

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SAUDI PAK COMMERCIAL BANK LIMITED

We have audited the annexed balance sheet of **Saudi Pak Commercial Bank Limited** as at December 31, 2007 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 6 branches which have been audited by us 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 amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60% of the total 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 changes in accounting policies as stated in note 4 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 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 respectively give a true and fair view of the state of the Bank's affairs as at the December 31, 2007, and its true balance of loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to following matters:

- i) The Bank has recorded net deferred tax assets of Rs. 754.091 (2006: 105.282) million during the year and as of the balance sheet date net deferred tax assets aggregated Rs. 1,767.715 (2006: Rs. 1,015.123) million (refer note 13). The existence of continued taxable losses indicates a material uncertainty which, if persists, may cast doubt about the availability of sufficient taxable profits against which this deferred tax asset could be utilized; and
- ii) The Bank's capital (net of losses) as of the balance sheet date amounted to Rs. 882.213 million, which is less than the minimum capital of Rs. 4,000 million as required by the State Bank of Pakistan. In case the paid-up capital is not increased as per the capital induction plan referred to in note 1.3 to the financial statements or further relaxation is not granted by the State Bank of Pakistan, the licence of the Bank may be modified to restrict banking activities.

Karachi

Date: March 7, 2008

Anjum Asim Shahid Rahman

Chartered Accountants

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SAUDI PAK COMMERCIAL BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2007

	Note	December 31, 2007	Restated December 31, 2006
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	7	3,223,780	3,994,136
Balances with other banks	8	128,991	613,678
Lending to financial institutions	9	839,959	4,747,567
Investments	10	17,859,169	15,828,682
Advances	11	25,874,972	29,021,974
Operating fixed assets	12	2,367,883	2,322,371
Deferred tax assets - net	13	1,767,715	1,015,123
Other assets	14	1,598,131	1,657,318
		53,660,600	59,200,849
LIABILITIES			
Bills payable	15	570,756	408,342
Borrowings	16	6,880,449	4,236,775
Deposits and other accounts	17	42,373,710	49,015,090
Sub-ordinated loan	18	650,000	650,000
Liabilities against assets subject to finance lease	19	80,155	63,030
Other liabilities	20	925,091	829,573
		51,480,161	55,202,810
NET ASSETS		2,180,439	3,998,039
REPRESENTED BY			
Share capital	21	5,001,750	3,847,500
Reserves		218,556	218,556
Accumulated losses		(4,119,537)	(1,080,726)
		1,100,769	2,985,330
Surplus on revaluation of assets - net of tax	22	1,079,670	1,012,709
		2,180,439	3,998,039
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 44 form an integral part of these financial statements.

Mansoor M. Khan
President and CEO

Muhammad Rashid Zahir
Chairman

Bashir A. Chowdry
Director

Javed Aslam Callea
Director

SAUDI PAK COMMERCIAL BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	December 31, 2007	Restated December 31, 2006
Rupees in '000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(3,320,265)	(408,968)
Add: Dividend income		(44,465)	(59,851)
		<u>(3,364,730)</u>	<u>(468,819)</u>
Adjustments			
Depreciation		133,836	119,073
Amortization of intangible assets		13,415	244,756
Amortization of premium on securities		222,526	7,645
Provision against non-performing advances		3,134,651	463,988
Provision / (reversal) against consumer financing		(5,281)	915
Provision for diminution in the value of investments / other assets		3,074	(56,806)
Unrealized loss on revaluation of investment classified as held for trading		1,310	5,962
Gain on sale of fixed assets		(2,412)	(1,984)
Financial charges on leased assets		11,662	51
Other (reversal) / provisions written back		38,019	(202,435)
Provision for gratuity		21,049	14,739
		<u>3,571,849</u>	<u>595,904</u>
		207,119	127,085
(Increase) / Decrease in operating assets			
Lendings to financial institutions		1,950,108	2,880,996
Held-for-trading securities		30,605	(49,175)
Advances		17,632	(9,908,151)
Other assets (excluding advance taxation)		(231,150)	(743,943)
		<u>1,767,195</u>	<u>(7,820,273)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		162,414	209,199
Borrowings from financial institutions		2,643,674	(1,244,513)
Deposits		(6,641,380)	11,879,048
Other liabilities (excluding current taxation)		36,450	339,929
		<u>(3,798,842)</u>	<u>11,183,663</u>
		(1,824,528)	3,490,475
Income tax paid		(185,129)	(57,278)
		<u>(2,009,657)</u>	<u>3,433,197</u>
Net cash flows (used in) / from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(3,034,887)	(2,928,752)
Net investment in held-to-maturity securities		817,440	(309,446)
Net investment in associate		-	(25,000)
Dividend income		44,465	59,851
Investment in operating fixed assets		(152,301)	3,860
Sale proceeds of property and equipment disposed off		10,923	(276,210)
		<u>(2,314,360)</u>	<u>(3,475,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		(42,777)	(569)
Issue of share capital		1,154,250	-
		<u>1,111,473</u>	<u>(569)</u>
Net cash (used in) / generated from financing activities			
Effects of exchange rate changes on cash and cash equivalents		-	-
		<u>(3,212,544)</u>	<u>(43,069)</u>
Increase / (Decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year	33	<u>6,565,315</u>	6,608,384
Cash and cash equivalents at end of the year	33	<u>3,352,771</u>	<u>6,565,315</u>

The annexed notes 1 to 44 form an integral part of these financial statements.

Mansoor M. Khan
President and CEO

Muhammad Rashid Zahir
Chairman

Bashir A. Chowdry
Director

Javed Aslam Callea
Director

Chairman's Message

It is my privilege to present the Thirteenth Annual Report and audited financial statements together with the Auditor's and Directors' Report of Saudi Pak Commercial Bank Limited for the year ended 31 December 2007.

Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Limited (SAPICO) took over the management of the bank in the last quarter of 2001. Before that a moratorium had been imposed on the bank by the State Bank of Pakistan for a period of 180 days. During the period of moratorium the bank could not carry on any business activity. This moratorium and the manner in which the bank was run by the previous management had seriously damaged the image and financial position of the Bank.

It was indeed a herculean task to uplift the bank from its fragile position in 2001. SAPICO took up this challenge with full commitment and conviction. It took a number of steps to rehabilitate the bank and make it a financially viable and profitable institution. These steps covered all facets of the management. Some of these initiatives are listed as follows:

- Improved the image of the Bank through Group's image.
- Introduction of professional management and quality Human Resources at all levels.
- Up-gradation of technology platform.
- Revamping of treasury function.
- Strengthening of financial controls.
- Introduction of credit administration.
- Streamlining deposits mobilization efforts.
- Improving systems and controls.

From time to time SAPICO also injected capital into the bank to support its aggressive growth strategy.

As a result of these efforts the Bank has come a long way from its precarious condition of 2001. It has been able to establish itself as a vibrant player in the financial market. During this period the bank has grown manifold. Total assets base has grown more than five times from Rs.10 billion to Rs.54 billion. Deposits increased more than 9 times from a mere Rs.4.8 billion to over Rs.40 billion.

Lending increased from Rs.3.3 billion to over Rs.30 billion and share capital enhanced from Rs.1.5 billion to over Rs.5 billion. All this growth could not have been possible without the support of the shareholders, commitment of the Board of Directors and untiring efforts of the management and staff of the bank, for which I would like to appreciate them.

In 2007, SAPICO decided to exit from the bank and therefore looked for a suitable buyer – a buyer that could take the bank to the next level of growth. In this regard SAPICO has signed a Share Purchase Agreement with a consortium led by renowned banker Mr. Shaukat Tarin, comprising of Bank Muscat SAOG, Nomura European Investments Limited and International Finance Corporation. I am sure under the guidance of the new sponsors, the bank will prosper and all the stakeholders will benefit.

I would like to thank State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their professional guidance. My sincere appreciation is due to the Board of Directors, management and staff for their dedication and hard work.

Muhammad Rashid Zahir

Chairman

Karachi: March 6, 2008

Directors' Report to the Shareholders

On behalf of the Board of Directors, it gives me pleasure to present to you the thirteenth Annual Report of Saudi Pak Commercial Bank Limited for the year ended December 31, 2007 alongwith the Audited Financial Statements.

Financial Results

The Bank, after witnessing significant growth in business in 2006, had reached a level where further growth required additional capital. The injection of fresh capital could not be made as the major shareholder of the Bank were in negotiations for the sale of their stake in the Bank and after concluding the negotiations, the decision to inject fresh equity was left to new sponsors. Therefore, in 2007, focus was on consolidating financial position of the bank. As a result total assets base, which was Rs. 59.2 billion as on December 31, 2006 reduced to Rs. 53.6 billion as on December 31, 2007 showing a decrease of 9.5 per cent. Deposits reduced to Rs. 42.4 billion from Rs. 49.0 billion and on advances side, the Bank witnessed a reduction of 10.8 per cent during the period.

Mark up income increased by 29 percent from Rs.3.7 billion in 2006 to Rs.4.8 billion in 2007. Mark up expense also increased to Rs. 4.4 billion from Rs. 3.3 billion in 2006. Operating profit (before gross provisions and mark-up suspense), during the period under review, amounted to **Rs. 129 million**. During the year 2007, the State Bank of Pakistan has withdrawn the benefit of Force Sale Value (FSV) of securities taken by the banks while calculating the provision against non-performing loans. Accordingly, the requirement for provision for bad and doubtful debts significantly increased and the Bank incurred pre-tax loss of Rs.3.3 billion for the year ended December 31, 2007 as against the pre-tax loss of Rs. 409 million in the previous year. Net loss after tax credits amounted to Rs. 3.0 billion as against loss after tax of Rs. 304 million in the previous year.

Appropriations

The appropriations are recommended as under:

	(Rs in million)
Loss before tax	(3,320)
Provision for tax	279
Loss after tax	<u>(3,041)</u>
Un-appropriated loss brought forward	(1,080)
Transfer from surplus on revaluation of fixed assets	2
Un-appropriated loss carried forward	<u>(4,119)</u>
Earning / (Loss) per share (Rupees)	<u>(6.25)</u>

Risk Management Framework

As Saudi Pak Bank embarks on a plan for business diversification and growth amidst increasing competitiveness in the banking industry, the importance of effective risk management in the Bank is more than ever before. To this end, the Board and the management of the Bank are fully cognizant of importance and presence of an effective and efficient Risk Management and, therefore, the Bank has a comprehensive Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework for an appropriate risk management process and infrastructure.

We made our earnest efforts to ensure compliance with the SBP guidelines on risk management during 2007.

Sale of shares by Saudi Pak Industrial & Agricultural Investment Company. (Pvt) Limited

Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Limited has since entered into a Share Purchase Agreement with a consortium comprising of Bank Muscat SOAG, International Finance Corporation and Nomura European Investment Limited for sale of their 68.01 percent shareholding in the Bank. Similar arrangement have been made by Mr. Jawed Anwar, Mr. Faiq Jawed, Mr. Shaiq Jawed, Mrs. Farhat Jehan and J.K. Sons (Pvt.) Limited, collectively known as JK Group with Mr. Shaukat Tarin and Associates for sale of their 17.09 percent stake in the Bank. Mr. Shaukat Tarin, a renowned banker, leads the buyers' group.

In addition, an offer for purchase of 7,302,555 ordinary shares was made to the remaining shareholders through a public announcement. The formalities of the sale transaction and transfer of controlling interest to new sponsors are in the final stage and are expected to be completed in March 2008.

Shortfall in Minimum Capital Requirement

The Bank as at 31 December 2007 has a shortfall of Rs.3.1 billion in minimum capital requirement as prescribed by the State Bank of Pakistan. The existing major shareholders of the bank would have met this shortfall. However, as per the share purchase agreement, the sellers are bound not to make major changes in the key areas of the bank. The shortfall in the minimum capital requirement of the Bank, will, therefore, be met by the new sponsors after they assume control of the Bank.

Deferred Tax

The Bank has recognized deferred tax amount of Rs. 754.091 million during the year and as at 31 December 2007 the net deferred tax assets stood at Rs. 1.767 billion. We believe that new shareholders of the bank have firm plans to adequately capitalize the Bank

which will also have a positive impact on its profitability. Accordingly, sufficient future taxable profits will be available against which this asset can be utilized.

Credit Rating

The JCR-VIS Credit Rating Company has assigned long term rating of BBB+ (Triple B Plus) to the Bank, whereas the short term entity rating is A-3 (A-Three). Both ratings are with a “Stable Outlook”. Further, in view of intentions of the major sponsors to sell their shareholding, as mentioned above, the rating agency has put the rating of the bank on “rating watch – developing”.

Provident Fund

The investment in Provident Fund and Gratuity Fund as on December 31, 2007 was Rs 85 million and Rs 36 million respectively (based on un-audited accounts). (2006: Rs 60 million and Rs 24 million respectively).

Statement of Corporate Governance

The Bank is compliant with the Code of Corporate Governance issued by SECP, guidelines and regulations issued by State Bank of Pakistan and listing regulations of Stock Exchanges. The Directors are pleased to state that:

- a. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- b. Proper books of account of the Bank have been maintained.
- c. Appropriate accounting policies have consistently been applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements without any material departure.

- e. The system of internal controls is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. An audit committee has been formed for the purpose which meets periodically and independently throughout the year with the management, internal auditors and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place, which are reviewed and monitored throughout the year to indicate and evaluate the variances from the budget.
- f. There are no doubts upon the Bank's ability to continue as a going concern.
- g. There has been no material departure from the best policies of corporate governance, as detailed in the listing regulations.
- h. During the year seven Board meetings were held. These meetings were attended by the directors as under:

Name of Director	No of meetings	
	Held during directorship	Attended
Mr. Muhammad Rashid Zahir	7	7
Mr. Basheer Ahmed Chowdry	7	7
Mr. Farrukh Shaukat Ansari	7	6
Mr. Hidayatullah Khan Khaishgi	7	7
Mr. S.H.S. Mansoor Naqvi	7	7
Mr. Javed Aslam Callea (newly elected on October 2, 2007)	1	1
Mr. Muhammad Bilal (newly elected on October 2, 2007)	1	1
Mrs. Sadaf Aamir Arshad (Director till October 2, 2007)	6	6
Mr. Muhammad Nasimuddin Mirza (Director till October 2, 2007)	6	4

- i. The key information as to operating and financial data of the Bank is available in the annual report. The categories and pattern of shareholding as required by the Companies Ordinance, 1984 are included in this Report.

Statutory Auditors

The retiring auditors, Messrs Anjum Asim Shahid Rahman, Chartered Accountants retire, and being eligible, offer themselves for reappointment for the year ending December 31, 2008.

Acknowledgement

We would like to express thanks to State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their continuing guidance. The patronage of the customers and the support of shareholders is a key factor in the success of the Bank. We would like to convey our deep gratitude to them and look forward to their continued support in the future.

For and on behalf of the Board

Muhammad Rashid Zahir

Chairman

Karachi

Dated: March 06, 2008

SAUDI PAK COMMERCIAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1 STATUS AND NATURE OF BUSINESS

- 1.1** Saudi Pak Commercial Bank Limited was incorporated in Pakistan on April 04, 1994 as a public limited company under the Companies Ordinance, 1984. The bank commenced commercial operations on May 07, 1995. Its shares are quoted on all the Stock Exchanges in Pakistan. The bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. It operates through 55 branches (2006: 50) in Pakistan with the registered office located in Islamabad and central office located at Saudi Pak Building, I. I. Chundrigar Road, Karachi. The short term and long term credit rating of the bank rated by JCR-VIS Credit Rating Company Limited rated in July 13, 2007 is 'A-3' and 'BBB+' respectively.
- 1.2** Saudi Pak Industrial and Agricultural Investment Company (Private) Limited (SAPICO), the holding company and major shareholder of the Bank, approximately holding 68% (2006: 68%) of the paid up capital.
- 1.3** The Bank has a short fall of Rs. 3.1 billion as on December 31, 2007 in meeting minimum capital requirement of Rs. 4 billion free of losses, as required by BSD circular no. 6 of 2005. However, in view of the divestment plan of the holding company, the Bank has not increased capital to the required level by the end of December 31, 2007.

The holding company has sold their entire shareholding in the Bank to a consortium comprising Bank Muscat, the International Finance Corporation (IFC) and Nomura European Investment Limited. As per the Shares Purchase Agreement signed between the buyers and sellers, the sellers are bound not to make major changes in the key areas of the bank. Accordingly, shortfall in minimum capital requirement of the Bank will be met by the new sponsors after they assume control of the Bank. The formalities of the sale transaction and transfer of controlling interest to new sponsors are in the final stage and expected to be completed in March 2008. In view of the foregoing, the Bank/major shareholders of the Bank have requested State Bank of Pakistan for allowing extension in meeting the short fall in the capital up to March 31, 2008. The final decision of the State Bank of Pakistan is awaited. Furthermore, the new shareholders have firm plans to adequately capitalize the Bank. The implementation of these plans will start immediately after takeover of the Bank by them and capital requirement will be met by June 30, 2008.

2 BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) 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 markup in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

These financial statements have been prepared in Pakistani Rupee terms which is the reporting and functional currency.

SAUDI PAK COMMERCIAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3 STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the SBP and Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise such International Financial reporting 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 SECP and the SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

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

Following standards and interpretations have been issued but are not effective. Consequently, respective requirements have not been followed while preparing these financial statements.

Amendments to IAS 23 Borrowing Costs	IAS 23	01 January 2009
Operating Segments	IFRS 8	01 January 2009
Service Concession Arrangements	IFRS 12	01 January 2008
Customer Loyalty Programmes	IFRS 13	01 July 2008
IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their	IFRS 14	01 January 2008

Above standards and interpretations are not expected to materially affect the financial statements.

3.3 The SBP as per BSD Circular Letter No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking Companies till further instructions. 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 categories prescribed by the SBP in various circulars.

4 CHANGE IN ACCOUNTING POLICY

4.1 The bank, to comply with requirements of SBP, has revised its policy for amortization of premium on investments. Now as per new policy, the investments including premium are being amortized by using of effective interest method, where as previously premium on investments were amortized over the life of the asset on the basis of days utilized during the period and investments were amortized over respective contract period. .

In accordance with the requirements of International Accounting Standard 8 - "Accounting policies, changes in accounting estimates and errors" the change in accounting policy has been applied retrospectively and the comparative information has been restated. The effect of this change in accounting policy on the financial statements of the company is as under:

SAUDI PAK COMMERCIAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

	December 31,	Prior than
	2006	January 1,
		2006
	Rupees in '000	
Investments are higher by (Held-to-maturity)	9,723	106,105
Interest income is higher by	796	11,495
Deficit on revaluation of securities (net) is higher by	12,291	-
Deferred tax assets are increased by	4,301	-
Deferred tax expense is (reduced) by	(4,301)	-
Tax expense higher by	-	41,160
Loss after tax for the year higher by	11,181	76,440

- 4.2** The bank, to comply with instruction of SBP under circular no. BSD 6 of 2007 issued on September 6, 2007, has revised its policy for valuation of investment in associate. Now as per new policy, the investment in associate are being held at cost, where as previously investment in associate was valued on equity method. The effect of this change in accounting policy on the financial statements of the company is as under:

	December 31,	Prior than
	2006	January 1,
		2006
	Rupees in '000	
Diminution in investment in associate is (reduced) by	5,270	5,100
Loss after tax for the period higher by	5,270	5,100

5 BASIS OF MEASUREMENT

- 5.1** These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, certain investments are stated at market value, derivative financial instruments have been marked to market and certain staff retirement benefits are carried at present value.

- 5.2** The financial statements have been prepared following the accrual basis of accounting except for the cash flow information.

5.3 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

SAUDI PAK COMMERCIAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities with in the next financial year. Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

5.3.1 Provision against non-performing loans and advances

The Bank reviews its loans portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. Provisions are made as per the guidelines in the Prudential Regulations for Corporate / Commercial Banking issued by State Bank of Pakistan.

5.3.2 Fair value of derivatives

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

5.3.3 Held-to-maturity investments

The Bank follows the guidance provided in SBP's circulars on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

5.3.4 Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

5.3.5 Useful life of property and equipments

Estimates of useful life of the property and equipment are based on the management's best estimate.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks, balances with other banks in current and deposit accounts and call money lendings in the money market.

6.2 Lendings to / borrowings from financial institutions

The bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

6.2.1 Sale under repurchase obligations

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investment and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as an expense.

SAUDI PAK COMMERCIAL BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

6.2.2 Purchase under resale obligations

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortized over the period of the agreement and recorded as income.

6.3 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date that the bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

6.4 Investments

6.4.1 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, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

b) **Held-for-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.

c) **Available-for-sale**

These are investments that do not fall under the "held for trading" or "held to maturity"

6.4.2 In accordance with the requirements of State Bank of Pakistan, quoted securities, other than those classified under "held-to-maturity" portfolio and investments in subsidiaries and associates are carried at cost. Investments classified as "held-to-maturity" are required to be carried at amortized cost.

6.4.3 The surplus / (deficit) arising on quoted securities classified as "available-for-sale" is kept in a separate account which is shown in the balance sheet below equity. The surplus / (deficit) is taken to profit and loss account when the investment is disposed off.

6.4.4 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, if any.

6.4.5 Investments in associates

Investments in associates are valued using cost method of accounting.

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6.4.6 Profit and loss on sale of investments is included in income currently.

6.4.7 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 Prudential Regulations issued by the State Bank of Pakistan.

6.5 Advances

Specific provision against funded loans are determined in accordance with the requirements of the Prudential Regulations issued by SBP and charged to the profit and loss account. General provision is maintained at 1.5% of the fully secured consumer portfolio, and 5% of the unsecured consumer portfolio.

Advances are written off when there are no prospects of recovery after all the recovery procedures have been exhausted.

6.6 Operating fixed assets

6.6.1 Property and equipment

Owned assets

An item of property and equipment is initially recognized at cost which is equal to the fair value of consideration paid at the time of acquisition or construction of the asset.

Assets subject to finance lease

The bank accounts for property and equipment acquired under finance leases by recording the assets and the related liability. These amounts are determined at the inception of lease, on the basis of the lower of the fair value and the present value of minimum lease payments. Financial charges are allocated to the accounting period in a manner so as to provide a constant rate of charge on the outstanding liability.

6.6.2 Measurement subsequent to initial recognition

Property and equipment other than land and building, are stated at cost less accumulated depreciation and accumulated impairment losses.

Land is stated at its revalued amount whereas buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses.

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred by the bank to equity.

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Gains or losses on disposal of assets are taken to income currently, except that the related surplus on revaluation of fixed asset (net of deferred tax) is transferred directly to unappropriated profit or accumulated loss.

6.6.3 Depreciation

Depreciation is computed over the useful lives of the related assets under the straight line method. Depreciation on additions and deletions during the year is charged for the proportionate period with respect to number of months during which the assets remained in use. Same basis and estimates for depreciation are applied to owned assets and assets subject to finance lease.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

6.6.4 Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the balance sheet date and represents expenditure incurred on property and equipment in the course of construction. These expenditure are transferred to relevant category of property and equipment as and when the assets become available for use.

6.6.5 Intangible assets

These include computer software and are recorded initially at cost and subsequently carried at cost less any accumulated amortization and any accumulated impairment losses.

These are amortized over their finite useful lives and amortization is charged to income using the straight line method.

6.7 Income tax expense

6.7.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for the current tax is calculated using prevailing tax rates or tax rates expected to apply to the profits for the year at enacted tax rates or minimum tax at the rate of 0.5% of turnover, which ever is higher. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments made during the year for such years.

6.7.2 Deferred

Deferred tax is recognized 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. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The Bank also recognizes deferred tax asset / liability on deficit / surplus on revaluation of fixed assets and securities which is adjusted against the related deficit / surplus in accordance with the requirements of the revised International Accounting Standard (IAS) 12 "Income Taxes".

6.8 Impairment

At each balance sheet date the bank reviews the carrying amounts of its assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. Whenever the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized as an expense immediately.

6.9 Provisions

Provisions are recognized when the bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and 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.

Provision against identified non-funded losses is recognized when identified and reasonable certainty exist for the bank to settle the obligation. The loss is charged to profit and loss account net off expected recovery and is classified under the other liabilities.

6.10 Staff retirement benefits

6.10.1 Defined contribution plan

The Bank operates an approved funded provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of employees.

6.10.2 Defined benefit plan

The Bank operates an approved gratuity scheme for all its regular employees. The entitlement of the employees will start on completion of two years with the Bank beginning from January 01, 2005. Projected Unit Credit Cost Method has been used for actuarial valuation.

A portion of the actuarial gains or losses is recognized if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor" which is defined as the greater of:

- a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) and;
- b) 10% of the fair value of any plan assets at that date.

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6.11 Revenue recognition

Mark-up/return on advances and return on investments are recognized on accrual basis except in case of loans and advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which markup is recognized on receipt basis. Interest/markup on rescheduled / restructured loans and advances and investments is recognized in accordance with the directives of SBP.

Fee, brokerage and commission income is recognized on accrual basis.

Dividend income is recognized when the right to receive the dividend is established.

6.12 Foreign currencies

6.12.1 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 ruling on the balance sheet date except that certain deposits, which are covered by forward foreign exchange contracts, are translated at contracted rates. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

6.12.2 Commitments

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at forward rates applicable to their respective maturities. 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.

Translation gains and losses are included in income currently.

6.13 Financial instrument

6.13.1 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, bills payable, lease liability, subordinated loan 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.

6.13.2 Derivative financial instrument

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to profit and loss account.

6.14 Off-Setting

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

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6.15 Borrowing costs

Borrowing costs specific to a significant addition of a project during its construction / erection period are capitalized. Other borrowing costs are charged to the profit and loss account as and when incurred.

6.16 Transfer pricing and related parties

Related parties include the Bank's associates, directors, key management personnel, retirement benefit plans and companies under common directorship. All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the bank to conduct related party transactions at a price other than the arm's length price.

6.17 Segment reporting

A segment is a distinguishable component of the bank that is engaged in either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the bank's functional structure and the guidance of State Bank of Pakistan. The bank comprises of the following main business segments:

6.17.1 Business segments

Corporate finance

This includes investment banking activities such as mergers and acquisitions, underwriting, privatization, securitization, Initial Public Offers (IPOs) and secondary private placements.

Trading and sales

This segment undertakes the bank's treasury, money market and capital market activities.

Retail banking

Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits other transactions and balances with retail customers.

Commercial banking

This includes loans, deposits other transactions and balances with corporate customers.

6.17.2 Geographical segment

The bank conducts all its operations in Pakistan.

6.18 Provision for off balance sheet obligations

Provision for guarantees, claims and other off balance sheet obligations is made when the Bank has legal or constructive obligation as a result of past events, it is probable that an out flow of resources will be required to settle the obligation and a reliable estimate of amount can be made. Charge to profit and loss account is stated net of expected recoveries.

6.19 Fiduciary assets

Assets held in fiduciary capacity are not treated as assets of the bank in the balance sheet.

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	Note	December 31, 2007	December 31, 2006
Rupees in '000			
7 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		391,178	355,578
Foreign currencies		100,697	86,033
National prize bonds		-	2,076
With State Bank of Pakistan (SBP) in:			
	7.1		
Local currency account		2,369,543	2,664,188
Foreign currency - Current account		111,589	143,124
- Deposit account		141,895	438,587
With National Bank of Pakistan (NBP) in:			
Local currency current account		108,878	304,550
		<u>3,223,780</u>	<u>3,994,136</u>

7.1 Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.

8 BALANCES WITH OTHER BANKS

In Pakistan

Current accounts	82,153	134,178
Deposit accounts	-	300,000
	82,153	434,178

Outside Pakistan

Current accounts	8.1	46,838	179,500
		<u>128,991</u>	<u>613,678</u>

8.1 This includes Rs. 2.087 million (2006: Rs. 105.147 million) held in Automated Investment Plans. The balance is current by nature and on increase in the balance to specified limit, interest is received from the correspondent banks at various prescribed scale of rates.

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	Note	December 31, 2007	December 31, 2006
Rupees in '000			
9			
LENDINGS TO FINANCIAL INSTITUTIONS			
In local currency			
Call money lendings		-	1,957,500
Repurchase agreement lendings (Reverse repo)	9.1	839,959	2,790,067
		839,959	4,747,567

9.1 Securities held as collateral against lendings to financial institutions

		December 31, 2007			December 31, 2006		
		----- Rupees in '000 -----					
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Market treasury bills	9.1.1	589,959	250,000	839,959	2,790,067	-	2,790,067

9.1.1 These have been purchase under the resale agreements at the markup rates ranging from 9.6% to 9.9% per annum (2006: 8.65% to 8.7% per annum) with maturities up to January 2008.

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10 INVESTMENTS	December 31, 2007			December 31, 2006 - Restated		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees in '000 -----						
10.1 Investments by type						
Held-for-trading securities						
Listed shares	9,720	-	9,720	43,213	-	43,213
Available-for-sale securities						
Market treasury bills	6,546,225	2,472,007	9,018,232	4,199,885	1,808,776	6,008,661
Pakistan investment bonds	588,511	-	588,511	-	555,092	555,092
Mutual fund units	1,713,907	-	1,713,907	1,591,307	-	1,591,307
Preference shares						
Listed	65,000	-	65,000	65,000	-	65,000
Unlisted	50,000	-	50,000	50,000	-	50,000
Term finance certificates						
Listed	19,196	-	19,196	188,415	-	188,415
Unlisted	286,267	-	286,267	-	-	-
Ordinary shares						
Listed	164,879	-	164,879	465,705	-	465,705
Unlisted	65,680	-	65,680	15,680	-	15,680
	9,499,665	2,472,007	11,971,672	6,575,992	2,363,868	8,939,860
Held-to-maturity securities						
Pakistan investment bonds	5,545,393	55,927	5,601,320	5,906,688	58,148	5,964,836
Term finance certificates						
Listed	311,636	-	311,636	822,808	-	822,808
Unlisted	87,030	-	87,030	239,043	-	239,043
Shares repo	80,432	-	80,432	93,697	-	93,697
	6,024,491	55,927	6,080,418	7,062,236	58,148	7,120,384
Investment in associate	75,000	-	75,000	75,000	-	75,000
Investments at cost	15,608,876	2,527,934	18,136,810	13,756,441	2,422,016	16,178,457
Less: Provisions for diminution in value of investments	(91,311)	-	(91,311)	(88,237)	-	(88,237)
Investments-net of provision	15,517,565	2,527,934	18,045,499	13,668,204	2,422,016	16,090,220
(Deficit) on revaluation of held-for-trading investments	(1,310)	-	(1,310)	(5,962)	-	(5,962)
(Deficit) on revaluation of available-for-sale investments	(185,020)	-	(185,020)	(255,576)	-	(255,576)
Total investments at market value	15,331,235	2,527,934	17,859,169	13,406,666	2,422,016	15,828,682

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	Note	December 31, 2007	December 31, 2006
Rupees in '000			
10.2 Investments by segments			
Federal Government Securities			
Market treasury bills	10.2.1	9,018,232	6,008,661
Pakistan investment bonds	10.2.1-10.2.2	6,189,831	6,519,928
		15,208,063	12,528,589
Fully paid-up ordinary shares			
Listed companies	10.5	174,599	508,918
Unlisted companies	10.6	65,680	15,680
		240,279	524,598
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Term finance certificates - Listed	10.7.1	330,832	1,011,223
- Unlisted	10.7.2	373,297	239,043
		704,129	1,250,266
Other investments			
Mutual fund units	10.8	1,713,907	1,591,307
Preference shares - Listed	10.9-10.10	65,000	65,000
- Unlisted	10.11	50,000	50,000
Investment in associates	10.12	75,000	75,000
Shares repo		80,432	93,697
		1,984,339	1,875,004
Total investments at cost		18,136,810	16,178,457
Provision for diminution in the value of investments	10.3	(91,311)	(88,237)
Investments - net of provision		18,045,499	16,090,220
Deficit on revaluation of held for trading investments		(1,310)	(5,962)
Deficit on revaluation of available for sale investments		(185,020)	(255,576)
Total investments at market value		17,859,169	15,828,682

10.2.1 Principal terms of investments in Federal Government Securities

Name of Investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Pakistan investment bonds	Dec 2010 to Aug 2017	On maturity	8% to 14%	Semi-annually
Market treasury bills	Jan 2008 to Jun 2008	On maturity	8.76% to 9.09%	At maturity

10.2.2 Pakistan Investment Bonds

This includes securities having face value of Rs. 47.7 million (2006: Rs. 47.7 Million) pledged with State Bank of Pakistan and National Bank of Pakistan as security to facilitate T.T discounting facility to branches of the bank.

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	December 31, 2007	December 31, 2006
	Rupees in '000	
10.3 Particulars of provision		
Opening balance	88,237	145,045
Charge for the year	3,074	6,303
Reversals	-	(63,111)
Closing balance	91,311	88,237

10.3.1 Particulars of provision in respect of type and segment

Available-for-sale securities

Preference shares - unlisted	4,990	1,916
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Held-to-maturities securities

Term finance certificates - listed	5,889	5,889
Shares repo	80,432	80,432
	91,311	88,237

	December 31, 2007		December 31, 2006	
	Rating long term / short term	Amount	Rating long term / short term	Amount
	Rupees in '000		Rupees in '000	
10.4 Quality of available for sale securities				
10.4.1 Market treasury bills	Unrated	9,018,232	Unrated	6,008,661
10.4.2 Pakistan investment bonds	Unrated	588,511	Unrated	555,092
10.4.3 Mutual fund units				
Pakistan Strategic Allocation Fund	4-star	20,000	4-star	20,460
Faysal Balanced Growth Fund	MFR 3-star	-	MFR 3-star	50,000
AMZ Plus Income Fund	MFR 3Star	175,000	A(f)	175,000
PICIC Growth Fund	MFR 2Star	8,598	MFR 4-star	8,598
KASB Liquid Fund KLF	A+	175,000		50,000
NAFA Cash Fund	A(f)	175,000	A(f)	175,000
ABAMCO Composite Fund		52,249	4 star	52,249
Atlas Income Fund		-	4 star	175,000
UTP Income Fund		-	5 star	175,000
Dawood Money Market Fund	5 star	175,000	5 star	175,000

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	December 31, 2007		December 31, 2006	
	Rating long term / short term	Amount Rupees in '000	Rating long term / short term	Amount Rupees in '000
United Money Market Fund		-	A+ (f)	175,000
NAMCO Balanced Fund	A3-	8,060		10,000
Arif Habib Pakistan income Fund		-	4 star	175,000
Askari Income Fund	5 star	175,000	4 star	175,000
MCB Dynamic Cash Fund	AM3	175,000		-
AKD Income Fund	AM3+	175,000		-
POBOP Advantage Plus Fund		50,000		-
Alfalah GHP Income Multi Fund		175,000		-
Faysal Saving Growth Fund	A+(f)	175,000		-
10.4.4 Preference shares-listed				
Chenab Limited		50,000		50,000
Masood Textile Mills Limited		15,000		15,000
10.4.5 Preference shares-unlisted				
Jamshoro Joint Venture Limited	A+	50,000	A	50,000
10.4.6 Term finance certificates-listed				
Allied Bank Limited		-	A	169,215
Escort Investment Bank Limited		9,998	A+	10,000
Worldcall Telecom Limited	A+	9,198		9,200
Term finance certificates-unlisted				
Avari Hotels	Unrated	286,267		-
10.4.7 Ordinary shares-listed				
Bank Alfalah Limited		-	AA	5,685
Bank of Punjab Limited		-	AA	1
D.G.Khan Cement Limited		-		29,415
Engro Chemical Pakistan Limited		-	AA	14,369
Fauji Cement Limited		-		13,235
Fauji Fertilizer Company Limited		2,247		8,161
Faysal Bank Limited		-	AA -	58,441
Hub Power Company Limited		26,058		33,328

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	December 31, 2007		December 31, 2006	
	Rating long term / short term	Amount Rupees in '000	Rating long term / short term	Amount Rupees in '000
Hira Textile Mills Limited		32,968		-
ICI Pakistan Limited		-		16,759
Japan Power Generation Limited		-		10,310
Lucky Cement Limited		-		10,484
Maple Leaf Cement Limited		34,396		32,130
Nishat Mills Limited		-		53,752
Oil & Gas Development Corporation	AAA	22,660		56,802
Pakistan State Oil Company Limited		-	AAA	8,565
Pakistan Oilfields Limited		30,202		66,774
Pakistan International Container Limited		-		5,098
Pioneer Cement Limited		1,229		7,080
Pakistan Petroleum Limited		-		18,547
Sui Southern Gas Company Limited	AA-	15,119	AA -	15,119
Union Leasing Limited		-	A +	1,650
10.4.8 Ordinary shares-unlisted				
Pakistan Export Finance Guarantee Limited		5,680		5,680
Khushali Bank Limited		10,000	A -	10,000
Al-Hamra (Private) Limited		50,000		-
		<u>11,971,672</u>		<u>8,939,860</u>

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10.5 Investment in fully paid up ordinary share-listed

December 31, 2007	December 31, 2006	Paid up value per share Rupees	Name of Investee	December 31, 2007	December 31, 2006
No. of Ordinary Shares				Rupees in '000	
-	111,713	10	Bank Alfalah Limited	-	5,685
-	12	10	Bank of Punjab Limited	-	1
-	291,422	10	D.G.Khan Cement Limited	-	29,415
-	70,000	10	Engro Chemical Pakistan Limited	-	14,369
-	500,000	10	Fauji Cement Limited	-	13,235
217,400	63,200	10	Fauji Fertilizer Company Limited	11,967	8,161
-	732,156	10	Faysal Bank Limited	-	58,441
625,000	800,000	10	Hub Power Company Limited	26,058	33,328
2,637,420	-	10	Hira Textile Mills Limited	32,968	-
-	100,000	10	ICI Pakistan Limited	-	16,759
-	1,422,000	10	Japan Power Generation Limited	-	10,310
-	100,000	10	Lucky Cement Limited	-	10,484
-	25,000	10	MCB Bank Limited	-	6,551
906,250	725,000	10	Maple Leaf Cement Limited	34,396	32,130
-	100,000	10	National Bank of Pakistan	-	26,967
-	440,000	10	Nishat Mills Limited	-	53,752
150,000	376,000	10	Oil & Gas Development Corporation	22,660	56,802
-	25,000	10	Pakistan State Oil Company Limited	-	8,565
72,500	147,500	10	Pakistan Oilfields Limited	30,202	66,774
-	100,000	10	Pakistan Industrial Credit & Investment Corporation	-	7,030
-	50,000	10	Pakistan International Container Limited	-	5,098
19,962	114,962	10	Pioneer Cement Limited	1,229	7,080
-	75,000	10	Pakistan Petroleum Limited	-	18,547
-	50,000	10	Prime Commercial Bank Limited	-	2,664
350,000	350,000	10	Sui Southern Gas Company Limited	15,119	15,119
-	120,000	10	Union Leasing Limited	-	1,651
4,978,532	6,888,965			174,599	508,918

10.6 Investment in fully paid up ordinary share-unlisted

December 31, 2007	December 31, 2006	Paid up value per share Rupees	Name of Investee	December 31, 2007	December 31, 2006
No. of Ordinary Shares				Rupees in '000	
568,000	568,000	10	Pakistan Export Finance Guarantee Chief Executive Mr. S.M Zaeem	5,680	5,680
10	10	1,000,000	Khushahli Bank Limited Chief Executive Mr. Ghalib Nishter	10,000	10,000
5,000,000		10	Al-Hamra (Pvt.) Ltd Chief Executive Mr. Habib Ahmed	50,000	-
5,568,010	568,010			65,680	15,680

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10.6.1 The bank contributed Rs.10 million towards the equity of Khushali Bank, as per SBP Letter No. BSD (RU-26/25-MFB/13317/00 dated August 07, 2000. In accordance with the restrictions imposed by Khushali Bank Ordinance, 2000 the bank cannot sell / transfer these shares before a period of five years from the date of subscription. Thereafter, such sale / transfer shall be subject to the prior approval of State Bank of Pakistan, pursuant to section 10 of the Khushali Bank Ordinance, 2000. The profits of the investee bank shall not be distributable and shall be applied towards the promotion of its objectives.

10.7 Investment in term finance certificates, debentures, bonds and participation term certificates

10.7.1 Term finance certificates-Listed

Name of Investee	No. of Certifi - cates held	Paid up	December	December
		value per certifi - cate	31, 2007	31, 2006
		(Rupees)	Rupees in '000	
Al Zamin Leasing Modaraba	4,000	5,000	20,000	20,000
Allied Bank Limited	-	-	-	169,215
Azgard Nine Limited	-	-	-	500,000
Bank Al-habib Limited	6,000	5,000	29,964	29,976
Crescent leasing Corporation Limited	3,500	5,000	17,500	17,500
Crescent Standard Investment Bank Limited	5,000	5,000	8,250	-
Escort Investment Bank Limited	-	-	9,998	10,000
Fist Dawood Leasing Modaraba	-	-	-	10,000
Saadi Cement Limited	-	-	36,322	45,332
Worldcall Telecom Limited	1,840	5,000	9,198	9,200
Zaver Petroleum Corporation Limited	40,000	5,000	199,600	200,000
	<u>60,340</u>		<u>330,832</u>	<u>1,011,223</u>

10.7.2 Term finance certificates-Unlisted

Name of Investee	Name of Chief Executive	No. of Certifi - cates held	Paid up	December	December
			value per certifi - cate	31, 2007	31, 2006
			(Rupees)	Rupees in '000	
Bosicar Pakistan Limited	Mr. M. Wasi Khan	20,000	5,000	57,143	85,714
Dewan Mushtaq Textile Mills Limited	Dewan Abdullah Faruqi	-	-	-	4,375
Dewan Textile Mills Limited	Dewan M. Yousuf	-	-	-	8,125
First Standard Investment Bank	Mr. Mahmood Ahmed	-	-	-	11,781
Hira Textile Mills Limited	Mr. Nadeem Aslam	-	-	-	49,910
Kohinoor Textile Mills Limited	Mr. Tariq Sayeed Saigol	20	500,000	1,887	4,388
Pakistan Mobile Communication Limited	Mr. Zohair A. Khaliq	14,000	5,000	28,000	56,000
Security Leasing Corporation Limited	Mr. M.R Khan	5,000	5,000	-	18,750
Avani Tower Hotel Limited	Mr. Bahram Avani	-	5,000	286,267	-
		<u>39,020</u>		<u>373,297</u>	<u>239,043</u>

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10.8 Mutual Funds

December 31, 2007	December 31, 2006	Paid up value per unit	Name of Investee	December 31, 2007	December 31, 2006
No. of units				Rupees in '000	
5,224,895	5,224,895	10	ABAMCO composite fund	52,249	52,249
2,000,000	2,046,000	10	Pakistan Strategic Allocation Fund	20,000	20,460
-	617,476	100	Faysal Balance Growth Fund	-	50,000
1,653,508	1,649,358	100	AMZ Plus Income Fund	175,000	175,000
16,669,842	16,679,851	10	NAFA Cash Fund	175,000	175,000
1,664,606	476,372	100	KASB Liquid Fund	175,000	50,000
-	334,689	500	Atlas Income Fund	-	175,000
1,661,082	1,668,117	10	Dawood Money Market Fund	175,000	175,000
-	329,846	500	UTP Income Fund	-	175,000
-	1,670,182	100	United money market fund	-	175,000
806,000	1,000,000	10	NAMCO Balance Fund	8,060	10,000
-	3,331,430	50	Arif Habib Pakistan Income Fund	-	175,000
200,000	200,000	50	PICIC Growth Fund	8,598	8,598
1,657,825	1,650,632	100	Askari Income Fund	175,000	175,000
1,674,183	-	100	MCB Dynamic Cash Fund	175,000	-
3,324,837	-	50	AKD Income Fund	175,000	-
1,667,143	-	100	Faysal Saving Growth Fund	175,000	-
3,334,826	-	50	Alfalah GHP Income Multi Fund	175,000	-
985,222	-	50	POBOP Advantage Plus Fund	50,000	-
42,523,969	36,878,848			1,713,907	1,591,307

10.9 This includes investment in 5 million (2006: 5 million) cumulative shares of Rs. 10 each issued by Chenab Limited. These preferred shares with put and call option are non voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation and are carrying preferred dividend at the rate of 9.25% per annum on the issue price.

10.10 This also includes the investment in 1.5 million (2006: 1.5 million) cumulative preference shares of Rs. 10 each issued by Masood Textile Mills Limited. These preferred shares with call option are non-voting in nature and enjoy preference over ordinary shares in case of payment of dividend and liquidation and are carrying preferred dividend at the rate of 6 months KIBOR plus 200 bps per annum on the issue price.

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10.11 This represents investment in 5 million (2006: 5 million) redeemable cumulative preference shares of Rs. 10 each issued by Jamshoro Joint Venture Limited (JJVL). These preference shares are redeemable at par along with cumulative dividend payable, if any, upon completion of 5 years from the issue date subject to the condition that 60% of Rs. 1.18 billion debt raised by JJVL for project will be repaid.

The preference shares carry normal preferred dividend at the rate of 15% per annum on par value, however, if JJVL is unable to payout dividend in any year, the said dividend would be accumulated with a minimum rate of 17.5% per annum for the cumulative preference share holders.

The preference shares do not carry any voting rights except in the meeting of cumulative preference share holders and are also enjoying right of full payment of dividend including any arrear payment due to them before the payment of dividend to the ordinary share holders.

10.12 Investment in associated undertaking

Name of associate	Chief Executive	Place of incorporation	Proportion of ownership interest	Principal activity
Saudi Pak Insurance Company Limited	Capt. Azher Ehtesham Ahmed	Pakistan	30%	General insurance

Summarized financial information in respect of associate as at December 31, 2007 is set out below:

	December 31, 2007	December 31, 2006
	Rupees in '000	
Total assets	598,683	344,170
Total liabilities	409,520	128,736
Net assets	189,163	215,434
Revenue	170,648	101,893
Loss for the period	25,454	16,764
Share of loss from associate	18,251	10,370

10.12.1 During the year State Bank of Pakistan amended valuation method for associates through BSD Circular No. 6 dated 2007. As a consequence, Bank has revised its policy for valuation of investment in associate (refer note 4.2).

Had the investment in associate been determined at equity method in accordance with the previous policy, the loss before taxation, as at December 31, 2007, would have been higher by Rs. 7,881 million (2006: 5,270 million).

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	December 31, 2007	December 31, 2006
	Rupees in '000	
11 ADVANCES - NET		
Loans, cash credits, running finances, etc.		
In Pakistan	30,591,575	29,789,903
Outside Pakistan	-	-
	30,591,575	29,789,903
Bills discounted and purchased (excluding treasury bills)		
Payable in Pakistan	379,855	1,001,502
Payable outside Pakistan	444,386	256,335
	824,241	1,257,837
Advances - gross	31,415,816	31,047,740
Financing in respect of Continuous Funding System	-	479,333
	31,415,816	31,527,073
Provision for non-performing advances - specific	11.2 (5,518,432)	(2,477,406)
Provision against consumer finance- general	11.4.1 (22,412)	(27,693)
Advances net of provisions	25,874,972	29,021,974
11.1 Particulars of advances (Gross)		
11.1.1 In local currency	31,007,400	29,959,123
In foreign currencies	408,416	1,567,950
	31,415,816	31,527,073
11.1.2 Short term (for up to one year)	17,754,907	16,727,582
Long term (for over one year)	13,660,909	14,799,491
	31,415,816	31,527,073
11.2 Advances include Rs. 6,136 million (2006: Rs. 4,634 million) which have been placed under non-performing status as detailed below:		

Category of Classification - Specific	December 31, 2007			December 31, 2006		
	Classified advances	Provision required (Domestic)	Provision held	Classified advances	Provision required (Domestic)	Provision held
----- Rupees in '000 -----						
Substandard	496,640	166,653	166,653	416,665	51,784	51,784
Doubtful	662,943	279,319	279,319	459,089	90,600	90,600
Loss	4,976,435	5,072,460	5,072,460	3,758,941	2,335,022	2,335,022
	6,136,018	5,518,432	5,518,432	4,634,695	2,477,406	2,477,406

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11.3 Particulars of provision against non-performing advances

	December 31, 2007			December 31, 2006		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	2,477,406	27,693	2,505,099	2,093,293	26,778	2,120,071
Charge for the year	3,293,174	(5,281)	3,287,893	629,780	915	630,695
Reversals for the year	(158,523)	-	(158,523)	(165,792)	-	(165,792)
Net charge/(reversal)	3,134,651	(5,281)	3,129,370	463,988	915	464,903
Written off 11.5	(93,625)	-	(93,625)	(79,875)	-	(79,875)
Closing balance	5,518,432	22,412	5,540,844	2,477,406	27,693	2,505,099

11.3.1 During the year State Bank of Pakistan amended Prudential Regulations for Corporate/ Commercial Banking through BSD Circular No. 7 dated October 12, 2007. As a consequence, Regulation No. 8 relating to provisioning against non-performing loans, was changed and benefit of forced sale value (FSV) of the mortgaged assets held as collateral, while calculating provision against non-performing loans was withdrawn with effect from December 31, 2007 except in case of housing finance. Previously, Banks were allowed to have benefit of FSV while calculating provision against non-performing loans.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirements, the specific provision against non-performing loans and advances would have been lower and consequently loss before taxation, as at December 31, 2007 would have been lower by Rs. 2.043 billion and advances (net of provision) would have been higher by the same amount.

11.4 General Provision against consumer finance loans represents provision made equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP for Consumer Financing.

11.4.1 Particulars of provision for consumer financing - general - in local currency

	December 31, 2007	December 31, 2006
	Rupees in '000	
Opening balance	27,693	26,778
Charge for the year	-	915
Reversals	(5,281)	-
Closing balance	22,412	27,693

11.5 Particulars of write offs

Against provision	93,625	79,875
Write offs of Rs. 500,000 and above	93,427	77,867
Write offs of below Rs. 500,000	198	2,008
	93,625	79,875

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11.6 Detail of loan write off 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, 2007 is given in Annexure-I. However, this write-off does not affect the bank's right to recover the debts from these customers.

December **December**
31, 2007 **31, 2006**
Rupees in '000

11.7 Particulars of loans and advances to Directors, Associated Companies, etc

Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons

Balance at beginning of the year	1,154	825
Loans granted during the year	2,859	3,117
Repayments	(1,388)	(2,788)
Balance at end of the year	2,625	1,154

Debts due by companies or firms in which the directors of the bank are/(were) interested as directors, partners or in the case of private companies as members

Balance at beginning of the year	111,781	33,332
Loans granted during the year	35,000	2,050,471
Repayments	81,948	1,972,022
Balance at end of the year	64,833	111,781

Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties

Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of the year	-	-

12 OPERATING FIXED ASSETS

Capital work-in-progress	12.1	92,447	93,914
Property and equipment	12.2	2,256,421	2,214,455
Intangible assets	12.3	19,015	14,002
		2,367,883	2,322,371

12.1 Civil work

Opening balance		93,914	60,641
Additions during the year		95,316	159,089
Transferred to property and equipment		(90,788)	(125,816)
Insurance claim due to damages		(5,995)	-
		92,447	93,914

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12.2 Property and equipments

	Cost / Revaluation				Accumulated depreciation				Net Book value as at December 31, 2007	Rate of Depreciation %	
	As at January 01, 2007	Adjustment	Additions/ Revaluation* / Lease**	Disposal	As at December 31, 2007	As at January 01, 2007	Adjustment	Charge for the year/ (Revaluation)* / (Deletions)			As at December 31, 2007
----- Rupees in '000 -----											
Freehold land	448,146	-	-	-	448,146	-	-	-	-	448,146	-
Building on freehold land	64,000	-	-	-	64,000	-	-	3,200	3,200	60,800	5
Leasehold land	1,024,019	-	599 €	-	1,024,618	-	-	-	-	1,024,618	-
Building on leasehold land	207,185	-	21,241	-	228,426	176	-	10,625	10,801	217,625	5
Leasehold improvements	243,558	(3,764) ₨	82,687	199	322,282	57,609	(645)	27,549 (61)	84,452	237,830	10
Furniture and fixture	78,073	(1,119) ₨	17,880	828	94,006	22,947	(187)	8,521 (268)	31,013	62,993	10
Other equipments	133,933	(3,556) ₨	16,761	3,521	143,617	56,416	(757)	26,242 (2,558)	79,343	64,274	20
Computers	108,669	(340) ₨	33,212	-	141,541	97,713	73	13,563	111,349	30,192	33.30
Vehicles	142,826	(56,197)	19,530	10,076	96,083	66,109	(7,957)	14,548 (7,182)	65,518	30,565	20
	2,450,409	(64,976)	191,910	14,624	2,562,719	300,970	(9,473)	104,248	385,676	2,177,043	
Assets held under finance lease											
Vehicles	8,999		48,240 **	4,452	52,787	-	-	10,917 (496)	10,421	42,366	20
Computers	56,018	(502) ₨	- **	-	55,516	-	(167)	18,671	18,504	37,012	33.33
	65,017		48,240	4,452	108,303	-	(167)	29,588	28,925	79,378	
December 2007	2,515,426	(64,976)	191,910	19,076	2,671,022	300,970	(9,640)	133,836 (10,565)	414,601	2,256,421	
December 2006	1,710,984	(82,410)	301,769 533,723 *	13,658 *	2,515,425	240,130	(17,251)	119,073 (29,199) *	300,970	2,214,455	
			65,017 **					(11,783) **			

€ Mutation charges on Land

12.2.1 Details of disposal of fixed assets - By negotiations

Description	Cost / revaluation	Accumulated	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchasers
----- Rupees in '000 -----						
Bank Vehicle Honda Civic AGN-549	1,248	582	666	875	209	Mr. Jamshed Minhas - Employee
Bank Vehicle Honda Civic ADX-026	1,105	1,092	13	570	557	Major Shahzad HR & Admin Department, Karachi Stock Exchange, Karachi.
Bank Vehicle Honda City AJF-675	885	324	561	718	157	Ms. Nausheen Faisal - Employee
Bank Vehicle Honda City 'ACN-531	795	411	384	374	(10)	Mr. Jawed Ahmed PICIC Commercial Bank Limited, I.I Chundrigar Road.
Bank Vehicle Suzuki Liana ALM-629	867	58	809	761	(48)	M/s Ittehad Motors Madina BAA Apartment Showroom # 8, 55 Muslimabad, M.A Jinnah Road, Karachi.
Bank Vehicle Toyota Corolla ALV-939	849	42	807	827	20	M/s Car Corporation 111/B, Khalid bin Waleed Road, PECHS, Karachi.
Bank Vehicle Suzuki Cultus ALB-759	548	73	475	535	60	Mr. Syed Nadeemullah Khan House No. A-239 Block 3, Gulshan-e-Iqbal, Karachi.
Bank Vehicle Suzuki Cultus ALA-782	548	73	475	520	45	Mr. Naseem Abedi - Employee
Bank Vehicle Honda City AKF-692	703	94	609	741	132	M/s Farooq Motors 83-D, Block 2, Khalid Bin Waleed Road, P.E.C.H.S, Karachi.
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000	11,528	7,816	3,712	5,002	1,290	Various
	19,076	10,565	8,511	10,923	2,412	

₨ Assets of Korangi Industrial Area and Larkana branches had been damaged / burnt due to riot on December 27, 2007. These assets were insured with Adamjee insurance company limited. Written down value of amount Rs. 13.492 million has been assessed as lost against the damaged / burnt assets by the Bank and same has been claimed with the insurance company. Bank has reclassified the amount to Other Assets as insurance claim (refer note 14).

12.2.2 The Bank's land and building were revalued on December 31, 2006 by Hasib Associates, on market value basis. Had there been no revaluation, the carrying value of the revalued assets would have been Rs. 554.303 million (2006: 546.464 million).

12.2.3 The gross carrying amount of fully depreciated assets that are still in use:

	December 31, 2007	December 31, 2006
Rupees in '000		
Furniture, electrical, office and computer equipment	115,962	80,381
Vehicles	19,351	12,675
	135,313	93,056

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12.3 Intangible assets	Cost			Accumulated amortization			Net Book value as at December 31, 2007	Amortization Rate in percentage	
	As at January 01, 2007	Additions	Disposal	As at December 31, 2007	As at January 01, 2007	Amortization for the year			As at December 31, 2007
	----- Rupees in '000 -----								
Computer software	29,026	18,327	-	47,353	15,024	13,415	28,338	19,015	33.33
December 2006	17,420	11,606	-	29,026	7,379	7,645	15,024	14,002	33.33

13 DEFERRED TAX ASSETS - NET

Deferred tax debits arising in respect of

Provision against:

Balances with other banks		-	-
Investments		31,959	34,513
Non-performing advances		1,600,610	867,092
Consumer financing		7,844	9,693
Other assets		34,883	34,883
Accumulated loss		132,841	132,841
Gratuity		-	-
Revaluation of securities	22.1	38,166	40,398
		1,846,303	1,119,420

Deferred tax credits arising in respect of

Liabilities against assets subject to finance lease		(272)	(695)
Accelerated tax depreciation		(59,180)	(83,733)
Revaluation of property and equipment	22.2	(19,136)	(19,869)
		(78,588)	(104,297)
		1,767,715	1,015,123

14 OTHER ASSETS

Income/ Mark-up accrued in local currency		1,048,928	880,154
Income/ Mark-up accrued in foreign currency		-	1,032
Advances, deposits, advance rent and other prepayments		160,858	150,286
Advance taxation (payments less provisions)		-	290,337
Non-banking assets acquired in satisfaction of claims	14.1	319,636	292,868
Branch adjustment account		33,462	-
Unrealized gain on forward foreign exchange contracts		15,980	12,332
Others		118,934	129,976
		1,697,798	1,756,985
Less: Provision held against other assets	14.2	(99,667)	(99,667)
Other assets (net of provision)		1,598,131	1,657,318

14.1 Market value of Non-Banking assets acquired in satisfaction of claims **319,636** **292,868**

14.2 Provisions against other assets

Opening balance		99,667	99,469
Charge for the year		-	198
Reversals		-	-
Closing balance		99,667	99,667

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	December 31, 2007	December 31, 2006
	Rupees in '000	
15	BILLS PAYABLE	
In Pakistan	570,756	408,342
Outside Pakistan	-	-
	<u>570,756</u>	<u>408,342</u>
16	BORROWINGS	
In Pakistan	6,771,368	4,236,775
Outside Pakistan	109,081	-
	<u>6,880,449</u>	<u>4,236,775</u>
16.1	Particulars of borrowings	
In local currency	6,771,368	4,236,775
In foreign currencies	109,081	-
	<u>6,880,449</u>	<u>4,236,775</u>
16.2	Details of borrowings	
Secured		
Borrowings from State Bank of Pakistan		
Under export refinance scheme	1,348,806	1,528,061
LTF.-Export Oriented Projects	238,532	99,938
Loans from SBP	-	-
Repurchase agreement borrowing	16.2.1 <u>1,084,030</u>	<u>2,258,776</u>
	<u>2,671,368</u>	<u>3,886,775</u>
Unsecured		
Call borrowings	16.2.2 <u>4,100,000</u>	<u>350,000</u>
Overdrawn nostro accounts	<u>109,081</u>	<u>-</u>
	<u>4,209,081</u>	<u>350,000</u>
	<u>6,880,449</u>	<u>4,236,775</u>

16.2.1 These represents funds borrowed from the local interbank money market carrying interest rate ranging from 9.1% to 9.95% (2006: 8.50 % to 9.10 %) per annum with maturities up to January, 2008.

16.2.2 These represents unsecured borrowings from the local money market carrying at interest rate of 9.7% to 10.35% (2006:12%) per annum with maturities up to April 2008.

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December 31, 2007 December 31, 2006
Rupees in '000

17 DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	23,142,344	26,328,636
Savings deposits	9,230,897	15,088,460
Current accounts - non-remunerative	4,704,610	4,348,803
Margin accounts - non -remunerative	523,326	691,888
Others	149,462	224,712
	37,750,639	46,682,499

Financial institutions

Remunerative deposits	4,612,887	2,320,883
Non-remunerative deposits	10,184	11,708
	4,623,071	2,332,591
	42,373,710	49,015,090

17.1 Particulars of deposits

In local currency	40,194,022	46,394,496
In foreign currencies	2,179,689	2,620,594
	42,373,711	49,015,090

18 SUB ORDINATED LOANS - UNSECURED

650,000 650,000

This represents short term bridge finance provided by Saudi Pak Industrial & Agricultural Investment Company (Private) Limited (SPIAICO) with the approval of SBP through a formal agreement executed between the Bank and SPIAICO on December 31, 2003 initially for a period of six months which was later rolled over up to June 30, 2008. The rate of mark-up on this finance is base rate (6-month ask average KIBOR to be set on commencement of half year) plus 2% and is payable quarterly.

19 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Period	December 31, 2007			December 31, 2006		
	Minimum lease payments	Financial charges allocated to future periods	Principal outstanding	Minimum lease payments	Financial charges allocated to future periods	Principal outstanding
----- Rupees in '000' -----						
Not later than one year	37,945	7,593	30,352	23,833	7,035	16,798
Later than one year and not later than five years	53,426	3,624	49,803	52,182	5,950	46,232
Over five years	-	-	-	-	-	-
	91,371	11,217	80,155	76,015	12,985	63,030

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19.1 The bank enters into various lease agreements with leasing companies for office equipment and motor vehicles. Lease rentals are payable monthly and include finance charge at the rate of base rate plus 3.75% and 3.5% (2006: KIBOR plus 3.75%) per annum which has been used as a discounting factor. The base rate is defined as 6 Months ask side KIBOR rate to be revised half yearly. The bank intends to exercise its option to purchase the assets upon completion of lease periods.

	December 31, 2007	December 31, 2006
	Rupees in '000	
20 OTHER LIABILITIES		
Mark-up/ Return/ Interest payable in local currency	659,222	582,246
Mark-up/ Return/ Interest payable in foreign currency	14,090	20,274
Unearned commission and income on bills discounted	32,541	27,831
Accrued expenses	29,060	68,933
Branch adjustment account	-	9,063
Tax liability - net	41,024	-
Provision for gratuity	21,164	23,956
Others	127,990	97,269
	925,091	829,573

21 SHARE CAPITAL

21.1 Authorized capital

December 31, 2007	December 31, 2006	
Number of shares in '000		
1,000,000	1,000,000	Ordinary shares of Rs. 10 each.
10,000,000	10,000,000	

21.2 Issued, subscribed and paid up share capital

December 31, 2007	December 31, 2006	
Number of shares in '000		
400,175	284,750	Ordinary shares of Rs. 10 each. Fully paid in cash.
100,000	100,000	Ordinary shares of Rs. 10 each. Fully paid in cash and issued at a discount of Rs.2.5 per
500,175	384,750	
4,001,750	2,847,500	
1,000,000	1,000,000	
5,001,750	3,847,500	

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21.3 Capital management policies and procedures

The company's objectives when managing capital are:

- to comply with the capital requirements set by the regulators of the company;
- to safeguard company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to acquire, develop and maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored frequently by the company's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented in Pakistan by the State Bank of Pakistan (SBP).

SBP requires each commercial bank to: (a) hold the minimum level of the regulatory capital of Rs. 4 billion by December 31, 2007, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 8%.

The company's regulatory capital is divided into two tiers:

Tier 1 or core capital: share capital, share premium, reserves for bonus shares, general reserves created out of the profits for the year and unappropriated profit; and

Tier 2 supplementary capital: general provisions or general reserves for loans losses, revaluation reserves exchange translation reserves, undisclosed reserves and subordinated debt.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table refer to in note 39, summaries the composition of regulatory capital and the ratios of the company for the year ended December 31, 2007. The company has adhered to the minimum capital requirements as imposed by SBP.

December 31, 2007	December 31, 2006
Rupees in '000	

21.4 Reconciliation of number of ordinary shares of Rs. 10 each

At the beginning of the year	384,750	384,750
Issued during the year	115,425	-
At the end of the year	500,175	384,750

21.5 Board of Directors had announced issuance of 30% right shares on November 27, 2006, which were exercised in March 2007.

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22 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

(Deficit) on revaluation of securities	22.1	(146,854)	(215,178)
Surplus on revaluation of property and equipment	22.2	1,226,524	1,227,887
		1,079,670	1,012,709

22.1 (Deficit) on revaluation of securities

Federal government securities		(109,047)	(115,673)
Quoted securities		(75,973)	(139,903)
	10.2	(185,020)	(255,576)
Deferred tax (asset) recognized	13	38,166	40,398
		(146,854)	(215,178)

22.2 Surplus on revaluation of property and equipments

Surplus on revaluation of properties	22.2.1	1,245,660	1,247,756
Deferred tax (liability) recognized	13	(19,136)	(19,869)
		1,226,524	1,227,887

22.2.1 Reconciliation of surplus on revaluation of property and equipments

At the beginning of the year		1,247,756	686,325
Surplus during the year		-	562,923
Surplus realized on account of incremental depreciation (net of tax)		(2,096)	(1,492)
At the end of the year		1,245,660	1,247,756

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	December 31, 2007	December 31, 2006
23 CONTINGENCIES AND COMMITMENTS	Rupees in '000	
23.1 Direct credit substitutes		
23.2 Transaction-related contingent liabilities		
Guarantees favoring:		
Government	4,412,443	4,025,908
Banking companies and other financial institutions	122,721	152,750
Others	<u>1,534,723</u>	<u>1,413,697</u>
23.3 Trade-related contingent liabilities		
Letters of credit and acceptances favoring:		
Others	<u>3,975,489</u>	<u>6,542,695</u>
23.4 Other contingencies		
Claims against the bank not acknowledged as debt	<u>228,339</u>	<u>51,974</u>
22.4.1 This includes penalties of Rs. 20.732 million (2006: Rs. 20.732 million) on alleged non filing of certain statements in respect of assessment years 1997-98 to 1998-99. The matter is being dealt by the Bank's tax advisors.		
23.5 Commitments in respect of		
Forward Exchange Contracts with State Bank of Pakistan, banks and other institutions		
Sale	1,635,082	4,549,516
Purchase	<u>3,119,169</u>	<u>4,665,381</u>
	<u>4,754,251</u>	<u>9,214,897</u>
23.6 Commitments in respect of		
Property, civil work & equipment	78,234	52,303
Purchase of software	<u>38,101</u>	<u>101,983</u>
	<u>116,335</u>	<u>154,286</u>

24 DERIVATIVE INSTRUMENTS

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the bank are forward foreign exchange contracts and equity futures. The bank at this stage does not engage in Interest Rate Swaps, Forward Rate Agreements and FX Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. The bank enters into these contracts for the purposes of squaring currency positions.

All derivatives are recognized at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instruments.

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note 23.5. There was no equity futures position at the year end.

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		December 31, 2007	December 31, 2006
		Rupees in '000	
25	MARK-UP / RETURN / INTEREST EARNED		
	On loans and advances to:		
	Customers	25.1 3,263,727	2,264,920
	Financial institutions	-	-
	On investments in:		
	Held-for-trading securities	-	-
	Available-for-sale securities	911,266	486,809
	Held-to-maturity securities	470,121	385,732
	On deposits with financial institutions	47,469	98,251
	On call money lendings	56,698	157,498
	On securities purchased under resale agreements	50,572	319,210
		<u>4,799,853</u>	<u>3,712,420</u>
25.1	This figure is net of markup suspended in accordance with the Prudential regulations of the State Bank of Pakistan amounting to Rs. 277.25 million (2006 : Rs. 69.691 million).		
26	MARK-UP / RETURN / INTEREST EXPENSED		
	Deposits	3,550,241	2,922,874
	Securities sold under repurchase agreements	411,746	186,250
	Call borrowings	277,714	8,190
	Borrowing from State Bank of Pakistan under export refinance scheme	116,009	67,377
	Interest on sub-ordinated loan	81,209	73,352
	Others	3,197	2,910
		<u>4,440,116</u>	<u>3,260,952</u>
27	GAIN ON SALE OF SECURITIES - net		
	Federal government securities		
	Market treasury bills	92	(1,648)
	Pakistan investment bonds	1,038	-
	Provincial government securities	-	-
	Shares		
	Listed	(10,697)	78,270
	Unlisted	-	-
	Term finance certificates	-	442
	Mutual funds	220,422	68,113
		<u>210,855</u>	<u>145,177</u>
28	OTHER INCOME		
	Rent on property	11,291	11,962
	Net profit on sale of property and equipment	2,411	1,984
	Income from non-banking assets and profit from sale of or dealing with such assets	-	-
	Recovery of expenses from customers	24,966	23,654
	Others	49,057	101,004
		<u>87,725</u>	<u>138,604</u>

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		December 31, 2007	December 31, 2006
		Rupees in '000	
29	ADMINISTRATIVE EXPENSES		
	Salaries, allowances and other benefits	550,112	523,459
	Charge for defined benefit plan	35.5	21,049
	Contribution to defined contribution plan	17,619	12,564
	Non-executives directors' fees, allowances and other expenses	2,795	3,167
	Rent, taxes, insurance, electricity, etc.	188,090	168,444
	Legal and professional charges	16,901	43,403
	Communications	43,651	44,062
	Repairs and maintenance	28,329	22,253
	Financial charges on leased assets	11,662	51
	Stationery and printing	27,683	26,481
	Security charges	29,615	22,520
	Advertisement and publicity	71,786	132,516
	Donation	-	-
	Depreciation	12.2	133,836
	Amortization of intangible assets	12.3	13,415
	Auditors' remuneration	29.1	1,126
	Fuel and traveling expenses	45,670	44,290
	Brokerage and commission	11,734	25,100
	Subscriptions and newspapers	8,971	3,003
	Entertainment	9,627	8,216
	Others	36,646	40,262
		<u>1,270,317</u>	<u>1,262,448</u>
29.1	Auditors' remuneration		
	Audit fee	700	700
	Special certifications, limited scope review	350	457
	Out-of-pocket expenses	76	43
		<u>1,126</u>	<u>1,200</u>
30	OTHER CHARGES		
	National Accountability Beaura Commission	30.1	10,123
	Penalties imposed by SBP	30.2	4,614
		<u>14,737</u>	<u>75,700</u>

30.1 This represents commission paid to National Accountability Bureau (NAB) on account of settlement of Bank's claims.

30.2 This represents penalties imposed by State Bank of Pakistan on various non-compliances related to rules and regulations.

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	December 31, 2007	December 31, 2006
	Rupees in '000	
31 INCOME TAX EXPENSE		
For the year		
Current	35,382	-
Deferred	(754,091)	(105,282)
	(718,709)	(105,282)
For prior period		
Current	439,351	-
Deferred	-	-
	439,351	-
	(279,358)	(105,282)
31.1 Status of assessments		
<p>The income tax assessment of the bank has been completed up to and including tax year 2007. The bank has filed appeals before the Income Tax Appellate Tribunal (ITAT) against certain disallowances amounting to Rs 3,330 million made by the Taxation Officer(TO) in assessment year / tax years 2000-01, 2001-02, 2002-03 and tax year 2003 and 2004.</p> <p>The bank's assessment in respect of AJK branch operation has been completed up to and including tax year 2007, certain appeals were filed before the various appellate forums which are pending for adjudication. The management is confident that the outcome of these appeals would be in favor of the bank, therefore, no additional provision has been made in these financial statements.</p>		
32 EARNING PER SHARE - BASIC AND DILUTED		
Loss after taxation for the year	(3,040,907)	(303,686)
Weighted average number of ordinary shares	486,849	446,310
Loss per share - Basic and Diluted	(6.25)	(0.68)
33 CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	3,223,780	3,994,136
Balances with other banks	128,991	613,678
Call money lendings	-	1,957,500
	3,352,771	6,565,315
	December 31,	December 31,
	2007	2006
34 STAFF STRENGTH	Number of persons	
Permanent	886	987
Temporary/ Contractual basis	15	26
Bank's own staff strength at the end of the year	901	1,013
Outsourced	352	413
Total staff strength	1,253	1,426
35 DEFINED BENEFIT PLAN		

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35.1 General description

The Bank operates an unapproved gratuity scheme for all its regular employees. The entitlement of the employees will start on completion of two years with the Bank beginning from January 01, 2005. Projected Unit Credit Actuarial Cost Method has been used for actuarial valuation.

A portion of the actuarial gains or losses is recognized if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor" which is defined as the greater of:

- a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) and;
- b) 10% of the fair value of any plan assets at that date.

The main assumptions used for actuarial valuation are as under:

35.2 Principal actuarial assumption	2007	2006
Discount factor used per annum	10%	10%
Expected increase in eligible pay per annum	10%	10%
Normal retirement age	60 years	60 years
Average future remaining working life of employees	15 years	15 years

December 31,
2007 December 31,
2006
Rupees in '000

35.3 Reconciliation of amount payable to defined benefit plan

Present value of defined benefit obligation	42,493	25,530
(Unrecognized) / Recognized actuarial gain	(25,129)	(1,574)
	<u>3,800</u>	<u>-</u>
Liability recognized in balance sheet	35.4 <u><u>21,164</u></u>	<u><u>23,956</u></u>

35.4 Movement in payable to defined benefit plan

Opening balance	23,956	9,217
Charge for the year	35.5 21,049	14,739
Contribution during the period	<u>23,841</u>	<u>-</u>
Closing balance	<u><u>21,164</u></u>	<u><u>23,956</u></u>

35.5 Charge for defined benefit plan

Current service cost	18,369	13,332
Interest cost	3,424	1,407
Expected return on assets	(1,289)	-
Recognition of (gain) / loss on obligation	545	-
	29 <u><u>21,049</u></u>	<u><u>14,739</u></u>

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36 COMPENSATION OF DIRECTORS AND EXECUTIVES

	December 31,		December 31,	
	2007	2006	2007	2006
	President / CEO		Executives	
	----- Rupees in '000 -----			
Managerial remuneration	7,386	5,318	81,218	62,844
Charge for defined benefit plan	616	443	6,768	3,686
Contribution to defined contribution plan	1,219	361	6,477	4,180
Rent and house maintenance	3,323	2,393	30,873	24,042
Utilities	738	532	8,135	6,371
Medical	738	532	7,809	6,060
Conveyance	-		12,696	11,333
Others	3,816	3,397	37,516	27,834
	17,836	12,976	191,492	146,350
Number of persons	1	1	66	66

The Chief Executive and Executives are provided with free use of bank maintained cars. Executive means employees, other than Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

37.1 On-balance sheet financial instruments

	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
	----- Rupees in '000 -----			
Assets				
Cash balances with treasury banks	3,223,780	3,223,780	3,994,136	3,994,136
Balances with other banks	128,991	128,991	613,678	613,678
Lending to financial institutions	839,959	839,959	4,747,567	4,747,567
Investments	17,859,169	16,968,807	15,828,682	15,744,854
Advances	25,874,972	25,874,972	29,021,974	29,021,974
Other assets	1,048,928	1,048,928	880,154	880,154
	48,975,799	48,085,437	55,086,191	55,002,363

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Liabilities				
Bills payable	570,756	570,756	408,342	408,342
Borrowings	6,880,449	6,880,449	4,236,775	4,236,775
Deposits and other accounts	42,373,710	42,373,710	49,015,090	49,015,090
Sub-ordinated loans	650,000	650,000	650,000	650,000
Liabilities against assets subject to finance lease	80,155	80,155	63,030	63,030
Other liabilities	659,222	659,222	582,246	582,246
	51,214,292	51,214,292	54,955,483	54,955,483

December 31, 2007		December 31, 2006	
Book value	Fair value	Book value	Fair value
----- Rupees in '000 -----			

37.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	3,119,169	3,145,548	4,665,381	4,665,381
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	1,635,082	1,645,477	4,549,516	4,549,516
Forward agreements for lending	-	-	-	-

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. 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.

The fair value of fixed term advances of over one year and fixed term deposits of over one year can not be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. Loans and advances are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations detailed in note 11.3.

The maturity and repricing profile and effective yield / interest rates are stated in notes 41.2.3 and 41.3.1 respectively.

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

SAUDI PAK COMMERCIAL BANK LIMITED
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38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

For management purposes the Bank is organized into following four major business segments:

- Corporate Finance
- Trading and Sales
- Retail Banking and
- Commercial Banking

All assets, liabilities, off balances sheet items, and items of income and expense are distributed in primary segments in accordance with the core functions performed by the business groups.

	December 31, 2007				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Total
	----- Rupees in '000 -----				
Current year					
Total income	69,291	1,651,628	143,316	3,413,863	5,278,098
Total expenses	81,209	692,658	-	3,666,249	4,440,116
Net income (loss)	(11,918)	958,970	143,316	(252,386)	837,982
Segment assets (gross)	2,731,905	19,447,011	1,461,785	35,560,743	59,201,444
Segment non performing loans	-	-	68,615	6,067,403	6,136,018
Segment provision required	-	-	62,802	5,478,041	5,540,843
Segment liabilities	650,000	5,268,108	20,336	45,541,717	51,480,161
Segment return on net assets (ROA) (%)	(0.57)	6.76	9.94	2.53	-
Segment cost of funds (%)	12.49	13.15	-	8.05	-
	December 31, 2006				
	----- Rupees in '000 -----				
Prior year					
Total income	-	1,658,633	53,924	2,440,246	4,152,803
Total expenses	73,352	197,349	-	2,990,251	3,260,952
Net income (loss)	(73,352)	1,461,284	53,924	(550,005)	891,851
Segment assets (gross)	3,550,449	22,226,339	1,293,656	34,562,700	61,633,144
Segment non performing loans	-	-	-	4,634,695	4,634,695
Segment provision required	-	-	-	2,477,406	2,477,406
Segment liabilities	650,000	2,623,041	33,785	51,895,984	55,202,810
Segment return on net assets (ROA) (%)	(2.53)	7.45	4.28	3.17	-
Segment cost of funds (%)	11.28	7.52	-	5.76	-

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39 RELATED PARTY TRANSACTIONS

Related parties comprise directors, major shareholders of the Bank and the companies owned by such shareholders, entities owned by the directors of the company, companies where directors of the Bank also hold directorship, key employees and entities that have key management personnel in common.

Transactions with the related parties are executed substantially on the same terms, including mark-up rates and collaterals, as those prevailing at the time for comparable transaction with the unrelated parties and do not involve more than a normal risk (i.e. under the Comparable Uncontrolled Price Method).

Other than those transactions which are made under the terms of employment, the majority of the transactions with related parties comprise loans and advance, deposits, issuance of letter of credits and guarantees.

Advances for the house building, conveyance and for personal use have also been provided to the staff and executives at the reduced rates in accordance with the employment and pay policy.

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

	December 31, 2007			December 31, 2006		
	Directors	Key management personnel	Associated companies & common directorship	Directors	Key management personnel	Associated companies & common directorship
----- Rupees in '000 -----						
Balances						
Loans						
Outstanding at beginning	-	1,154	111,781	-	825	33,333
Loans given during the year	-	2,859	35,000	-	3,117	2,050,470
Loans repaid during the year	-	(1,388)	(81,948)	-	(2,788)	(1,972,022)
Loans outstanding at end	-	2,625	64,833	-	1,154	111,781
Deposits						
Deposits at beginning	1,006	33,651	209,255	3,718	13,129	434,478
Deposit received during the year	47,034	192,928	30,420,265	25,934	165,143	25,520,628
Deposit repaid during the year	(46,899)	(193,643)	(30,409,956)	(28,646)	(144,622)	(25,745,851)
Deposit at end	1,141	32,936	219,564	1,006	33,651	209,255
Subordinated loan	-	-	650,000	-	-	650,000
Letter of credit and acceptance	-	-	52,534	-	-	39
Investment in Term Finance Certificates	-	-	77,143	-	-	105,714
Forward foreign exchange contracts	-	-	526,405	-	-	1,644,395
Transactions						
Short term employment benefits	-	103,025	-	-	90,016	-
Termination benefits	-	8,333	-	-	5,090	-
Mark-up and commission earned	-	216	20,453	-	77	20,382
Mark-up and commission paid	73	596	91,921	113	237	107,401
Brokerage paid	-	-	12	-	-	154
Revaluation & exchange income	-	-	27,715	-	-	15,624
Rent paid			152			

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40 CAPITAL ADEQUACY

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

	December 31, 2007	December 31, 2006
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Shareholders capital / assigned capital	5,001,750	3,847,500
Reserves	218,556	218,556
Unappropriated / unremitted profits (Net of losses)	<u>(4,119,537)</u>	<u>(1,080,726)</u>
	1,100,769	2,985,330
Less: Adjustments		
Deficit on account of revaluation of available-for-sale investments (net of tax)	146,854	215,178
Total Tier I Capital	<u>953,915</u>	<u>2,770,152</u>
Tier II Capital		
Subordinated debt (up to 50% of total Tier I Capital)	476,958	650,000
General provisions subject to 1.25% of total risk weighted assets	22,412	27,693
Revaluation reserve (up to 50%)	<u>584,844</u>	<u>553,927</u>
Total Tier II Capital	1,084,213	1,231,620
Eligible Tier III Capital	<u>-</u>	<u>-</u>
	1,084,213	1,231,620
Total supplementary capital eligible for MCR	<u>953,915</u>	<u>1,231,620</u>
Total Regulatory Capital (a)	<u>1,907,830</u>	<u>4,001,772</u>

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Risk-Weighted Exposures

	December 31, 2007		December 31, 2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
----- Rupees in '000 -----				
Credit risk				
Balance sheet Items				
Cash and other liquid assets	3,352,771	47,574	4,607,814	183,646
Money at call	839,959	-	4,747,567	1,957,500
Investments	17,859,169	2,681,593	15,828,682	3,286,621
Loans and advances	24,388,412	20,967,230	27,156,960	24,094,481
Fixed assets	2,367,883	2,367,883	2,322,371	2,322,371
Other assets	3,284,846	3,284,846	2,672,441	2,392,480
	52,093,040	29,349,126	57,335,835	34,237,099
Off balance sheet items				
Loan repayment guarantees	-	-	-	-
Purchase and resale agreements	-	-	-	-
Performance bonds etc	5,117,021	2,558,510	4,642,839	2,321,420
Revolving underwriting commitments				
Stand-by letters of credit	2,342,902	930,507	3,751,585	1,562,520
Acceptances	1,437,846	1,437,846	2,687,629	2,687,629
Outstanding foreign exchange contracts				
Purchase	3,119,169	12,477	4,665,381	18,662
Sale	1,635,082	6,540	4,549,516	18,198
	13,652,020	4,945,880	20,296,950	6,608,429
Credit risk-weighted exposures		34,295,006		40,845,528
Market Risk				
General market risk		41,537		43,213
Specific market risk		16,820		81,126
Market risk-weighted exposures		58,357		124,339
Total risk-weighted exposures (b)		34,353,363		40,969,867
Capital Adequacy Ratio [(a) / (b) x 100]		5.55		9.77

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41 RISK MANAGEMENT

The International Convergence of Capital Measurement and Capital Standard commonly known as Basel II Accord, is a mandatory requirement for all banks to implement.

The Bank continues to execute parallel-run of Basel II accord approaches in conformity to the SBP Basel II implementation timelines. It has selected the standardized approach for credit risk and market Risk and the basic Indicator approach for operational risk.

The Bank considers risk management a core linchpin that endeavor to optimize consistent value for its shareholders. The Bank sets out the general policies and limits for credit, market and operational risk and lays down the general rules for managing and monitoring risk.

The Bank is exposed to a number of risks, which it manages at different levels.

The main categories of risk are;

Credit risk	The risk of losses because counterparties fail to meet all or part of their obligations towards the Bank.
Market risk	The risk of losses because the market value of the Bank's assets and liabilities will vary with changes in market conditions.
Operational risk	The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.
Liquidity risk	The risk of losses because the Bank's normal liquidity reserves are not sufficient to meet its obligations.

The Bank has set up Risk Management Committee (RMC) and Asset and Liability Committee (ALCO) that are part of the framework for management of risk. The RMC is responsible for determination of general principles for measuring, managing and reporting the risk exposures of the Bank, risk policies, overall risk exposure, overall investment strategy and capital deployment and risk tolerance.

The ALCO is responsible for determination of the composition of assets and liabilities, management of liquidity, timely identification of sources of market and liquidity risk, pricing of deposits and advances, deciding on the required maturity profile and the mix of incremental assets and liabilities, defining the interest rate view of the bank and deciding on future strategies for treasury, reviewing and articulating the funding policy; and evaluating the market and liquidity risks involved in launching of new products.

41.1 Credit Risk

Credit risk management objectives and policies

Credit Risk is the risk that a counterparty will not settle its obligations in accordance with the terms of approval or agreed terms.

Credit exposures include both individual borrowers and groups of connected counterparties and portfolios in the banking and trading books.

Credit Risk Policy & Management Group (CRP & MG) is structured to effectively analyze, monitor & manage credit risk through its policy and procedures that are closely aligned with the SPCB's business plan, State Bank of Pakistan's Prudential Regulations & Basel II requirements.

Sanctioning authority & approval levels of all facilities as conferred by Board of Directors upon various functionaries of the Bank and is circulated for the information of all concerned through circulars issued by CRP&MG. Credit Sanctioning powers / Authority levels in terms of BOD approval as enhanced/amended from time to time relates to the total exposure of a customer or a customer-group, and not to specific loans.

Credit Risk Rating

Credit risk rating is an important tool in monitoring and controlling credit risk. In order to facilitate early identification of changes in risk profiles, credits with deteriorating ratings should be subject to additional oversight and monitoring, for example, through more frequent visits from Relationship Managers and inclusion on a watch list that is regularly reviewed by senior management. The internal risk ratings can be used by line management in different departments to track the current characteristics of the credit portfolio.

In light of the requirements of SBP guidelines and in view of Basel II Accord, the Bank has to assess soundness and appropriateness of internal credit risk measurement and management system. We now need to build the foundation for the IRB (Internal Rating Based) approach and construct default warehouse conforming to the default criterion of Basel II.

In the absence of standard and reliable financials to realistically evaluate the strength of a company for assigning CRR, we have to resort to other pragmatically emphasized quantitative and qualitative factors, which have traditionally been considered for extending credit. The Quantitative Evaluation shall be based on financial indicators, while Qualitative Evaluation shall be done based on subjective factors.

Objective of Internal Credit Risk Rating (CRR)

Usually credit ratings are aimed at achieving one or more of the following:

- Internal capital allocation;
- Internal risk reporting;
- Portfolio management;
- The setting of credit risk concentration limits;
- Developing risk-based pricing benchmarks.

At SPCBL the initial objective of CRR is to generate accurate and consistent ratings for the credit portfolio of the Bank. Credit risk ratings are summary indicators of the degree of risk inherent in SPCBL's individual credit exposures. A credit rating represents an assessment of the probability of default attached to a given counterparty to meet debt servicing and other repayment obligations on a timely basis. At SPCB a system has been developed to assign Credit Risk Rating to each borrower. The system was successfully implemented during the year 2007.

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41.1.1 SEGMENTAL INFORMATION

41.1.1.1 Segments by class of business

	December 31, 2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and Pharmaceuticals	3,020,101	9.6%	1,096,044	2.6%	984,380	6.5%
Agribusiness	47,574	0.2%	365,169	0.9%	-	0.0%
Cement	670,646	2.1%	161,592	0.4%	318,030	2.1%
Sugar	971,154	3.1%	33,767	0.1%	212,020	1.4%
Textile	5,148,683	16.4%	174,716	0.4%	1,393,276	9.2%
Footwear and Leather garments	940,661	3.0%	28,641	0.1%	-	0.0%
Automobile/transportation equipment	1,051,604	3.3%	490,895	1.2%	130,241	0.9%
Electronics and electrical appliances	500,003	1.6%	124,134	0.3%	275,626	1.8%
Power (electricity), Gas, Water, Sanitary	1,310,610	4.2%	1,716,834	4.1%	811,735	5.4%
Financial	998,312	3.2%	4,623,071	10.9%	7,051,186	46.6%
Insurance	36,166	0.1%	264,517	0.6%	245,338	1.6%
Individuals	2,275,642	7.2%	13,370,185	31.6%	3,029	0.0%
Others	14,444,660	46.0%	19,924,145	47.0%	3,719,440	24.6%
	31,415,816	100%	42,373,710	100%	15,144,301	100%
	December 31, 2006					
Chemical and Pharmaceuticals	3,020,101	9.6%	1,525,876	3.1%	1,401,166	6.5%
Agribusiness	47,574	0.2%	289,406	0.6%	-	0.0%
Textile	670,646	2.1%	567,438	1.2%	452,685	2.1%
Cement	971,154	3.1%	52,680	0.1%	301,790	1.4%
Sugar	5,148,683	16.3%	210,341	0.4%	1,983,189	9.2%
Shoes and leather garments	940,661	3.0%	43,281	0.1%	-	0.0%
Automobile/transportation equipments	1,051,604	3.3%	268,216	0.5%	185,385	0.9%
Financial	500,003	1.6%	82,296	0.2%	392,327	1.8%
Insurance	1,310,610	4.2%	1,967,119	4.0%	1,155,423	5.4%
Electronics and electrical appliances	998,312	3.2%	5,895,412	12.0%	10,036,663	46.6%
Production and transmission of energy	36,166	0.1%	220,674	0.5%	349,214	1.6%
Individuals	2,275,642	7.2%	11,206,989	22.9%	4,311	0.0%
Others	14,555,917	46.2%	26,685,362	54.4%	5,294,253	24.6%
	31,527,073	100%	49,015,090	100%	21,556,406	100%

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41.1.1.2 Segment by sector

	December 31, 2007					
	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	-	-	8,758,873	21%	4,433,175	29%
Private	31,415,816	100%	33,614,837	79%	10,711,126	71%
	31,415,816	100%	42,373,710	100%	15,144,301	100%

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

	December 31, 2007		December 31, 2006	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	-----Rupees in '000-----			
Agriculture, forestry, hunting and fishing	62,800	62,551	131,263	52,512
Mining and quarrying	-	-	-	-
Textile	1,484,430	1,333,624	882,186	282,755
Chemical and pharmaceuticals	146,131	127,642	46,685	37,299
Cement	200,000	100,000	42,699	10,675
Sugar	21,368	21,368	21,868	21,868
Footwear and leather garments	12,102	8,448	14,516	14,516
Automobile and transportation equipment	7,886	7,886	8,063	8,063
Electronics and electrical appliances	455,369	435,624	143,498	43,255
Construction	-	-	3,928	982
Power (electricity), gas, water, sanitary	-	-	203,257	4,353
Wholesale and retail trade	-	-	-	-
Exports / Imports	-	-	-	-
Transport, storage and communication	-	-	-	-
Financial	111,876	111,876	147,606	147,606
Insurance	-	-	-	-
Services	-	-	879	440
Individuals	39,959	9,990	37,128	21,346
Others	3,594,097	3,299,423	2,951,119	1,831,736
	6,136,018	5,518,432	4,634,695	2,477,406

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

	December 31, 2007		December 31, 2006	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
	-----Rupees in '000-----			
Public / Government	-	-	-	-
Private	6,136,018	5,518,432	4,634,695	2,477,406
	6,136,018	5,518,432	4,634,695	2,477,406

41.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	December 31, 2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	(3,320,265)	53,660,600	2,180,439	15,144,301
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	(3,320,265)	53,660,600	2,180,439	15,144,301

	December 31, 2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	(408,968)	59,200,849	3,998,039	21,556,406
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	(408,968)	59,200,849	3,998,039	21,556,406

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41.2 Market Risk

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from changes in market prices, namely interest rates, foreign exchange rates and equity prices.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

The Bank has a well established framework for Market Risk management with the Treasury Investment Policy, Liquidity Policy and Market Risk Management policies and procedures. Its major objective is of protecting and increasing the Bank's net interest income in the short run and market value of the equity in the long run for enhancing the shareholders wealth. Further it defines the contours of the way the Bank's market risk is managed within defined parameters and with prescriptive guidelines on the tools, techniques and processes.

The Asset Liability Committee (ALCO) and Investment Committee is entrusted with key decision making in establishing market risk related strategies and monitoring there against. The Committee decides on product pricing, mix of assets, liabilities, stipulates liquidity and interest rate risk limits, monitors them, articulates the Bank's interest rate view and determines the business strategy of the Bank.

Management of interest rate risk of the Banking Book is primarily focused on interest and fair value through Re-pricing Gap Analysis, Analysis of the Net Interest Income Sensitivity, Duration and Fair Value Sensitivity. The management of interest risk of the trading book is achieved through mark-to-market practice and exposure analysis. On a periodical basis, risk monitoring reports are prepared for senior management to gain an accurate understanding of Bank's risk position. Mathematical model like Stress-Testing is carried out at least biannually.

The Middle Office in Risk Management Division has an independent reporting structure on risk aspects and helps management in determining compliance in terms of exposure analysis, tracking of limits, funding and various other risk sensitive market parameters.

41.2.1 Foreign exchange risk

Currency risk is the risk of loss arising from the fluctuation of exchange rates. Bank's currency risk is first controlled through a substantially matched funding policy. We utilize appropriate hedging instruments, such as forward foreign exchange (FX) contracts, currency swaps to effectively hedge and manage currency risks.

The majority of foreign currency exposure is in the US dollar. Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuation by conducting mark to market sensitivity and stress testing on a regular basis as well as utilizing the currency forward FX contracts to control the risk.

Bank limits its foreign currency net open position to Rs. 300 million. Bank's currency risk is monitored by Treasury Front, Back and Middle Office on daily basis. Bank's open currency position limits, with respect to both spot and forward positions are established by ALCO.

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	December 31, 2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- Rupees in '000 -----				
Pakistan rupee	48,018,099	49,066,737	(1,241,155)	(2,289,793)
United States dollar	840,708	1,849,902	1,048,435	39,241
Great Britain pound	66,965	223,953	152,661	(4,327)
Japanese yen	619	33		586
Euro	48,440	85,343	37,579	676
Other currencies	968	2,414	2,480	1,034
	<u>48,975,799</u>	<u>51,228,382</u>	<u>-</u>	<u>(2,252,583)</u>
	-	-		

December 31, 2006				
Pakistan rupee	15,709,881	52,324,093	(6,961)	(36,621,173)
United States dollar	2,386,130	2,397,410	217,017	205,737
Great Britain pound	4,875,732	254,253	(210,056)	4,411,423
Japanese yen	8,601,871	-	-	8,601,871
Euro	23,323,184	-	-	23,323,184
Other currencies	64,224	-	-	64,224
	<u>54,961,022</u>	<u>54,975,756</u>	<u>-</u>	<u>(14,734)</u>

41.2.2 Equity position Risk

The Bank is exposed to equity price changes on its investments in Trading Book. These equity exposures are primarily related to market price movements in local equity market index. Changes in the overall value of equity trading book are recorded through Profit and loss account. Bank's Investment Committee approves the investment stocks and their limits. It also reviews the portfolio with mark to market position on regular basis. Stop loss limits has been approved and monitored.

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41.2.3 Mismatch of interest rate sensitive assets and liabilities

December 31, 2007												
Effective Yield / Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
----- Rupees in '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3,223,780	337,602	-	-	-	-	-	-	-	-	-	2,886,178
Balances with other banks	128,991	-	-	-	-	-	-	-	-	-	-	128,991
Lending to financial institutions	10.28% 839,959	-	-	-	-	-	-	-	-	-	-	839,959
Investments	12.09% 17,859,169	2,476,184	5,393,986	1,185,665	55,861	94,896	82,753	4,792,666	1,720,414	-	-	2,056,742
Advances	12.81% 25,874,972	10,922,871	1,974,416	2,743,124	2,022,546	3,019,454	939,564	2,287,044	1,278,532	503,521	-	183,900
Other assets	1,048,928	-	-	-	-	-	-	-	-	-	-	1,048,930
	48,975,799	13,736,657	7,368,402	3,928,789	2,078,407	3,114,350	1,022,317	7,079,710	2,998,946	503,521	-	7,144,700
Liabilities												
Bills payable	570,756	-	-	-	-	-	-	-	-	-	-	570,756
Borrowings	9.30% 6,880,449	2,017,912	3,749,604	874,403	-	47,706	47,706	95,412	47,706	-	-	-
Deposits and other accounts	7.97% 42,373,710	6,434,763	10,269,770	6,975,378	5,905,427	1,226,965	1,415,390	2,185,237	1,713,932	856,966	-	5,389,883
Sub-ordinated loans	12.49% 650,000	-	650,000	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13.50% 80,155	2,375	4,831	7,455	16,025	40,335	9,134	-	-	-	-	-
Other liabilities	673,312	-	-	-	-	-	-	-	-	-	-	673,311
	51,228,382	8,455,050	14,674,205	7,857,236	5,921,452	1,315,006	1,472,230	2,280,649	1,761,638	856,966	-	6,633,950
On-balance sheet gap	(2,252,583)	5,281,607	(7,305,803)	(3,928,447)	(3,843,045)	1,799,344	(449,913)	4,799,061	1,237,308	(353,445)	-	510,750
Off-balance sheet financial instruments												
Forward Lending (Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings (Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap												
Total Yield/Interest Risk Sensitivity Gap	(2,252,583)	5,281,607	(7,305,803)	(3,928,447)	(3,843,045)	1,799,344	(449,913)	4,799,061	1,237,308	(353,445)	-	510,750
Cumulative Yield/Interest Risk Sensitivity Gap		5,281,607	(2,024,196)	(5,952,643)	(9,795,688)	(7,996,344)	(8,446,257)	(3,647,196)	(2,409,888)	(2,763,333)	-	(2,252,583)

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41.3 Liquidity Risk

The Bank is exposed to liquidity risk, arising from mismatches between the maturities of its assets and liabilities.

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in orderly way its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of Liquidity Policies, controls and limits approved by the Bank's Board of Directors. These policies, controls and limits ensure that the Bank maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

ALCO monitors Bank's liquidity risk position through liquidity reports from the Treasury Front and Treasury Middle Office and takes the necessary actions to match asset and liability positions both on- and off-balance sheet in such a way that Bank is able to meet its obligations.

Bank's short-term liquidity can also be provided by the inter-bank market, through instruments such as inter-bank lending and Repos. SBP provides discounting facility to meet any short-term funding needs that may arise.

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place when any of the indicators being monitored enter into the warning or stress zone and can be implemented on a timely basis to minimize the liquidity risks that may arise upon the occurrence of an unanticipated change in market conditions.

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41.4 Operational Risk

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

Operational risks are managed within a policy framework set by the Directors. This covers operations risk, protective security, and validation of policies and procedures of every new activity initiated within the bank and Business Continuity / Disaster Recovery planning. SPCB's approval procedures for new products prioritize that the products are evaluated for possible operational risks.

Risk policy sets minimum standards and requires all business units to identify and assess risks. The business units are responsible for day-to-day monitoring of operational risks and for limiting losses as a result thereof. The business unit must report operational risk events in the management reporting system. Risk Management has developed a loss database for recording of these events which will be utilized to mitigate operational risk in advance approaches.

The Saudi Pak Bank has decided to apply the basic indicator method in the calculation of operational risk as per the State Bank's Minimum Capital Requirements (MCR) Directive .

The implementation of Operational Risk Policy is subject to regular audit and underpins corporate governance.

42 SUBSEQUENT EVENTS

There were no significant adjustable events subsequent to December 31, 2007, that might require an adjustment to the financial statements or that may require disclosure and have not already been disclosed in these financial statements.

43 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on **March 6, 2008** by the Board of Directors of the Bank.

44 GENERAL

Figures have been rounded off to the nearest thousand rupee except stated otherwise.

Mansoor M. Khan
President and CEO

Muhammad Rashid Zahir
Chairman

Bashir A.Chowdry
Director

Javed Aslam Callea
Director

President / CEO's Message

It is my pleasure to present a review of the bank's performance. This review is being presented at an important juncture of the bank's history. The bank is in the final stages of being acquired by a consortium comprising of Bank Muscat SOAG, Nomura European Investments Limited, and the International Finance Corporation. The consortium is headed by renowned banker - Mr. Shaukat Tarin. This is also my last review as the President & CEO of the bank.

2007 could be marked as the year of consolidation in our growth journey that we embarked upon in 2005. During this period, the bank has experienced a major transformation to be a viable and vibrant financial institution. Our two-pronged strategy of simultaneously addressing the legacy issues and pursuing selective growth has yielded positive results. Over the last three years, the bank has been able to:

- Build a core management team of quality professionals
- Develop a strategic plan, which was approved by the BoD in July 2005
- Re-launch itself with a new corporate identity and create top-of-mind awareness of the brand. The bank now has an image of a vibrant, progressive and a growing bank
- Reorganize itself on modern lines clearly segregating the functions of Business, Risk and Operations. Critical functions such as Compliance, Risk management, and Middle office were setup
- Develop policies and procedures and disseminate across the bank through extensive training. 372 training programs covering 3,882 participants were conducted during the period
- Expand the branch network from 38 to 55 branches.
- Successfully launch a suite of Products / Alternate Delivery Channels and Services with their individual identity
- Enhance / leverage the technological platform by aligning it with the business strategy
- Improve liquidity by expanding and diversifying the deposit base and making it more cost efficient
- Double the number of depositors to over 100,000/= customers in three years

- Launch specialized business units for Consumer, Corporate, and Investment banking, which built a profitable customer franchise. Performing loans doubled during the period
- Earn operating income (i.e. income before provision for bad debts) of over PKR 1.5 billion
- Regularize /restructure infected portfolio of over PKR 4.5 billion
- Strengthen the balance sheet by providing additional provisions of approx. PKR 5 billion.

As a result of these achievements, the bank's market capitalization increased more than four times i.e. from PKR 3.4 billion to PKR 15 billion. As the major sponsors decided to realize gains and make a profitable exit, the bank elicited strong interest from buyers.

The bank now stands ready to play its role as a lead institution in the market. The new sponsors have the means and commitment to take the bank forward to the next level. I believe the bank holds great promise for all stakeholders. I wish all the best to the new sponsors and the team.

As mentioned earlier, 2007 has been the year of consolidation. Whilst sponsors were engaged in the process of sale of their shareholding, the management's focus was on preserving the franchise value. Further asset growth was subject to enhanced capital. Therefore, business efforts were directed at improving the deposit profile, while, maintaining the balance sheet size. It was also imperative to keep the HR base intact to ensure that the bank is not exposed to any undue risk. By the grace of Almighty, we have been successful in achieving these critical objectives. Though the bank remains profitable at the operating level, the reported loss is due to higher provisions against legacy NPLs necessitated by the withdrawal of FSV benefits.

In the end I would like to express my sincere gratitude to the board members for the guidance provided to me during my stay. I am also thankful to my fellow staff members for their hard work and dedication. I am also grateful to the State Bank of Pakistan, Securities and Exchange Commission and other regulators for their support.

Mansoor M. Khan

President & CEO

Karachi : March 6, 2008

SAUDI PAK COMMERCIAL BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	December 31, 2007	Restated December 31, 2006
Rupees in '000			
Mark-up / return / interest earned	25	4,799,853	3,712,420
Mark-up / return / interest expensed	26	4,440,116	3,260,952
Net mark-up / interest income		359,737	451,468
Provision against non-performing loans and advances - net	11.3	3,134,651	463,988
Provision / (reversal) against consumer finance	11.3	(5,281)	915
(Reversal) / provision for diminution in the value of investments - net		3,074	(56,808)
Bad debts written off directly		-	-
		3,132,444	408,095
Net mark-up / interest income after provisions		(2,772,707)	43,373
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		369,468	305,464
Dividend income		44,465	59,851
Income from dealing in foreign currencies		64,312	56,907
Gain on sale of securities - net	27	210,855	145,177
Other income	28	87,725	138,604
Total non-markup / interest income		776,825	706,002
		(1,995,882)	749,375
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	29	1,270,317	1,262,448
Other (reversal) / provisions / write offs		38,019	(202,435)
Unrealized loss on revaluation of investment classified as held for trading		1,310	5,962
Other charges	30	14,737	75,700
Total non-markup/interest expenses		1,324,383	1,141,676
		(3,320,265)	(392,301)
Amortization of deferred cost		-	16,667
Extra ordinary items		-	-
LOSS BEFORE INCOME TAX EXPENSE		(3,320,265)	(408,968)
- Current	31	35,382	-
- Prior year(s)		439,351	-
- Deferred		(754,091)	(105,282)
		(279,358)	(105,282)
LOSS AFTER INCOME TAX EXPENSE		(3,040,907)	(303,686)
Losses brought forward		(1,080,726)	(778,532)
Losses carried forward		(4,121,633)	(1,082,218)
Loss per share - Basic and Diluted	32	(6.25)	(0.68)

The annexed notes 1 to 44 form an integral part of these financial statements.

Mansoor M. Khan
President and CEO

Muhammad Rashid Zahir
Chairman

Bashir A. Chowdry
Director

Javed Aslam Callea
Director

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices (the statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **Saudi Pak Commercial Bank** (the Bank) to comply with Regulation G-1 of the Prudential Regulations for the Corporate/Commercial Banking issued by the State Bank of Pakistan, and Listing Regulation of the Karachi, Lahore and Islamabad Stock Exchanges respectively, where the Bank is listed.

The responsibility for compliance with the Code 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 reflects the status of the Bank's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of 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 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 as applicable to the Bank, for the year ended December 31, 2007.

Karachi
Date: March 7, 2008

Anjum Asim Shahid Rahman
Chartered accountants

SAUDI PAK COMMERCIAL BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	Share capital	Revenue reserve		Total
		*Statutory reserves	Accumulated losses	
----- Rupees in '000 -----				
Balance as at January 01, 2006- Restated	3,847,500	218,556	(860,072)	3,205,984
Effect of change in accounting policy - Note 4.1 for amortization of premium on PIB	-	-	76,440	76,440
Effect of change in accounting policy - Note 4.2 for investment in associate on cost	-	-	5,100	5,100
Loss after taxation for the year ended December 31, 2006- Restated	3,847,500	218,556	(778,532)	3,287,524
Transfer to statutory reserve	-	-	(303,686)	(303,686)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	1,492	1,492
Opening balance (current year)	3,847,500	218,556	(1,080,726)	2,985,330
Loss after taxation for the year ended December 31, 2007- Restated	-	-	(3,040,907)	(3,040,907)
Transfer to statutory reserve	-	-	-	-
Issue of right shares	1,154,250	-	-	1,154,250
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	-	-
	-	-	2,096	2,096
Closing balance (current year)	5,001,750	218,556	(4,119,537)	1,100,769

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

The annexed notes from 1 to 44 form an integral part of these financial statements.

President and CEO

Chairman

Director

Director

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Board of Saudi Pak Commercial Bank Limited extends support and commitment towards the implementation of the highest standards of Corporate Governance. The Bank has adopted Code of Corporate Governance with the objective of establishing and implementing best practices. The Bank is already in compliance with all the requirements prescribed under the Code of Corporate Governance and has applied the principles set forth in the listing regulations as prescribed by the Securities and Exchange Commission of Pakistan in the following manner:

1. The Bank encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present, the Board consists of all non-executive directors.
2. None of the directors is serving as a director in more than ten listed companies, including the Bank.
3. All the Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or being a member of a stock exchange has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Bank has prepared a 'Statement of Ethics and Business Practices, which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along-with the dates on which they were approved or amended has been maintained.
7. The Board has defined the level of materiality and established a system of internal control which were effectively implemented,
8. All the powers of the Board have duly been exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
9. The meetings of the Board were presided over by the Chairman and the Board met seven times during the year. Written notices of the Board meetings along with

- agenda and relevant working papers were circulated before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. The directors of the Bank are well conversant with their duties and responsibilities.
 11. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.
 12. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
 13. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
 14. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
 15. The Bank has complied with all the corporate and financial reporting requirements.
 16. The Board has formed an audit committee comprising of three non-executive Directors including the Chairman of the committee.
 17. Four meetings of the audit committee were held during the year prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
 18. The Board has set-up an effective internal audit function. The internal audit department reports to the Audit Committee.
 19. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The quarterly un-audited financial statements of the Bank are circulated along with the review of the Directors. Half yearly financial statements were subject to the limited review by the statutory auditors. Financial Statements for the year ended December 31, 2007 have been audited and will be circulated in accordance with clause (xxii) of the Code.
22. All material information as described in clause (xxiii) of the Code is disseminated to the stock exchanges and Securities and Exchange Commission of Pakistan in a timely fashion.
23. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board

Mansoor Masood Khan
President / CEO

Muhammad Rashid Zahir
Chairman

Karachi: March 06, 2008

Statement of Internal Controls

In terms of State Bank of Pakistan BSD circular No. 07 dated May 27, 2004 'Guideline on Internal Control' and subsequent clarification through circular letter No.3 dated January 26, 2005, the Board of Directors is pleased to endorse the following statement of internal controls.

It is the responsibility of the management of the Bank to establish and maintain adequate internal control for implementing the strategies and policies, as approved by the Board of Directors, and provide an efficient working environment aimed at achieving the business objectives of the Bank, efficiency and effectiveness of operations, compliance with applicable laws and regulations and reliability of financial reporting.

The management ensures that an efficient and effective control system is in place by identifying control objectives, reviewing pertinent policies and establishing relevant control procedures. All policies and procedures are regularly reviewed, to achieve full compliance with State Bank of Pakistan guidelines on internal control, and compared with international best practices and necessary amendments are made wherever required, to the extent feasible and practicable, on timely basis. The Board of Directors is ultimately responsible for ensuring effective design and implementation of internal controls in the bank.

The Bank generates timely and appropriate financial and operating information for decision making as well as for shareholders, regulators and other stakeholders of the Bank. Towards this end, the management has also ensured establishment of clear and open communication channels that allow information to flow freely through the organization. The management has also put in place appropriate monitoring apparatus, as an additional safeguard and check, to complement the overall internal control framework.

It needs to be stated that internal control system in the Bank is designed to manage, rather than eliminate the risk of failure to achieve the business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

Evaluation of Existing Internal Control System

The management has made considerable efforts to ensure that an adequate internal control system is implemented and that no compromise is made in executing the desired control procedures. However, it is an ongoing process that includes identification, evaluation and management of significant risks faced by the Bank.

The Bank has an effective Internal Audit Division which reports directly to the Audit Committee of the Board. The Internal Audit carries out audits of various units of the Bank to evaluate the adequacy of internal controls and monitor compliance with Bank's policies and procedures based on an audit plan approved by the Audit Committee.

The management gave due consideration to the recommendations made by the internal and external auditors for improvement in the internal control system and took timely actions to implement such recommendations where needed.

Based on the above, the management assesses that the internal controls, encompassing the material matters, is sound in design and is effectively implemented and monitored and expect that the internal control system will further improve in future.

On behalf of the Board

Mansoor M. Khan
President / CEO

Muhammad Rashid Zahir
Chairman

Karachi: March 06, 2008