for co-operation and all the staff for their services under the leadership and guidance of the CEO.

On behalf of Directors

February 14, 2005

Mian Mohammad Mansha
CHAIRMAN

Key Operating and Financial Data

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	(Rupees in Million)									
Authorised Share Capital	2,000	2,000	2,000	3,300	3,500	3,500	3,500	3,500	3,500	6,500
Paid-up Share Capital	1,817	1,821	1,821	1,821	1,821	2,203	2,423	2,665	3,065	3,372
Reserve Fund & Other Reserves	1,991	1,669	1,717	1,797	2,092	2,278	2,279	3,027	4,379	5,662
Total Assets (Excluding Contra)	119,713	135,429	150,095	149,726	158,585	174,715	187,054	235,179	272,324	259,285
Deposits	99,611	113,005	124,391	123,822	130,325	133,990	154,544	182,706	211,511	219,956
Advances - net	31,048	60,407	64,365	65,514	67,399	86,339	76,584	78,924	92,200	137,318
Investments - net	43,952	47,553	38,695	55,387	45,609	41,111	55,432	69,610	128,277	67,195
Imports	53,118	65,321	56,418	51,037	46,117	66,910	53,008	48,842	64,153	89,653
Exports	20,199	27,321	35,123	36,918	32,738	33,575	34,968	28,284	28,609	37,790
Home Remittances	14,297	33,907	30,622	16,747	15,453	10,980	24,703	32,962	41,465	46,809
Pre-tax Profit	929	268	1,235	947	1,211	1,322	2,101	3,101	3,613	4,203
Net Branches	1,321	1,332	1,320	1,216	1,215	1,210	1,051	1,045	986	946
No. of Employees	14,522	14,729	13,610	12,858	12,557	12,133	11,614	10,526	10,164	9,889
No. of Accounts	4,127,630	4,211,043	4,311,232	4,444,065	4,512,221	5,062,364	4,302,164	4,463,530	4,433,539	4,122,335

Statement of Compliance with the Code of Corporate Governance for year ended December 31, 2004

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

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present all the directors on the Board are non-executive except for the President.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBF1.
4. No casual vacancy occurred in the Board during the year.
5. The Company in the year 2002 has prepared a Statement of Ethics and Business Practices for directors & employees, it has been signed by the directors and by employees of the Company. During the year it has been circulated as required under the Code.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained. Some of the significant policies are under compilation.
7. All the powers of the Board have been duly exercised by the Board. Decisions on material transactions have been taken in accordance with the policies approved by the Board of Directors.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The orientation course for directors was arranged during the year 2003.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CTO before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises three members, all are non-executive directors including the chairman of the Committee.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The Board has set-up an internal audit function.
17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied with.

On behalf of Directors

February 14, 2005

Mian Mohammad Mansha
CHAIRMAN

Auditors' Review Report to the Members on Statement of Compliance with best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Muslim Commercial Bank Limited to comply with Regulation C-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2004.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Riaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 15, 2005

Auditors' Report to the Members

We have audited the annexed balance sheet of Muslim Commercial Bank Limited as at December 31, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixty-one branches which have been audited by us and four branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 80% of the total domestic loans and advances of the bank, we report that:

- (a) in our opinion, proper books of accounts have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in note 5.1 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2004 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of the bank for the year ended December 31, 2003 were audited by A.F.Ferguson & Co., Chartered Accountants and M. Younus Adil Saleem & Co., Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated February 16, 2004.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Kiaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 15, 2005

Balance Sheet as at December 31, 2004

	Note	2004 (Rupees '000)	2003
ASSETS			
Cash and balances with treasury banks	6	25,833,253	24,052,669
Balances with other banks	7	5,708,323	1,302,592
Lendings to financial institutions	8	10,965,297	10,420,450
Investments - net	9	67,194,971	128,276,842
Advances - net	10	137,317,773	97,290,179
Other assets - net	11	6,265,397	6,477,064
Operating fixed assets	12	7,999,821	4,682,823
Deferred tax assets		-	-
		<u>259,284,835</u>	<u>272,323,619</u>
LIABILITIES			
Bills payable	13	7,566,684	8,396,320
Borrowings from financial institutions	14	8,693,965	32,627,951
Deposits and other accounts	15	219,966,057	211,511,393
Sub-ordinated loan	16	1,598,720	1,599,360
Liabilities against assets subject to finance lease		-	-
Other liabilities	17	6,398,238	6,372,596
Deferred tax liabilities - net	18	314,154	707,306
		<u>244,537,819</u>	<u>261,214,926</u>
NET ASSETS		<u>14,747,016</u>	<u>11,108,693</u>
REPRESENTED BY:			
Share capital	19	3,371,800	3,065,273
Reserves		5,661,553	4,379,255
Retained earnings		359,340	281,636
Surplus on revaluation of assets - net of tax	20	9,392,693	7,726,164
		<u>3,304,323</u>	<u>3,382,529</u>
		<u>14,747,016</u>	<u>11,108,693</u>
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 46 form an integral part of these financial statements.

Profit and Loss Account for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
Mark-up/return/interest earned	22	9,347,247	10,369,994
Mark-up/return/interest expensed	23	2,057,640	2,932,693
Net mark-up/interest income		7,289,607	7,437,301
Reversal of provision for diminution in the value of investments	9.3	(172,876)	(150,000)
Provision against loans and advances	10.4.1	442,595	709,797
Provision for potential lease losses	10.4.1	1,200	862
Bad debts written off directly	10.5	8,771	224,432
		279,690	781,081
Net mark-up/interest income after provisions		7,009,917	6,656,220
NON-MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		1,886,737	1,042,437
Dividend income		378,908	372,821
Income from dealing in foreign currencies		481,842	331,694
Income/gain on investments		541,035	2,041,260
Loss on trading in government securities		(11,440)	-
Other income		720,537	743,599
Total non-mark-up/interest income	24	3,997,619	4,531,611
		11,007,536	11,188,031
NON-MARK-UP/INTEREST EXPENSES			
Administrative expenses	25	7,003,653	6,587,369
Restructuring expenses		150,100	878,794
Other provisions	11.1	149,593	50,000
Other charges	26	14,899	59,034
Total non-mark-up/interest expenses		7,317,945	7,575,197
Exceptional item			
Compensation on delayed tax refunds	27	515,852	-
PROFIT BEFORE TAXATION		4,203,443	3,612,824
Taxation - Current year	28	1,576,287	1,212,579
- Prior years		-	-
- Deferred	28	87,162	170,200
PROFIT AFTER TAXATION		1,663,419	1,382,779
Retained earnings brought forward		281,636	621,965
Transfer from surplus on revaluation of fixed assets - net of tax		25,839	25,012
		307,475	646,997
Profit available for appropriation		2,827,469	2,877,142
APPROPRIATIONS			
Transfer to:			
Statutory reserve		507,959	446,029
Capital reserve		-	-
General reserve		800,000	1,000,000
Reserve for issue of bonus shares-Final @ 10% (2003: 10%)		337,180	306,527
Interim cash dividend Re 1.00 (2003:Rs 1.50) per share - March 2004		317,180	459,791
Interim cash dividend Rs 1.50 (2003:Rs 1.25) per share - September 2004		505,770	383,159
		2,498,129	2,595,306
Retained earnings carried forward		359,340	281,636
Basic earnings per share - pre tax	30	12.47	10.72
Basic and diluted earnings per share - after tax	31	7.53	6.61

The annexed notes 1 to 46 form an integral part of these financial statements.

Mohammad Afab Manzoor
President and Chief Executive

Tariq Rafi
Director

Mohammad Arshad
Director

Sarmad Amin
Director

Cash Flow Statement for the year ended December 31, 2004

	Note	2004 (Rupees '000)	2003
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		4,201,443	3,612,924
Less: Dividend income		(378,908)	(372,821)
		<u>3,821,535</u>	<u>3,240,103</u>
Adjustments for non-cash charges			
Depreciation		598,928	436,571
Provision against loans and advances		442,595	701,767
Reversal of provision for diminution in the value of investments		(172,876)	(151,000)
Provision for diminution in the value of other assets		149,993	50,000
Bad debts written off directly		8,771	224,432
Provision for potential lease losses		1,200	862
Profit on disposal of fixed assets		(39,324)	(41,914)
Surplus realised on disposal of fixed assets		(1,435)	-
		<u>987,452</u>	<u>1,225,738</u>
		4,811,987	4,465,841
(Increase)/decrease in operating assets			
Lendings to financial institutions		(534,847)	23,444,170
Advances - net		(40,570,160)	(19,207,523)
Other assets - net		(639,207)	1,075,140
		<u>(41,744,214)</u>	<u>3,311,787</u>
Increase/(decrease) in operating liabilities			
Bills payable		(829,636)	2,134,363
Borrowings from financial institutions		(23,911,986)	10,640,127
Deposits		8,454,664	28,805,677
Other liabilities		999	(2,532,531)
		<u>(16,307,859)</u>	<u>39,047,636</u>
		(33,240,186)	46,875,264
Income tax paid		(647,914)	(843,391)
Income tax refund		370,208	885,356
Net cash flow (used in)/from operating activities		<u>(53,517,892)</u>	<u>48,867,229</u>
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES			
Net investments in available-for-sale securities		105,292,873	(42,057,539)
Net investments in held-to-maturity securities		(45,878,054)	221,407
Dividends received		346,620	399,238
Investments in operating fixed assets		(1,265,675)	(1,599,401)
Investments in subsidiary companies and associated undertakings		-	5,000
Sale proceeds of property and equipment disposed off		82,743	446,966
Net cash flow from/(used in) investing activities		<u>58,578,507</u>	<u>(42,582,331)</u>
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES			
Redemption of subordinated loan		(640)	(640)
Dividend paid		(818,306)	(983,457)
Net cash outflow on financing activities		<u>(818,946)</u>	<u>(984,097)</u>
Exchange differences on translation of net investment in foreign branches		(56,354)	-
Increase in cash and cash equivalents		<u>4,185,315</u>	<u>5,300,801</u>
Cash and cash equivalents at beginning of the year		25,500,460	20,012,701
Effects of exchange rate changes on cash and cash equivalents		(144,199)	42,759
		<u>25,356,261</u>	<u>20,055,460</u>
Cash and cash equivalents at end of the year	32	<u>29,541,576</u>	<u>25,356,261</u>

The annexed notes 1 to 46 form an integral part of these financial statements.

Statement of Changes in Equity for the year ended December 31, 2004

	CAPITAL RESERVES				OTHER RESERVES			Total
	Share capital	Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve	Retained earnings	
	(Rupees '000)							
Balance as at December 31, 2002	2,665,455	473,673	399,818	-	2,153,026	-	621,985	6,313,937
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	25,012	25,012
Profit after taxation for the year ended December 31, 2003	-	-	-	-	-	-	2,230,145	2,230,145
Issue of bonus shares	399,818	-	(399,818)	-	-	-	-	-
Transferred to general reserve	-	-	-	-	-	1,000,000	(1,000,000)	-
Transferred to statutory reserve	-	-	-	-	446,029	-	(446,029)	-
Interim cash dividend	-	-	-	-	-	-	(459,791)	(459,791)
Interim cash dividend	-	-	-	-	-	-	(583,159)	(583,159)
Transferred to reserve for issue of bonus shares - final	-	-	306,527	-	-	-	(306,527)	-
Balance as at December 31, 2003	3,065,273	473,673	306,527	-	2,599,055	1,000,000	281,636	7,726,164
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	25,839	25,839
Profit after taxation for the year ended December 31, 2004	-	-	-	-	-	-	2,539,991	2,539,991
Exchange difference on translation of net investment in foreign branches	-	-	-	(56,354)	-	-	-	(56,354)
Transferred to statutory reserve	-	-	-	-	507,999	-	(507,999)	-
Interim cash dividend	-	-	-	-	-	-	(337,180)	(337,180)
Interim cash dividend	-	-	-	-	-	-	(505,770)	(505,770)
Transferred to general reserve	-	-	-	-	-	800,000	(800,000)	-
Issue of bonus shares	306,527	-	(306,527)	-	-	-	-	-
Transferred to reserve for issue of bonus shares - final	-	-	337,180	-	-	-	(337,180)	-
Balance as at December 31, 2004	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	359,340	9,092,693

The annexed notes 1 to 46 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended December 31, 2004

1. STATUS AND NATURE OF BUSINESS

Muslim Commercial Bank Limited is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all the stock exchanges in Pakistan. The bank's registered office and principal office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB Tower, II, Chaudhry Road, Karachi respectively. The bank operates 941 (2003: 981) branches inside Pakistan and 5 (2003: 5) branches outside the country (including the Karachi Export Processing Zone Branch).

2. BASIS OF PRESENTATION

- a) In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereof.
- b) The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes after eliminating material intra bank transactions/balances. Key financial figures of the Islamic Banking branches are disclosed in note 33 to these financial statements.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1982 and the directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1982 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1982 or the requirements of the said directives take precedence.

The State Bank of Pakistan as per BSD circular No.10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, (IAS 39) 'Financial Instruments: Recognition and Measurement' and International Accounting Standard 40, (IAS 40) 'Investment Property' for Banking Companies. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified in accordance with the requirements prescribed by the State Bank of Pakistan's BSD Circular No. 36 dated October 10, 2001 and BSD Circular No. 10 dated July 13, 2004.

4. BASIS OF MEASUREMENT

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the assets.

Investments are initially recognised at cost which includes transaction costs associated with the investment.

The bank classifies its investments as follows:

(a) Held for trading

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

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity.

Notes to the Financial Statements for the year ended December 31, 2004

(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.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified under 'held to maturity' portfolio and investments in subsidiaries and associates, are stated at market value.

During the year, the bank has changed its accounting policy in respect of accounting for unrealised surplus / (deficit) arising on revaluation of 'held for trading' investment portfolio. As per the new policy, surplus / (deficit) arising on revaluation of the bank's 'held for trading' investment portfolio is taken to the profit and loss account. This change has been made to comply with the requirements laid down in BSD Circular No. 10 dated July 13, 2004, issued by the State Bank of Pakistan. Previously, this surplus / (deficit) was being shown in the balance sheet below equity as required by the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000. This change in accounting policy had no impact on the financial statements of the bank for the current or any prior year.

During the year, the bank has also changed its accounting policy in respect of valuation of investments classified as 'held to maturity'. According to the new policy, these investments are carried at amortised cost. Previously, these investments were marked to market as per the requirements of State Bank of Pakistan's BSD Circular No. 20 dated August 4, 2000 and the related surplus / (deficit) was shown in the balance sheet below equity. This change has been made to comply with the requirements laid down in BSD Circular No. 14 dated September 24, 2004, issued by the State Bank of Pakistan. The change in accounting policy did not have any impact on the profit and loss account for the current or any prior year. Had the accounting policy not been changed, the value of investments, surplus on revaluation of assets and deferred tax liability as at December 31, 2004 would have been lower by Rs 329,123 million, Rs 212,436 million and Rs 116,687 million respectively.

The surplus / (deficit) arising on quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet below equity.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited / charged to income. 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 in other unquoted securities are valued at cost less impairment losses.

Investments in subsidiaries and associates are stated at cost.

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

Profit/loss on sale of investments is credited / charged to profit and loss account currently.

5.2 Sale and repurchase agreements

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

5.3 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of Prudential Regulations issued by the State Bank of Pakistan and charged to the profit and loss account. Provisions comprise of provisions against identified losses and provisions against unidentified losses. Provision against unidentified losses includes general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan and provision based on historical loss experience on advances. These provisions are maintained on a consistent basis.

The revised Prudential Regulations issued by the State Bank of Pakistan require banks to apply a prescribed adjustment factor to the Forced Sale Value (FSV) of assets held as collateral against non-performing advances while determining the provision requirement. The adjustment factor prescribed by the State Bank of Pakistan for the current year is 80%, which is to be reduced to 70% and then to 50% over the next two years. However, as a matter of prudence the bank has applied the adjustment factor of 50% on the Forced Sale Value of the collateral considered against the existing non-performing loans portfolio. Had the above mentioned discounting of collateral not taken place, the specific provision against non-performing loans as at December 31, 2004 would have been lower and consequently the profit before taxation for the current year and advances (net of provision) as at December 31, 2004 would have been higher by Rs 524,011 million.

Notes to the Financial Statements for the year ended December 31, 2004

According to the revised Prudential Regulations issued by the State Bank of Pakistan effective January 1, 2004 and SBP circular BSD/PU-22/121-04(CLAR)/2004/8576 dated July 06, 2004 banks are now required to maintain a general provision at an amount at least equal to 1.5% of the fully secured consumer portfolio and an amount at least equal to 5% of the unsecured consumer portfolio to protect them from the risks associated with the economic cyclical nature of the business. Had this general provision not been made, the profit before taxation for the current year and advances (net of provision) as at December 31, 2004 would have been higher by Rs 106,401 million.

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

5.4 Operating fixed assets and depreciation

Land is carried at revalued amount.

Property and equipment, other than land which is not depreciated, are stated at cost or revalued amounts less accumulated depreciation. Capital work-in-progress is stated at cost. Cost of property and equipment of foreign branches includes exchange differences arising on currency translation at year-end rates.

Depreciation on all property and equipment is charged using the diminishing balance method except for vehicles, computers and carpets which are depreciated using the straight line method in accordance with the rates specified in note 12.2 to these financial statements. Depreciation on additions to property and equipment during the year is charged for the entire year while no depreciation is charged on property and equipment disposed of during the year. To the extent of the incremental depreciation charged in the revalued assets, the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings.

Gains/losses on sale of fixed assets are credited/charged to the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

5.5 Staff retirement and other benefits

5.5.1 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
 - contributory benevolent fund
- 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 for which normal contributions are made on the basis of actuarial recommendations; and
 - contributory benevolent fund
- c) For officers who joined the bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
 - an approved pension fund for which normal contributions are made on the basis of actuarial recommendations

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

- d) For executives and officers (who joined the bank on or after January 1, 2000) the bank operates an approved contributory provident fund.

The above benefits are payable to staff at the time of separation from the bank's services subject to completion of qualifying period of service.

Notes to the Financial Statements for the year ended December 31, 2004

5.5.2. Other benefits

a) Employees' compensated absences

Liability in respect of compensated absences of employees are accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

b) Post retirement medical benefits

The bank also provides post retirement medical benefits to its employees. Provision is made in the financial statements for this benefit on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

5.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates, if any.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes except that deferred tax assets/liabilities associated with investments in foreign branches are recognised to the extent that these temporary differences will reverse in the foreseeable future. The bank records deferred tax assets/liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The bank recognises deferred tax asset/liability on deficit/surplus on revaluation of fixed assets and securities in accordance with the requirements of International Accounting Standard 12, (IAS 12) Income Taxes. The deferred tax asset/liability is adjusted against the related deficit/surplus.

5.7 Provisions

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

5.8 Foreign currencies

5.8.1 Foreign currency transactions

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

5.8.2 Foreign branches

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

5.8.3 Translation gains and losses

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

5.8.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

Notes to the Financial Statements for the year ended December 31, 2004

5.9 Revenue recognition

- Mark-up/interest on advances and returns on investments are recognised on an accrual basis except that mark-up/interest on non-performing advances and investments is recognised on a receipt basis, in accordance with the Prudential Regulations issued by the State Bank of Pakistan.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.
- Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the State Bank of Pakistan or overseas regulatory authorities of the country where the foreign entities operate. Gains/ losses on termination of lease contracts, documentation charges, front- end fee and other lease income are recognised as income when they are realised.
- Commission income is recognised on an accrual basis.
- Dividend income is recognised when the bank's right to receive dividend is established.

5.10 Operating leases

Operating lease rentals are recorded on an accrual basis.

5.11 Cash and cash equivalents

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

5.12 Related party transactions

Transactions between the bank and its related parties are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method" except for transactions with MNET Services (Private) Limited where the rates are determined in accordance with the "Cost Plus Method".

5.13 Financial Instruments

5.13.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, borrowings from financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.13.2 Derivative financial instruments

Derivative financial instruments are recognised at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

5.13.3 Off setting

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

Notes to the Financial Statements for the year ended December 31, 2004

	Note	2004	2003
(Rupees '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	5,492,045	4,390,554
- foreign currencies		301,749	267,378
In transit - local currency		482,006	71,110
- foreign currencies		96,429	252,007
With State Bank of Pakistan in:	6.2		
Local currency current account		12,986,121	15,785,212
Local currency deposit account		460	460
Foreign currency deposit account		1,734,196	1,573,466
With other central banks in foreign currency current account	6.2	115,419	62,822
With National Bank of Pakistan in local currency current account		1,624,838	2,270,720
		<u>23,833,263</u>	<u>24,053,669</u>

6.1 This includes national prize bonds amounting to Rs 36.161 million (2003: Rs 39.461 million).

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

	Note	2004	2003
(Rupees '000)			
7. BALANCES WITH OTHER BANKS			
Inside Pakistan in current account		6,847	2,205
Outside Pakistan			
- current account		1,729,354	1,010,005
- deposit account		3,972,122	290,362
		<u>5,708,321</u>	<u>1,302,592</u>
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lending		7,200,000	3,850,000
Repurchase agreement lending	8.1	3,765,297	6,580,450
		<u>10,965,297</u>	<u>10,430,450</u>

Notes to the Financial Statements for the year ended December 31, 2004

8.1 Securities held as collateral against lendings to financial institutions

	2004			2003		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	495,297	-	495,297	5,000,450	-	5,000,450
Pakistan Investment Bonds	3,270,000	-	3,270,000	1,580,000	-	1,580,000
	<u>3,765,297</u>	<u>-</u>	<u>3,765,297</u>	<u>6,580,450</u>	<u>-</u>	<u>6,580,450</u>

9. INVESTMENTS - NET

Note

9.1 Investments by types

	Note	2004			2003		
		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	3,186,553	-	3,186,553	60,284,810	27,534,802	87,819,612
- Federal Investment Bonds	9.4	-	-	-	1,251,444	-	1,251,444
- Pakistan Investment Bonds	9.4	4,721,435	-	4,721,435	24,155,518	-	24,155,518
- Federal Government Securities		221,891	-	221,891	-	-	-
- Shares in listed companies		3,833,052	-	3,833,052	3,415,532	-	3,415,532
- Shares in unlisted companies	9.5	461,100	-	461,100	491,124	-	491,124
- NII units		9,557	-	9,557	453,938	-	453,938
- Listed Term Finance Certificates		608,862	-	608,862	748,455	-	748,455
		<u>13,042,750</u>	<u>-</u>	<u>13,042,750</u>	<u>90,800,821</u>	<u>27,534,802</u>	<u>118,335,623</u>
Held-to-maturity securities							
- Market Treasury Bills	9.4	38,888,686	499,363	39,388,049	-	-	-
- Federal Investment Bonds	9.4	480,500	-	480,500	-	-	-
- Pakistan Investment Bonds	9.4	2,532,405	-	2,532,405	-	-	-
- Federal Government Securities		875,308	-	875,308	1,429,852	-	1,429,852
- Provincial Government Securities		118	-	118	15,118	-	15,118
- Government Compensation Bonds		870,771	-	870,771	870,771	-	870,771
- Euro Bonds		3,286,190	-	3,286,190	605,606	-	605,606
- TFCs, Debentures, Bonds and PFCs		3,580,526	-	3,580,526	3,314,467	-	3,314,467
- Certificate of Investment		1,100,000	-	1,100,000	-	-	-
		<u>51,614,505</u>	<u>499,363</u>	<u>52,113,868</u>	<u>6,235,814</u>	<u>-</u>	<u>6,235,814</u>
Subsidiaries							
MNET Services (Private) Limited		49,975	-	49,975	49,975	-	49,975
Muslim Commercial Financial Services (Private) Limited		7,500	-	7,500	7,500	-	7,500
		<u>57,475</u>	<u>-</u>	<u>57,475</u>	<u>57,475</u>	<u>-</u>	<u>57,475</u>
Associated Undertakings							
Adanjee Insurance Company Limited	9.6	943,600	-	943,600	943,600	-	943,600
First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		<u>1,006,900</u>	<u>-</u>	<u>1,006,900</u>	<u>1,006,900</u>	<u>-</u>	<u>1,006,900</u>
		<u>63,721,630</u>	<u>499,363</u>	<u>66,220,993</u>	<u>98,101,010</u>	<u>27,534,802</u>	<u>125,635,812</u>
Less: Provision for diminution in the value of investments	9.3	(695,976)	-	(695,976)	(868,852)	-	(868,852)
Surplus/ (deficit) on revaluation of investments - net	10.2	1,669,954	-	1,669,954	3,568,239	(58,357)	3,509,882
Investments at revalued amounts - net of provisions		<u>66,695,608</u>	<u>499,363</u>	<u>67,194,971</u>	<u>100,800,397</u>	<u>27,476,445</u>	<u>128,276,842</u>

Notes to the Financial Statements for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
9.2 INVESTMENTS BY SEGMENTS			
Federal Government Securities:			
- Market Treasury Bills	9.4	42,574,602	87,819,612
- Federal Investment Bonds	9.4	480,500	1,231,444
- Pakistan Investment Bonds	9.4	7,253,841	24,155,518
- Others			
- Federal Government Securities		1,097,199	1,429,852
- Government Compensation Bonds		870,771	870,771
- Euro Bonds		3,286,190	605,606
Provincial Government Securities		118	15,118
Subsidiaries and Associated Undertakings:	9.6	1,064,375	1,064,375
Fully Paid-up Ordinary Shares:			
- Listed Companies		3,838,352	3,415,532
- Unlisted Companies	9.5	461,100	491,124
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates		608,862	748,455
- Unlisted Term Finance Certificates		728,517	371,712
- Debentures, Bonds and Participation Term Certificates		2,852,009	2,942,755
- Certificate of Investment		1,100,000	-
Other Investments			
- NIT Units		9,557	453,938
Add/(less): Provision for diminution in value of investments:	9.3	66,220,993	125,635,812
Surplus on revaluation of securities (net)	20.2	(695,976)	(868,852)
		1,469,954	5,509,882
Investments at revalued amounts (net of provisions)		<u>67,194,971</u>	<u>128,276,842</u>

9.3 Particulars of provision for diminution in value of investments

Opening balance	868,852	1,018,852
Reversal during the year	(172,876)	(150,000)
Closing balance	<u>695,976</u>	<u>868,852</u>

9.4 Market Treasury Bills, Federal Investment Bonds and Pakistan Investment Bonds are held with State Bank of Pakistan and are eligible for rediscounting.

9.5 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 300 million (2003: Rs 300 million).

9.6 Investment of the bank in Adamjee Insurance Company Limited has been carried at cost amounting to Rs 943,600 million as at December 31, 2004 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, 2004 amounted to Rs. 1,579,636 million (2003: Rs 1,213,692 million). Last year, this investment was carried at market value as it did not qualify for accounting under IAS 28.

9.7 Market value of quoted investments was Rs 57,468,087 million (2003: Rs 121,913,661 million) and book value of unquoted investments was Rs 10,032,797 million (2003: Rs 6,363,191 million).

9.8 Investments include Federal Investment Bonds and Pakistan Investment Bonds amounting to Rs 232.55 million (2003: Rs 232.55 million) earmarked by the State Bank of Pakistan 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 (2003: Rs 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

9.9 Certain approved/Government securities are kept with the State Bank of Pakistan 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, 2004

9.10 Particulars of investments held in listed companies and modarabas

Investee	Number of ordinary shares/certificate held	Paid-up value per share/certificate	Total nominal value
			Rupees
Listed Shares/ Certificates			
Abanico Composite Fund	5,250,000	10	52,500,000
Adanico Insurance Company Limited	24,054,576	10	240,645,760
Al-Ghazi Tractors Limited	52,000	5	260,000
Al-Meezan Islamic Fund Limited	1,000,000	50	50,000,000
Al-Meezan Mutual Fund Limited	945,017	10	9,450,170
Askari Commercial Bank Limited	25,000	10	250,000
Atlas Income Fund	100,000	500	50,000,000
Ayaz Textile Mills Limited	225,290	10	2,252,500
Azgard Nine Limited (formerly known as Tegler-Nafees Denim Mills Limited)	1,546,989	10	15,469,890
Bug Spinning Mills Limited	397,230	10	3,972,300
Bank Al-Habib Limited	118,125	10	1,181,250
BIS Balanced Fund Limited	5,538,245	10	55,582,450
Century Paper and Board Mills Limited	199,300	10	1,993,000
E.F.I. General Insurance Limited	315,341	10	3,153,410
Ergro Chemical Pakistan Limited	375,489	10	3,754,990
Fazli Fertilizer Company Limited	3,692,995	10	36,929,950
GlaxoSmithKline Pakistan Limited	80,524	10	805,240
Honda Atlas Cars (Pakistan) Limited	111,500	10	1,115,000
The Hub Power Company Limited	25,723,500	10	257,235,000
International General Insurance Company Pakistan Limited	5,750	10	57,500
Toyota Indus Motors Company Limited	118,000	10	1,180,000
Kohinoor Energy Limited	30,500	10	305,000
Mehr Dastgir Textile Mills Limited	1,617,412	10	16,174,120
Millat Tractors Limited	508,464	10	5,084,640
Oil and Gas Development Corporation Limited	160,062	10	1,600,620
Orix Leasing Pakistan Limited	192,000	10	1,920,000
P. I. C. I. C. Growth Fund	41,500	10	415,000
Pakistan Industrial Credit and Investment Corporation Limited	1,220,380	10	12,203,800
Pachagen Limited	217,312	10	2,173,120
Pakistan Oilfields Limited	720,960	10	7,209,600
Pakistan State Oil Company Limited	800,020	10	8,000,200
Pakistan Petroleum Limited	10,000	10	100,000
Pakistan Telecommunication Company Limited	6,092,656	10	60,926,560
REDCO Textile Limited	718,500	10	7,185,000
Rupali Polyester Limited	698,545	10	6,985,450
Shell Pakistan Limited	25,000	10	250,000
Sui Northern Gas Pipelines Limited	32,321,139	10	323,211,390
Thal Jute Mills Limited	250,000	10	2,500,000
Trust Security and Brokerage Limited	300,000	10	3,000,000
Unilever Pakistan Limited	42,740	50	2,137,000
Unit Trust of Pakistan	15,000	5,000	75,000,000
Modaraba Certificates			
First Al-Noor Modaraba	5,583,270	10	55,832,700
Standard Chartered Modaraba (formerly known as First Grindlays Modaraba)	205,000	10	2,050,000

Notes to the Financial Statements for the year ended December 31, 2004

9.11 Particulars of investments in Term Finance Certificates

Investee	Number of certificates held	Paid-up	Total	Name of Chief Executive
		value per certificate	Paid-up value	
		----- Rupees -----		
Arazi Textile Mills Limited	1	517,825	517,825	Mr. Sheikh Mohammed Tahir
Orix Leasing Pakistan Limited	500	40,710	20,355,000	Mr. Humayun Murad
Raf Textile Mills Limited	1	669,375	669,375	Mr. Jawed A. Kiyani
Al-Abbasi Sugar Mills Limited	10,000	5,000	50,000,000	Mr. Shunaid Qureshi
	10,000	5,000	50,000,000	
	20,000		100,000,000	
Dawood Investment Bank Limited	3,650	5,000	28,250,000	Mr. Rafique Dawood
	30	100,000	3,000,000	
	5,680		31,250,000	
Gulistan Textile Mills Limited	1,254	5,000	6,270,000	Mr. Naseer Ahmad
Gulshan Spinning Mills Limited	1,452	5,000	7,260,000	Mr. Naseer Ahmed
Jahangir Siddiqui & Company Limited	40,000	5,000	200,000,000	Mr. Munaf Ibrahim
Jahangir Siddiqui & Company Limited	56	5,000,000	280,000,000	Mr. Munaf Ibrahim
KASB Bank Limited	4,000	5,000	20,000,000	Mr. Ashraf N. Ishaquddin
Pakistan Services Limited	2,987	5,000	14,935,000	Mr. Murtaza Hashwani
Paramount Spinning Mills	519	5,000	2,595,000	Mr. Tanveer Ahmed
SPV Securitel Limited	5,185	2,085.32	6,635,366	Mr. Nusrat Yar Ahmad
Packages Limited	9,200	5,000	46,000,000	Mr. Syed Wajid Ali
Sui Southern Gas Company Limited	15,500	5,000	67,500,000	Mr. Munawar Baseer Ahmed
	2,000	49,961	99,922,000	
	15,500		167,422,000	
Bank Al-Habib Limited	20,000	5,000	100,000,000	Mr. Abbas U. Habib
Bank Al-Falah Limited	50	1,000,000	50,000,000	Mr. Mohammad Saleem Akhtar
Akbari Commercial Bank Limited	20,000	5,000	100,000,000	Mr. Kalim-ur-Rehman

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

9.12 Particulars of investments held in unlisted companies

Company Name	Percentage of Holding	Number of shares held	Break-up value of investment	Based on audited financial statements as at	Name of Chief Executive
Shareholding more than 10%					
Pak Asian Fund Limited	10.22%	1,150,000	16,203	30-Jun-04	Mr. Ashfaq A. Bersi
Khushali Bank Limited	17.60%	300	322,196	31-Dec-03	Mr. M. Ghaliq Nishtar
First Women Bank Limited	31.60%	7,596,000	199,134	31-Dec-03	Ms. Zainab Aziz
MNET Services (Private) Limited	99.99%	4,997,500	54,172	31-Dec-03	Mr. Saadat Mujtaba
Muslim Commercial Financial Services (Private) Limited	100.00%	750,012	7,500	31-Dec-03	Mr. A. Razaq H. Adam
Shareholding upto 10%					
Central Depository Company of Pakistan Limited		1,000,800	31,620	30-Jun-04	Mr. Muhammad Hanif Jakhura
Abanco Limited		873,016	26,452	30-Jun-04	Mr. Muhammad Najam Ali
Equity Participation Fund		15,000	6,992	30-Jun-04	Mr. Jamil Nasim
National Institution for Facilitation of Technology		422,744	10,977	30-Jun-04	Mr. M.M. Khan
National Investment Trust Limited		52,800	69,604	30-Jun-01	Mr. Tariq Iqbal Khan
SME Bank Limited		1,117,992	22,350	31-Dec-03	Mr. Mansoor Khan
Pakistan Agricultural Storage and Services Corporation		2,500	3,778	31-Mar-04	Major Gen. Fasih Akhtar Khan
Lanka Clearing (Pvt.) Limited		100,000	569	31-Dec-04	Mr. Serath Desilva
Credit Information Bureau of Sri Lanka		300	17	31-Dec-04	Mr. N.P.H. Amaraseena

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

Notes to the Financial Statements for the year ended December 31, 2004

9.13 Details of Bonds and Debentures

Bonds and Debentures	Terms of redemption		Rate of Interest	Amount (Rupees '000)		
	Principal	Interest				
- Local Currency						
Rice Export Corporation of Pakistan	At Maturity	Yearly	14%	1,130,000		
Rice Export Corporation of Pakistan	Yearly	Half-yearly	15%	621,008		
Heavy Mechanical Complex	At Maturity	Yearly	6%	27,224		
Ghee Corporation of Pakistan	At Maturity	Yearly	14%	666,385		
Public Sector Enterprises Bonds	At Maturity	Yearly	9%	286,557		
Public Sector Enterprises Bonds	At Maturity	Yearly	6%	556,990		
			6 months weighted average treasury bill rate			
Pakistan Engineering Company	Half-yearly	Half-yearly		2,487		
Water and Power Development Authority	Yearly	Half-yearly	12.5%-16.5%	262,486		
	Terms of redemption		Rate of Interest	Currency	Amount Foreign Currency (Amount '000)	Amount (Rupees '000)
	Principal	Interest				
- Foreign Currency						
Government of Pakistan	Yearly	Yearly	5 months LIBOR +1%	US \$	12,221	726,282
Euro Bonds-CBU BAHRAIN	Yearly	Half-yearly	10.00%	US \$	4,390	260,875
Euro Bonds-CBU BAHRAIN	Yearly	Half-yearly	6.75%	US \$	48,901	2,882,413
Sri Lanka Development Bonds	At Maturity	Half-yearly	3.75%	SLRs	262,000	149,026
Euro Bonds-SLR	Yearly	Half-yearly	10.00%	US \$	886	52,830
Euro Bonds-SLR	At Maturity	Half-yearly	6.75%	US \$	1,511	90,072
Government of Sri Lanka Treasury Bonds	At Maturity	Half-yearly	11.75%	SLRs	390,104	221,891

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

	Note	2004 (Rupees '000)	2003 (Rupees '000)
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		131,832,570	92,734,315
Outside Pakistan		3,457,430	4,110,951
		135,289,999	96,845,466
Net investment in finance lease			
In Pakistan		1,322,440	397,169
Outside Pakistan		100,211	85,813
	10.2	1,422,651	482,982
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		3,692,473	2,829,028
Payable outside Pakistan		3,605,067	3,853,620
		7,297,540	6,682,648
		144,010,171	104,011,096
Provision against loans and advances			
	10.4		
Specific provision		(5,754,709)	(6,145,859)
General provision		(827,455)	(662,398)
General provision against consumer loans		(106,401)	
Provision for potential lease losses		(5,833)	(2,760)
		(6,692,398)	(6,810,917)
		137,317,773	97,200,179

Notes to the Financial Statements for the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
10.1	Particulars of advances		
10.1.1	In local currency	130,380,868	86,579,592
	In foreign currencies	6,936,905	10,620,587
		<u>137,317,773</u>	<u>97,200,179</u>
10.1.2	Short-term	98,820,673	72,554,313
	Long-term	38,497,100	24,645,866
		<u>137,317,773</u>	<u>97,200,179</u>

10.2: Net investment in Finance Lease

	2004			2003		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees '000)					
Lease rentals receivable	347,600	933,335	1,280,935	175,327	264,102	439,429
Residual value	79,403	232,457	271,860	103	118,569	118,672
Minimum lease payments	387,013	1,165,792	1,552,795	175,430	382,671	558,101
Financial charges for future periods	(60,043)	(78,101)	(130,144)	(37,720)	(37,399)	(75,119)
Present value of minimum lease payments	<u>326,960</u>	<u>1,095,691</u>	<u>1,422,651</u>	<u>137,710</u>	<u>345,272</u>	<u>482,982</u>

10.3 Advances include Rs 8,837,712 million (2003: Rs 10,599,507 million) which have been placed under non-performing status as detailed below:-

Category of Classification	Domestic	Overseas	Total	Provision required	Provision held
Other Assets Especially Mentioned	161,513	4,451	166,066	-	-
Substandard	151,335	2,596	153,931	22,642	22,642
Doubtful	233,360	3,433	236,793	103,236	103,236
Loss	5,613,840	2,667,082	8,280,922	5,628,831	5,628,831
	<u>6,160,148</u>	<u>2,677,564</u>	<u>8,837,712</u>	<u>5,754,709</u>	<u>5,754,709</u>

Notes to the Financial Statements for the year ended December 31, 2004

10.4 Particulars of provision against loans and advances:

	Note	2004				Total
		Specific	General	Consumer loans (Rupees '000)	Leasing	
Opening balance		6,145,839	662,298	-	2,760	6,810,917
Exchange adjustments		30,258	-	-	(127)	30,131
Provision made during the year		171,037	165,157	106,401	1,200	443,795
Transfer		-	-	-	-	-
Reversals		-	-	-	-	-
Charge for the year	10.4.1	171,037	165,157	106,401	1,200	443,795
Amounts written off	10.5	(592,437)	-	-	-	(592,437)
Closing balance		5,754,709	827,455	106,401	3,833	6,692,398
		2005				Total
		Specific	General	Consumer loans (Rupees '000)	Leasing	
Opening balance		6,150,536	62,298	-	1,930	6,214,764
Exchange adjustments		(12,197)	-	-	(32)	(12,229)
Provision made during the year		705,787	-	-	862	706,649
Transfer		(600,000)	600,000	-	-	-
Reversals		-	-	-	-	-
Charge for the year	10.4.1	105,787	600,000	-	862	706,649
Amounts written off	10.5	(98,267)	-	-	-	(98,267)
Closing balance		6,145,839	662,298	-	2,760	6,810,917

		2004	2001
		(Rupees '000)	
10.4.1	The following amounts have been charged to the profit and loss account:		
	Specific provision	171,037	165,787
	General provision	165,157	600,000
	General provision against consumer loans	106,401	-
	Provision for potential lease losses:	442,545	705,787
		1,200	862
		443,795	706,649
10.5	Particulars of write offs:		
10.5.1	Against provisions	592,437	98,267
	Directly charged to the profit and loss account	8,771	224,432
		601,208	322,699
10.5.2	Write offs of Rs 300,000 and above	595,727	316,368
	Write offs of below Rs 500,000	5,481	6,431
		601,208	322,699
10.5.3	Details of loan write offs of Rs 500,000 and above		

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2004 is given at Annexure-L. However, this write off does not affect the bank's right to recover the debts from these customers.

Notes to the Financial Statements for the year ended December 31, 2004

	Balance as at December 31, 2004	Maximum total amount of advances including temporary advances granted during the year
	(Rupees '000)	
10.6 Particulars of Loans and Advances to Directors; Associated Companies, etc.		
Debts due by directors or executives of the bank or any of them either severally or jointly with any other persons*	268,378	291,999
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
* (These include loans given by the bank to its executives as per the terms of their employment)		
	Note	2001 (Rupees '000)
		2003
11 OTHER ASSETS		
Income/mark-up accrued on advances and investments - local currency		1,209,404
Income/mark-up accrued on advances and investments - foreign currency		97,810
Other advances, deposits, advance rent and other prepayments		110,813
Taxation (payments less provisions)		2,392,063
Non-banking assets acquired in satisfaction of claims	11.2	665,012
Branch adjustment account		-
Unrealised gain on forward foreign exchange contracts - net		-
Stationery and stamps on hand		36,406
Prepaid exchange risk fee		245
Other income receivable		89,743
Receivable from Pension Fund	33.6	828,189
Receivable from Provident Fund		80,000
Compensation on delayed tax refunds		513,852
Others		816,879
		<u>6,842,416</u>
Less: Provision held against other assets	11.1	<u>577,019</u>
		<u>6,265,397</u>
11.1 Provision against other assets		
Opening balance		427,426
Charge for the year		149,593
		<u>577,019</u>
Closing balance		<u>427,426</u>
11.2	During the current year the bank revalued the non banking assets obtained in satisfaction of claims. The market value of these non-banking assets amounted to Rs 604.260 million as at December 31, 2004. Adequate provision has been made in respect thereof.	

Notes to the Financial Statements for the year ended December 31, 2004

	Note	2004 (Rupees '000)	2003
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	502,159	890,856
Property and equipment	12.2	7,497,662	3,691,967
		<u>7,999,821</u>	<u>4,582,823</u>
12.1 Capital work-in-progress			
Civil works		175,675	408,190
Equipment		21,232	234,386
Advances to suppliers		103,826	187,023
Others		201,426	61,257
		<u>502,159</u>	<u>890,856</u>

12.2 Property and Equipment

Description	Cost/ Revalued amount					Accumulated Depreciation					Net book value at Dec 31, 2004	Annual rate of depreciation %
	At Jan 1, 2004	Additions (deletions)	Reversal due to revaluation	Revaluation surplus	Transfer in/ (transfer out)	At Dec 31, 2004	At Jan 1, 2004	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation	At Dec 31, 2004		
	(Rupees '000)											
Land - Note 12.2.1 & 12.2.2	-	-	-	-	3,908,635	3,908,635	-	-	-	-	3,908,635	-
Buildings - Note 12.2.1 & 12.2.2	3,120,676	831,300 (21,644)	(608,681)	3,084,735	(292,500) (3,908,635)	2,211,257	488,664	141,894 (6,493)	(608,681)	15,382	2,195,875	5%
Furniture, office equipment and computers	2,685,598	666,684 (31,243)	-	-	-	3,291,038	1,761,750	367,056 (26,444)	-	2,122,362	1,168,677	10% to 33%
Vehicles	452,748	136,382 (82,041)	-	-	-	517,089	272,641	89,978 (70,005)	-	292,614	224,473	20%
2004	<u>6,235,022</u>	<u>1,654,372</u> <u>(144,928)</u>	<u>(608,681)</u>	<u>3,084,735</u>	<u>3,908,635</u> <u>(4,201,135)</u>	<u>9,928,020</u>	<u>2,543,055</u>	<u>598,928</u> <u>(102,944)</u>	<u>(608,681)</u>	<u>2,430,308</u>	<u>7,497,662</u>	
2003	<u>5,734,267</u>	<u>1,040,213</u> <u>(529,458)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,238,022</u>	<u>2,240,890</u>	<u>436,571</u> <u>(134,406)</u>	<u>-</u>	<u>2,543,055</u>	<u>3,691,967</u>	

12.2.1 Previously the break-up of land and buildings as separate categories of fixed assets had not been given as in many cases cost of land had been merged with the cost of building at the time of purchase. During the current year a detailed exercise was conducted by Iqbal Nanjee & Co., Valuation and Engineering Consultants (Independent valuers) to determine the cost of land. Based on the report of the valuation consultants the value of land has been transferred from the land and buildings category and is being shown separately.

The amount of Rs 292.500 million represents the book value (net of deficit on revaluation) of non-banking asset acquired in satisfaction of claim reclassified to 'Other Assets'. Accordingly, the deficit on revaluation amounting to Rs 272.512 million has been reversed. Appropriate provision has been made against 'Other Assets' to write down the carrying amount of the asset to its prevailing market value.

Notes to the Financial Statements for the year ended December 31, 2004

12.2.2 The domestic properties of the bank were revalued on December 15, 2004 by Iqbal Nanjee & Co., Valuation and Engineering Consultants on the basis of market value. This valuation was incorporated at December 31, 2004. This revaluation resulted in a surplus of Rs 4,039,160 million over the written down value of Rs 2,020,074 million of these assets.

	(Rupees '000)
Total revalued amount of land	3,908,635
Total revalued amount of buildings	2,150,599
Had the land and buildings not been revalued their carrying amounts would have been as follows:	
Land	612,284
Buildings	1,453,066

Previously, the domestic properties of the bank were revalued on July 07, 2001 by Iqbal Nanjee & Co., Valuation and Engineering Consultants (independent valuers) on the basis of market value.

12.3 Disposal of fixed assets

Description	Cost / revalued amount	Accumulated depreciation	Book value	Sale proceeds / Insurance claim	Mode of disposal / settlement	Particulars of Buyers/ Insurance company
	(Rupees '000)					
Furniture, office equipment and computers						
Items having book value of less than Rs 25,000 and cost of less than Rs 1,000,000	31,243	26,444	4,799	10,597		
Vehicles	1,171	1,170	1	460	Tender	Mr. Mushtaq Khokar Lahore
	604	121	483	332	Tender	Mr. Mohammad Iqbal Karachi
	1,090	869	221	760	Tender	Mr. Riaz Ahmed Karachi
	1,379	910	469	715	Tender	Mr. Shamshad Hussain Lahore
	559	609	250	660	Tender	Mr. Shamshad Kotasar Lahore
	1,503	1,371	132	1,012	Tender	Mr. M. Hussain Kapasi Karachi
	604	272	332	332	Retirement benefit	Mr. Nazir Ahmed Memun (Ex - Employee)
	925	647	278	278	Retirement benefit	Mr. M. Abbas Sheikh (Ex - Employee)
	925	617	308	308	Retirement benefit	Mr. Abdul Chaffar (Ex - Employee)
	939	438	501	501	Retirement benefit	Mr. Abdul Chaffar (Ex - Employee)
	609	274	335	335	Retirement benefit	Mr. Malik Lal Khan (Ex - Employee)
	999	373	564	564	Retirement benefit	Mr. Raheel Ejaz (Ex - Employee)
	609	157	457	457	Retirement benefit	Mr. Mohammad Bashir (Ex - Employee)
	604	242	362	362	Retirement benefit	Mr. Fazli Wadood (Ex - Employee)
	939	376	563	563	Retirement benefit	Mr. Mohammad Siddiq (Ex - Employee)
Balance carried forward	13,299	8,443	4,956	7,639		

Notes to the Financial Statements for the year ended December 31, 2004

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal/ settlement	Particulars of Buyers/ Insurance company
Balance brought forward	13,399	8,443	4,956	7,639		
	804	342	462	272	Retirement benefit	Mr. Muneer Ahmed (Ex - Employee)
	2,294	1,368	926	926	Retirement benefit	Mr. Imdad H. Butt (Ex - Employee)
	639	407	232	332	Retirement benefit	Mr. Sh. Talib Hussain (Ex - Employee)
	1,189	713	476	456	Retirement benefit	Mr. Shafiq A. Khan (Ex - Employee)
	1,189	476	713	694	Retirement benefit	Mr. Khalid Niaz Khawaja (Ex - Employee)
	939	376	563	485	Retirement benefit	Mr. Mohsin Sheikh (Ex - Employee)
	939	376	563	548	Retirement benefit	Mr. M. Afzal Adil (Ex - Employee)
	1,285	514	771	750	Retirement benefit	Mr. Shafiq A. Khan (Ex - Employee)
	1,285	514	771	750	Retirement benefit	Mr. Khalid Niaz Khawaja (Ex - Employee)
	939	-	939	814	Insurance claim	Adarjee Insurance Company Limited
	939	-	939	939	Insurance claim	Adarjee Insurance Company Limited
	609	-	609	487	Insurance claim	Security General Insurance Company Limited
	609	-	609	550	Insurance claim	Security General Insurance Company Limited
	939	188	751	850	Insurance claim	Security General Insurance Company Limited
	924	554	370	370	Negotiation	MCB Employees Security System and Services (Private) Limited
	29,021	14,171	14,850	17,062		
Other vehicles having book value of less than Rs 250,000 and cost of less than Rs 1,000,000	63,020	55,834	7,186	33,584		
Buildings						
Silver Sand, Clifton, Karachi	18,500	5,381	12,919	20,000	Negotiation	Mr. Han Usman, Karachi
Premises at Turbat	3,144	914	2,230	1,500	Tender	Mr. Afzal Hussain Turbat
	21,644	6,495	15,149	21,500		
2004	144,928	102,944	41,984	82,743		
2003	598,458	134,406	465,052	446,966		

Notes to the Financial Statements for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
13. BILLS PAYABLE			
In Pakistan		7,560,165	8,384,794
Outside Pakistan		6,519	11,526
		<u>7,566,684</u>	<u>8,396,320</u>
14. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		6,095,476	32,294,560
Outside Pakistan		2,598,489	333,391
		<u>8,693,965</u>	<u>32,627,951</u>
14.1 Particulars of borrowings from financial institutions			
In local currency		6,095,476	32,294,560
In foreign currencies		2,598,489	333,391
		<u>8,693,965</u>	<u>32,627,951</u>
14.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance	14.3	4,487,738	3,639,293
Locally Manufactured Machinery	14.4	5,736	338
Others		1,782,900	-
Repurchase agreement borrowings		6,276,373	3,639,631
		498,901	27,483,192
Unsecured			
Agent balances		685,202	327,690
Call borrowings		130,388	665,701
Others		1,103,101	591,737
		1,918,691	1,525,128
		<u>8,693,965</u>	<u>32,627,951</u>
14.3	The bank has entered into agreements for financing with the State Bank of Pakistan for extending export finance to customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finance by directly debiting the current account maintained by the bank with SBP.		
14.4	According to agreements with the State Bank of Pakistan, these loans were obtained for providing finance to customers against locally manufactured machinery.		
15. DEPOSITS AND OTHER ACCOUNTS		2004	2003
		(Rupees '000)	
Customers			
Fixed deposits		14,081,350	21,451,676
Savings deposits		170,538,585	127,413,624
Current accounts - non remunerative		69,722,195	58,583,576
Margin accounts		2,011,324	2,351,820
Others		171,994	75,439
		<u>219,475,486</u>	<u>209,876,135</u>
Financial Institutions			
Remunerative deposits		442,983	1,634,167
Non-remunerative deposits		47,588	1,091
		490,571	1,635,258
		<u>219,966,057</u>	<u>211,511,393</u>

Notes to the Financial Statements for the year ended December 31, 2004

			2004	2003
			(Rupees '000)	
15.1	Particulars of deposits			
	In local currency		208,224,989	200,438,979
	In foreign currencies		11,741,068	11,075,415
			<u>219,966,057</u>	<u>211,514,394</u>
16.	SUB-ORDINATED LOAN -UNSECURED (NON-PARTICIPATORY)			
		Mark-up payable	Mark-up payment period	Mark-up not yet due
	Listed Term Finance Certificates	Semi-annually	2003-2008	Rs. 479,804 million
			<u>1,598,720</u>	<u>1,599,360</u>
16.1	Liability against Term Finance Certificates is stated at nominal amount. The liability is subordinated as to payment of principal and profit to all other indebtedness of the bank (including deposits) and is not redeemable before maturity without prior approval of the State Bank of Pakistan. Rate of mark up on the liability is based on the cut-off yield of 5 year Pakistan Investment Bonds auctioned on the last working day before the beginning of each semi-annual redemption period plus 1.5% subject to floor and cap of 11.75% per annum and 15.75% per annum respectively. The major redemption will commence from 54th month of the issue in the following manner:			
		Month	Redemptions	
		February, 2007	40% of the issue amount	
		August, 2007	30% of the issue amount	
		February, 2008	30% of the issue amount	
			Note	
			2004	2003
			(Rupees '000)	
17.	OTHER LIABILITIES			
	Mark-up / return / interest payable in local currency		1,711,849	2,823,609
	Mark-up / return / interest payable in foreign currency		60,634	55,765
	Accrued expenses		290,936	265,132
	Unclaimed dividends		322,851	298,207
	Staff welfare fund		103,599	106,212
	Unrealised loss on forward foreign exchange contracts - net		24,382	-
	Provision for employees' compensated absences	25.6	603,624	607,514
	Provision for post retirement medical benefits	35.6	586,043	416,439
	Payable to employees' contributory benevolent fund	35.6	343,978	339,239
	Security deposits received in respect of finance lease		221,709	116,437
	Branch adjustment account		357,930	-
	Others		1,770,694	1,345,222
			<u>6,396,239</u>	<u>6,372,896</u>
18.	DEFERRED TAX LIABILITIES / (ASSETS)			
	Taxable temporary differences on:			
	Surplus on revaluation of fixed assets	20.1	261,088	300,774
	Accelerated tax depreciation		164,478	-
	Surplus on revaluation of securities	20.2	93,700	932,286
			<u>519,269</u>	<u>853,060</u>
	Deductible temporary differences on:			
	Provision for post retirement medical benefit		(205,115)	(145,754)
			<u>314,154</u>	<u>707,306</u>

Notes to the Financial Statements for the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
19. SHARE CAPITAL			
19.1 Authorised Capital			
	2004	2003	
	650,000,000	350,000,000	Ordinary shares of Rs 10 each
	<u>650,000,000</u>	<u>350,000,000</u>	
19.2 Issued, subscribed and paid-up capital			
Fully paid-up ordinary shares of Rs 10 each:			
	2004	2003	
	107,130,690	107,130,690	Issued for cash
	230,049,344	199,996,614	Issued as bonus shares
	<u>337,180,034</u>	<u>306,527,304</u>	
	337,180,034	306,527,304	

Associated undertakings of the bank namely, Siddhons Deyam Mills Limited, Dita Leather (Pvt.) Ltd. and Adanjee Insurance Company Limited held 17,078,760 (2003: 14,798,874), 2,242,875 (2003: 2,058,878) and 3,188,910 (2003: 2,899,010) shares of Rs. 10 each of the bank at December 31, 2004 respectively.

		2004	2003
		(Rupees '000)	
20. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX	Note		
Surplus arising on revaluation (net of tax) of:			
- fixed assets	20.1	3,778,072	424,933
- securities	20.2	1,576,251	2,957,596
Surplus on revaluation of assets - net of tax:		<u>5,354,323</u>	<u>3,382,529</u>
20.1 Surplus on revaluation of fixed assets-net of tax			
Surplus on revaluation of fixed assets as at January 1		725,707	770,371
Surplus arising on revaluation during the year		3,084,735	-
Reversal of revaluation loss on property classified as non-banking assets	12.2.1	272,512	-
Surplus realised on disposal of revalued properties - net of deferred tax		(647)	-
Related deferred tax liability		(588)	-
		<u>(1,435)</u>	<u>-</u>
Transferred to retained earnings in respect of incremental depreciation charged during the year - net of deferred tax		(24,992)	(25,012)
Related deferred tax liability		(17,967)	(19,652)
		<u>(42,959)</u>	<u>(44,664)</u>
Surplus on revaluation of fixed assets as at December 31		<u>4,099,160</u>	<u>725,707</u>
Less: Related deferred tax liability on:			
Revaluation as at January 1		300,771	276,335
Reversal of deferred tax asset		(21,731)	44,091
Disposal of revalued properties during the year transferred to profit and loss account		(588)	-
Incremental depreciation charged during the year transferred to profit and loss account		(17,267)	(19,652)
		<u>261,088</u>	<u>300,774</u>
		<u>3,778,072</u>	<u>424,933</u>

Notes to the Financial Statements for the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
20.2 Surplus / (deficit) on revaluation of securities-net of tax		
Market Treasury Bills	(6,467)	(147,017)
Pakistan Investment Bonds	342,214	2,017,084
Federal Investment Bonds	-	(31,804)
Listed Securities	1,333,133	1,476,191
NTF Units	1,071	1,820
	1,669,954	3,509,882
Less: Related deferred tax liability	93,703	552,286
	<u>1,576,251</u>	<u>2,957,596</u>
21. CONTINGENCIES AND COMMITMENTS		
21.1 Transaction-related Contingent Liabilities/Commitments:		
Guarantees in favour of:		
Government	3,268,760	2,637,212
Banks and financial institutions	47,813	47,702
Others	1,461,807	1,911,741
Suppliers' credit/payee guarantee	1,624,464	928,952
	6,402,844	5,525,607
21.2 Trade-related Contingent Liabilities:	32,738,625	26,229,002
21.3 Other Contingencies	542,425	598,256
21.4 Commitments to extend credit		
The bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
	2004	2003
	(Rupees '000)	
21.5 Commitments in respect of forward foreign exchange contracts		
Purchase	8,708,435	13,124,912
Sale	12,192,338	15,878,475
	20,900,771	29,003,387
21.6 Commitments in respect of operating leases		
Not later than one year	573	8,343
Later than one year and not later than five years	-	1,228
	573	9,571
21.7 Commitments for the acquisition of operating fixed assets	368,696	946,767
21.8 Commitments in respect of:		
Forward lending	-	-
Forward borrowing (repo borrowing)	-	1,977,666
	-	1,977,666
21.9 Other commitments		
Outright purchase - Government Securities	-	168,573
Outright sale - Government Securities	-	112,662
Others	159,067	135,384
	159,067	416,619

Notes to the Financial Statements for the year ended December 31, 2004

21.10 Taxation

The income tax assessments of the bank have been finalised upto and including the Tax Year 2004. Total disallowance for the assessment years 1994-1995 to 1997-1998 on account of interest in suspense amounted to Rs 722.682 million against which the tax liability would amount to approximately Rs 428.808 million. Out of this an amount of Rs 317.289 million has been allowed in assessment years 1998-1999 to 2000-2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of the bank as allowed in assessment years 1992-1993 and 1993-1994.

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

	2004	2003
	(Rupees '000)	
22. MARK-UP/RETURN/INTEREST EARNED		
On Loans and advances to Customers	4,927,836	4,599,019
Financial Institutions	185,386	268,566
	<u>5,113,224</u>	<u>4,867,581</u>
On Investments in:		
Available for sale securities	3,158,812	4,470,162
Held to maturity securities	806,551	714,494
Held for trading securities	4,016	-
	<u>3,969,379</u>	<u>5,134,656</u>
On Deposits with financial institutions		
On securities purchased under resale agreements	190,172	298,502
Others	74,472	69,255
	<u>9,347,247</u>	<u>10,369,994</u>
23. MARK-UP/RETURN/INTEREST EXPENSED		
Deposits	1,409,522	2,261,836
Securities sold under repurchase agreements	187,639	209,475
Other short-term borrowings	108,426	127,792
Long-term borrowings	857	185
Sub-ordinated loan	187,519	188,465
Others	163,677	144,940
	<u>2,057,640</u>	<u>2,932,693</u>
24. OTHER INCOME		
Rent on property/locom	41,751	40,511
Net profit on sale of property and equipment	39,324	41,914
Exchange income on import/export bills purchased/negotiated	65,341	52,879
Bad debts recovered	60,053	67,454
Others	514,088	540,841
	<u>720,557</u>	<u>743,599</u>

Notes to the Financial Statements for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		4,037,993	4,033,886
Charge/(reversal) for defined benefit plan - approved pension fund	35.6	68,772	(59,058)
Charge for defined contribution plan - provident fund		91,210	67,984
Charge for employee's compensated absences	35.6	133,992	246,314
Charge for post retirement medical benefits	35.6	269,422	127,008
Non-executive directors' fees		16	15
Rent, taxes, insurance, electricity, etc.		548,742	538,444
Legal and professional charges		92,939	74,660
Communications		1,651	46,700
Repairs and maintenance		147,714	140,596
Rentals of operating leases		4,630	19,600
Stationery and printing		153,345	157,345
Advertisement and publicity		124,304	162,594
Donations	25.1	1,449	59
Auditors' remuneration	25.2	10,563	10,341
Depreciation	12.2	598,928	436,571
Staff welfare fund		14,000	20,000
Travelling, conveyance and fuel		204,800	165,539
Subscription		19,198	14,747
Entertainment		31,534	30,334
Others		448,749	353,690
		<u>7,003,653</u>	<u>6,587,369</u>

25.1 This represents donation given to Special Relief Fund established for victims of the Tsunami in Sri Lanka. None of the directors or their spouses had any interest in the donee fund.

25.2 Auditors' remuneration

	2004			2003		
	A. F. Ferguson & Co.	Riaz Ahmad & Co.	Total	A. F. Ferguson & Co.	M. Yousuf Adil Saleem & Co.	Total
(Rupees '000)						
Audit fee	1,500	1,500	3,000	1,350	1,350	2,700
Fee for audit of foreign branches	-	-	874	-	-	992
Fee for audit of provident, pension, gratuity and other funds	-	-	-	-	135	135
Special certifications and sundry advisory services	2,765	2,665	5,420	2,662	2,352	5,014
Tax services	-	-	-	-	500	500
Out-of-pocket expenses	615	654	1,269	500	500	1,000
	<u>4,880</u>	<u>4,809</u>	<u>10,563</u>	<u>4,512</u>	<u>4,837</u>	<u>10,341</u>

Notes to the Financial Statements for the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
26. OTHER CHARGES		
Loss on sale of non-banking asset previously acquired in satisfaction of claims	-	52,595
Penalties imposed by State Bank of Pakistan	14,599	6,439
	14,599	59,034

27. EXCEPTIONAL ITEM

This represents claim of Rs. 533,852 thousand filed by the bank in respect of compensation of delayed tax refunds under section 171 of the Income Tax Ordinance, 2001 (parallel to section 102 of the repealed Income Tax Ordinance, 1979) for the assessment years 1994-95, 1995-96 and 1997-98 to 2000-01. This compensation has been calculated at the rate of 15 percent per annum on the amount of the refund for the period commencing at the end of three months of refund becoming due to the bank and ending on the date of payment/adjustment by the income tax authorities.

	2004	2003
	(Rupees '000)	
28. TAXATION		
For the year		
Current	1,576,287	1,212,579
Deferred	87,162	170,200
	1,663,449	1,382,779

28.1 Relationship between tax expense and accounting profit

Accounting profit for the year	4,203,443	3,612,924
Tax rate	41%	44%
	(Rupees '000)	
Tax on income	1,723,412	1,589,687
Tax effect on separate block of income	(138,021)	(144,079)
Tax effect of permanent differences	(271,502)	(671,000)
Deferred tax asset reversal on provisions	-	194,040
Tax effect of computation adjustments	349,560	414,131
Tax charge for the current year	1,663,449	1,382,779

29. CREDIT RATING

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

	2004	2003
	(Rupees '000)	
30. BASIC EARNINGS PER SHARE - PRE TAX		
Profit before taxation	4,203,443	3,612,924
	Number of Shares	
Weighted average number of shares outstanding during the year	337,180,034	337,180,034
	(Rupees)	
Earnings per share - pre tax	12.47	10.72

Notes to the Financial Statements for the year ended December 31, 2004

	2004 (Rupees '000)	2003 (Rupees '000)
31. BASIC/DILUTED EARNINGS PER SHARE - AFTER TAX		
Profit after taxation	<u>2,539,994</u>	<u>2,230,145</u>
	Number of Shares	
Weighted average number of shares outstanding during the year	<u>337,180,034</u>	<u>337,180,034</u>
	(Rupees)	
Basic/ diluted earnings per share	<u>7.53</u>	<u>6.61</u>
	(Rupees '000)	
32. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	23,831,253	24,053,669
Balances with other banks	5,708,323	1,382,592
	<u>29,541,576</u>	<u>25,436,261</u>
33. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES		
Islamic Banking Fund	163,000	90,000
Deposits	356,149	276,121
Borrowings from Head Office	1,000,000	910,000
Murabaha Financing	1,564,992	1,211,831
Profit before taxation	2,311	2,971
Letter of credit	139,183	34,937
	(Numbers)	
34. STAFF STRENGTH		
Total number of employees at the end of the year	<u>9,889</u>	<u>10,164</u>
35. DEFINED BENEFIT PLANS AND OTHER BENEFITS		
35.1 Actuarial assumptions		
Actuarial valuations using the Projected Unit Credit Actuarial Cost Method were carried out at various dates using the following significant assumptions:		
	Rate per annum	
- expected rate of increase in salary level	5%	
- expected rate of return on plan assets	7%	
- discount rate	7%	
- medical cost inflation	5%	
35.2 Pension fund		
The latest actuarial valuation of the pension fund was carried out as at December 31, 2003. The results of the actuarial valuation as per the latest actuarial valuation were as follows:		
		(Rupees '000)
Present value of defined benefit obligation		6,190,017
Fair value of plan assets		<u>(6,996,518)</u>
Surplus		(806,501)
Unrecognised actuarial gains		<u>59,540</u>
Net asset recognised as at December 31, 2003		<u>(746,961)</u>
Estimated asset as at December 31, 2004		<u>(828,189)</u>
The above surplus has been recognised in the books as at December 31, 2004		

Notes to the Financial Statements for the year ended December 31, 2004

35.3 Benevolent Fund

The latest actuarial valuation of the benevolent fund was carried out as at December 31, 2002. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

	(Rupees '000)
Fair value of plan assets	25,822
Present value of defined benefit obligation	(403,447)
Deficit as at December 31, 2002	<u>(377,625)</u>
Estimated deficit as at December 31, 2004	<u>(343,978)</u>

The above deficit has been fully provided for in the books of the bank as at December 31, 2004.

35.4 Post Retirement Medical Benefits

The latest actuarial valuation in respect of the non-discretionary post retirement medical benefits provided to the employees was carried out as at December 31, 2003. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

	(Rupees '000)
Present value of defined benefit obligation	(1,108,068)
Fair value of plan assets	-
	<u>(1,108,068)</u>
Unrecognised Transitional Liability	481,729
Unrecognised Negative Past Service Cost	(33,529)
Unrecognised Actuarial Losses	265,429
Deficit as at December 31, 2003	<u>(416,439)</u>
Estimated deficit as at December 31, 2004	<u>(386,043)</u>

The above deficit has been fully provided for in the books of the bank as at December 31, 2004.

35.5 Employee's Compensated Absences

The latest actuarial valuation of the employees compensated absences was carried out as at December 31, 2002. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

	(Rupees '000)
Deficit as at December 31, 2002	<u>(687,314)</u>
Estimated deficit as at December 31, 2004	<u>(603,624)</u>

The above deficit has been fully provided for in the books of the bank as at December 31, 2004.

Notes to the Financial Statements for the year ended December 31, 2004

35.6 The following is a reconciliation of movement in the net recognised liabilities/ (assets) for the above defined benefit plans and other benefits.

	2004			
	Approved Pension Fund	Contributory Benevolent Fund	Post Retirement Medical Benefits	Employee's Compensated Absences
	Rupees' 000			
Liability / (Asset) as at January 1, 2004	(746,961)	338,239	416,439	607,314
Charge for the year	68,772	51,661	269,422	133,992
	<u>(678,189)</u>	<u>389,900</u>	<u>685,861</u>	<u>741,306</u>
Less: payments made during the year	(150,000)	(45,922)	(99,818)	(137,682)
Liability / (Asset) as at December 31, 2004	<u>(828,189)</u>	<u>343,978</u>	<u>586,043</u>	<u>603,624</u>
	2003			
	Approved Pension Fund	Contributory Benevolent Fund	Post Retirement Medical Benefits	Employee's Compensated Absences
	Rupees' 000			
Liability / (Asset) as at January 1, 2003	(287,900)	373,625	321,741	441,000
Charge for the year	(59,058)	-	127,008	246,314
	<u>(346,961)</u>	<u>373,625</u>	<u>448,749</u>	<u>687,314</u>
Less: payments made during the year	(400,000)	(35,386)	(32,310)	(80,000)
Liability / (Asset) as at December 31, 2003	<u>(746,961)</u>	<u>338,239</u>	<u>416,439</u>	<u>607,314</u>

36. DEFINED CONTRIBUTION PLAN

The bank operates an approved contributory provident fund for 5,852 (2003: 5,617) employees whose contributions are made by the bank and employees at 8.33% (2003: 8.33%) of the basic salary. During the year the bank has contributed Rs 91.210 million (2003: Rs 67.984 million) in respect of this fund.

The bank also operates an approved non-contributory provident fund for 4,005 (2003: 4,520) employees who have opted for the new scheme, where contributions are made by the employees at 12% (2003: 12%) of the basic salary.

Notes to the Financial Statements for the year ended December 31, 2004

37. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2004	2003	2004	2003	2004	2003
	(Rupees '000)					
Fees	-	-	16	15	-	-
Managerial remuneration	10,250	9,835	1,434	1,200	367,170	315,107
Retirement benefits	575	487	-	-	20,380	15,403
Rent and house maintenance	3,105	2,868	-	932	110,096	90,457
Utilities	690	584	-	-	24,466	20,188
Medical	262	166	-	-	13,218	25,189
Conveyance	171	237	-	234	40,625	30,559
	<u>15,553</u>	<u>14,177</u>	<u>1,450</u>	<u>1,981</u>	<u>575,955</u>	<u>497,297</u>
Number of persons:	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>307</u>	<u>257</u>

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

38. MATURITIES OF ASSETS AND LIABILITIES

	Total	Upto three months	2004		
			Over three months to one year	Over one year to five years	Over five years
	(Rupees '000)				
Assets:					
Cash and balances with treasury banks	23,833,253	23,833,253	-	-	-
Balances with other banks	5,708,529	5,708,529	-	-	-
Lendings to financial institutions	10,965,297	9,465,297	1,500,000	-	-
Investments - net	67,194,971	36,492,433	13,196,219	11,830,139	5,676,180
Advances - net	137,317,773	17,145,261	81,679,412	36,804,565	1,692,535
Other assets - net	6,265,397	2,162,731	409,914	3,692,752	-
Operating fixed assets	7,999,821	100,101	461,528	1,303,832	6,134,360
	<u>259,284,835</u>	<u>94,907,399</u>	<u>97,243,073</u>	<u>53,631,288</u>	<u>15,503,075</u>
Liabilities:					
Bills payable	7,566,684	7,566,684	-	-	-
Borrowings from financial institutions	8,693,965	6,444,361	2,249,604	-	-
Deposits and other accounts	219,966,057	49,370,032	118,348,032	40,731,234	11,516,759
Subordinated loans	1,588,720	320	320	1,588,080	-
Other liabilities	6,398,239	3,974,982	1,211,910	1,025,302	586,045
Deferred tax liabilities	314,154	5,320	109,662	85,113	114,059
	<u>244,337,819</u>	<u>66,961,699</u>	<u>121,919,528</u>	<u>43,439,729</u>	<u>12,216,863</u>
Net assets	<u>14,747,016</u>	<u>27,945,700</u>	<u>(24,676,455)</u>	<u>10,191,559</u>	<u>1,286,212</u>
Share capital	3,371,800				
Reserves	5,661,553				
Retained earnings	359,340				
Surplus on revaluation of assets - net of tax	5,354,323				
	<u>14,747,016</u>				

Notes to the Financial Statements for the year ended December 31, 2004

39. YIELD/INTEREST RATE RISK

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

	Effective Yield/ Interest rate	Total	2004				Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees '000)							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	1.29%	23,833,253	1,300,647	-	-	-	22,532,606
Balances with other banks	2.53%	5,708,323	3,972,122	-	-	-	1,736,201
Lendings to financial institutions	2.80%	30,965,297	9,465,297	1,500,000	-	-	-
Investments - net	4.44%	67,194,971	34,654,721	13,192,563	9,279,949	3,725,474	6,342,962
Advances - net	4.99%	137,517,773	17,145,261	81,675,412	58,804,563	1,692,535	-
Other assets	-	1,829,329	-	-	-	-	1,829,329
		246,848,946	66,538,048	96,367,977	46,084,414	5,418,009	32,440,498
Liabilities							
Bills payable	-	7,566,664	-	-	-	-	7,566,664
Borrowings from financial institutions	2.01%	8,693,965	6,444,361	2,249,601	-	-	-
Deposits and other accounts	0.65%	219,966,057	42,179,713	82,396,485	22,775,440	731,290	71,903,069
Subordinated loans	11.79%-15.73%	1,598,730	320	320	1,398,090	-	-
Other liabilities	-	4,506,664	-	-	-	-	4,506,664
		242,332,090	48,624,404	84,646,407	24,353,540	731,290	83,976,447
On-balance sheet gap		4,516,856	17,913,644	11,721,568	21,730,874	4,686,719	(51,535,948)
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Outright purchase - Govt. securities	-	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Outright sale - Govt. securities	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			17,913,644	11,721,568	21,730,874	4,686,719	
Cumulative Yield/Interest Risk Sensitivity Gap			17,913,644	29,635,212	51,366,086	56,052,805	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

Notes to the Financial Statements for the year ended December 31, 2004

40. CURRENCY RISK

	2004			Net foreign currency exposure
	Assets	Liabilities	Off-balance sheet items	
	(Rupees '000)			
Pakistan Rupee	240,285,085	229,882,572	2,711,162	13,125,675
United States Dollar	16,564,075	12,524,545	(3,072,066)	967,324
Pound Sterling	640,793	613,894	33,958	60,357
Japanese Yen	68,386	3,155	(63,762)	1,469
Euro	701,823	600,917	(13,856)	65,050
Other currencies	1,045,173	892,736	376,504	528,941
	<u>259,284,835</u>	<u>244,537,819</u>	<u>-</u>	<u>14,747,016</u>

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the bank as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of RSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 42,072 million. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

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

The maturity and repricing profiles and effective rates are stated in notes 38 and 39 respectively.

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

42. CONCENTRATION OF CREDIT AND DEPOSITS

Out of the total financial assets of Rs 246,849 million the financial assets which were subject to credit risk amounted to Rs 240,477 million. To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs 58,211 million are guaranteed by the Government of Pakistan. In addition an amount of Rs 14,836 million are held by the bank with the State Bank of Pakistan and central banks of other countries.

42.1 Risk management

The bank is primarily subject to interest rate, credit and currency risks. The policies and procedures for managing these risks are outlined in notes 42.1.1 to 42.1.4. The bank has designed and implemented a framework of controls to identify, monitor and manage these risks which are as follows:

42.1.1 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The bank has adopted appropriate policies to minimise its exposure to this risk.

42.1.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the bank's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government securities or by demand promissory notes. Cross border exposures are controlled by the bank by considering country / sovereign risk and is updated as and when necessary. These limits are formally reviewed on a periodic basis.

Notes to the Financial Statements for the year ended December 31, 2004

42.1.3 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in the foreign exchange rates. In order to avoid losses arising from adverse changes in the rates of exchange, the bank's compliance with the limits established for foreign currency position is being regularly monitored by the management.

42.1.4 Exchange risk management

The management has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximise the profitability with minimum risk by managing the exposure at desirable level keeping in view strict compliance of regulatory/international standards and the bank's internal guidelines.
- Identify price sensitivity of foreign currency.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zone for mismatch gaps.

The management has employed different tools in order to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement etc.

42.2 Segment by class of business

	2004					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Textile	33,455,623	24%	3,900,742	1%	6,065,572	10%
Commerce/Trade	30,207,166	22%	31,514,066	14%	6,323,400	11%
Agribusiness	2,431,136	2%	26,904,024	12%	1,005,219	2%
Production and transmission of energy	9,732,147	7%	1,077,731	3%	7,169,703	12%
Financial Sector	-	0%	490,571	0%	18,325,470	30%
Individuals	19,257	0%	106,089,311	48%	-	0%
Others	61,472,444	45%	51,986,612	24%	21,627,657	38%
	<u>137,317,773</u>	<u>100%</u>	<u>219,966,057</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>

42.3 Segment by sector

Public/ Government	22,250,553	16%	5,310,863	2%	15,963,908	26%
Private	115,067,220	84%	214,655,204	98%	45,149,113	74%
	<u>137,317,773</u>	<u>100%</u>	<u>219,966,057</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>

43. GEOGRAPHICAL SEGMENT ANALYSIS

	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	3,965,940	253,972,878	14,278,928	60,415,234
Asia Pacific (including South Asia)	56,790	1,877,150	229,945	697,787
Middle East	178,713	3,434,807	238,143	-
	<u>4,203,443</u>	<u>259,284,835</u>	<u>14,747,016</u>	<u>61,113,021</u>

Total assets employed include intra group items of Rs nil.

Notes to the Financial Statements for the year ended December 31, 2004

44. RELATED PARTY TRANSACTIONS

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

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

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan. Remuneration to the executives, disclosed in note 37 to these financial statements, are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them as at the year end were as follows:

	2004	2003
	(Rupees '000)	
- Receivable from pension fund	828,189	746,961
- Receivable from provident fund	80,000	60,000

The bank has not extended loans and advances to any of its related parties either in the current or prior year.

	Directors		Associated Companies		Subsidiary Companies	
	2004	2003	2004	2003	2004	2003
	(Rupees '000)					
Deposits						
Deposits at beginning of the year	2,202	40,455	261,533	170,278	14,289	17,473
Deposits received during the year	1,102,311	431,484	12,853,087	10,508,449	73,166	76,222
Deposits repaid during the year	(1,102,482)	(469,737)	(12,726,086)	(10,417,194)	(82,216)	(79,406)
Deposits at the end of the year	<u>2,031</u>	<u>2,202</u>	<u>368,534</u>	<u>261,533</u>	<u>5,239</u>	<u>14,289</u>
Interest expense on deposits	7	7	1,391	494	43	-
Insurance premium paid	-	-	66,453	76,890	-	-
Insurance claim settled	-	-	25,296	42,442	-	-
Outsourcing service expenses	-	-	-	-	13,697	10,776
Networking service expenses	-	-	-	-	7,836	4,178
Other charges	-	-	-	-	170	10
Custodian charges revenue	-	-	-	-	15,020	5,987
MCB Employees Foundation						
- Service expenses	-	-	-	-	12,285	9,440
- Cash sorting expenses	-	-	-	-	17,597	18,860
- Cash in transit expenses	-	-	-	-	1,153	-
MCB Employees Security System and Services (Private) Limited						
- Security guard expenses	-	-	-	-	52,155	25,756

Directors' remuneration

The details of director's remuneration has been given in note 37 to these financial statements.

Transactions entered into with directors, executives and officers as per their terms of employment are excluded from related party transactions. However, debts due by executives of the bank are disclosed in note 10.6 to these financial statements.

45. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 14, 2005 by the Board of Directors of the bank.

Mohammad Aftab Manzoor
President and Chief Executive

Tariq Rafi
Director

Mohammad Arshad
Director

Sarmad Amin
Director

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

Statement Showing Written-off Loans or any other Financial Relief of Five Hundred Thousand Rupees or above provided during the year ended December 31, 2004.

(Rupees '000)

Sl No	Name & address of the borrower	Name of individuals / partners / directors		Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest/ Mch-up Written-off	Other Fin relief provided	Total
		Name	NIC No		Principal	Interest/ Mch-up	Other	Total				
1. Adeel Cotton Factory Chak No.241/G-9-B, Muzil Fazlpur, Tehsil, Gona		Akbar Rafiq	255-88-027923	Muhammad Rafique	2,100	1,222	0,041	3,363	0,000	0,000	1,063	1,063
		Akbar Rafiq	255-85-027923	Muhammad Rafique								
		Javed Iqbal	255-61-023575	Abdul Ghani								
		Muztar Rafiq	255-78-115864	Muhammad Rafique								
2. New Mustang Dal Co. Factory Area, Saigodha		Muhsin Ahmed Piracha	231-95-165894	Ahmad Bakht Piracha	0,119	0,775	0,111	1,005	0,119	0,000	0,669	1,008
		Muhammad Iqbal Piracha	251-91-165898	Ahmad Bakht Piracha								
		Muhammad Usman Piracha	507-58-188703	Muhammad Iqbal								
		Mrs. Zahida Perveen	231-91-165892	Muhammad Abu Bakr								
3. Loyal Sports (Pvt) Ltd Small Industries Estate, Sukkot		M. Sikandar Sarda	300-07-314864	Sarwar Sarda	14,721	10,794	0,000	25,515	1,121	0,000	10,794	11,683
		M. Waqas Sarda	300-91-470603	Sarwar Sarda								
4. Venus Garments (PVO) Ltd 10/C, 14th Street, St. Phase-II, East DHA, Karachi		Razi Ahmad	274-85-96437	Khawaja Munir Ahmad	4,228	4,757	0,071	9,056	0,228	0,407	4,431	5,586
		Nawazish Ali	274-87-06438	Khawaja Munir Ahmad								
5. Haq Enterprises 10-C, Kadir Building, Jinnah Road, Quetta		Ejaz-ud-Haq	601-53-29089	Muhammad Aziz ul Haq	3,705	3,114	0,000	6,819	1,336	0,000	3,114	4,435
6. A.S. Enterprises Minar Ram Kala, Bahawal Road, Multan		Sh. Abdul Salam	322-45-423351	Sh. Abdul Majid	0,394	0,323	0,000	0,717	0,160	0,000	0,372	0,533
		Sh. Anam Salam	322-93-423457	Sh. Abdul Salam								
		Waheed Yasmin	322-45-423354	Abdul Salam								
7. Inshad & Co. 45-Traffic Market, Leads Bazaar Lahore		Muhammad Inshad	266-58-129240	Muhammad Iqbal	0,600	1,23	0,000	1,250	0,000	0,000	0,750	0,750
8. Kamal Apparels 114-Gulberg Road, Gulberg Lahore		M. Akhtar Kamal	270-90-044579	Ahmeddin	5,345	3,139	0	8,484	0,000	0,000	3,739	3,739
9. Speciality Chemical Industries (Pvt) Ltd, 28, Commercial Plaza, Opposite K.D. Ferozshah		Abdul Rashid	101-36-517751	Sardar Din	0,100	1,956	0,000	1,956	0,000	0,000	1,956	1,956
		Mrs. Fouzia Javed	245-69-365591	Muhammad Javed								
		Sh. Muhammad Javed	245-68-294368	Taj Uddin								
10. Asif Electrical Industry Shahzad Chowk, Bypass G.I, Road, Gujrat		Muhammad Asif	224-59-923851	Muhammad Hayat	0,365	0,235	0,036	0,636	0,385	0,000	0,312	0,687
11. Derby Sports (Pvt) Ltd, Ali Building 2/173, Abbott Road, Sukkot		Abdul Rafique	300-85-021704	Ch. Ah. Muhammad	0,297	2,484	0,051	2,792	0,174	0,000	2,618	2,792
		Anwar Rafique	300-85-021705	Abdul Rafique								
		Anwar Rafique	300-85-368134	Abdul Rafique								
		Imran Rafique	300-85-021708	Abdul Rafique								
		Fasih Anwar	300-86-368195	Anwar Rafique								
12. Indus Polyester Co. Ltd, D/194, SITE, Karachi		Shahid Muhammad Younis	517-28-154278	Hafiz M. Younis	201,623	45,549	0,000	247,172	228,675	0,000	15,549	252,224
		Naem Akhtar Younis	517-59-154282	Sh. M. Younis								
		Tariq Younis	517-43-347493	Sh. M. Younis								
		Mrs. Zameer Younis	517-66-142904	W/o Sh. M. Younis								
		Mrs. Fouzia Naem	517-56-169320	W/o Naem Akhtar Younis								
		Mrs. Nobila Tariq	517-88-093397	W/o Tariq Younis								
		Mrs. Gul Naem	-	D/o Naem Akhtar Younis								
13. Feroze Textiles (Pvt) Ltd, Kasimbud, Faisal Road, Warisbud		Feroze Elahi	288-54-229155	Zahoor Elahi	0,000	3,133	0,000	3,133	0,000	0,000	3,133	3,133
		Naila Feroze	288-55-314221	Feroze Elahi								
		Umar Elahi	288-78-114222	Feroze Elahi								
14. Student Loan Fund Account Campus-Hansa Scheme		-	-	-	2,047	0,000	0,000	2,047	2,040	0,000	0,000	2,040
15. Hafiza Choc & General Mills Ltd, Near Bypass Chowk, Bahawalpur Road, Multan		Shahid Ahmad Rashid	270-93-143368	Sh. Anwar Rashid	11,251	38,941	0,025	49,177	0,000	0,475	12,207	12,682
		Shahid Akbar Rashid	270-93-183369	Sh. Anwar Rashid								
		Aysha Rashid	270-93-365570	Sh. Anwar Rashid								
16. Ali Chemicals TDKM Ferozepur Road, Lahore		Muhammad Hanif	-	-	0,489	0,934	0,078	1,471	0,000	0,000	0,971	0,971

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

(Rupees '000)

Sl. No.	Name & address of the borrower	Name of individuals / partners / directors		Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest/ Made-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest/ Markup	Others	Total				
17.	Boldrite Associates 4-B, Johar Town, Lahore	Waqar Anjum Wasti	-	Mian Ali Wasti	1,000	3,110	0,000	4,110	1,000	0,000	5,100	4,110
18.	Atta Bekah Textiles Ltd. 75 C/D-1, Minn Boulevard Gulberg, Lahore	Sh. Atta Muhammad Tariq Atta Nadeem Atta Tasmeer Atta Mrs. Saida Tarneet Mrs. Hajib Yang Muhammad Inam	270-55-101001 270-59-101002 270-56-101054 270-58-187773 - - 270-60-187898	Allah Bukah Sh. Atta Muhammad Sh. Atta Muhammad Sh. Atta Muhammad Tasmeer Atta Tariq Atta Haji Allah Ditta	0,000	41,120	0,000	41,120	0,000	24,273	22,743	41,120
19.	National Rent A Car System 75-Auriga Corvettes, Minn Boulevard Gulberg, Lahore	Faizul Kool Ghulam Sarwar Raza	-	Ghulam Sarwar Raza Ch. Rahim Tox	1,078	3,348	0,000	4,427	2,578	0,000	3,348	5,807
20.	Ch. Fazal Din & Sons (Pvt.) Ltd. P.O. Box No.35, Daska Road, Sialkot	Muhammad Arif Amin Tahir Amin Asif Amin Zahir Amin	300-90-561651 300-91-902950 300-90-29031 300-90-90280	Muhammad Amin Muhammad Amin Muhammad Amin Muhammad Amin	3,776	3,436	0,063	7,275	0,000	0,000	3,436	3,436
21.	International Beverages (Pvt.) Ltd. 270 Sector 14, Industrial Area, Islamabad	Mehboob Elahi Mehboob Elahi Mehmood Elahi Sarina Begum	101-41-045669 101-49-22487 101-75-23989 - 101-48-045670	Haji Muhammad Hussain Mian Mehboob Elahi	4,152	1,204	0,000	7,056	0,000	0,000	1,884	2,884
22.	Asif Brothers Ghalla Mandi, Rahim Yar Khan	Muhammed Masood	158-93-451907	Abdul Ghafoor	0,750	0,577	0,021	1,358	0,000	0,000	0,999	0,999
23.	Umar Fabrics Box No.7, 1st Floor, Liberty Market, D.B. Faisalabad	Lala Bushi Faizal	145-90-419996	Faiz ul Haq	3,491	1,572	0,000	4,967	0,000	0,000	1,222	1,222
24.	Jangpur Flour Mills Moaza Garhi Sultan Shah, Jangpur Dist. Rajapur	Khalid Mehmood Tariq Mehmood	511-95-235643 511-91-235644	Malik Khadim Hussain Maha Khadim Hussain	4,576	1,403	0,066	5,977	0,000	0,000	6,831	6,831
25.	Alama Trades Crain Market, Dac Pattan	Tariq Javed Akhtar Najma Khatoon	337-60-018639 337-59-449336	Mian Ghulam Hussain W/o. Mian Saadq Hussain	1,377	0,625	0,051	1,958	0,000	0,000	0,936	0,936
26.	Spanish Homes U-A-Kotangi Road, DDA, Karachi	Mrs. Aisha Afridi	517-93-028047	W/o. Moiz Afridi	6,463	9,687	0,082	14,232	0,000	0,000	6,983	6,983
27.	Haji Munzer & Sons 391 Circular Road, Badami High, Lahore	M. Munir M. Jaseer M. Khalid M. Saleem Waqar Munzer Zareena Begum	271-55-20666 271-55-20670 271-56-20670 271-95-20670 271-64-20676 271-93-20670		1,247	0,789	1,000	2,936	1,000	0,000	0,789	0,789
28.	Anzi International (Pvt.) Ltd. 28-197, Sector 24, Kotangi Industrial Area, Karachi	Arwaq Saif Mrs. Zia Natar	517-91-251775 517-91-251736	S/o. Muhammad Saif W/o. Pervaiz Ahmed	1,013	0,681	0,006	2,700	1,001	0,000	0,681	1,742
29.	Bhital Food Products (Pvt.) Ltd. Basti No.3 & 6 Dist. Coastal Shahj Court Thandi Soraik, Hyderabad.	Masood Ahmed Mann Muhammad Yousof Mann Rah Nawaz Shahida Shahnawaz Ghuman Seakor Zia Jaffer Khalid Mehmood Ghuman	519-42-079115	Muhammad Hossain Mann Muhammad Hossain Mann Ch. Saad Ahmed Shahnawaz Ghuman S.M. Shafiqe Ch. Saad Ahmed	1,450	3,388	0,000	4,838	0,250	2,375	3,014	3,608
30.	Asif Garments 5, S-C-54, S-1, North Karachi	Muhammad Hashim	613-35-188668	Muhammad Hussain	1,776	0,936	0,254	2,966	0,000	0,000	2,966	2,966
31.	Nabila Enterprises 114-A, S.M.C.H.S., Karachi	Nabila Khanum Najid Kazi Nargis Raza	517-91-126066 517-96-93974 517-56-167136	W/o. Ali Abid Saleem S/o. Ali Abid Saleem S/o. Ali Abid Saleem	12,809	13,534	0,000	26,337	0,000	0,000	8,337	8,337

Annexure 1^a as referred to in Note 10.5.3 to these accounts

(Rupees '000)

Sl. No.	Name & address of the borrower	Name of individuals / partners / directors		Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest/ Mark-up Written-off	Other Fin. costs provided	Total
		Name	NIC No.		Principal	Interest/ Mark-up	Others	Total				
32.	Syed & Jemali Rice Mills Ltd. #67, Mehranpur Road, Liaqat Mohammad	Munazzar Ahmed Nasir Ali	607-89-008875 518-89428697	S/o. Sham Shah S/o. Mr Muhammad Aam	1-90	1,665	0.000	5,565	0.000	0.000	1,665	1,665
33.	Stitch In Time 158, P.M.C. Centre 2nd Floor, Tariq Road, Karachi	Mrs. Rukhsana Perveen Mrs. Saqib Saqib	515-91-259259 20445-130500	W/o. Abdul Karim Usmani W/o. Syed Noor ul Saqib	5,055	1,571	0.209	11,715	0.000	0.000	4,475	4,475
34.	Royal Engineering Co. 5-E.No.2, Gujranwala	Nasir (Bibi) Khan Mrs. Sahar Aftab	288-85-071308 285-93-732363	Imraa Hussain W/o. Aftab Sakerni	0.628	1,842	0.000	2,470	0.000	0.000	1,842	1,842
35.	Masood Alam G.T. Road, Gujrat	Masood Alam	285-56-372200	Muhammad Alam	1,800	3,546	0.070	0,416	0.000	0.000	2,957	2,957
36.	Velazri Cotton Industries 17-Industrial Area, Multan	Sh. Sartar Mohrrood Sh. Tariq Latif Sh. Muhammad Tahir Sh. Qasim Abbas Sh. Muhammad Nawaz Ghazala Aftab Sh. Muhammad Aswar Sh. Muhammad Latif	334-43-136880 330-91-001417 334-85-089422 334-43-012689 334-43-012689 334-43-012689 334-43-012689 334-43-012689	S/o. Sh. Muhammad Latif S/o. Sh. Muhammad Latif S/o. Sh. Muhammad Latif S/o. Sh. Muhammad Latif S/o. Sh. Muhammad Latif W/o. Sh. Muhammad Latif S/o. Sh. Muhammad Latif S/o. Sh. Sadar Din	0.400	6,278	0.036	6,814	0.000	0.000	6,414	6,414
37.	Alijah International Jaco Menson, Saddar Road, Faisalwar	Abdul Samad Qureshi	135-65-340667	Hamas Khan	0.000	2,775	0.000	2,775	0.000	0.000	2,775	2,775
38.	Shahen Beverages (Pvt) Limited, Chak No.60/ GI, Sargodha	Ashraf Ali Khan Ch. Muhammad Nasir Ch. Mushaq Ahmad Mrs. Jamila Kanwal Muhammad Siddique Mrs. Sarwar Begum Nasir Afroz	101-44-034807 233-57-188050 233-49-328617 233-61-526487 233-69-188058 233-69-025361 233-56-197931	Waheed Ali Khan Wali Muhammad Fateh Muhammad Ch. Muhammad Nasir Wali Muhammad Kao Saabir Ahmad Khan Shadi Khan	14,529	7,090	0.068	21,687	0.000	0.000	5,697	5,697
39.	Kaka Khel Pakistan Ltd. 8h K.M. Sargodha Road, Faisalabad	Muhammad Shkol Farid Muhammad Anwar Parva Naveed Ahmed Munoor Ahmad Muhammad Waqar Waheed Muhammad Wajid Usman Basit Waheed	346-88-011239 262-40-010174 249-73-020807 246-90-106529 246-91-001336 248-90-001337 246-93-001333	Muhammad Iqbal Qureshi Ch. Jam Muhammad Muhammad Rashid Muhammad Anwar Muhammad Waheed-ul-Islam Muhammad Usman-ul-Islam Muhammad Waheed ul Islam	146,240	36,499	0.000	186,739	80,246	0.000	36,499	121,739
40.	Chemtex Ltd F-7, Rehman Plaza, 4 Queen Road, Lahore	Sohail Illahi Mrs. Akbar-un-Nisa Anwarulish Arsan Mrs. Gulshah Arsan A. Feroze Khan Mrs. Raheem Nawaz Shahid Nawaz	- - - - - - -	- - - - - - -	3,120	14,800	0.000	18,200	3,000	0.000	14,800	18,200
41.	Ashraf Bolution Dealer E-2471, Gali Haliqana Soha Bazar, Lahore	M. Aam Ashraf	-	-	1,716	0,826	0.001	2,573	0.000	0.000	0,745	0,745
42.	Modern Food Ind. (Pvt) Ltd, 349-E, Township Kot Lakhpat Lahore	Hussain M. Syed Nadar Karim Usmani Abhis Ross Mrs. Tahar Saharuddin Mrs. Rubina Hussain Mrs. Fauzia Nadir	- - - - - -	- - - - - -	6,586	4,118	0.000	4,671	0.000	0.000	3,667	3,667
43.	Imran Traders 2,005, Wool Market, Ashraf Mandi Lahore	M. Farooq Qureshi Shahid Muhammad	- -	- -	5,000	0,897	0.000	5,897	0.000	0.000	0,897	0,897
44.	Fisco (Pvt.) Ltd. 30-A, Lawrence Road, Lahore	M. Iqbal M. Afzal Shahqat Elshan M. Ashraf	- - - -	- - - -	30,708	36,281	0.000	36,989	25,046	7,582	36,391	56,369

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

Sl. No.	Name & address of the borrower	Name of individuals / partners / directors		Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest/ Muck-up Written-off	Other Fin. relief provided	Total	
		Name	NIC No.		Principal	Interest/ Muck-up	Others	Total					
													(Rupees '000)
43.	Elsan Enterprises 52-A, Lawrence Road, Lahore	M. Alsal M. Elsan Mit. Samia Saad Mit. Sara Saad	- - - -	- - - -		25,217	14,708	0,000	39,925	21,250	3,457	14,618	39,925
44.	Elsan Knitwear Pvt. Ltd 31-A, Lawrence Road, Lahore	Shahzad Ilyas M. Tariq M. Elsan Mit. Samia Saad Mit. Sara Saad M. Alsal	- - - - - -	- - - - - -		30,330	34,931	0,000	65,261	17,606	12,034	34,931	65,261
47.	Fuzion & Fit International (Pvt.) Ltd 15-Lahore Road, Lahore Cantt	Mrs. Shahid Razi Mrs. Shahen Shahid	277-32-336901 277-56-334902	Mrs. Khuzdar W/o. Shahid Razi		2,000	0,890	0,052	2,942	0,000	0,000	0,679	0,679
45.	Bangal Fibre Industries Ltd Bengal House, Agjo Khan Road, Mairpur Road, Karachi	Abdul Sattar Bangal AE Muhammad Bangal Faisal Bangal Touqoq Bangal Noor Muhammad Yousuf Bangal Faraz Ali Behram Hassan Khizar Hayat	917-92-000458 517-35-034323 517-66-010165 517-49-007823 510-95-281123 510-91-281114 389-48-003187 517-85-113771 526-91-482115	H.A. Rehman H.M. Bangal A. Ghani Bangal H.M. Bangal Abubakar H. Hashim Bangal S. Fozan Ali		0,000	1,432	0,000	1,432	0,000	0,000	1,432	1,432
48.	Lafayette Ind. 10th Floor, Cal Tower, 11, Chundrigar Road, Karachi	Arif Mubeen Hina Arif M. Arif Shabbir Dewan Hish Razi Saeed Dewan Tasneem Mujid Manozer Saib	517-37-137603 517-63-971302 517-37-168806 517-88-137671 517-67-418870 501-89-117573 616-66-110270 143-93-000779	Late Ashiq Muhammad		34,978	2,236	0,085	37,299	0,000	0,000	1,710	1,710
50.	Joyta Cotton Ginning Pressing & Oil Mills Bahawalnagar Road, Mirchindabad, Bahawalnagar	M. Arshad M. Ashraf	352-70-176608 352-35-176605	M. Yaqoob M. Yaqoob		3,387	0,647	0,000	4,034	0,000	0,000	0,647	0,647
51.	Mukhtiar Ahmed Shaikh Wakaf Colony, Lahore	Mukhtiar Ahmed Shaikh	428-53-011897	Ghulam Rasool		1,000	0,450	0,000	1,450	0,500	0,000	0,450	0,750
52.	Abdul Wahid Abdul Majid (Pvt.) Ltd, 1st Floor, Adam Building, Muhammad Feroz Street, Jodia Bazar, Karachi	Abdul Wahid Abdul Majid Mrs. Hetal Bai	517-94-189051 511-96-251609 301-27-605421	S/o. Haj Muhammad S/o. Haj Muhammad S/o. Haj Muhammad		4,950	0,333	1,041	6,324	0,000	0,000	1,041	1,041
53.	Haji Muhammad Aslam & Company 94-Misool Road, Lahore	Muhammad Asif	270-91-403765	Haji Muhammad Aslam		1,497	0,990	0,000	2,582	0,000	0,000	1,085	1,085
54.	Gaf Colour Pakistan Limited 23-Petals Group, Lahore	M. Jameel A. Naz Mrs. Nazim Naz Araf Nawaz Ch. Najma Nawaz	917-35-605699 656-54-951321 N.A. 654-54-553211	N.A. N.A. N.A. N.A.		0,500	0,979	0,061	1,540	0,500	0,000	1,040	1,540
55.	Al-Khalig Trading Co. 322-Ravi Road, Lahore	Mian Muhammad Tariq	266-93-289240	Abdul Khalig		1,304	1,039	0,000	2,345	0,000	0,000	0,745	0,745
56.	Malik Muhammad Ashiq 13-Sara Road, Lahore	Malik Muhammad Ashiq	N.A.	N.A.		0,270	0,579	0,022	0,871	0,270	0,010	0,591	0,871
57.	Danish Traders 96-Misool Road, Lahore	Mrs. Nafia Wani	275-63-008092	Muhammad Wasi		2,484	2,065	0,086	4,555	0,000	0,000	2,085	2,085
58.	MTM International Boring Ind. Ltd 48-C, Nishtar Road, Lahore	Abdul Sattar Fiaz Ahmad Muhammad Raza Talib Hussain Abdul Chaffar	167-61-063217 267-37-283977 267-86-065215 267-65-065219 267-63-065218	Ghulam Muhammad Ghulam Muhammad Ghulam Muhammad Ghulam Muhammad Ghulam Muhammad		1,085	0,730	0,000	1,799	0,388	0,000	0,730	1,316

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

(Rupees '000)

Sl. No.	Name & address of the borrower	Name of individuals / partners / directors		Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest / Mark-up Written-off	Other Fin. reliefs provided	Total
		Name	NIC No.		Principal	Interest / Mark-up	Others	Total				
59.	Hab Textile Mills Ltd Room No.40, Land Mark Plaza, 11 Chundrigar Road, Karachi	Aysha Shaukat Zaman Tahir Hassan Manoor Hassan Muhammad Hassan Noor Hassan Tanveer Hassan Jabeen Hassan Zahid Hassan	N/A		15,402	1,573	0,000	16,975	4,890	0,000	0,000	4,890
60.	Suhail Jute Mills Ltd 125-Marine Road, Rawalpindi	Mian Farooq Ahmed Shaikh Suhail Ahmed Farooq Shaikh Mian Farid Ahmed Shaikh	N/A		0,470	1,050	0,000	1,520	0,137	0,000	1,051	1,168
61.	K.J. Vegetable Oil Mills Ltd 14 Innara Street Saddar, Road, Peshawar Cantt	Ch. (E) Khalid Iqbal Said Muhammad Aslam Khan Mr. Chaman Saniar Ch. (E) Saad Malik Nawabzada Shabir Hussain Shabir Hussain Saniar Nawabzada Mirza Aslam Khan Hoti	N/A		0,446	0,939	0,210	1,605	0,130	0,000	1,152	1,289
62.	Zulshan Engineering Works Ltd, Burban D88, Campbellpur	Mr. Sajid Ahmad Mr. Saleem M. Qureshi Mr. Shabir Latif Ahmed Mr. Rafiq Akbar	N/A		0,218	1,267	0,233	1,818	0,098	0,000	1,600	1,708
63.	Leatherite Ltd, 125 Travelpark Ind. Area, Kot Lahore	Nazar Farid Maseko Ahmed Hussain Maseko Zahir Iqbal Khan Muhammad Muftah Gulzar Farid Maseko Farooq Ahmed Maseko Chiragh Abbas Maseko	N/A		0,916	0,743	0,210	2,474	0,767	0,000	1,958	2,725
64.	Masud Sani Ltd Industrial Area, Islamabad	Masud Ahmad Mehmod Ahmad Ibtisam Masud	N/A		0,361	1,797	0,157	2,315	0,322	0,000	1,994	2,319
65.	Progressive Tobacco Ltd 5/C-5-PECHS, Karachi	Aziz Yaseen Siddiqui Kamranuddin Muhammad M. Ghous M.I. Anwar Masitun Ni Khan	N/A		0,265	0,602	0,198	1,155	0,210	0,000	0,890	1,035
66.	Printing Corporation Of Frontier Ltd, 20A, Defence Officers Colony, 55/Siber Road, Peshawar	Ahmad Khalid Ali Khan Mohammad Ali Khan Riffat Ali Khan Sahira Ali Khan Wasim M. Khan Zahra Ali Khan	N/A		0,324	1,305	0,581	1,681	0,288	0,000	1,557	1,645
67.	Rosa Textile Mills Ltd 301, Qamar House, M.A. Jinnah Road, Karachi	Ch. Muhammad Anif Ch. Muhammad Saleem Ch. Muhammad Tufail Ch. Mansoor-ul-Hasan	N/A		1,183	8,822	2,585	12,600	0,000	0,000	11,297	11,297
68.	Dadabhai Cement Industries Ltd 3th Floor, Masood Centre, Complex Block 7-5, CHS, Shahdholi-Faisal, Karachi	Abdulrahman Dadabhai Faisal Kamran Dadabhai Humaira Dadabhai Mrs. M. Farooq Dadabhai M. Amin Dadabhai Kiana Dadabhai Yasmeen Dadabhai	N/A		1,325	4,914	1,163	8,402	0,000	0,000	1,621	1,020
69.	Tariq Saeed Ex-Member Islamabad Stock Exchange 7/2, Ringra Plaza, Karachi	Mr. Tariq Saeed	518-41-19936	Saeed A. Sheikh	0,682	0,383	0,100	1,275	0,100	0,179	0,700	0,887

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

(Rupees '000)

Sl. No.	Name & address of the borrower	Name of individuals / partners / directors		Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal Written-off	Interest / Mark-up Written-off	Other Provisions provided	Total
		Name	NIC No.		Principal	Interest / Markup	Others	Total				
70.	Fruity Services 1-44, Kowangi Township, Karachi	Sharafa Hussain		Muhammad Hussain	0.54	0.02	0.07	0.74	0.54	0.02	0.07	0.44
71.	Amara Textile Mills Ltd 2nd Floor, Pak Chambers 7, West Wazir Road, Karachi	Mr. Fahad Karim (Chairman) Syed Muhammad Yousaf Adnan Ess Nasir Ahmed Imrullah Khan Karim Farida Shukh Mrs. Saleem	517-75-27595 517-72-22026 510-87-03332 790-79-139196 516-49-22085	Fazalullah Karim Ghulam Sarwar S. Ghulam Rabbani Farid Ghulam Sarwar Razidat Khan Khattak Habibullah Razidat Khan	87914	0.00	0.00	87914	32913	0.00	0.00	57927
72.	Essa Cement Industries (Pvt) Ltd. PL-2/1, Block-5 Colaba-e-Agha, Karachi	Abdul Aziz Ess Hussaina Ess Irfan Aziz Ess Ismail Aziz Ess Jumla Parveen Zulqorn Yasmeen Zafaruddin Siddiqui	517-34-02686 517-40-02689 517-65-02685 517-60-02684 517-54-02688 517-55-02683 517-48-65570	Essa Dawood W/o. Abdul Aziz Ess Abdul Aziz Ess Abdul Aziz Ess D/o. Abdul Aziz Ess D/o. Abdul Aziz Ess Madar	22700	7.93	0.00	31634	9.19	0.00	4.86	14345
73.	Asian Auto Stores 7/11, Kays Plaza, M.A. Jinnah Road, Karachi	Khuzaima Saad Tanzeem Saad	516-94-28091 516-41-16936	Rafiq Saad Saad A. Saad	1.47	1.06	0.00	2.53	0.00	0.00	1.00	1.00
74.	Analab Cotton Ginning Pressing Factory & Oil Mill Kacirwala Road, Khairabad	Ch. Muhammad Anisad Muhammad Anamullah Muhammad Sadiq Mrs. Farida Begum	329-90-44892 329-73-17200 329-82-13880 329-91-17008	Muhammad Anisad Muhammad Asyiq Muhammad Ismail D/o. Khuda Bux	6.20	3.87	0.17	12.57	0.00	0.00	6.34	6.34
75.	Dr. Shazia Alam House No 46-D, St # 26, Miyahpur Gari, Lahore	Dr. Shazia Alam	213-73-04085	D/o. Raza Noor Alam	0.48	0.20	0.03	0.78	0.48	0.00	0.00	0.78
76.	Saeed Enterprises 18-Abdulrahman Road, Karachi	Muhammad Saeed Shah	515-65-14713	Ch. Muhammad Shah	1.82	0.92	0.00	2.76	0.00	0.00	0.59	0.59
77.	Muhammad Noreen Khan 19, Ground Floor, Mall Plaza, The Mall, Rawalpindi	Muhammad Noreen Khan	211-51-11657	Mr. Imdad Khan	2.78	2.52	0.05	5.37	1.82	0.00	1.81	4.44
78.	Ms. Sohaila Wasim 20, Ground Floor, Mall Plaza, The Mall, Rawalpindi	Ms. Sohaila Wasim	211-71-42019	Mr. Muhammad Wasim Khan	2.62	2.09	0.63	4.88	0.96	0.00	2.16	5.02
79.	Kashif Adnan 19, Ground Floor, Mall Plaza, The Mall, Rawalpindi	Kashif Adnan	222-98-61551	Mr. Waqar Khan	0.70	1.77	0.06	3.37	0.82	0.00	1.82	2.29
80.	Printing Corporation Of (Pvt) Pakistan Khasyab-e-Scharwady, Islamabad	Ch. Ghulam Rasool Lt. Col. Sibt Adnan Khurshid Anwar M. Uvais Agha Nasir ul-Haq Ghulam Sarwar M. Raza-ud-Din Asad Elahi			0.00	1.25	0.04	1.33	0.00	1.24	0.84	1.39
81.	H & B International (Pvt) Ltd Kharirwala Road, Islamabad	Nasreen Ahmed Qasim Munazzar Ahmad Abdul Shakoor Qasim	360-71-40694 344-36-57699 360-19-37383	Zaboor Ahmed Qasim Qasim Ali Qasim Ali Total	4.03	1.82	0.00	5.05	0.00	0.00	0.54	0.54
82.	Hawkes Bay Sportswear Inc. Plot # 5-6, 13-14, Export Processing Zone, Karachi	Mr. Martin Gilmour Mrs. Christen Ferguson P.S. Parake Hakan Valiant			151.50	0.00	0.00	151.50	127.12	0.00	0.00	127.12
Over Sea Total					151.50	0.00	0.00	151.50	127.12	0.00	0.00	127.12
Grand Total					1097923	430,488	8,703	1500,174	545,727	90,173	370,070	1015,970

Branch Network Sector-wise position of Circles/Regions as on December 31, 2004

COMMERCIAL - NORTH	561
Lahore East	59
01. Lahore East	24
02. Sahiwal	35
Lahore West	69
03. Lahore City	25
04. Lahore West	30
05. Sheikhupura	24
Faisalabad	55
06. Faisalabad Central	27
07. Faisalabad City	28
Gujranwala	78
08. Gujranwala	25
09. Gujrat	26
10. Sialkot	27
Islamabad	83
11. Islamabad	19
12. Rawalpindi	35
13. Chakwal	20
14. Jhelum	19
Sargodha	78
15. Jhang	27
16. Mianwali	25
17. Sargodha	26
Peshawar	81
18. Kohat	20
19. Mardan	19
20. Peshawar	21
21. Swat	21
Abbottabad	58
22. Abbottabad	23
23. Attock	26
24. Mirpur A. K.	09
CORPORATE	12
01. South (Karachi)	03
02. North (Lahore)	09
ISLAMIC BANKING	03
01. Karachi	01
02. Lahore	01
03. Multan	01
ATM BRANCHES	217
ONLINE BRANCHES	319

COMMERCIAL - SOUTH	365
Karachi East	52
01. Karachi East	25
02. Karachi North	27
Karachi West	48
03. Karachi South	24
04. Karachi West	24
Karachi Central	08
05. Karachi Central	07
06. Karachi Main	01
Hyderabad	52
07. Hyderabad	28
08. Nawabshah	24
Sukkur	50
09. Larkana	24
10. Sukkur	26
Quetta	33
11. Quetta	33
Bahawalpur	50
12. Bahawalpur	24
13. Rahim Yar Khan	26
Multan	72
14. Deeg Ghazi Khan	26
15. Multan	25
16. Vehari	21

SUMMARY

GROUP	REGIONS	CIRCLES	NO. OF BRANCHES
Commercial-North	24	8	561
Commercial-South	16	8	365
Corporate	-	2	12
Islamic Banking	-	-	3
TOTAL	40	18	941
Overseas*	-	-	4
EPZ	-	-	1
TOTAL	-	-	946

PROVINCE-WISE

PROVINCE	NO. OF BRANCHES
Punjab	381
Sindh	213
NWFP	105
Balochistan	34
Azad J & Kashmir	8
Overseas*	4
EPZ	1
TOTAL	946

*Sri Lanka: 1, Colombo Main; 2, Pettah; 3, Mardana; Bahrain: 1, Manama

Pattern of Shareholding as of December 31, 2004

No. of Shareholders	Having Shares		Shares Held	Percentage
	From	To		
15349	1	100	536259	.1090
18254	101	500	5629116	1.6694
10128	501	1000	8103080	1.8100
2617	1001	5000	4845650	1.4371
279	5001	10000	2020000	.5990
99	10001	15000	1217704	.3611
57	15001	20000	1002605	.2973
63	20001	25000	1440096	.4271
18	25001	30000	490218	.1453
19	30001	35000	620598	.1840
17	35001	40000	639667	.1887
12	40001	45000	511289	.1516
15	45001	50000	728361	.2159
11	50001	55000	570438	.1691
11	60001	65000	695499	.2062
9	65001	70000	614196	.1821
5	70001	75000	365963	.1085
4	75001	80000	312040	.0925
2	80001	85000	165290	.0490
3	85001	90000	263428	.0781
2	90001	95000	188436	.0558
5	95001	100000	499212	.1460
6	100001	105000	608481	.1804
2	105001	110000	214040	.0634
2	110001	115000	222928	.0661
1	120001	125000	124000	.0367
3	125001	130000	381003	.1129
1	130001	135000	133072	.0394
2	135001	140000	278300	.0825
1	140001	145000	144775	.0429
9	145001	150000	742400	.2204
1	150001	155000	154200	.0457
1	160001	165000	162463	.0481
1	165001	170000	168083	.0498
3	175001	180000	531661	.1576
1	180001	185000	180500	.0535
2	185001	190000	370656	.1096
1	195001	200000	200000	.0593
1	200001	205000	204000	.0605
1	205001	210000	208952	.0619
3	210001	215000	635773	.1885
1	220001	225000	223000	.0667
1	225001	230000	228250	.0676
1	230001	235000	232784	.0693
1	235001	240000	235559	.0696
1	240001	245000	243984	.0723
4	245001	250000	893190	.2645
2	250001	255000	507800	.1506

Pattern of Shareholding as of December 31, 2004

No. of Shareholders	Having Shares		Shares Held	Percentage
	From	To		
7	275001	280000	1949418	.5781
6	295001	300000	1795055	.5323
1	305001	310000	305421	.0905
2	330001	335000	664500	.1920
1	335001	340000	338196	.1003
1	340001	345000	341083	.1011
2	345001	350000	696700	.2066
2	355001	360000	710514	.2107
1	360001	365000	361059	.1070
1	365001	370000	366553	.1087
1	380001	385000	384018	.1138
1	395001	400000	400000	.1196
1	410001	415000	412000	.1221
3	415001	420000	1252350	.3714
1	420001	425000	425000	.1260
1	430001	435000	433900	.1286
2	445001	450000	897173	.2660
1	450001	455000	450400	.1335
1	455001	460000	459357	.1362
1	460001	465000	464168	.1376
1	465001	470000	466450	.1383
1	485001	490000	488310	.1442
2	490001	495000	986800	.2926
3	495001	500000	1490750	.4436
1	510001	515000	513000	.1527
1	530001	535000	531755	.1577
1	540001	545000	540925	.1604
4	555001	560000	2226400	.6603
1	595001	600000	600000	.1779
1	605001	610000	605200	.1794
1	610001	615000	613770	.1820
1	620001	625000	621404	.1842
1	625001	630000	630000	.1868
1	640001	645000	644300	.1910
1	660001	665000	665000	.1972
1	670001	675000	671339	.1991
1	690001	695000	692714	.2054
1	735001	740000	738000	.2188
1	885001	890000	888000	.2635
1	895001	900000	895600	.2656
1	980001	985000	980100	.2906
1	985001	990000	987000	.2927
1	990001	995000	994639	.2949
2	995001	1000000	2000000	.5931
1	1000001	1005000	1001639	.2970
3	1065001	1070000	3197499	.9483
1	1180001	1185000	1181000	.3502
1	1225001	1230000	1230000	.3647

Pattern of Shareholding as of December 31, 2004

No. of Shareholders	Having Shares		Shares Held	Percentage
	From	To		
5	1245001	1250000	6241089	1.8509
1	1355001	1360000	1355500	.4000
1	1440001	1445000	1443392	.4281
1	1445001	1450000	1450000	.4300
1	1480001	1485000	1481497	.4393
1	1490001	1495000	1491022	.4427
1	1530001	1535000	1530650	.4539
2	1545001	1550000	3090999	.9167
1	1550001	1555000	1552896	.4605
1	1560001	1565000	1564000	.4638
1	1660001	1665000	1660132	.4923
1	1695001	1700000	1695928	.5029
1	1795001	1800000	1795406	.5324
1	1805001	1810000	1807648	.5361
2	1995001	2000000	3995479	1.1849
2	2025001	2030000	4053111	1.2021
1	2110001	2115000	2110715	.6359
1	2200001	2205000	2200417	.6525
1	2275001	2280000	2279565	.6760
2	2305001	2310000	4615399	1.3688
1	2495001	2500000	2498228	.7409
1	2665001	2670000	2667974	.7912
1	2725001	2730000	2729553	.8093
1	3540001	3545000	3544392	1.0511
1	4250001	4255000	4251684	1.2609
1	4945001	4950000	4930000	1.4680
1	5185001	5190000	5187595	1.5386
1	5190001	5195000	5194010	1.5404
1	6415001	6420000	6415150	1.9025
1	6575001	6580000	6576800	1.9504
1	8540001	8545000	8544207	2.5340
1	9140001	9145000	9140145	2.7107
1	10195001	10200000	10199719	3.0250
1	11580001	11585000	11581836	3.4349
1	11940001	11945000	11942771	3.5419
1	13120001	13125000	13124081	3.8923
1	16755001	16760000	16756271	4.9695
1	16815001	16820000	16817963	4.9877
1	17075001	17080000	17078752	5.0651
1	19185001	19190000	19187750	5.6906
1	33390001	33395000	33390113	9.9027
47201			337180034	100.0000

Categories of Shareholders as at 31 December 2004

Particulars	Shareholding	Percentage
Directors, CEO their spouses and children	29,354,431	8.7069
Associated companies, undertaking and related parties	72,718,521	21.5667
NIT & ICP	357,574	.1060
Banks, DFI & NBEI	16,424,420	4.8711
Insurance Companies	18,166,532	5.3878
Mudarabas & Mutual Funds	8,367,869	2.4817
Shareholders Holding 10%	-	-
General Public (Local)	99,774,055	29.3908
General Public (Foreign)	2,010,087	.5961
Others (Limited COS, Foreign COS, Pension / Provident Funds)	90,006,549	26.6939

Notice of Annual General Meeting

Notice is hereby given that 57th Annual General Meeting of the members of Muslim Commercial Bank Limited will be held at Registered Office of the Company at MCB Building (F-6/G-6), Jinnah Avenue, Islamabad on Monday – March 28, 2005 at 4.00 p.m. to transact the following business:

Ordinary

1. To receive, consider and adopt the audited accounts of MCB and consolidated accounts of MCB and its subsidiaries for the year ended 31st December 2004 together with the Directors' and Auditors' report thereon including post facto approval of remuneration of Rs.1,434,000 to Chairman reported at note 37 of annual report, as required under SFP Prudential Regulation G-1, para 2 inserted on November 22, 2004.
2. To approve as recommended by directors 10% bonus shares as final dividend in addition to 10% & 15% first & second interim cash dividend.
3. To appoint auditors and fix their remuneration.

Special

4. To consider and if thought fit to pass the following ordinary resolution
Resolved that pursuant to the Securities & Exchange Commission of Pakistan (SECP) Circular No. 19 of 2004 dated April 14, 2004 (the circular) the directors of the Company be and are hereby authorized to place the quarterly accounts of the company on company's website instead of sending the same by post to members, subject to the fulfillment of the conditions contained in the circular including obtaining of prior permission of SECP.
5. To consider and if thought fit to pass the following special resolution
Resolved that figure "500" in first sentence of Article 94 of Articles of Association be and is hereby substituted with "5000".
6. Any other business with the permission of the Chair.

By order of the Board

(Tameez-ul-Haque)
Secretary

Islamabad: February 24, 2005

Notes:

1. The share transfer books of the Company will remain closed from March 08, 2005 to March 18, 2005 (both days inclusive) for entitlement of bonus & right shares to those members whose name appear on the register of members as at the close of business on March 07, 2005. The bonus shares will be entitled for 15% right shares at a premium of Rs.15/- per share. The said right issue will not be entitled for interim payment, if any, for the first quarter of 2005.
 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 company or not.
 3. Members whose shares are deposited with Central Depository Company of Pakistan Limited are requested to bring their original National Identity Cards along with the participant's I.D. number and their account numbers in Central Depository Company of Pakistan Limited to facilitate identification at the time of Annual General Meeting. In case of proxy an attested copy of proxy's Identity Card, Account & Participant's I.D. number be enclosed. In case of corporate entity, the Board of Directors, resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier).
- Proxies, in order to be valid, must be deposited at the office of Share Registrar THK Associates (Pvt.) Ltd., Ground Floor, Modern Motors House, Beaumont Road, Karachi, not less than 48 hours before the time of meeting.
4. Members are requested to promptly notify THK Associates (Pvt.) Ltd., of any change in their addresses to ensure delivery of mail.

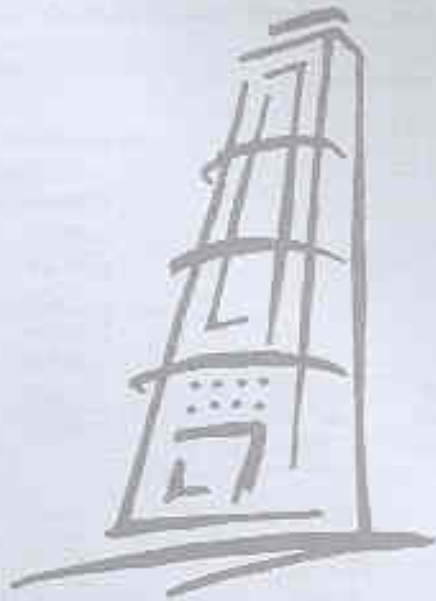
Statement Under Section 160(1) (b) of Companies Ordinance, 1984

For Item 4

SECP has allowed to place quarterly accounts on website. The resolution is in compliance of SECP directives.

For Item 5

The remuneration for attending board meeting was fixed at Rs.500 since 1989. Keeping in view time involved of directors and their increased responsibilities under various regulation the remuneration need to be revised. The directors are interested to the extent of the fee for meeting attended by them.



Annual
Report 2004

Consolidated
Accounts

Muslim Commercial Bank Limited
and Subsidiary Companies



Muslim Commercial Bank Limited and its Subsidiaries Directors' Report on Consolidated Financial Statements

The Board of Directors present report on the consolidated financial statements of Muslim Commercial Bank Limited and its subsidiaries namely Muslim Commercial Financial Services (Pvt.) Limited and MNET Services (Pvt.) Limited for the year ended December 31, 2004.

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

	Rupees ('000)
Profit before taxation	4,288,163
Taxation	1,672,724
Profit after taxation	2,585,439
Share of profit attributable to minority interest	(1)
Profit attributable to shareholders	2,585,438
Un-appropriated profit brought forward	293,363
Transfer from surplus on revaluation of fixed assets - Net of Tax	25,839
Profit available for appropriation	2,904,640

Appropriations:

Statutory Reserve	307,999
General Reserve	820,000
Interim Dividend - first 10% Cash	337,180
Interim Dividend - second 15% Cash	505,770
Final dividend - 10% Bonus Shares	337,180
Total appropriation	2,488,129
Retained Earnings carried forward	416,511

PATTERN OF SHARE HOLDING

The pattern of shareholding as at December 31, 2004 is annexed with the financial statement of Muslim Commercial Bank Limited.

EARNING PER SHARE

The Consolidated financial statements reflect Rs. 12.63 and Rs. 7.67 basic earnings per share before and after tax respectively for the year under review and its computation has been shown in note 30 & 31 to the accounts.

On behalf of Directors

Mian Mohammad Marsha
Chairman

Dated: February 14, 2005

Muslim Commercial Bank Limited and its Subsidiaries Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Muslim Commercial Bank Limited and its subsidiary companies as at December 31, 2004 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches, except for sixty one branches which have been audited by us and four branches audited by auditors abroad. We have also expressed a separate opinion on the financial statements of Muslim Commercial Bank Limited while the financial statements of its subsidiary companies, MNET Services (Private) Limited and Muslim Commercial Financial Services (Private) Limited were audited by A.F.Ferguson & Co and Riaz Ahmad & Co respectively. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the consolidated financial statements examined by us, based on sixty one branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of Muslim Commercial Bank Limited and its subsidiary companies as at December 31, 2004 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

The consolidated financial statements of Muslim Commercial Bank Limited and its subsidiary companies for the year ended December 31, 2003 were audited by A.F.Ferguson & Co., Chartered Accountants and M. Yousuf Adil Saleem & Co., Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated February 16, 2004.

A.E. Ferguson & Co.
Chartered Accountants
Karachi

Riaz Ahmad & Co.
Chartered Accountants
Karachi

Dated: February 15, 2005

**Muslim Commercial Bank Limited and its Subsidiaries
Consolidated Balance Sheet as at December 31, 2004**

	Note	2004 (Rupees '000)	2003 (Rupees '000)
ASSETS			
Cash and balances with treasury banks	6	23,893,233	24,093,660
Balances with other banks	7	5,760,379	1,355,302
Lendings to financial institutions	8	10,905,297	10,430,490
Investments - net	9	67,242,016	128,219,367
Advances - net	10	157,317,773	67,200,129
Other assets - net	11	6,266,845	6,478,407
Operating fixed assets	12	7,999,621	4,582,823
Deferred tax assets		-	-
		<u>259,385,144</u>	<u>272,320,197</u>
LIABILITIES			
Bills payable	13	7,566,684	8,396,320
Borrowings from financial institutions	14	8,693,965	32,627,991
Deposits and other accounts	15	219,960,817	211,497,104
Sub-ordinated loan	16	1,598,720	1,599,360
Liabilities against assets subject to finance lease		-	-
Other liabilities	17	6,397,762	6,371,709
Deferred tax liabilities - net	18	313,972	707,306
		<u>244,531,920</u>	<u>261,199,750</u>
NET ASSETS		<u>14,853,224</u>	<u>11,120,447</u>
REPRESENTED BY:			
Share capital	19	3,371,800	3,065,273
Reserves		5,661,553	4,979,255
Retained earnings		416,511	293,363
		<u>9,449,864</u>	<u>7,737,891</u>
Surplus on revaluation of assets - net of tax	20	5,403,332	3,382,529
Minority interest		28	27
		<u>14,853,224</u>	<u>11,120,447</u>
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 47 form an integral part of these financial statements.

Muslim Commercial Bank Limited and its Subsidiaries Consolidated Profit and Loss Account for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
Mark-up/return/interest earned	22	9,348,548	10,369,994
Mark-up/return/interest expensed	23	2,057,597	2,932,479
Net mark-up/interest income		<u>7,290,949</u>	<u>7,437,515</u>
Reversal of provision for diminution in the value of investments	9.3	(172,876)	(150,000)
Provision against loans and advances	10.4.1	442,595	705,797
Provision for potential lease losses	10.4.1	1,200	862
Bad debts written off directly	10.5	8,771	224,472
		<u>279,690</u>	<u>781,091</u>
Net mark-up/interest income after provisions		<u>7,011,259</u>	<u>6,656,434</u>
NON-MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		1,886,737	1,042,437
Income earned as trustees to various funds		23,328	10,839
Dividend income		371,496	365,321
Income from dealing in foreign currencies		481,842	331,694
Income/gain on investments		541,635	2,041,309
Loss on trading in government securities		(11,440)	-
Other income	24	705,517	738,673
Total non-mark-up/interest income		<u>3,998,515</u>	<u>4,930,273</u>
		<u>11,009,774</u>	<u>11,186,707</u>
NON-MARK-UP/INTEREST EXPENSES			
Administrative expenses	25	7,002,071	6,385,662
Restructuring expenses		150,100	878,704
Other provisions	11.1	149,593	50,000
Other charges	26	14,599	59,034
Total non-mark-up/interest expenses		<u>7,316,363</u>	<u>7,573,400</u>
Share of profit of associated undertaking	9.6	50,800	-
Exceptional item			
Compensation on delayed tax refunds	27	513,832	-
PROFIT BEFORE TAXATION		<u>4,258,163</u>	<u>3,613,307</u>
Taxation - Current year	28	1,591,734	1,215,812
- Prior years	29	1,326	163
- Deferred	29	86,980	170,260
- Share of tax of associated undertaking	28	2,684	-
		<u>1,672,724</u>	<u>1,386,175</u>
PROFIT AFTER TAXATION		<u>2,585,439</u>	<u>2,227,132</u>
Share of profit attributable to minority interest		(1)	(1)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>2,585,438</u>	<u>2,227,131</u>
Retained earnings brought forward		291,363	636,726
Transfer from surplus on revaluation of fixed assets - net of tax		25,839	75,012
		<u>319,202</u>	<u>711,738</u>
Profit available for appropriation		<u>2,904,640</u>	<u>2,888,869</u>
APPROPRIATIONS			
Transfer to:			
Statutory reserve		507,969	446,029
Capital reserve		-	-
General reserve		800,000	1,000,000
Reserve for issue of bonus shares: Final @ 10% (2003-10%)		337,180	106,527
Interim cash dividend Re 1.00 (2003-Rs 1.50) per share - March 2004		337,180	469,791
Interim cash dividend Rs 1.50 (2003-Rs 1.25) per share - September 2004		505,720	383,159
		<u>2,498,129</u>	<u>2,595,506</u>
Retained earnings carried forward		<u>416,511</u>	<u>293,363</u>
Basic earnings per share - pre tax	30	<u>12.63</u>	<u>10.72</u>
Basic and diluted earnings per share - after tax	31	<u>7.67</u>	<u>6.81</u>

The annexed notes 1 to 47 form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Tariq Rafi
Director

Mohammad Arshad
Director

Sarmad Amin
Director

Muslim Commercial Bank Limited and its Subsidiaries
Consolidated Cash Flow Statement for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		4,258,163	3,613,307
Less: Dividend income and share of profit in associated undertaking		(422,396)	(365,321)
		<u>3,835,767</u>	<u>3,247,986</u>
Adjustments for non-cash charges			
Depreciation		598,928	436,371
Provision against loans and advances		442,595	705,787
Reversal of provision for diminution in the value of investments		(172,876)	(150,000)
Provision for diminution in the value of other assets		149,593	50,000
Bad debts written off directly		6,771	224,432
Provision for potential lease losses		1,300	862
Profit on disposal of fixed assets		(39,324)	(41,914)
Surplus realised on disposal of fixed assets		(1,435)	-
		<u>987,452</u>	<u>1,225,238</u>
		<u>4,823,219</u>	<u>4,473,224</u>
(Increase)/decrease in operating assets			
Lendings to financial institutions		(534,847)	23,411,170
Advances - net		(40,570,160)	(19,207,523)
Other assets - net		(639,373)	1,078,531
		<u>(11,744,380)</u>	<u>5,315,178</u>
Increase/(decrease) in operating liabilities			
Bills payable		(829,636)	2,134,363
Borrowings from financial institutions		(23,933,986)	10,640,127
Deposits		8,463,713	28,808,861
Other liabilities		1,409	(2,534,309)
		<u>(16,298,500)</u>	<u>39,049,042</u>
		<u>(53,219,661)</u>	<u>48,837,944</u>
Income tax paid		(654,286)	(847,833)
Income tax refund		370,208	885,356
Net cash inflow from/(outflow on) operating activities		<u>(53,503,839)</u>	<u>48,875,477</u>
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES			
Net investments in available-for-sale securities		105,285,578	(42,057,539)
Net investments in held-to-maturity securities		(45,878,054)	234,907
Dividends received		399,208	391,756
Investments in operating fixed assets		(1,265,675)	(1,599,403)
Investments in associated undertakings		-	5,000
Sale proceeds of property and equipment disposed off		82,743	446,966
Net cash flow from/(used in) investing activities		<u>58,563,800</u>	<u>(42,588,331)</u>
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES			
Redemption of subordinated loan		(640)	(640)
Dividend paid		(818,306)	(983,457)
Net cash outflow on financing activities		<u>(818,946)</u>	<u>(984,097)</u>
Exchange differences on translation of net investment in foreign branches		(56,354)	-
Increase in cash and cash equivalents		<u>4,184,661</u>	<u>5,303,049</u>
Cash and cash equivalents at beginning of the year		25,553,170	20,063,163
Effects of exchange rate changes on cash and cash equivalents		(144,199)	42,739
		<u>35,406,971</u>	<u>20,105,922</u>
Cash and cash equivalents at end of the year	32	<u>29,593,632</u>	<u>25,408,971</u>

The annexed notes 1 to 47 form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Tariq Rafi
Director

Mohammad Arshad
Director

Sarmad Amin
Director

Muslim Commercial Bank Limited and its Subsidiaries Consolidated Statement of Changes in Equity for the year ended December 31, 2004

	CAPITAL RESERVES				OTHER RESERVES		Total	
	Share capital	Share premium	Reserve for issue of bonus shares	Exchange translation reserve	Statutory reserve	General reserve		Retained earnings
	(Rupees '000)							
Balance as at December 31, 2002	2,665,455	471,673	399,818	-	2,159,026	-	636,726	6,328,698
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	25,012	25,012
Profit after taxation for the year ended December 31, 2003	-	-	-	-	-	-	2,327,131	2,327,131
Issue of bonus shares	399,818	-	(399,818)	-	-	-	-	-
Transferred to general reserve	-	-	-	-	-	1,000,000	(1,000,000)	-
Transferred to statutory reserve	-	-	-	-	446,029	-	(446,029)	-
Interim cash dividend	-	-	-	-	-	-	(459,791)	(459,791)
Interim cash dividend	-	-	-	-	-	-	(383,159)	(383,159)
Transferred to reserve for issue of bonus shares - final	-	-	306,527	-	-	-	(306,527)	-
Balance as at December 31, 2003	3,065,273	471,673	306,527	-	2,599,055	1,000,000	293,363	7,737,891
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	-	25,839	25,839
Profit after taxation for the year ended December 31, 2004	-	-	-	-	-	-	1,585,438	1,585,438
Exchange difference on translation of net investment in foreign branches	-	-	-	(56,354)	-	-	-	(56,354)
Transferred to statutory reserve	-	-	-	-	507,999	-	(507,999)	-
Interim cash dividend	-	-	-	-	-	-	(337,180)	(337,180)
Interim cash dividend	-	-	-	-	-	-	(585,770)	(585,770)
Transferred to general reserve	-	-	-	-	-	800,000	(800,000)	-
Issue of bonus shares	306,527	-	(306,527)	-	-	-	-	-
Transferred to reserve for issue of bonus shares - final	-	-	337,180	-	-	-	(337,180)	-
Balance as at December 31, 2004	3,371,800	473,673	337,180	(56,354)	3,107,054	1,800,000	416,511	9,449,864

The annexed notes 1 to 47 form an integral part of these financial statements.

Mohammad Aftab Manzoor
President and Chief Executive

Tariq Rafi
Director

Mahammad Arshad
Director

Sarmad Amin
Director

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

1. THE GROUP AND ITS OPERATIONS

The group consists of

- Muslim Commercial Bank Limited (Holding company)
- Muslim Commercial Financial Services (Private) Limited (Subsidiary company)
- MNET Services (Private) Limited (Subsidiary company)

Muslim Commercial Bank Limited (MCB) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all the stock exchanges in Pakistan. The bank's registered office and principal office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB Tower, I.I. Chundrigar Road, Karachi respectively. The bank operates 941 (2003: 981) branches inside Pakistan and 5 (2003: 5) branches outside the country (including the Karachi Export Processing Zone Branch).

The financial statements of Muslim Commercial Financial Services (Private) Limited and MNET Services (Private) Limited have been consolidated based on their audited financial statements as at December 31, 2004.

2. BASIS OF PRESENTATION

- a) In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereof.
- b) The consolidated financial statements include the financial statements of Muslim Commercial Bank Limited and its subsidiary companies. The financial statements of such subsidiary companies have been consolidated on a line by line basis.
- c) Material intragroup balances and transactions have been eliminated.
- d) The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes after eliminating material intra bank transactions/balances. Key financial figures of the Islamic Banking branches are disclosed in note 33 to these financial statements.

3. STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan as per BSD circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, (IAS 39) 'Financial Instruments: Recognition and Measurement' and International Accounting Standard 40, (IAS 40) 'Investment Property' for Banking Companies. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified in accordance with the requirements prescribed by the State Bank of Pakistan's BSD Circular No. 38 dated October 10, 2001 and BSD Circular No. 10 dated July 13, 2004.

4. BASIS OF MEASUREMENT

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the assets.

Investments are initially recognised at cost which includes transaction costs associated with the investment.

The group classifies its investments as follows:

Muslim Commercial Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements for the year ended December 31, 2004

(a) Held for trading

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

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity.

(c) Available for sale

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified under 'held to maturity' portfolio and investment in associates, are stated at market value.

During the year, the group has changed its accounting policy in respect of accounting for unrealised surplus / (deficit) arising on revaluation of 'held for trading' investment portfolio. As per the new policy, surplus / (deficit) arising on revaluation of the group's 'held for trading' investment portfolio is taken to the profit and loss account. This change has been made to comply with the requirements laid down in BSD Circular No. 10 dated July 13, 2004, issued by the State Bank of Pakistan. Previously, this surplus / (deficit) was being shown in the balance sheet below equity as required by the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000. This change in accounting policy had no impact on the financial statements of the group for the current or any prior year.

During the year, the group has also changed its accounting policy in respect of valuation of investments classified as 'held to maturity'. According to the new policy, these investments are carried at amortised cost. Previously, these investments were marked to market as per the requirements of the State Bank of Pakistan's BSD Circular No. 20 dated August 4, 2000 and the related surplus / (deficit) was shown in the balance sheet below equity. This change has been made to comply with the requirements laid down in BSD Circular No. 14 dated September 24, 2004, issued by the State Bank of Pakistan. The change in accounting policy did not have any impact on the profit and loss account for the current or any prior year. Had the accounting policy not been changed, the value of investments, surplus on revaluation of assets and deferred tax liability as at December 31, 2004 would have been lower by Rs 329.123 million, Rs 212.436 million and Rs 116.687 million respectively.

The surplus / (deficit) arising on quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet below equity.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited / charged to income. 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 in other unquoted securities are valued at cost less impairment losses.

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

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

Profit/loss on sale of investments is credited / charged to profit and loss account currently.

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an associate include the carrying amount of goodwill relating to the associate sold.

5.2 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings from financial institutions. Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial

Muslim Commercial Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements for the year ended December 31, 2004

institutions. The difference between the sale and repurchase price is recognised as mark-up/return expensed or earned 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 Prudential Regulations issued by the State Bank of Pakistan and charged to the profit and loss account. Provisions comprise of provisions against identified losses and provisions against unidentified losses. Provision against unidentified losses includes general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan and provision based on historical loss experience on advances. These provisions are maintained on a consistent basis.

The revised Prudential Regulations issued by the State Bank of Pakistan require banks to apply a prescribed adjustment factor to the Forced Sale Value (FSV) of assets held as collateral against non-performing advances while determining the provision requirement. The adjustment factor prescribed by the State Bank of Pakistan for the current year is 80%, which is to be reduced to 70% and then to 50% over the next two years. However, as a matter of prudence the management has applied the adjustment factor of 30% on the Forced Sale Value of the collaterals considered against the existing non-performing loans portfolio. Had the above mentioned discounting of collaterals not taken place, the specific provision against non-performing loans as at December 31, 2004 would have been lower and consequently the profit before taxation for the current year and advances (net of provision) as at December 31, 2004 would have been higher by Rs 524.011 million.

According to the revised Prudential Regulations issued by the State Bank of Pakistan effective January 1, 2004 and SBP circular BSD/PU-22/121-01(CLAR)/2004/8576 dated July 06, 2004 banks are now required to maintain a general provision of an amount at least equal to 1.5% of the fully secured consumer portfolio and an amount at least equal to 5% of the unsecured consumer portfolio to protect them from the risks associated with the economic cyclical nature of the business. Had this general provision not been made, the profit before taxation for the current year and advances (net of provision) as at December 31, 2004 would have been higher by Rs 106.401 million.

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

5.4 Operating fixed assets and depreciation

Land is carried at revalued amount.

Property and equipment, other than land, which is not depreciated, are stated at cost or revalued amounts less accumulated depreciation. Capital work-in-progress is stated at cost. Cost of property and equipment of foreign branches includes exchange differences arising on currency translation at year-end rates.

Depreciation on all property and equipment is charged using the diminishing balance method except for vehicles, computers and carpets which are depreciated using the straight line method in accordance with the rates specified in note 12.2 to these financial statements. Depreciation on additions to property and equipment during the year is charged for the entire year while no depreciation is charged on property and equipment disposed of during the year. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings.

Gains/losses on sale of fixed assets are credited/charged to the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

5.5 Staff retirement and other benefits

5.5.1 Staff retirement benefits

Muslim Commercial Bank Limited (holding company)

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

a) For clerical/ non-clerical staff who did not opt for the new scheme the bank operates the following:

- an approved contributory provident fund,
- an approved gratuity scheme, and
- contributory benevolent fund.

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:

Muslim Commercial Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements for the year ended December 31, 2004

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund for which normal contributions are made on the basis of actuarial recommendations; and
 - contributory benevolent fund
- c) For officers who joined the bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the bank operates the following:
- an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
 - an approved pension fund for which normal contributions are made on the basis of actuarial recommendations

However the management has replaced pension benefits for officer category with contributory provident fund for services to be rendered after December 31, 2005.

- d) For executives and officers (who joined the bank on or after January 1, 2000) the bank operates an approved contributory provident fund.

The above benefits are payable to staff at the time of separation from the bank's services subject to completion of qualifying period of service.

MNET Services (Private) Limited (subsidiary company)

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

5.5.2 Other benefits

Muslim Commercial Bank Limited (holding company)

a) Employees compensated absences

Liability in respect of compensated absences of employees are accounted for in the books of the bank in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

b) Post retirement medical benefits

The bank also provides post retirement medical benefits to its employees. Provision is made in the financial statements for this benefit on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

5.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates, if any.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes except that deferred tax assets/liabilities associated with investments in foreign branches are recognised to the extent that these temporary differences will reverse in the foreseeable future. The group records deferred tax assets/liabilities using the tax rates enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The group recognises deferred tax asset/liability on deficit/surplus on revaluation of fixed assets and securities in accordance with the requirements of International Accounting Standard 12, (IAS 12) 'Income Taxes'. The deferred tax asset/liability is adjusted against the related deficit/surplus.

5.7 Provisions

Provisions are recognised when there is 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 estimate.

Muslim Commercial Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements for the year ended December 31, 2004

5.8 Foreign currencies

5.8.1 Foreign currency transactions

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

5.8.2 Foreign branches

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

5.8.3 Translation gains and losses

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

5.8.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities/ commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

5.9 Revenue recognition

- Mark-up/interest on advances and returns on investments are recognised on an accrual basis except that mark-up/interest on non-performing advances and investments is recognised on a receipt basis, in accordance with the Prudential Regulations issued by the State Bank of Pakistan.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.
- Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the State Bank of Pakistan or overseas regulatory authorities of the country where the foreign branches operate. Gains/ losses on termination of lease contracts, documentation charges, front - end fee and other lease income are recognised as income when they are realised.
- Commission income is recognised on an accrual basis.
- Dividend income is recognised when the right to receive dividend is established.

5.10 Operating leases

Operating lease rentals are recorded on an accrual basis.

5.11 Cash and cash equivalents

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

5.12 Related party transactions

Transactions between the group and its related parties are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

5.13 Financial instruments

5.13.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, borrowings from financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

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5.13.2 Derivative financial instruments

Derivative financial instruments are recognised at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

5.13.3 Off setting

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

	Note	2004	2003
(Rupees '000)			
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency	6.1	5,492,045	4,990,554
- foreign currencies		303,749	267,378
In transit - local currency		482,066	71,330
- foreign currencies		95,429	252,007
With State Bank of Pakistan in:	6.2		
Local currency current account		12,568,121	15,185,212
Local currency deposit account		460	460
Foreign currency deposit account		1,734,196	1,573,406
With other central banks in foreign currency current account	6.2	115,419	62,822
With National Bank of Pakistan in local currency current account		2,624,838	2,230,720
		<u>23,833,253</u>	<u>24,053,659</u>

6.1 This includes national prize bonds amounting to Rs 36361 million (2003: Rs 39461 million).

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

	Note	2004	2003
(Rupees '000)			
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
- current account		6,847	2,205
- deposit account		52,056	52,710
Outside Pakistan			
- current account		1,729,354	1,010,005
- deposit account		3,972,122	290,983
		<u>5,760,379</u>	<u>1,355,302</u>
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lending		7,200,000	3,850,000
Repurchase agreement lending	8.1	3,765,297	6,580,450
		<u>10,965,297</u>	<u>10,430,450</u>

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8.1 Securities held as collateral against lendings to financial institutions:

Note	2004			2003		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	495,297	-	495,297	5,000,450	-	5,000,450
Pakistan Investment Bonds	3,270,000	-	3,270,000	1,580,000	-	1,580,000
	<u>3,765,297</u>	<u>-</u>	<u>3,765,297</u>	<u>6,580,450</u>	<u>-</u>	<u>6,580,450</u>

9. INVESTMENTS - NET

9.1 Investments by types

	Note	2004			2003		
		Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
(Rupees in '000)							
Available-for-sale securities							
- Market Treasury Bills	9.4	3,186,553	-	3,186,553	60,264,810	27,534,802	87,819,612
- Federal Investment Bonds	9.4	-	-	-	1,251,444	-	1,251,444
- Pakistan Investment Bonds	9.4	4,721,435	-	4,721,435	24,155,518	-	24,155,518
- Federal Government Securities		221,891	-	221,891	-	-	-
- Shares in listed companies		3,840,647	-	3,840,647	3,415,532	-	3,415,532
- Shares in unlisted companies	9.5	461,100	-	461,100	491,124	-	491,124
- NIT units		9,557	-	9,557	453,938	-	453,938
- Listed Term Finance Certificates		608,862	-	608,862	748,455	-	748,455
		<u>13,050,045</u>	<u>-</u>	<u>13,050,045</u>	<u>90,800,821</u>	<u>27,534,802</u>	<u>118,335,623</u>
Held-to-maturity securities							
- Market Treasury Bills	9.4	38,888,686	499,363	39,388,049	-	-	-
- Federal Investment Bonds	9.4	480,500	-	480,500	-	-	-
- Pakistan Investment Bonds	9.4	2,532,406	-	2,532,406	-	-	-
- Federal Government Securities		875,308	-	875,308	1,429,852	-	1,429,852
- Provincial Government Securities		118	-	118	15,118	-	15,118
- Government Compensation Bonds		870,771	-	870,771	870,771	-	870,771
- Euro Bonds		3,286,190	-	3,286,190	605,606	-	605,606
- TFCs, Debentures, Bonds and PFCs		3,580,526	-	3,580,526	3,314,467	-	3,314,467
- Certificate of Investment		1,100,000	-	1,100,000	-	-	-
		<u>51,614,505</u>	<u>499,363</u>	<u>52,113,868</u>	<u>6,235,814</u>	<u>-</u>	<u>6,235,814</u>
Associated Undertakings							
Adampur Insurance Company Limited	9.6	1,041,800	-	1,041,800	943,600	-	943,600
First Women Bank Limited		63,300	-	63,300	63,300	-	63,300
		<u>1,105,100</u>	<u>-</u>	<u>1,105,100</u>	<u>1,006,900</u>	<u>-</u>	<u>1,006,900</u>
		<u>65,769,650</u>	<u>499,363</u>	<u>66,269,013</u>	<u>98,043,535</u>	<u>27,534,802</u>	<u>125,578,337</u>
Less: Provision for diminution in the value of investments	9.5	(695,976)	-	(695,976)	(968,852)	-	(868,852)
Surplus/ (deficit) on revaluation of investments - net	20.2	1,668,979	-	1,668,979	3,568,239	(58,357)	3,509,882
Investments at revalued amounts - net of provisions		<u>66,742,653</u>	<u>499,363</u>	<u>67,242,016</u>	<u>100,742,922</u>	<u>27,476,445</u>	<u>128,219,367</u>

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	Note	2004	2003
		(Rupees '000)	
9.2 INVESTMENTS BY SEGMENTS			
Federal Government Securities:			
- Market Treasury Bills	9.4	42,574,602	87,819,612
- Federal Investment Bonds	9.4	480,500	1,231,444
- Pakistan Investment Bonds	9.4	7,253,841	24,135,518
- Others			
- Federal Government Securities		1,097,199	1,429,852
- Government Compensation Bonds		870,771	870,771
- Euro Bonds		3,286,190	605,606
Provincial Government Securities			
		118	15,118
Associated Undertakings			
	9.6	1,105,100	1,006,900
Fully Paid-up Ordinary Shares:			
- Listed Companies		3,840,647	3,415,532
- Unlisted Companies	9.5	461,100	491,124
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates		608,862	718,455
- Unlisted Term Finance Certificates		728,517	371,712
- Debentures, Bonds and Participation Term Certificates		2,832,009	2,942,755
- Certificate of Investment		1,100,000	-
Other Investments			
- NIT Units		9,557	453,938
		66,269,013	125,578,337
Add / (less): Provision for diminution in value of investments	9.3	(695,976)	(868,852)
Surplus on revaluation of securities (net)	20.2	1,468,979	3,509,882
Investments at revalued amounts (net of provisions)		67,242,016	128,219,367

9.3 Particulars of provision for diminution in value of investments

Opening balance	868,852	1,018,852
Reversal during the year	(172,876)	(150,000)
Closing balance	695,976	868,852

9.4 Market Treasury Bills, Federal Investment Bonds and Pakistan Investment Bonds are held with State Bank of Pakistan and are eligible for rediscounting.

9.5 This includes the group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs 300 million (2003: Rs 300 million).

9.6 Investment of the group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting based on its unaudited financial statements as at December 31, 2004 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, 2004 amounted to Rs. 1,578,636 million (2003: Rs 1,213,692 million). Last year, this investment was carried at market value as it did not qualify for accounting under IAS 28.

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

	2004
(Rupees '000)	
Opening balance	943,600
Share of post acquisition profits	50,900
Share of tax	(2,684)
	48,216
Share of unrealized surplus on investments - net of tax	49,984
Closing balance	1,041,800

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- 9.7 Market value of quoted investments was Rs 57,474,407 million (2003: Rs 121,913,651 million) and book value of unquoted investments was Rs 9,975,322 million (2003: Rs 6,305,716 million).
- 9.8 Investments include Federal Investment Bonds and Pakistan Investment Bonds amounting to Rs 232.55 million (2003: Rs 232.55 million) entrusted by the State Bank of Pakistan and National Bank of Pakistan against TT/UD discounting facilities and demand note facilities sanctioned to the group. In addition, Pakistan Investment Bonds amounting to Rs 5 million (2003: Rs 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.
- 9.9 Certain approved/Government securities are kept with the State Bank of Pakistan to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.
- 9.10 Particulars of investments held in listed companies and modarabas:

Investee	Number of ordinary shares/certificate held	Paid-up value per share/certificate	Total nominal value
			Rupees
Listed Shares/Certificates			
Abanco Composite Fund	3,900,000	10	39,000,000
Adamjee Insurance Company Limited	24,064,576	10	240,645,760
Al-Ghazi Tractors Limited	52,000	5	260,000
Al-Meezan Islamic Fund Limited	1,000,000	50	50,000,000
Al-Meezan Mutual Fund Limited	943,037	10	9,430,370
Askari Commercial Bank Limited	25,000	10	250,000
Atlas Income Fund	100,000	500	50,000,000
Ayaz Textile Mills Limited	225,250	10	2,252,500
Argard Niro Limited (formerly known as Legler-Nafco Denim Mills Limited)	1,348,989	10	13,489,890
Bajaj Spinning Mills Limited	397,230	10	3,972,300
Bank Al-Habib Limited	118,125	10	1,181,250
BSIS Balanced Fund Limited	5,558,245	10	55,582,450
Century Paper and Board Mills Limited	199,300	10	1,993,000
E.F.U. General Insurance Limited	315,341	10	3,153,410
Engro-Chemical Pakistan Limited	370,489	10	3,704,890
Fauji Fertilizer Company Limited	3,692,995	10	36,929,950
GlaxoSmithKline Pakistan Limited	80,524	10	805,240
Honda Atlas Cars (Pakistan) Limited	111,500	10	1,115,000
The Hub Power Company Limited	25,723,500	10	257,235,000
International General Insurance Company Pakistan Limited	5,750	10	57,500
Toyota Indus Motors Company Limited	118,000	10	1,180,000
Kohinoor Energy Limited	30,500	10	305,000
Mehr Dastgir Textile Mills Limited	1,617,412	10	16,174,120
Milat Tractors Limited	508,464	10	5,084,640
Oil and Gas Development Corporation Limited	160,062	10	1,600,620
Orix Leasing Pakistan Limited	192,000	10	1,920,000
P. I. C. I. C. Growth Fund	41,500	10	415,000
Pakistan Industrial Credit and Investment Corporation Limited	1,220,580	10	12,205,800
Packages Limited	217,312	10	2,173,120
Pakistan Capital Market Fund Limited	10,000	10	100,000
Pakistan Oilfields Limited	720,960	10	7,209,600
Pakistan State Oil Company Limited	800,020	10	8,000,200
Pakistan Petroleum Limited	10,000	10	100,000
Pakistan Telecommunication Company Limited	6,108,656	10	61,086,560
REDCO Textile Limited	718,500	10	7,185,000
Rupali Polyester Limited	658,545	10	6,585,450
Shell Pakistan Limited	25,000	10	250,000
Sui Northern Gas Pipelines Limited	32,321,139	10	323,211,390
Thal Jute Mills Limited	250,000	10	2,500,000
Trust Security and Brokerage Limited	300,000	10	3,000,000
Unilever Pakistan Limited	42,740	50	2,137,000
Unit Trust of Pakistan	15,000	5,000	75,000,000
Modaraba Certificates			
First Al-Noor Modaraba	5,583,270	10	55,832,700
Standard Chartered Modaraba (formerly known as First Grindlays Modaraba)	205,000	10	2,050,000

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

9.11 Particulars of investments in Term Finance Certificates

Investee	Number of certificates held	Paid-up value per certificate	Total Paid-up value	Name of Chief Executive
		Rupees		
Aroj Textile Mills Limited	1	517,825	517,825	Mr. Sheikh Mohammed Tahir
Orix Leasing Pakistan Limited	300	40,710	20,355,000	Mr. Humayun Marad
Raj Textile Mills Limited	1	669,375	669,375	Mr. Jawed A. Kiyani
Al-Abbas Sugar Mills Limited	10,000	5,000	50,000,000	Mr. Shunaid Qureshi
	10,000	5,000	50,000,000	
	20,000		100,000,000	
Downrod Investment Bank Limited	5,650	5,000	28,250,000	Mr. Rafique Uswood
	30	100,000	3,000,000	
	5,680		31,250,000	
Gulistan Textile Mills Limited	1,254	5,000	6,270,000	Mr. Naseer Ahmed
Gulshan Spinning Mills Limited	1,452	5,000	7,260,000	Mr. Naseer Ahmed
Jahangir Siddiqui & Company Limited	40,000	5,000	200,000,000	Mr. Munaf Ibrahim
Jahangir Siddiqui & Company Limited	56	5,000,000	280,000,000	Mr. Munaf Ibrahim
KASB Bank Limited	4,000	5,000	20,000,000	Mr. Ashraf N. Inshaduddin
Pakistan Services Limited	2,987	5,000	14,935,000	Mr. Murtaza Hashwani
Paramount Spinning Mills	513	5,000	2,565,000	Mr. Tanveer Ahmed
SPV Securities Limited	1,185	2,083.32	6,635,386	Mr. Nusrat Yar Ahmad
Packages Limited	9,200	5,000	46,000,000	Mr. Syed Wajid Ali
Sui Southern Gas Company Limited	13,500	5,000	67,500,000	Mr. Munawar Basoor Ahmed
	2,000	49,961	99,922,000	
	15,500		167,422,000	
Bank Al-Habib Limited	20,000	5,000	100,000,000	Mr. Abbas D. Habib
Bank Al-Falah Limited	50	1,000,000	50,000,000	Mr. Mohammad Saleem Akhtar
Askari Commercial Bank Limited	20,000	5,000	100,000,000	Mr. Kalim-ur-Rehman

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

9.12 Particulars of investments held in unlisted companies:

Company Name	Percentage of Holding	Number of shares held	Break-up value of investment	Based on audited financial statements as at	Name of Chief Executive
			(Rupees '000)		
Shareholding more than 10%					
Pak Asian Fund Limited	10.22%	1,150,000	18,205	30-Jun-04	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60%	300	322,196	31-Dec-03	Mr. M. Ghalib Nishtar
First Women Bank Limited	31.65%	7,596,000	199,154	31-Dec-03	Ms. Zarine Aziz
Shareholding upto 10%					
Central Depository Company of Pakistan Limited		1,000,000	31,620	30-Jun-04	Mr. Muhammad Hanif Jakhura
Atarco Limited		873,016	26,452	30-Jun-04	Mr. Muhammad Najam Ali
Equity Participation Fund		15,000	6,992	30-Jun-04	Mr. Jamil Nasim
National Institution for Facilitation of Technology		472,744	10,977	30-Jun-04	Mr. M.M. Khan
National Investment Trust Limited		52,800	69,604	30-Jun-01	Mr. Tariq Iqbal Khan
SME Bank Limited		1,117,992	22,350	31-Dec-03	Mr. Mansoor Khan
Pakistan Agricultural Storage and Services Corporation		2,500	3,778	31-Mar-04	Major Gen. Fahim Akhtar Khan
Lanka Clearing (Pvt) Limited		100,000	569	31-Dec-04	Mr. Sarath Desilva
Credit Information Bureau of Sri Lanka		300	17	31-Dec-04	Mr. N.P.H. Amaraseena

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

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9.13: Details of Bonds and Debentures

Bonds and Debentures	Terms of redemption		Rate of Interest	Amount (Rupees '000)		
	Principal	Interest				
- Local Currency						
Rice Export Corporation of Pakistan	At Maturity	Yearly	14%	1,130,000		
Rice Export Corporation of Pakistan	Yearly	Half-yearly	13%	621,008		
Heavy Mechanical Complex	At Maturity	Yearly	6%	27,224		
Ghee Corporation of Pakistan	At Maturity	Yearly	14%	666,985		
Public Sector Enterprises Bonds	At Maturity	Yearly	9%	286,557		
Public Sector Enterprises Bonds	At Maturity	Yearly	6%	556,990		
Pakistan Engineering Company	Half-yearly	Half-yearly	6 months weighted average treasury bill rate	2,487		
Water and Power Development Authority	Yearly	Half-yearly	12.5%-16.3%	262,498		
	Principal	Interest	Rate of Interest	Currency	Amount Foreign Currency (Amount '000)	Amount (Rupees '000)
- Foreign Currency						
Government of Pakistan	Yearly	Yearly	3 months LIBOR +1 %	US \$	12,221	726,282
Euro Bonds-OBU BAHRAIN	Yearly	Half-yearly	10.00%	US \$	4,390	260,875
Euro Bonds-OBU BAHRAIN	Yearly	Half-yearly	6.75%	US \$	48,501	2,882,413
Sri Lanka Development Bonds	At Maturity	Half-yearly	3.73%	SLRs	262,000	149,026
Euro Bonds-SLR	Yearly	Half-yearly	10.00%	US \$	866	52,830
Euro Bonds-SLR	At Maturity	Half-yearly	6.75%	US \$	1,511	90,072
Government of Sri Lanka Treasury Bonds	At Maturity	Half-yearly	11.75%	SLRs	390,104	221,894

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

	Note	2004 (Rupees '000)	2003 (Rupees '000)
10. ADVANCES - NET			
Loans, cash credits, running finances, etc:			
In Pakistan		131,832,570	92,734,515
Outside Pakistan		3,457,410	4,110,951
		135,289,980	96,845,466
Net investment in finance lease			
In Pakistan		1,322,440	397,169
Outside Pakistan		100,211	85,813
	10.2	1,422,651	482,982
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		5,692,473	2,929,028
Payable outside Pakistan		3,605,067	3,883,620
		7,297,540	6,812,648
		144,010,171	104,011,096
Provision against loans and advances:			
Specific provision	10.4	(5,754,709)	(6,145,859)
General provision		(827,455)	(662,298)
General provision against consumer loans		(106,401)	-
Provision for potential lease losses		(1,833)	(2,760)
		(6,692,398)	(6,810,917)
		137,317,773	97,000,179

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	2004	2003
	(Rupees '000)	
10.1 Particulars of advances		
10.1.1 In local currency	130,380,868	86,579,592
In foreign currencies	6,936,905	10,620,587
	137,317,773	97,200,179
10.1.2 Short-term	98,820,673	72,554,313
Long-term	38,497,100	24,645,866
	137,317,773	97,200,179

10.2 Net Investment in Finance Lease

	2004			2003		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees '000)					
Lease rentals receivable	347,600	933,335	1,280,935	175,327	284,102	459,429
Residual value	39,403	232,457	271,860	103	119,569	119,672
Minimum lease payments	587,000	1,165,792	1,552,795	175,430	382,671	558,101
Financial charges for future periods	(60,045)	(70,101)	(130,144)	(37,720)	(37,399)	(75,119)
Present value of minimum lease payments	326,960	1,095,691	1,422,691	137,710	345,272	482,982

10.3 Advances include Rs 8,837,712 million (2003: Rs 10,999,507 million) which have been placed under non-performing status as detailed below:-

Category of Classification	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees '000)				
Other Assets Especially Mentioned	161,613	4,433	166,066	-	-
Substandard	151,335	2,596	153,931	22,642	22,642
Doubtful 233,560	3,433	336,793	193,236	193,236	-
Loss	5,613,840	2,667,082	8,280,922	5,628,831	5,628,831
	6,160,148	2,677,561	8,837,712	5,754,709	5,754,709

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10.4 Particulars of provision against loans and advances:

	Note	2004				Total
		Specific	General	Consumer loans (Rupees '000)	Leasing	
Opening balance		6,145,859	662,298	-	2,760	6,810,917
Exchange adjustments		30,250	-	-	(127)	30,123
Provision made during the year		171,037	165,157	106,401	1,200	443,795
Transfer		-	-	-	-	-
Reversals		-	-	-	-	-
Charge for the year	10.4.1	171,037	165,157	106,401	1,200	443,795
Amounts written off	10.5	(592,437)	-	-	-	(592,437)
Closing balance		5,754,709	827,455	106,401	3,833	6,692,398
				2003		
		Specific	General	Consumer loans (Rupees '000)	Leasing	Total
Opening balance		6,190,536	62,298	-	1,930	6,214,764
Exchange adjustments		(12,197)	-	-	(32)	(12,229)
Provision made during the year		705,787	-	-	862	706,649
Transfer		(600,000)	600,000	-	-	-
Reversals		-	-	-	-	-
Charge for the year	10.4.1	105,787	600,000	-	862	706,649
Amounts written off	10.5	(98,267)	-	-	-	(98,267)
Closing balance		6,145,859	662,298	-	2,760	6,810,917

10.4.1 The following amounts have been charged to the profit and loss account:

	2004 (Rupees '000)	2003 (Rupees '000)
Specific provision	171,037	105,787
General provision	165,157	600,000
General provision against consumer loans	106,401	-
Provision for potential lease losses	443,595	705,787
	1,200	862
	445,795	706,649

10.5 Particulars of write offs:

	2004 (Rupees '000)	2003 (Rupees '000)
10.5.1 Against provisions	592,437	98,267
Directly charged to the profit and loss account	8,771	224,432
	601,208	322,699
10.5.2 Write offs of Rs 500,000 and above	595,727	316,268
Write offs of below Rs 500,000	5,481	6,431
	601,208	322,699
10.5.3 Details of loan write offs of Rs 500,000 and above		

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2004 is given at Annexure - I. However, this write off does not affect the group's right to recover the debts from these customers.

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

	Balance as at December 31, 2004	Maximum total amount of advances including temporary advances granted during the year
	(Rupees '000)	
Debts due by directors or executives of the group or any of them either severally or jointly with any other persons*	264,378	291,899
Debts due by companies or firms in which the directors of the group are interested as directors, partners or in the case of private companies as members	-	-
Debts due by controlled firms, managed <i>modarab</i> s and other related parties	-	-

* (These include loans given by the group to its executives as per the terms of their employment).

	Note	2004	2003
		(Rupees '000)	
11. OTHER ASSETS			
Income/mark up accrued on advances and investments - local currency		1,210,049	1,172,325
Income/mark up accrued on advances and investments - foreign currency		97,610	25,193
Other advances, deposits, advance rent and other prepayments		110,813	117,623
Taxation (payments less provisions)		2,391,794	3,690,676
Non-banking assets acquired in satisfaction of claims	11.2	665,012	100,000
Branch adjustment account		-	60,838
Unrealised gain on forward foreign exchange contracts - net		-	22,774
Stationery and stamps on hand		38,406	42,342
Prepaid exchange risk fee		245	686
Other income receivable		91,728	102,773
Receivable from Pension Fund	35.6	828,189	746,961
Receivable from Provident Fund		40,000	60,000
Compensation on delayed tax refunds		513,852	-
Others		815,726	758,642
		6,843,624	6,905,833
Less: Provision held against other assets	11.1	577,019	427,426
		6,266,605	6,478,407

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Notes to the Consolidated Financial Statements for the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
11.1 Provision against other assets		
Opening balance	427,426	377,426
Charge for the year	149,993	50,000
Closing balance	<u>577,019</u>	<u>427,426</u>

11.2 During the current year the group revalued the non-banking assets obtained in satisfaction of claims. The market value of these non-banking assets amounted to Rs 604,260 million as at December 31, 2004. Adequate provision has been made in respect thereof.

	Note	2004	2003
		(Rupees '000)	
12 OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	502,159	890,896
Property and equipment	12.2	<u>7,497,662</u>	<u>3,691,967</u>
		<u>7,999,821</u>	<u>4,582,823</u>
12.1 Capital work-in-progress			
Civil works		175,675	408,190
Equipment		21,232	234,366
Advances to suppliers		103,826	187,023
Others		201,426	61,257
		<u>502,159</u>	<u>890,896</u>

12.2 Property and Equipment

Description	Cost/Revised amount						Accumulated Depreciation				Net book value at Dec. 31, 2004	Annual rate of depreciation %
	At January 1, 2004	Additions (deletions)	Reversal due to revaluation	Revaluation surplus	Transfer in/ (transfer out)	At Dec. 31, 2004	At Jan. 1, 2004	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation	At Dec. 31, 2004		
	(Rupees '000)											
Land - Note 12.2.1 & 12.2.2	-	-	-	-	3,908,635	3,908,635	-	-	-	-	3,908,635	-
Buildings - Note 12.2.1 & 12.2.2	1,126,675	831,306 (21,644)	(608,681)	3,084,735	(392,500) (3,908,635)	2,211,207	498,664	141,894 (608,681) (5,495)	15,382	2,195,875	5%	
Furniture, office equipment and computers	2,655,595	666,681 (31,240)	-	-	-	3,291,039	1,781,750	367,036 (26,444)	-	2,122,362	10% to 30%	
Vehicles	462,748	156,382 (32,041)	-	-	-	517,089	272,641	89,978 (70,005)	-	392,614	20%	
2004	<u>6,235,022</u>	<u>1,654,372 (144,928)</u>	<u>(608,681)</u>	<u>3,084,735</u>	<u>3,908,635 (4,201,135)</u>	<u>9,928,020</u>	<u>2,943,055</u>	<u>398,928 (608,681) (102,944)</u>	<u>14,382</u>	<u>7,497,662</u>		
2003	<u>5,734,267</u>	<u>1,090,213 (539,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,238,022</u>	<u>2,240,800</u>	<u>436,571 (131,426)</u>	<u>-</u>	<u>3,943,006</u>	<u>3,691,967</u>	

12.2.1 Previously the break-up of land and buildings as separate categories of fixed assets had not been given as in many cases cost of land had been merged with the cost of building at the time of purchase. During the current year a detailed exercise was conducted by Iqbal Nanjee & Co., Valuation and Engineering Consultants (independent valuers) to determine the cost of land. Based on the report of the valuation consultants the value of land has been transferred from the land and buildings category and is being shown separately.

The amount of Rs 292,500 million represents the book value (net of deficit on revaluation) of non-banking asset acquired in satisfaction of claim reclassified to 'Other Assets'. Accordingly, the deficit on revaluation amounting to Rs 272,512 million has been reversed. Appropriate provision has been made against 'Other Assets' to write down the carrying amount of the asset to its prevailing market value.

Muslim Commercial Bank Limited and its Subsidiaries

Notes to the Consolidated Financial Statements for the year ended December 31, 2004

12.2.2 The domestic properties of the bank were revalued on December 15, 2004 by Iqbal Nanjee & Co., Valuation and Engineering Consultants on the basis of market value. This valuation was incorporated at December 31, 2004. This revaluation resulted in a surplus of Rs 1,039,160 million over the written down value of Rs 2,020,074 million of these assets.

	(Rupees '000)
Total revalued amount of land	3,908,635
Total revalued amount of buildings	2,150,599

Had the land and buildings not been revalued their carrying amounts would have been as follows:

Land	612,284
Buildings	1,453,086

Previously, the domestic properties of the bank were revalued on July 07, 2001 by Iqbal Nanjee & Co., Valuation and Engineering Consultants (independent valuers) on the basis of market value.

12.3 Disposal of fixed assets

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Made of disposal/ settlement	Particulars of Buyers/ Insurants company
(Rupees '000)						
Furniture, office equipment and computers						
Items having book value of less than Rs 250,000 and cost of less than Rs 1,000,000	31,247	26,444	4,799	10,587		
Vehicles	1,171	1,170	1	460	Tender	Mr. Mushtaq Klockar Lahore
	604	121	483	332	Tender	Mr. Mohammad Iqbal Karachi
	1,090	869	221	760	Tender	Mr. Rizq Ahmed Karachi
	1,079	910	169	715	Tender	Mr. Shanshad Hussain Lahore
	659	609	250	660	Tender	Mr. Shanshad Kousar Lahore
	1,503	1,371	132	1,012	Tender	Mr. M. Hussain Kapasi Karachi
	604	272	332	332	Retirement benefit	Mr. Nazir Ahmed Memon (Ex - Employee)
	925	647	278	278	Retirement benefit	Mr. M Abbas Sheikh (Ex - Employee)
	925	617	308	308	Retirement benefit	Mr. Abdul Ghaflar (Ex - Employee)
	939	438	501	501	Retirement benefit	Mr. Abdul Ghaflar (Ex - Employee)
	609	274	335	335	Retirement benefit	Mr. Malik Lal Khan (Ex - Employee)
	939	375	564	564	Retirement benefit	Mr. Raheel Ejaz (Ex - Employee)
	609	152	457	457	Retirement benefit	Mr. Mohammad Basir (Ex - Employee)
	604	242	362	362	Retirement benefit	Mr. Fazli Wadood (Ex - Employee)
	939	376	563	563	Retirement benefit	Mr. Mohammad Siddiq (Ex - Employee)
Balance carried forward	13,399	8,443	4,956	7,639		

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Notes to the Consolidated Financial Statements for the year ended December 31, 2004

Description	Cost / revalued amount	Accumulated depreciation	Book value	Sale proceeds / Insurance claim	Mode of disposal / settlement	Particulars of Buyers/ Insurance company
Balance brought forward	13,399	8,443	4,956	7,639		
	694	242	362	272	Retirement benefit	Mr. Munser Ahmed (Ex - Employee)
	2,294	1,388	926	926	Retirement benefit	Mr. Inqad H. Butt (Ex - Employee)
	939	407	532	532	Retirement benefit	Mr. Sh. Talib Hussain (Ex - Employee)
	1,199	713	486	456	Retirement benefit	Mr. Shafiq A. Khan (Ex - Employee)
	1,189	476	713	694	Retirement benefit	Mr. Khalid Niaz Khanwaja (Ex - Employee)
	938	376	563	485	Retirement benefit	Mr. Mohsin Sheikh (Ex - Employee)
	938	376	563	548	Retirement benefit	Mr. M. Abzal Adil (Ex - Employee)
	1,285	514	771	710	Retirement benefit	Mr. Shafiq A. Khan (Ex - Employee)
	1,285	514	771	738	Retirement benefit	Mr. Khalid Niaz Khanwaja (Ex - Employee)
	939	-	939	514	Insurance claim	Adanjee Insurance Company Limited
	939	-	939	939	Insurance claim	Adanjee Insurance Company Limited
	609	-	609	487	Insurance claim	Security General Insurance Company Limited
	609	-	609	350	Insurance claim	Security General Insurance Company Limited
	939	188	751	850	Insurance claim	Security General Insurance Company Limited
	924	554	370	370	Negotiation	MCB Employees Security System and Services (Private) Limited
	29,021	14,171	14,850	17,062		
Other vehicles having book value of less than Rs 250,000 and cost of less than Rs 1,000,000	63,070	53,834	7,236	53,834		
Buildings:						
Silver Sand, Clifton, Karachi	16,500	5,581	12,919	20,000	Negotiation	Mr. Haji Usman Kacichi
Printers at Turbat	5,144	914	2,230	1,500	Tender	Mr. Afzal Hussain Turbat
	21,644	6,495	15,149	21,500		
2004	144,928	102,944	41,984	82,743		
2003	579,458	154,406	405,052	446,566		

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
13. BILLS PAYABLE			
In Pakistan		7,560,165	8,384,794
Outside Pakistan		6,519	11,326
		7,566,684	8,396,120
14. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		6,095,476	32,294,560
Outside Pakistan		2,598,489	333,391
		8,693,965	32,627,951
14.1 Particulars of borrowings from financial institutions			
In local currency		6,095,476	32,294,560
In foreign currencies		2,598,489	333,391
		8,693,965	32,627,951
14.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance	14.3	4,487,798	3,639,293
Locally Manufactured Machinery	14.4	5,735	888
Others		1,782,901	-
		6,276,373	3,639,651
Repurchase agreement borrowings		496,901	27,463,192
Unsecured			
Agent balances		885,202	327,490
Call borrowings		130,388	605,701
Others		1,103,101	591,237
		1,918,691	1,525,128
		8,693,965	32,627,951
14.3	Muslim Commercial Bank Limited has entered into agreements for financing with the State Bank of Pakistan for extending export refinance to customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finance by directly debiting the current account maintained by the bank with SBP.		
14.4	According to agreements with the State Bank of Pakistan, these loans were obtained for providing finance to customers against locally manufactured machinery.		
		2004	2003
		(Rupees '000)	
15. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		14,077,890	21,440,176
Savings deposits		133,538,585	127,413,624
Current accounts - non remunerative		69,730,453	58,590,787
Margin accounts		2,011,334	2,331,820
Others		121,894	75,439
		219,479,246	209,861,846
Financial Institutions			
Remunerative deposits		442,983	1,634,167
Non-remunerative deposits		47,588	1,091
		490,571	1,635,258
		219,969,817	211,497,104

Muslim Commercial Bank Limited and its Subsidiaries
Notes to the Consolidated Financial Statements for the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
15.1 Particulars of deposits		
In local currency	206,219,749	200,421,689
In foreign currencies	11,741,068	11,075,415
	<u>219,960,817</u>	<u>211,497,104</u>

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

	Mark-up payable	Mark-up payment period	Mark-up not yet due	2004	2003
Listed Term Finance Certificates	Semi-annually	2003-2008	Rs 479,894 million	<u>1,598,720</u>	<u>1,598,360</u>

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

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

	Note	2004	2003
		(Rupees '000)	
17. OTHER LIABILITIES			
Mark-up/return/interest payable in local currency		1,711,843	1,822,609
Mark-up/return/interest payable in foreign currency		60,634	55,765
Accrued expenses		291,006	285,402
Unclaimed dividends		322,851	299,207
Staff welfare fund		108,999	108,222
Unrealised loss on forward foreign exchange contracts - net		21,392	-
Provision for employees' compensated absences	35.6	603,634	607,314
Provision for post retirement medical benefits	35.6	386,943	416,438
Payable to employees' contributory benevolent fund	35.6	343,978	338,239
Security deposits received in respect of finance lease		221,709	116,437
Branch adjustment account		357,300	-
Others		1,770,158	1,344,085
		<u>6,397,712</u>	<u>6,371,709</u>

18. DEFERRED TAX LIABILITIES / (ASSETS)

Taxable temporary differences on:			
Surplus on revaluation of fixed assets	20.1	261,088	200,774
Accelerated tax depreciation		164,476	-
Surplus on revaluation of securities	20.2	93,703	552,286
		519,269	853,060
Deductible temporary differences on:			
Provision for post retirement medical benefit		(205,115)	(145,754)
Provision for gratuity scheme		(182)	-
		<u>(205,297)</u>	<u>(145,754)</u>
		<u>313,972</u>	<u>707,306</u>

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

		2004	2003	
		(Rupees '000)		
19. SHARE CAPITAL				
19.1. Authorised Capital				
2004	2003			
<u>650,000,000</u>	<u>350,000,000</u>	Ordinary shares of Rs 10 each		
		<u>6,500,000</u>	<u>3,500,000</u>	
19.2. Issued, subscribed and paid-up capital				
Fully paid-up ordinary shares of Rs 10 each				
2004	2003			
107,130,690	107,130,690	Issued for cash	1,071,307	
230,049,344	199,396,614	Issued as bonus shares	1,993,966	
<u>337,180,034</u>	<u>306,527,304</u>		<u>3,065,273</u>	
<p>Associated undertakings of the bank namely, Siddiqsons Denim Mills Limited, Din Leather (Pvt.) Ltd. and Adarjee Insurance Company Limited hold 17,078,760 (2003: 14,798,874), 2,242,875 (2003: 2,038,978) and 3,188,910 (2003: 2,899,010) shares of Rs. 10 each of Muslim Commercial Bank Ltd. at December 31, 2004 respectively.</p>				
		Note	2004	2003
			(Rupees '000)	
20. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX				
Surplus arising on revaluation (net of tax) of:				
- fixed assets	20.1		3,778,072	424,933
- securities	20.2		1,575,276	2,057,596
Share of unrealised surplus of investment of associated undertaking - net of tax	9.6		49,984	-
			<u>5,403,332</u>	<u>3,582,529</u>
20.1 Surplus on revaluation of fixed assets-net of tax				
Surplus on revaluation of fixed assets-as at January 1			725,707	770,071
Surplus arising on revaluation during the year			3,084,735	-
Reversal of revaluation loss on property classified as non-banking assets		12.2.1	272,912	-
Surplus realised on disposal of revalued properties - net of deferred tax:			(842)	-
Related deferred tax liability			(588)	-
			(1,430)	-
Transferred to retained earnings in respect of incremental depreciation charged during the year - net of deferred tax			(24,992)	(25,012)
Related deferred tax liability			(17,367)	(19,652)
			(42,359)	(44,664)
Surplus on revaluation of fixed assets as at December 31			4,039,160	725,707
Less: Related deferred tax liability on:				
Revaluation as at January 1			300,774	276,335
Reversal of deferred tax asset			(21,731)	44,091
Disposal of revalued properties during the year transferred to profit and loss account			(588)	-
Incremental depreciation charged during the year transferred to profit and loss account			(17,367)	(19,652)
			261,088	300,774
			<u>3,778,072</u>	<u>424,933</u>

Muslim Commercial Bank Limited and its Subsidiaries
Notes to the Consolidated Financial Statements for the year ended December 31, 2004

	2004	2003
	(Rupees '000)	
20.2 Surplus / (deficit) on revaluation of securities - net of tax		
Market Treasury Bills	(6,467)	(147,037)
Pakistan Investment Bonds	342,214	2,047,084
Federal Investment Bonds	-	131,804
Listed Securities	1,332,158	1,476,193
NET Units	1,074	1,820
	1,668,979	3,509,882
Less: Related deferred tax liability	93,703	502,286
	<u>1,575,276</u>	<u>2,957,596</u>
21. CONTINGENCIES AND COMMITMENTS:		
21.1 Transaction-related Contingent Liabilities/Commitments		
Guarantees in favour of:		
Government	3,268,760	2,637,212
Banks and financial institutions	47,813	47,702
Others	1,461,807	1,911,741
Suppliers' credit / payee guarantee	1,021,464	928,952
	6,402,844	5,525,607
21.2 Trade-related Contingent Liabilities	32,738,625	30,229,002
21.3 Other Contingencies	542,425	598,256
21.4 Commitments to extend credit		
The group 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.		
	2004	2003
	(Rupees '000)	
21.5 Commitments in respect of forward foreign exchange contracts:		
Purchase	8,708,435	13,124,912
Sale	12,192,336	15,878,475
	20,900,771	29,003,387
21.6 Commitments in respect of operating leases:		
Not later than one year	573	8,343
Later than one year and not later than five years	-	1,228
	573	9,571
21.7 Commitments for the acquisition of operating fixed assets	368,896	946,767
21.8 Commitments in respect of:		
Forward lending	-	-
Forward borrowing (repo borrowing)	-	1,977,666
	-	1,977,666
21.9 Other commitments		
Outright purchase - Government Securities	-	168,973
Outright sale - Government Securities	-	112,662
Others	159,087	135,384
	159,087	416,619

Muslim Commercial Bank Limited and its Subsidiaries
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21.10 Taxation

The income tax assessments of Muslim Commercial Bank Limited have been finalised upto and including the Tax Year 2004. Total disallowance for the assessment years 1994-1995 to 1997-1998 on account of interest in suspense amounted to Rs 722,682 million against which the tax liability would amount to approximately Rs 428,808 million. Out of this an amount of Rs 317,289 million has been allowed in assessment years 1998-1999 to 2000-2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of Muslim Commercial Bank Limited as allowed in assessment years 1992-1993 and 1993-1994.

Subsequent to the favourable order of the Honourable Sindh High Court the management considers that provision is not necessary for the remaining tax liability for interest in suspense of Rs 244,781 million as Muslim Commercial Bank Limited has been subjected to taxes far exceeding its normal tax liability and is hopeful of favourable decisions in appeals. Accordingly, no provision has been made in these financial statements for the above amount.

	2004	2003
	(Rupees '000)	
22. MARK-UP/RETURN/INTEREST EARNED		
On Loans and advances to		
Customers	4,927,838	4,599,010
Financial Institutions	185,386	268,566
	5,113,224	4,867,581
On Investments in:		
Available for sale securities	3,158,812	4,420,162
Held to maturity securities	806,551	714,494
Held for trading securities	4,016	
	3,969,379	5,134,656
On Deposits with financial institutions		
On securities purchased under resale agreements	190,172	298,902
Others	75,771	69,255
	265,943	368,157
	<u>9,348,546</u>	<u>10,369,994</u>
23. MARK-UP/RETURN/INTEREST EXPENSED		
Deposits	1,409,479	1,261,836
Securities sold under repurchase agreements	187,639	209,475
Other short-term borrowings	108,426	127,792
Long-term borrowings	897	185
Sub-ordinated loan	187,519	188,465
Others	163,672	144,726
	<u>2,057,597</u>	<u>2,932,479</u>
24. OTHER INCOME		
Rent on property/loans	41,757	60,511
Net profit on sale of property and equipment	39,324	41,914
Exchange income on import/export bills purchased/negotiated	65,341	52,879
Bad debts recovered	60,053	67,464
Others	499,048	535,915
	<u>705,517</u>	<u>758,673</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2004

	Note	2004	2003
		(Rupees '000)	
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		4,050,423	4,043,257
Charge / (reversal) for defined benefit plan - approved pension fund	35.6	88,772	(59,058)
Charge for defined contribution plan - provident fund		91,210	67,984
Charge for employee's compensated absences	35.6	133,992	246,314
Charge for post retirement medical benefits	35.6	289,422	127,008
Non-executive directors' fees		16	19
Rent, taxes, insurance, electricity, etc.		548,742	538,444
Legal and professional charges		93,072	74,786
Communications		1,736	46,702
Repairs and maintenance		147,714	140,596
Rentals of operating leases		4,630	19,600
Stationery and printing		153,360	157,350
Advertisement and publicity		124,304	162,594
Donations	25.1	1,449	59
Auditors' remuneration	25.2	10,932	10,387
Depreciation	12.2	598,928	436,571
Staff welfare fund		14,000	20,000
Travelling, conveyance and fuel		204,574	165,594
Subscription		19,214	14,758
Entertainment		31,384	30,334
Others		434,047	342,397
		<u>7,002,071</u>	<u>6,585,662</u>

25.1 This represents donation given to Special Relief Fund established for victims of the Tsunami in Sri Lanka. None of the directors or their spouses had any interest in the donee fund.

25.2 Auditors' remuneration

	2004			2003		
	A. F. Ferguson & Co.	Riaz Ahmad & Co.	Total	A. F. Ferguson & Co.	M. Yousuf Adil Saleem & Co.	Total
	(Rupees '000)					
Audit fee	1,500	1,500	3,000	1,350	1,350	2,700
Fee for audit of subsidiaries / foreign branches	40	30	944	25	-	1,017
Fee for audit of provident, pension, gratuity and other funds	-	-	-	-	135	135
Special certifications and sundry advisory services	2,665	2,665	5,420	2,662	2,352	5,014
Tax services	291	-	291	-	500	500
Out-of-pocket expenses	621	656	1,277	500	500	1,000
	<u>5,217</u>	<u>4,841</u>	<u>10,932</u>	<u>4,538</u>	<u>4,837</u>	<u>10,387</u>

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

		2004	2003
		(Rupees '000)	
26. OTHER CHARGES			
Loss on sale of non-banking asset previously acquired in satisfaction of claims		-	52,505
Penalties imposed by State Bank of Pakistan		14,599	1,439
		14,599	59,034
27. EXCEPTIONAL ITEM			
<p>This represents claim of Rs. 513,852 thousand filed by Muslim Commercial Bank Limited in respect of compensation of delayed tax refunds under section 171 of the Income Tax Ordinance, 2001 (parallel to section 102 of the repealed Income Tax Ordinance, 1979) for the assessment years 1994-95, 1995-96 and 1997-98 to 2000-01. This compensation has been calculated at the rate of 15 percent per annum on the amount of the refund for the period commencing at the end of three months of refund becoming due to the bank and ending on the date of payment/adjustment by the income tax authorities.</p>			
28. TAXATION	Note	2004	2003
		(Rupees '000)	
For the year			
Current		1,983,734	1,215,812
Deferred		86,980	170,200
For prior years		1,326	163
Share of tax of associated undertaking	9.6	1,670,010	1,586,175
		1,672,724	1,386,175
28.1 Relationship between tax expense and accounting profit			
Accounting profit for the year		4,258,163	3,613,307
Tax rate		41%	44%
		(Rupees '000)	
Tax on income		1,745,847	1,589,855
Prior year's tax charge		1,326	163
Tax effect on separate block of income		(188,021)	(144,079)
Tax effect of permanent differences		(272,166)	(671,000)
Deferred tax asset reversal on provisions		-	191,040
Share of tax of associated undertaking		2,664	-
Tax effect of computation adjustments		(338,094)	437,196
Tax charge for the current year		1,672,724	1,386,175
29. CREDIT RATING			
<p>PACRA has assigned long term credit rating of AA (double A) and short-term credit rating of A+ (A one plus) to Muslim Commercial Bank Limited.</p>			
30. BASIC EARNINGS PER SHARE - PRE TAX		2004	2003
		(Rupees '000)	
Profit before taxation		4,258,163	3,613,307
		Number of Shares	
Weighted average number of shares outstanding during the year		337,180,034	337,180,004
		(Rupees)	
Earnings per share - pre tax		12.68	10.72

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	2004	2003
31. BASIC/DILUTED EARNINGS PER SHARE - AFTER TAX	(Rupees '000)	
Profit after taxation	<u>2,585,438</u>	<u>2,227,131</u>
	Number of Shares	
Weighted average number of shares outstanding during the year	<u>337,180,034</u>	<u>337,180,034</u>
	(Rupees)	
Basic/diluted earnings per share	<u>7.67</u>	<u>6.61</u>
32. CASH AND CASH EQUIVALENTS	(Rupees '000)	
Cash and balances with treasury banks	<u>23,833,253</u>	<u>24,053,669</u>
Balances with other banks	<u>5,760,379</u>	<u>1,335,302</u>
	<u>29,593,632</u>	<u>25,408,971</u>
33. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES		
Islamic Banking Fund	165,000	90,000
Deposits	356,149	276,121
Borrowings from Head Office	1,000,000	910,000
Murahaba Financing	1,564,992	1,211,831
Fruits before taxation	2,311	2,971
Letter of credit	139,183	34,937
34. STAFF STRENGTH	(Numbers)	
Total number of employees at the end of the year	<u>9,983</u>	<u>10,235</u>
35. DEFINED BENEFIT PLANS AND OTHER BENEFITS		
35.1 Actuarial assumptions		
Actuarial valuations using the Projected Unit Credit Actuarial Cost Method were carried out at various dates using the following significant assumptions:		
	Rate per annum	
- expected rate of increase in salary level	3%	
- expected rate of return on plan assets	7%	
- discount rate	7%	
- medical cost inflation	5%	
35.2 Pension fund		
The latest actuarial valuation of the pension fund was carried out as at December 31, 2003. The results of the actuarial valuation as per the latest actuarial valuation were as follows:		
		(Rupees '000)
Present value of defined benefit obligation		6,193,017
Fair value of plan assets		(6,996,518)
Surplus		(803,501)
Unrecognised actuarial gains		59,540
Net asset recognised as at December 31, 2003		<u>(743,961)</u>
Estimated asset as at December 31, 2004		<u>(828,189)</u>
The above surplus has been recognised in the books as at December 31, 2004		

Muslim Commercial Bank Limited and its Subsidiaries
Notes to the Consolidated Financial Statements for the year ended December 31, 2004

35.3 Benevolent Fund

The latest actuarial valuation of the benevolent fund was carried out as at December 31, 2002. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

(Rupees '000)

Fair value of plan assets	29,822
Present value of defined benefit obligation	(402,447)
Deficit as at December 31, 2002	<u>(373,625)</u>
Estimated deficit as at December 31, 2004	<u>(343,978)</u>

The above deficit has been fully provided for in the books as at December 31, 2004.

35.4 Post Retirement Medical Benefits

The latest actuarial valuation in respect of the non-discretionary post retirement medical benefits provided to the employees was carried out as at December 31, 2003. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

(Rupees '000)

Present value of defined benefit obligation	(1,108,058)
Fair value of plan assets	(1,108,058)
Unrecognised Transitional Liability	441,729
Unrecognised Negative Past Service Cost	(58,329)
Unrecognised Actuarial Losses	265,429
Deficit as at December 31, 2003	<u>(416,439)</u>
Estimated deficit as at December 31, 2004	<u>(386,043)</u>

The above deficit has been fully provided for in the books as at December 31, 2004.

35.5 Employee's Compensated Absences

The latest actuarial valuation of the employees compensated absences was carried out as at December 31, 2002. The results of the actuarial valuation as per the latest actuarial valuation were as follows:

(Rupees '000)

Deficit as at December 31, 2002	<u>(687,314)</u>
Estimated deficit as at December 31, 2004	<u>(603,624)</u>

The above deficit has been fully provided for in the books as at December 31, 2004.

Muslim Commercial Bank Limited and its Subsidiaries
Notes to the Consolidated Financial Statements for the year ended December 31, 2004

35.6 The following is a reconciliation of movement in the net recognised liabilities / (assets) for the above defined benefit plans and other benefits.

	2004			
	Approved Pension Fund	Contributory Benevolent Fund	Post Retirement Medical Benefits	Employee's Compensated Absences
	Rupees' 000			
Liability / (Asset) as at January 1, 2004	(746,961)	338,239	416,439	607,314
Charge for the year	68,772	51,861	269,422	133,992
	(678,189)	389,900	685,861	741,306
Less: payments made during the year	(136,000)	(45,922)	(99,418)	(137,682)
Liability / (Asset) as at December 31, 2004	(828,189)	343,978	586,443	603,624

	2003			
	Approved Pension Fund	Contributory Benevolent Fund	Post Retirement Medical Benefits	Employee's Compensated Absences
	Rupees' 000			
Liability / (Asset) as at January 1, 2003	(287,903)	373,625	321,741	441,000
Charge for the year	(59,058)	-	127,008	246,314
	(346,961)	373,625	448,749	687,314
Less: payments made during the year	(400,000)	(35,386)	(32,310)	(80,000)
Liability / (Asset) as at December 31, 2003	(746,961)	338,239	416,439	607,314

36. DEFINED CONTRIBUTION PLAN

Muslim Commercial Bank Limited operates an approved contributory provident fund for 5,852 (2003: 5,617) employees where contributions are made by the bank and employees at 8.33% (2003: 8.33%) of the basic salary. During the year the bank has contributed Rs 91.210 million (2003: Rs 67.984 million) in respect of this fund.

Muslim Commercial Bank Limited also operates an approved non-contributory provident fund for 4,006 (2003: 4,320) employees who have opted for the new scheme, where contributions are made by the employees at 12% (2003: 12%) of the basic salary.

37. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

	President / Chief Executive		Directors		Executives	
	2004	2003	2004	2003	2004	2003
	(Rupees' 000)					
Fees	-	-	16	15	-	-
Managerial remuneration	10,750	9,835	1,434	1,200	367,170	315,107
Retirement benefits	575	487	-	-	20,380	15,803
Rent and house maintenance	3,105	2,868	-	532	110,096	90,457
Utilities	690	584	-	-	24,466	20,188
Medical	262	166	-	-	13,218	25,183
Conveyance	171	237	-	234	40,625	30,559
	15,553	14,177	1,450	1,961	575,955	497,297
Number of persons	1	1	9	9	307	257

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

Muslim Commercial Bank Limited and its Subsidiaries Notes to the Consolidated Financial Statements for the year ended December 31, 2004

38. MATURITIES OF ASSETS AND LIABILITIES

	2004				
	Total	Upto three months	Over three months to one year (Rupees '000)	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	23,833,253	23,833,253	-	-	-
Balances with other banks	5,760,379	5,760,379	-	-	-
Lendings to financial institutions	10,465,297	9,465,297	1,500,000	-	-
Investments - net	67,242,016	36,496,750	13,196,219	13,830,139	5,716,905
Advances - net	137,317,773	17,145,261	81,675,412	36,804,565	1,692,535
Other assets - net	6,266,665	2,163,939	409,914	3,692,752	-
Operating fixed assets	7,999,821	100,101	461,528	1,303,832	6,134,360
	<u>289,385,144</u>	<u>94,966,983</u>	<u>97,243,073</u>	<u>53,611,288</u>	<u>13,343,800</u>
Liabilities					
Bills payable	7,566,684	7,566,684	-	-	-
Borrowings from financial institutions	8,693,965	6,444,361	2,249,604	-	-
Deposits and other accounts	219,960,817	49,368,292	118,344,532	40,731,234	11,516,759
Subordinated loans	1,598,720	320	320	1,598,080	-
Other liabilities	6,397,763	3,074,505	1,211,910	1,025,302	586,045
Deferred tax liabilities	313,972	5,320	109,662	85,113	113,877
	<u>244,531,920</u>	<u>66,959,482</u>	<u>121,916,028</u>	<u>43,439,729</u>	<u>12,216,681</u>
Net assets	<u>14,853,224</u>	<u>28,007,501</u>	<u>(24,672,955)</u>	<u>10,171,559</u>	<u>1,327,119</u>
Share capital	3,371,800	-	-	-	-
Reserves	3,661,553	-	-	-	-
Retained earnings	416,511	-	-	-	-
Surplus on revaluation of assets - net of tax	5,403,332	-	-	-	-
Minority Interest	28	-	-	-	-
	<u>14,853,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

39. YIELD/INTEREST RATE RISK

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

	Effective Yield/Interest rate	2004					Not exposed to Yield/Interest Risk
		Total	Exposed to Yield/Interest risk				
			Upto three months	Over three months to one year	Over one year to five years	Over five years	
(Rupees '000)							
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	1.29%	23,833,253	1,901,647	-	-	-	22,532,606
Balances with other banks	2.53%	5,760,379	4,024,178	-	-	-	1,736,201
Lendings to financial institutions	3.82%	10,465,297	9,465,297	1,500,000	-	-	-
Investments - net	4.44%	67,242,016	34,674,721	13,192,568	9,270,849	3,225,674	6,389,407
Advances - net	4.59%	137,317,773	17,145,261	81,675,412	36,804,965	1,692,335	-
Other assets	-	1,830,806	-	-	-	-	1,830,806
		<u>246,949,524</u>	<u>66,959,104</u>	<u>96,367,977</u>	<u>46,084,414</u>	<u>5,418,009</u>	<u>32,489,020</u>
Liabilities							
Bills payable	-	7,566,684	7,566,684	-	-	-	7,566,684
Borrowings from financial institutions	3.02%	8,693,965	6,444,361	2,249,604	-	-	-
Deposits and other accounts	0.63%	219,960,817	42,179,723	82,392,933	32,755,660	731,250	71,901,359
Subordinated loans	11.75%-15.75%	1,598,720	320	320	1,598,080	-	-
Other liabilities	-	4,505,418	4,505,418	-	-	-	4,505,418
		<u>242,325,604</u>	<u>48,624,434</u>	<u>84,642,909</u>	<u>34,353,510</u>	<u>751,250</u>	<u>83,973,461</u>
On-balance sheet gap		<u>4,623,920</u>	<u>17,965,700</u>	<u>11,725,068</u>	<u>21,730,874</u>	<u>4,666,719</u>	<u>(51,484,441)</u>
Off-balance sheet financial instruments							
Forward lendings	-	-	-	-	-	-	-
Overnight purchase - Govt. securities	-	-	-	-	-	-	-
Commitments to extend credit	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-
Overnight sale - Govt. securities	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		<u>17,965,700</u>	<u>11,725,068</u>	<u>21,730,874</u>	<u>4,666,719</u>	<u>-</u>	<u>-</u>
Cumulative Yield/Interest Risk Sensitivity Gap		<u>17,965,700</u>	<u>29,690,768</u>	<u>51,421,642</u>	<u>56,108,361</u>	<u>-</u>	<u>-</u>

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

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Notes to the Consolidated Financial Statements for the year ended December 31, 2004

40. CURRENCY RISK

	2004			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees '000)			
Pakistan Rupee	240,365,394	229,876,673	2,741,162	13,229,883
United States Dollar	16,564,075	12,524,545	(3,072,006)	967,524
Pound Sterling	640,293	613,894	33,958	60,357
Japanese Yen	68,386	3,155	(63,262)	1,469
Euro	701,823	670,917	(15,856)	65,050
Other currencies	1,045,173	892,736	176,804	528,941
	<u>259,385,144</u>	<u>244,531,920</u>	<u>-</u>	<u>14,853,224</u>

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradeable securities classified by the group as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of (BSI) Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 42,072 million. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

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

The maturity and repricing profile and effective rates are stated in notes 38 and 39 respectively.

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

42. CONCENTRATION OF CREDIT AND DEPOSITS

Out of the total financial assets of Rs 246,950 million the financial assets which were subject to credit risk amounted to Rs 240,578 million. To manage credit risk the group applies credit limits to its customers and obtains adequate collateral. Investments amounting to Rs 38,211 million are guaranteed by the Government of Pakistan. In addition an amount of Rs 14,836 million are held with the State Bank of Pakistan and central banks of other countries.

42.1 Risk management

The group is primarily subject to interest rate, credit and currency risks. The policies and procedures for managing these risks are outlined in notes 42.1.1 to 42.1.4. The group has designed and implemented a framework of controls to identify, monitor and manage these risks which are as follows:

42.1.1 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The group has adopted appropriate policies to minimise its exposure to this risk.

42.1.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government securities or by demand promissory notes. Cross border exposures are controlled by the group by considering country / sovereign risk and is updated as and when necessary. These limits are formally reviewed on a periodic basis.

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42.1.3 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in the foreign exchange rates. In order to avoid losses arising from adverse changes in the rates of exchange, the group's compliance with the limits established for foreign currency position is being regularly monitored by the management.

42.1.4 Exchange risk management

The management has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximise the profitability with minimum risk by managing the exposure at desirable level keeping in view strict compliance of regulatory / international standards and the group's internal guidelines.
- Identify price sensitivity of foreign currency.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zone for mismatch gaps.

The management has employed different tools in order to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement etc.

42.2 Segment by class of business

	2004					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Textile	33,455,623	24%	1,900,742	1%	6,065,372	10%
Commerce/Trade	30,207,166	22%	31,514,066	14%	6,923,400	11%
Agribusiness	2,431,136	2%	26,904,034	12%	1,005,219	2%
Production and transmission of energy	9,732,147	7%	1,077,751	1%	7,165,703	12%
Financial Sector	-	0%	490,571	0%	18,325,470	30%
Individuals	19,757	0%	106,099,311	48%	-	0%
Others	61,472,444	45%	51,984,572	24%	21,627,657	35%
	<u>137,317,773</u>	<u>100%</u>	<u>219,960,817</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>

42.3 Segment by sector

Public/ Government	22,250,553	16%	5,310,855	2%	15,963,908	26%
Private	115,067,220	84%	214,649,964	98%	45,149,113	74%
	<u>137,317,773</u>	<u>100%</u>	<u>219,960,817</u>	<u>100%</u>	<u>61,113,021</u>	<u>100%</u>

43. NET ASSETS OF SUBSIDIARY COMPANIES (before intra-group elimination)

	2004 (Rupees '000)	2003
MNET Services (Private) Limited	54,847	54,213
Muslim Commercial Financial Services (Private) Limited	10,638	7,517
	<u>65,485</u>	<u>61,730</u>

44. GEOGRAPHICAL SEGMENT ANALYSIS

	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	(Rupees '000)			
Pakistan	4,020,660	254,073,187	14,385,136	60,415,234
Asia Pacific (including South Asia)	58,790	1,877,150	229,945	897,787
Middle East	178,713	3,434,807	238,143	-
	<u>4,258,163</u>	<u>259,385,144</u>	<u>14,853,224</u>	<u>61,113,021</u>

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45. RELATED PARTY TRANSACTIONS

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

Banking transactions with the related parties are carried out at arm's length basis under the comparable uncontrolled price method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan. Remuneration to the executives, disclosed in note 37 to these financial statements, are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them as at the year-end were as follows:

	2004	2003
	(Rupees '000)	
- Receivable from pension fund	828,189	746,961
- Receivable from provident fund	80,000	60,000

The group has not extended loans and advances to any of its related parties either in the current or prior year.

	Directors		Associated Companies	
	2004	2003	2004	2003
	(Rupees '000)			
Deposits				
Deposits at beginning of the year	2,202	40,485	261,533	170,278
Deposits received during the year	1,102,311	431,484	12,833,087	10,508,449
Deposits repaid during the year	(1,102,482)	(469,737)	(12,726,086)	(10,417,194)
Deposits at the end of the year	<u>2,031</u>	<u>2,202</u>	<u>368,534</u>	<u>261,533</u>
Interest expense on deposits	7	7	1,391	494
Insurance premium paid			66,453	76,890
Insurance claim settled			25,296	42,442
MCB Employees Foundation				
- Service expenses			12,285	9,440
- Cash sorting expenses			17,597	18,660
- Cash in transit expenses			1,130	-
MCB Employees Security System and Services (Private) Limited				
- Security guard expenses			52,155	25,756

Director's remuneration

The details of director's remuneration has been given in note 37 to these financial statements.

Transactions entered into with directors, executives and officers as per their terms of employment are excluded from related party transactions. However, debts due by executives of the group are disclosed in note 10.6 to these financial statements.

46. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 14, 2005 by the Board of Directors of Muslim Commercial Bank Limited, the holding company.



Form of Proxy

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

I/We _____ of _____ a member/
members of Muslim Commercial Bank Limited, and holder of _____ shares do hereby
appoint _____ of _____ or failing him /
her _____ of _____ who is also a
member of the Company, vide Registered Folio No. _____ as my/our proxy to

attend, speak and vote for me/us and on my/our behalf at the 57th Annual General Meeting of the Company to be held
on Monday March 28, 2005 at 4:00 p.m. at MCB Building, F-6/C-6, Jinnah Avenue, Blue Area, Islamabad and at any
adjournment thereof.

As witness my/our hand this _____ day of _____ 2005.

Signature on
Five Rupees
Revenue Stamp

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

Dated:
Place:

Notes:

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