



**Quarterly Report**  
September 2004



***Our Mission***

To become the preferred provider of quality financial services in the country with profitability and responsibility and to be the Best Place to Work.

***MCB Team Core Values***

- Customer Focus
- Quest for Quality
- Team-based Approach
- Employee Respect & Dignity
- Good Corporate Citizenship

***Credit Rating***

Long-Term AA (double A)  
Short-Term A1+(A one plus)  
By PACRA

**BOARD OF DIRECTORS**

Mian Mohammad Mansha  
Chairman

S.M. Muneer  
Vice Chairman

Tariq Rafi

Sheikh Mukhtar Ahmed

Mohammad Arshad

Shahzad Saleem

Sarmad Amin

Mian Umer Mansha

Aftab Ahmed Khan

Mohammad Aftab Manzoor  
President & Chief Executive

ADVISOR

Raza Mansha

AUDIT COMMITTEE

Mian Mohammad Mansha - Chairman

Sheikh Mukhtar Ahmed - Member

Aftab Ahmed Khan - Member

CHIEF FINANCIAL OFFICER

All Munir

COMPANY SECRETARY

Tameez-ul-Haque

AUDITORS

A.F. Ferguson & Co.  
Chartered Accountants

Riaz Ahmad & Co.  
Chartered Accountants

LEGAL ADVISORS

Mandiwala & Zafar  
Advocates & Legal Consultants

REGISTERED OFFICE

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

PRINCIPAL OFFICE

MCB Tower

1.1, Chundrigar Road, Karachi.

REGISTRAR'S AND SHARE REGISTRATION OFFICE

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

## DIRECTOR'S REVIEW

On behalf of the Board of Directors, I am pleased to present the third quarter accounts for the period ended September 30, 2004 of Muslim Commercial Bank Limited and consolidated financial statements of MCB and its subsidiaries. The financial results of MCB at the end of nine month's period are as under:

	<u>(Rs In '000)</u>
Profit before tax	3,141,448
Taxation	1,191,094
Profit after taxation	1,950,354
Retained earning brought forward Jan. 01	281,636
Transfer from surplus on revaluation of fixed assets	18,777
Profit available for appropriation	<u>2,250,767</u>
 <u>Appropriations:</u>	
Statutory reserve	390,071
General reserve	800,000
First Interim cash dividend Re.1/- per share (@ 10%) - March 2004	337,180
Second Interim cash dividend Rs.1.50 per share (@ 15%) - Sept.2004	505,770
	<u>2,033,021</u>
Retained earning carried forward	217,746

Overall results for nine months' period ended on September 30, 2004 were satisfactory. The impact of historically low mark-up rates and increased competition for the last 2 to 3 years were off-set by controlling administrative expenses, increasing non-fund-based income and the loan portfolio. Earning per share in the period under review are Rs. 5.78 as compared to Rs. 5.20 in the same period last year.

The Board declared 15% second interim cash dividend, 10% was declared in March-2004 making total interim cash dividend 25%

The Principal Office and other offices in Karachi have been shifted to newly built world-class "MCB TOWER" located at I.I. Chundrigar Road, Karachi. Another MCB Building is in advance stage of completion at Lahore and by 2005 it shall be completed.

On behalf of the directors, I wish to record thanks to State Bank of Pakistan for their guidance and cooperation and the Directors also appreciate the sincere efforts and dedicated work of all MCB staff.

On behalf of Directors,



Mian Mohammad Mansha  
Chairman

**BALANCE SHEET**

AS AT SEPTEMBER 30, 2004



	Note	(Un-audited) September 30, 2004	(Audited) December 31, 2003
----- (Rupees '000) -----			
<b>ASSETS</b>			
Cash and balances with treasury banks:		27,832,418	24,053,669
Balances with other banks		4,922,818	1,302,592
Lendings to financial institutions		12,673,144	10,430,450
Investments - net	7	94,636,427	128,276,942
Advances - net	8	103,907,451	97,200,179
Other assets - net		7,510,198	6,477,064
Operating fixed assets		4,763,810	4,582,823
		<u>256,246,264</u>	<u>272,323,619</u>
<b>LIABILITIES</b>			
Bills payable:		6,385,927	8,396,320
Borrowings from financial institutions		14,164,433	32,627,951
Deposits and other accounts		218,463,811	211,511,393
Sub-ordinated loan		1,598,720	1,599,360
Other liabilities		6,594,584	6,372,596
Deferred tax liabilities - net		184,851	707,306
		<u>245,392,326</u>	<u>261,214,926</u>
<b>NET ASSETS</b>		<u>10,853,938</u>	<u>11,108,693</u>
<b>REPRESENTED BY</b>			
Share capital		3,371,800	3,065,273
Reserves		5,262,799	4,579,255
Retained earnings		217,748	281,636
		<u>8,852,345</u>	<u>7,926,164</u>
Surplus on revaluation of assets - net of tax		2,001,593	3,382,529
		<u>10,853,938</u>	<u>11,108,693</u>

**CONTINGENCIES AND COMMITMENTS**

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The annexed notes 1 to 17 form an integral part of these financial statements.

Mohammad Aftab Manzoor  
President and Chief Executive

Tariq Rafi  
Director

Mohammad Arshad  
Director

Mian Umer Mansha  
Director

# PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 (UN-AUDITED)



	Note	Quarter ended Sept. 30, 2004	Nine months ended Sept. 30, 2004	Quarter ended Sept. 30, 2003	Nine months ended Sept. 30, 2003
(Rupees '000)					
Mark-up / return / interest earned		2,301,472	8,809,597	2,459,815	8,421,358
Mark-up / return / interest expensed		523,841	1,559,528	693,982	2,338,561
Net mark-up / interest income		1,777,631	5,250,069	1,775,853	6,082,797
Provision against loans and advances - net		77,678	156,114	19,973	653,539
Reversal of provision for diminution in the value of investments		-	(172,873)	-	(150,000)
Bad debts written off directly		753	7,505	-	187,044
		78,431	(9,254)	19,973	690,583
Net mark-up / interest income after provisions		1,699,200	5,259,323	1,755,880	5,392,214
<b>NON-MARK-UP / INTEREST INCOME</b>					
Fee, commission and brokerage income		484,684	1,384,438	248,957	706,981
Dividend income		146,900	250,869	188,098	280,947
Income from dealing in foreign currencies		110,424	305,141	60,085	233,402
Income / Gain on Investments		26,507	324,534	(23,343)	1,661,091
Loss on trading in government securities		(12,636)	(12,636)	-	-
Other income		178,395	532,316	259,187	627,427
Total non-mark-up / interest income		935,994	2,784,600	730,382	3,509,848
		2,635,194	8,043,923	2,486,062	8,902,062
Administrative expenses		1,594,705	5,204,769	1,586,592	5,891,386
Other provisions	11	-	210,012	-	-
Other charges		1,308	1,548	-	171
Total non-mark-up / interest expenses		1,696,011	5,416,327	1,586,592	5,891,557
		937,183	2,627,596	899,470	3,010,505
Exceptional item					
Compensation on delayed tax refunds	12	-	513,852	-	-
<b>PROFIT BEFORE TAXATION</b>		937,183	3,141,448	899,470	3,010,505
Taxation - current		270,412	1,277,404	358,945	1,144,640
- prior years		-	-	-	-
Deferred		5,453	(86,310)	(1,147)	113,156
		275,865	1,191,094	357,798	1,257,796
<b>PROFIT AFTER TAXATION</b>		661,318	1,950,354	541,672	1,752,707
Retained earnings brought forward		988,203	261,636	243,528	621,965
Transfer from surplus on revaluation of fixed assets - net of tax		6,259	18,777	6,253	18,759
		994,462	300,413	249,781	640,724
Profit available for appropriation		1,655,780	2,250,767	791,453	2,393,451
<b>APPROPRIATIONS</b>					
Transfer to:					
Statutory reserve		132,264	390,071	108,334	350,541
General reserve		800,000	800,000	-	800,000
Interim cash dividend @ Rs 1.0 per share March 2004 (2003 : Rs 1.5 per share)		-	337,180	-	458,791
Interim cash dividend @ Rs 1.5 per share September 2004 (2003 : Rs 1.5 per share)		505,770	505,770	383,159	383,159
		1,438,034	2,033,021	491,493	2,093,491
Retained earnings carried forward		217,748	217,748	299,960	299,960
Earnings per share - Basic and Diluted	13	1.98	5.78	1.81	5.20

The annexed notes 1 to 17 form an integral part of these financial statements.

Mohammad Aftab Manzoor  
President and Chief Executive

Tariq Rafi  
Director

Mohammad Arshad  
Director

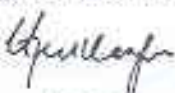
Mian Umer Mansha  
Director

**CASH FLOW STATEMENT**  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 (UN-AUDITED)

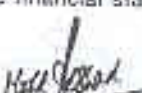


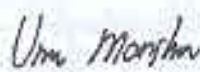
	September 30, 2004	September 30, 2003
	----- (Rupees '000) -----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	3,141,448	3,010,505
Less: Dividend income	(250,569)	(280,947)
	<u>2,890,879</u>	<u>2,729,558</u>
Adjustments for non-cash charges:		
Depreciation	359,424	255,802
Provision against loans and advances	156,114	653,539
Reversal of provision for diminution in the value of investments	(172,873)	(150,000)
Other provisions	210,012	-
Bad debts written off directly	7,505	187,044
Profit on disposal of fixed assets	(28,475)	(37,664)
	<u>531,704</u>	<u>908,721</u>
	<u>3,422,283</u>	<u>3,638,279</u>
(Increase)/ decrease in operating assets:		
Lendings to financial institutions	(2,242,694)	22,565,226
Net investments in held for trading securities	(363,270)	-
Advances - net	(6,870,891)	7,979,009
Others assets - net	(1,331,625)	173,213
	<u>(10,808,460)</u>	<u>30,717,448</u>
Increase/ (decrease) in operating liabilities:		
Bills payable	(2,010,393)	(1,131,316)
Borrowings from financial institutions	(18,463,518)	(11,084,052)
Deposits	4,952,418	31,974,348
Other liabilities	(37,775)	(1,260,300)
	<u>(15,559,271)</u>	<u>18,498,680</u>
Income tax paid	(22,945,468)	52,854,407
	<u>(591,574)</u>	<u>200,752</u>
<b>Net cash (outflow) / inflow from operating activities</b>	<u>(23,537,042)</u>	<u>53,055,159</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	75,596,128	(50,556,427)
Net investments in held-to-maturity securities	(43,490,385)	(58,451)
Net investments in associated undertakings	-	5,000
Dividends received	218,531	245,125
Investment in operating fixed assets - net of disposals	(804,433)	(828,322)
<b>Net cash inflow / (outflow) from investing activities</b>	<u>31,519,841</u>	<u>(51,191,075)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Redemption of sub-ordinated loan	(640)	(640)
Dividend paid	(583,184)	(854,156)
<b>Net cash outflow on financing activities</b>	<u>(583,824)</u>	<u>(854,796)</u>
<b>Increase / (decrease) in cash and cash equivalents</b>	<u>7,398,975</u>	<u>1,009,288</u>
Cash and cash equivalents at January 1	25,356,261	20,077,699
Cash and cash equivalents at September 30	<u>32,755,236</u>	<u>21,086,987</u>

The annexed notes 1 to 17 form an integral part of these financial statements.

  
Mohammad Aftab Manzoor  
President and Chief Executive

  
Tariq Rafi  
Director

  
Mohammad Arshad  
Director

  
Mian Umer Mansha  
Director

# STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 (UN-AUDITED)



	Share capital	Reserves			General reserve	Retained earnings	Total
		Share premium	Reserve for issue of bonus shares	Statutory reserve			
(Rupees '000)							
Balance as at January 01, 2003	2,655,455	473,673	399,818	2,153,026	-	621,985	6,313,957
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	18,759	18,759
Profit after taxation for the nine months ended September 30, 2003	-	-	-	-	-	1,752,707	1,752,707
Transferred to statutory reserve	-	-	-	350,541	-	(350,541)	-
Transferred to general reserve	-	-	-	-	900,000	(900,000)	-
Issue of bonus shares	399,818	-	(399,818)	-	-	-	-
Interim cash dividend March 2003	-	-	-	-	-	(459,791)	(459,791)
Interim cash dividend September 2003	-	-	-	-	-	(383,159)	(383,159)
Balance as at September 30, 2003	3,055,273	473,673	-	2,503,567	900,000	299,960	7,242,473
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	6,253	6,253
Profit after taxation for the three months ended December 31, 2003	-	-	-	-	-	477,438	477,438
Transferred to statutory reserve	-	-	-	95,488	-	(95,488)	-
Transferred to general reserve	-	-	-	-	100,000	(100,000)	-
Transferred to reserve for issue of bonus shares	-	-	306,527	-	-	(306,527)	-
Interim cash dividend	-	-	-	-	-	-	-
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	-	-	-	-	-	18,777	18,777
Profit after taxation for the nine months ended September 30, 2004	-	-	-	-	-	1,950,354	1,950,354
Transferred to statutory reserve	-	-	-	390,071	-	(390,071)	-
Transferred to general reserve	-	-	-	-	800,000	(800,000)	-
Issue of bonus shares	306,527	-	(306,527)	-	-	-	-
Interim cash dividend March 2004	-	-	-	-	-	(337,180)	(337,180)
Interim cash dividend September 2004	-	-	-	-	-	(505,770)	(505,770)
Balance as at September 30, 2004	3,371,800	473,673	-	2,989,126	1,800,000	217,746	8,852,345

The annexed notes 1 to 17 form an integral part of these financial statements.

Mohammad Aftab Manzoor  
President and Chief Executive

Tariq Rafi  
Director

Mohammad Arshad  
Director

Mian Umer Mansha  
Director

**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, I.I. Chundrigar Road, Karachi respectively. The Bank operates 648 (September 30, 2003: 1011) branches inside Pakistan and 5 (September 30, 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 thereon.
- b) The financial results of the Islamic Banking Branch have been consolidated in these financial statements for reporting purposes, after eliminating material intrabank transactions / balances. Key financial figures of the Islamic Banking Branch are disclosed in note 6 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. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence. The disclosures made in these financial statements have, however, been limited based on the format prescribed by the State Bank of Pakistan vide BSD circular letter no. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34, "Interim Financial Reporting".

**4. BASIS OF MEASUREMENT**

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

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

5.1 The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual financial statements of the bank for the year ended December 31, 2003.

**6. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCH**

	September 30, 2004 Rs In '000
Islamic Banking Fund	90,000
Deposits	365,500
Borrowings from Head Office	200,000
Murabahah Financing	334,589
Profit before taxation	4,316
Letter of Credit	584,705

	Note	Held by bank	Given as collateral	Total
(Rupees '000)				
<b>7. INVESTMENTS - NET</b>				
As on September 30, 2004		87,443,016	7,193,411	94,636,427
As on December 31, 2003		100,800,397	27,476,445	128,276,842
<b>7.1 Investments By Types</b>				
September 30, 2004				
Held-for-trading securities		363,270	-	363,270
Available-for-sale securities		42,039,495	700,000	42,739,495
Held-to-maturity securities		43,232,789	6,493,411	49,726,199
		85,635,553	7,193,411	92,828,964
Associates	7.2	1,006,900	-	1,006,900
Subsidiaries		57,475	-	57,475
		1,064,375	-	1,064,375
		86,699,928	7,193,411	93,893,339
Less: Provision for diminution in the value of investments		(695,979)	-	(695,979)
Surplus on revaluation on investments		1,439,067	-	1,439,067
<b>Investments - net</b>		<b>87,443,016</b>	<b>7,193,411</b>	<b>94,636,427</b>

**7.2** Investment of the bank in Adamjee Insurance Company Limited has been carried at cost amounting to Rs 943.600 million as at September 30, 2004 in accordance with the treatment specified in International Accounting Standard 28 "Accounting for Investments in Associates". The market value of the investment in Adamjee Insurance Company Limited as at September 30, 2004 amounted to Rs 1,407.778 million (December 31, 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.

	Note	September 30, 2004	December 31, 2003
(Rupees '000)			
<b>8. ADVANCES - NET</b>			
Loans, cash credits, running finances, etc.			
- In Pakistan		99,402,464	92,734,515
- Outside Pakistan		3,581,647	4,110,951
		102,984,111	96,845,466
Net Investments in Finance Lease			
- In Pakistan		846,950	397,169
- Outside Pakistan		91,584	85,813
		938,534	482,982
Bills discounted and purchased (excluding treasury bills)			
- Payable in Pakistan		3,224,450	2,829,028
- Payable outside Pakistan		3,372,177	3,853,620
		6,596,627	6,682,648
		110,519,272	104,011,096
Less: Provision for non - performing loans and advances			
- Specific provision	8.1	(5,871,372)	(6,145,859)
- General provision		(662,298)	(662,298)
- Potential lease losses		(2,951)	(2,760)
General provision against consumer loans	8.2	(75,200)	-
		(6,611,821)	(6,810,917)
		103,907,451	97,200,179

- 8.1 Advances include Rs 10,030,732 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	169,312	2,952	172,264	-	-
Substandard	156,318	2,991	159,309	22,780	22,780
Doubtful	1,140,329	-	1,140,329	136,458	136,458
Loss	5,762,289	2,796,541	8,558,830	5,712,134	5,712,134
	<u>7,228,248</u>	<u>2,802,484</u>	<u>10,030,732</u>	<u>5,871,372</u>	<u>5,871,372</u>

During the current period, the bank changed the method of computation of provision for non-performing advances in order to comply with the requirements of the revised Prudential Regulations, issued by the State Bank of Pakistan. Among other changes, the revised regulations require banks to apply a prescribed adjustment factor to the Forced Sale Value (FSV) of assets held as collateral against advances while determining the provision requirement against non-performing advances. Had the above mentioned discounting of collaterals not taken place, the provision against non-performing loans would have been lower and profit before tax for the period would have been higher by Rs 190,709 million.

- 8.2 According to the Prudential Regulations issued by the State Bank of Pakistan effective from January 1, 2004 and SBP Circular BSD/PU-22/121-04 (CLAR)/2004/8576 dated July 06, 2004 banks are 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, profit before tax for the period would have been higher by Rs 75,200 million.

**9 CONTINGENCIES AND COMMITMENTS**

September  
30, 2004                      December  
31, 2003  
----- (Rupees '000) -----

**9.1 Transaction-related Contingent Liabilities/Commitments**

Guarantees in favour of:

Government

Banks and financial institutions

Others

Suppliers credit / payee guarantee

3,104,790	2,637,212
48,398	47,702
2,055,251	1,911,741
1,409,238	928,952
<u>6,677,677</u>	<u>5,525,607</u>

**9.2 Trade-related Contingent Liabilities**

33,293,468                      20,229,002

**9.3 Other Contingencies**

668,222                              598,256

**9.4 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.

September  
30, 2004                      December  
31, 2003  
----- (Rupees '000) -----

**9.5 Commitments in respect of forward foreign exchange contracts**

Purchase

Sale

11,246,696	13,124,912
16,353,625	15,878,475
<u>27,600,323</u>	<u>29,003,387</u>

