

## **CHAIRMAN'S MESSAGE**

It is my privilege to present to you the Twelfth Annual Report of Saudi Pak Commercial Bank Limited for the year ended December 31, 2006. In the year 2006, the vision of the Board and the dedicated efforts on the part of the management together with intensive support from the sponsors have enabled us to overcome the ordeal of the challenging journey and achieve our goal. Today the Bank is well positioned to take off for a brighter future.

The year saw a substantial growth in key areas of banking. The deposits increased by 32 per cent to Rs. 49,015 million, advances increased by 49 per cent to Rs. 29,022 billion and total assets base increased by 24 per cent to Rs. 59,112 million. Markup income during the period under review increased by 41 per cent to Rs. 3,702 million from Rs. 2,632 million in the corresponding period of the previous year. Markup expense on the other hand increased to Rs. 3,261 million from Rs. 1,849 million. Operating profit (before gross provisions for bad debts and mark up suspense) during the period under review, amounted to Rs.522 million as against Rs 690 million in the preceding year.

The year under review is also marked with the infrastructure building, system improvement and product development. In order to have a flat, fast and agile corporate structure, the operating model of the Bank was restructured in line with internationally acceptable banking standards. A number of policies and procedures including the prudent risk management have been put in place. Technology-loaded innovative products were introduced in the areas of both assets and liability. Consumer Banking Division launched Personal Loan – Installment Based product with the unique features to cater for the needs of our valued customers. Going forward, other products like Personal Loan- Running Finance, Mortgage Loans and Credit Card are also on the anvil. After the launch of Umra Scheme, ideas-filled Life Style Products Division is working on other un-touched areas.

IT Division, keeping the tradition of offering technologically advanced innovative products, has introduced “Saudi Pak Transact Internet & Mobile Banking”. Partnership

with PSO for development of full fledged Self Service Banking Centres is another great achievement. Our E-Statement facility enables the customers to receive their statement of accounts in their e-mail at the chosen frequency.

Infrastructure building, system improvement and product development is an essential process for the next level of growth but at the same time these capacity building measures are cost intensive. Besides, a lot of emphasis was given during the year on the cleansing of legacy credit portfolio. A very conservative and prudent approach was adopted and provisions were made to make the credit portfolio neat and sound. As a result, the Bank incurred loss before provision for tax amounting to Rs. 424 million for the year ended December 31, 2006 as against the pre-tax profit of Rs. 140 million in the previous year. Net loss amounted to Rs. 319 million as against profit after tax of Rs. 65 million in the corresponding period of the previous year.

The financial services industry is passing through a state of consolidation and regulation. The implementation of Revised Regulatory Capital Framework under Basel II has warranted the Banks to meet minimum capital requirements set forth by the State Bank of Pakistan. The sponsors of the Bank have once again shown their continuing commitment and support to the vision of the Bank by issuing 30% right shares involving an outlay of more than rupees one billion. The paid up capital of the Bank will now be over Rs 5 billion after the right issue.

There has been a great emphasis from the regulators on good governance over the last three years. The Bank is compliant with the code of Corporate Governance issued by SECP, guidelines and regulations issued by State Bank of Pakistan and the listing requirements of Stock Exchanges.

I would like to thank the State Bank of Pakistan and the 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 07, 2006

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	December 31, 2006	Restated December 31, 2005
Rupees in '000			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
(Loss) / profit before taxation		(424,759)	140,470
Add: Dividend income		(59,851)	(41,347)
		<u>(484,610)</u>	<u>99,123</u>
<b>Adjustments</b>			
Depreciation		119,073	77,536
Amortization of intangible assets		7,645	6,128
Amortization of deferred cost		255,275	287,844
Provision against non-performing advances		463,988	393,546
Provision / (reversal) against consumer financing		915	(6,579)
Provision for diminution in the value of investments / other assets		(56,806)	671
Unrealized loss on revaluation of investment classified as held for trading		5,962	-
Gain on sale of fixed assets		(1,984)	(66,329)
Financial charges on leased assets		51	134
Other (reversal) / provisions written back		(202,435)	18,595
Bad debts written off		-	729
Provision for gratuity		14,739	9,217
Share of loss from associate		5,270	5,100
		<u>611,693</u>	<u>726,592</u>
		<b>127,083</b>	<b>825,715</b>
<b>(Increase) / Decrease in operating assets</b>			
Lendings to financial institutions		2,880,996	(5,472,445)
Held-for-trading securities		(49,175)	122,345
Advances - net		(9,908,151)	5,585,749
Other assets (excluding advance taxation)		(743,943)	(8,852)
		<u>(7,820,273)</u>	<u>226,797</u>
<b>Increase / (Decrease) in operating liabilities</b>			
Bills payable		209,199	(178,608)
Borrowings from financial institutions		(1,244,513)	(981,206)
Deposits		11,879,048	3,864,831
Other liabilities (excluding current taxation)		339,929	123,807
		<u>11,183,663</u>	<u>2,828,824</u>
		<b>3,490,472</b>	<b>3,881,336</b>
Income tax paid		(57,278)	(197,346)
<b>Net cash flow from operating activities</b>		<b>3,433,194</b>	<b>3,683,990</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		(2,928,749)	(5,095,628)
Net investment in held-to-maturity securities		(309,446)	2,006,444
Net investment in associate		(25,000)	(60,000)
Dividend income		59,851	41,347
Investment in operating fixed assets		(276,210)	(174,239)
Sale proceeds of property and equipment disposed off		3,860	192,440
<b>Cash used in investing activities</b>		<b>(3,475,694)</b>	<b>(3,089,636)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts/payments of sub-ordinated loans		-	-
Payments of lease obligations		(569)	(619)
Dividend paid		-	-
Issue of share capital		-	1,597,500
<b>Net cash (used in) / generated from financing activities</b>		<b>(569)</b>	<b>1,596,881</b>
Effects of exchange rate changes on cash and cash equivalents		-	-
<b>Increase / (Decrease) in cash and cash equivalents</b>		<b>(43,069)</b>	<b>2,191,235</b>
Cash and cash equivalents at beginning of the year		<u>6,608,384</u>	<u>4,417,149</u>
Cash and cash equivalents at end of the year	32	<u><b>6,565,315</b></u>	<u><b>6,608,384</b></u>

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

President and CEO

Chairman

Director

Director

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Share capital	*Statutory reserves	Accumulated losses	Total
..... Rupees in '000 .....				
<b>Opening balance (prior year)</b>	2,250,000	205,633	(983,026)	1,472,607
Profit for the prior year after taxation	-	-	64,613	64,613
Transfer to statutory reserve	-	12,923	(12,923)	-
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	474	474
Realization of revaluation surplus on disposal of fixed assets	-	-	70,790	70,790
Issue of share capital	1,597,500	-	-	1,597,500
<b>Opening balance (current year)</b>	<b>3,847,500</b>	<b>218,556</b>	<b>(860,072)</b>	<b>3,205,984</b>
Loss for the year after taxation	-	-	(319,477)	(319,477)
Transfer to statutory reserve	-	-	-	-
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation- net of tax	-	-	1,492	1,492
<b>Closing balance (current year)</b>	<b>3,847,500</b>	<b>218,556</b>	<b>(1,178,057)</b>	<b>2,887,999</b>

\*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**

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**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 50 branches (2005: 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 August 2006 is 'A-2' and 'A-' respectively.
- 1.2** The majority control and management of the bank is with Saudi Pak Industrial and Agricultural Investment Company (Private) Limited (SAPICO) who is the holding company of the bank.
- 1.3** The bank has not increased its paid up share capital (net of losses) to Rs. 3 billion up to December 31, 2006 as required by BSD Circular No. 6 of 2005. As more fully explained in note 20.5 the bank in November 2006 has announced 30% right shares at par to comply with the minimum capital requirements as set out in the said circular.

**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.

**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 and the Banking Companies Ordinance, 1962 and directives issued by the State Bank of Pakistan and Securities and Exchange Commission of Pakistan. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.
- 3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effected**

Amendments to IAS - 1 'Presentation of financial statements' have been published that are applicable to the Bank's financial statements covering annual periods, beginning on or after January 1, 2007. Adoption of the above amendments in standards will only impact the extent of disclosures presented in the financial statements.

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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- 3.3** The State Bank of Pakistan as per BSD Circular 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 State Bank of Pakistan vide BSD Circular No. 10 dated July 13, 2004.

**4 BASIS OF MEASUREMENT**

- 4.1** 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.

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

**4.3 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 recognised 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.

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:

**4.3.1 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 and Commercial Banking issued by State Bank of Pakistan. The forced sales values are estimated by independent valuations of the assets mortgaged/pledged.

**4.3.2 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.

**4.3.3 Held-to-maturity investments**

The Bank follows the guidance provided in State Bank of Pakistan'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.

**SAUDI PAK COMMERCIAL BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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**4.3.4 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.

**4.3.5 Useful life of property and equipments**

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

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**5.1 Cash and cash equivalents**

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

**5.2 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:

**5.2.1 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.

**5.2.2 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.

**5.3 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.

**5.4 Investments**

**5.4.1** 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-sales**

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

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

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**5.4.2** 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 market value. Investments classified as "held-to-maturity" are required to be carried at amortized cost.

**5.4.3** 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.

**5.4.4** 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.

**5.4.5 Investments in associates**

Investments in associates are valued using equity method of accounting. Gain or loss on sale of investments is included in profit and loss for the year.

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

**5.4.7** 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.

**5.5 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.

**5.6 Operating fixed assets**

**5.6.1 Property and equipment and depreciation**

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.

**5.6.2 Measurement subsequent to initial recognition**

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

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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.

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.

**5.6.3 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.

**5.6.4 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.

**5.6.5 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.

**5.7 Taxation**

**5.7.1 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.

**5.7.2 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".

**5.8 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.

**5.9 Provisions**

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

**5.10 Staff retirement benefits**

**5.10.1 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.

**5.10.2 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 three 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.

**5.11 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 State Bank of Pakistan.

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

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

## **5.12 Foreign currencies**

### **5.12.1 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.

### **5.12.2 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.

## **5.13 Financial instrument**

### **5.13.1 Financial assets and liabilities**

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

### **5.13.2 Derivative financial 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.

## **5.14 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.

## **5.15 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.

**5.16 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.

**5.17 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:

**5.17.1 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.

**5.17.2 Geographical segment**

The bank conducts all its operations in Pakistan.

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**FOR THE YEAR ENDED DECEMBER 31, 2006**

		December 31, 2006	December 31, 2005
		Rupees in '000	
<b>6</b>	<b>CASH AND BALANCES WITH TREASURY BANKS</b>		
	In hand		
	Local currency	355,578	436,889
	Foreign currencies	86,033	90,578
	National prize bonds	2,076	437
	With State Bank of Pakistan (SBP) in:	6.1	
	Local currency account	2,664,188	1,290,007
	Foreign currency - Current accounts	143,124	135,744
	- Deposit accounts	438,587	416,790
	With National Bank of Pakistan (NBP) in:		
	Local currency current account	304,550	154,895
		<u>3,994,136</u>	<u>2,525,340</u>
<b>6.1</b>	Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.		
<b>7</b>	<b>BALANCES WITH OTHER BANKS</b>		
	In Pakistan		
	Current accounts	134,178	66,519
	Deposit accounts	300,000	1,175,555
		434,178	1,242,074
	Outside Pakistan		
	Current accounts	7.1	179,500
	Deposit accounts		56,524
		-	-
		613,678	1,298,598
	Less: Provision against balances with other banks	-	(375,554)
		<u>613,678</u>	<u>923,044</u>

**7.1** This includes Rs. 105.147 million (2005: Rs. 28.45 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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**December 31,    December 31,**  
**2006                    2005**  
**Rupees in '000**

**8    LENDINGS TO FINANCIAL INSTITUTIONS**

In local currency

Call money lendings	8.1	<b>1,957,500</b>		3,160,000
Repurchase agreement lendings (Reverse repo)	8.2	<b>2,790,067</b>		5,671,063
		<b>4,747,567</b>		<b>8,831,063</b>

**8.1** These lendings have been made in the local money market carrying markup rates ranging from 10.5% to 12.5% (2005: 8% to 25%) per annum with maturities up to February 2007.

**8.2    Securities held as collateral against lendings to financial institutions**

		December 31, 2006			December 31, 2005		
		----- Rupees in '000 -----					
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Market treasury bills	8.2.1	2,790,067	-	2,790,067	4,721,063	-	4,721,063
Pakistan investment bonds	8.2.1	-	-	-	950,000	-	950,000
		<b>2,790,067</b>	-	<b>2,790,067</b>	5,671,063	-	<b>5,671,063</b>

**8.2.1** These have been purchased under the resale agreements at the markup rates ranging from 8.65% to 8.70% per annum (2005: 6.75% to 9% per annum) with maturities up to March 2007.

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9 INVESTMENTS	December 31, 2006			December 31, 2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees in '000 -----						
<b>9.1 Investments by type</b>						
<b>Held-for-trading securities</b>						
Listed shares	43,213	-	43,213	-	-	-
Unlisted shares	-	-	-	-	-	-
Pakistan investment bonds	-	-	-	-	-	-
	<b>43,213</b>	<b>-</b>	<b>43,213</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Available-for-sale securities</b>						
Market treasury bills	4,199,885	1,808,776	6,008,661	3,346,734	1,601,652	4,948,386
Pakistan investment bonds	-	542,801	542,801	558,475	-	558,475
Mutual fund units	1,591,307	-	1,591,307	122,709	-	122,709
Preference shares						
Listed	65,000	-	65,000	65,000	-	65,000
Unlisted	50,000	-	50,000	50,000	-	50,000
Term finance certificates						
Listed	188,415	-	188,415	-	-	-
Unlisted	-	-	-	-	-	-
Ordinary shares						
Listed	465,705	-	465,705	207,066	-	207,066
Unlisted	15,680	-	15,680	15,680	-	15,680
	<b>6,575,992</b>	<b>2,351,577</b>	<b>8,927,569</b>	<b>4,365,664</b>	<b>1,601,652</b>	<b>5,967,316</b>
<b>Held-to-maturity securities</b>						
Market treasury bills	-	-	-	-	-	-
Pakistan investment bonds	5,790,860	58,148	5,849,008	3,983,687	2,088,255	6,071,942
Federal investment bonds	-	-	-	-	-	-
Term finance certificates						
Listed	822,808	-	822,808	173,659	-	173,659
Unlisted	239,043	-	239,043	305,965	-	305,965
Shares repo	93,697	-	93,697	143,544	-	143,544
	<b>6,946,408</b>	<b>58,148</b>	<b>7,004,556</b>	<b>4,606,855</b>	<b>2,088,255</b>	<b>6,695,110</b>
Investment in associate	75,000	-	75,000	60,000	-	60,000
<b>Investments at cost</b>	<b>13,640,613</b>	<b>2,409,725</b>	<b>16,050,338</b>	<b>9,032,519</b>	<b>3,689,907</b>	<b>12,722,426</b>
Less: Provisions for diminution in value of investments	(98,609)	-	(98,609)	(150,145)	-	(150,145)
<b>Investments- net of provision</b>	<b>13,542,004</b>	<b>2,409,725</b>	<b>15,951,729</b>	<b>8,882,374</b>	<b>3,689,907</b>	<b>12,572,281</b>
(Deficit) on revaluation of held-for-trading investments	(5,962)	-	(5,962)	-	-	-
(Deficit) on revaluation of available-for-sale investments	(243,285)	-	(243,285)	(107,704)	-	(107,704)
<b>Total investments at market value</b>	<b>13,292,757</b>	<b>2,409,725</b>	<b>15,702,482</b>	<b>8,774,670</b>	<b>3,689,907</b>	<b>12,464,577</b>

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December 31,    December 31,  
2006                      2005  
Rupees in '000

**9.2 Investments by segments**

**Federal Government Securities**

Market treasury bills	9.2.1	6,008,661	4,948,386
Pakistan investment bonds	9.2.1-9.2.2	6,391,809	6,630,417
Federal investment bonds		-	-
		<b>12,400,470</b>	<b>11,578,803</b>

**Fully paid-up ordinary shares**

Listed companies	9.5	508,918	207,066
Unlisted companies	9.6	15,680	15,680
		<b>524,598</b>	<b>222,746</b>

**Term Finance Certificates, Debentures,  
Bonds and Participation Term Certificates**

Term finance certificates - Listed	9.7.1	1,011,223	173,659
- Unlisted	9.7.2	239,043	305,965
		<b>1,250,266</b>	<b>479,624</b>

**Other investments**

Mutual fund units	9.8	1,591,307	122,709
Preference shares - Listed	9.9-9.10	65,000	65,000
- Unlisted	9.11	50,000	50,000
Investment in associates	9.12	75,000	60,000
Shares repo		93,697	143,544
		<b>1,875,004</b>	<b>441,253</b>

**Total investments at cost**

Provision for diminution in the value of investments	9.3	(98,609)	(150,145)
<b>Investments - net of provision</b>		<b>15,951,729</b>	<b>12,572,281</b>

Deficit on revaluation of held for trading investments		(5,962)	-
Deficit on revaluation of available for sale investments		(243,285)	(107,704)
<b>Total investments at market value</b>		<b>15,702,482</b>	<b>12,464,577</b>

**9.2.1 Principal terms of investments in Federal Government Securities**

Name of Investment	Maturity period	Principal payment	Coupon rate	Coupon payment
Pakistan investment bonds	Sept 2007 to Apr 2014	On maturity	8% to 14%	Semi-annually
Market treasury bills	Jan 2007 to Dec 2007	On maturity	8.76% to 8.98%	At maturity

**9.2.2 Pakistan Investment Bonds**

This includes securities having face value of Rs. 47.7 million (2005: 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, 2006	December 31, 2005
	Rupees in '000	
<b>9.3 Particulars of provision</b>		
Opening balance	150,145	144,374
Charge for the year	11,575	5,771
Reversals	(63,111)	-
Closing balance	<u>98,609</u>	<u>150,145</u>
<b>9.3.1 Particulars of provision in respect of type and segment</b>		
<b>Held-for-trading securities</b>		
Listed shares	-	-
Unlisted shares	-	-
Pakistan Investment Bonds	-	-
<b>Available-for-sale securities</b>		
Market treasury bills	-	-
Pakistan investment bonds	-	-
Mutual fund units	-	-
Preference shares		
Listed	-	-
Unlisted	-	-
Ordinary shares		
Listed	-	-
Unlisted	1,916	1,501
<b>Held-to-maturities securities</b>		
Market treasury bills	-	-
Pakistan investment bonds	-	-
Federal investment bonds	-	-
Term finance certificates		
Listed	5,890	-
Unlisted	-	-
Shares repo	80,433	143,544
<b>Associates</b>	10,370	5,100
	<u>98,609</u>	<u>150,145</u>

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9.4 Quality of available for sale securities	December 31,		December 31,
	Rating	2006 Amount Rupees in '000	2005 Amount Rupees in '000
9.4.1 Market treasury bills		6,008,660	4,948,386
9.4.2 Pakistan investment bonds		542,801	558,475
<b>9.4.3 Mutual Fund Units</b>			
Pakistan Strategic Allocation Fund	4-star	20,460	20,460
Faysal Balanced Growth Fund	MFR 3-star	50,000	50,000
AMZ Plus Income Fund	A(f)	175,000	-
PICIC Growth Fund	MFR 3-star	8,598	-
KASB Liquid Fund KLF		50,000	-
NAFA Cash Fund	A(f)	175,000	-
ABAMCO Composite Fund	4 star	52,249	52,249
Atlas Income Fund	5 star	175,000	-
UTP Income Fund	5 star	175,000	-
Dawood Money Market Fund	5 star	175,000	-
United Money Market Fund	A+ (f)	175,000	-
NAMCO Balanced Fund		10,000	-
Arif Habib Pakistan income Fund	4 star	175,000	-
Askari Income Fund	4 star	175,000	-
<b>9.4.4 Preference shares-listed</b>			
Chenab Limited		50,000	50,000
Masood Textile Mills Limited		15,000	15,000
<b>9.4.5 Preference shares-unlisted</b>			
Jamshoro Joint Ventrue Limited	A	50,000	50,000
<b>9.4.6 Term finance certificates - Listed</b>			
Allied Bank Limited	A	169,215	-
Escort Investment Bank	A+	10,000	-
Worldcall Telecom Limited		9,200	-
<b>9.4.7 Ordinary shares-listed</b>			
Adamjee Insurance Company Limited	AA	-	3,512
Allied Bank Limited	A+	-	2,244
Bank Alfalah Limited	AA	5,685	-
Bank of Punjab	AA	1	30,717
Callmate Telips Telecom Limited		-	8,038
D. G. Khan Cement Company Limited		29,415	-
Engro Chemical Pakistan Limited	AA	14,369	-
Fist National Equity Limited		-	7,871
Fauji Cement Company Limited		13,235	-
Fauji Fertilizer Company Limited		8,161	-

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		December 31, 2006	December 31, 2005
	Rating	Amount Rupees in '000	Amount Rupees in '000
Faysal Bank Limited	AA -	58,441	-
HUB Power Company Limited		33,328	33,328
ICI Pakistan Limited		16,759	-
Japan Power Generation Limited		10,310	-
Lucky Cement Limited		10,484	-
Maple Leaf Cement Factory Limited		32,130	-
MCB Bank Limited	AA +	-	8,325
Nishat Mills Limited	A+	53,752	-
National Bank of Pakistan		-	19,828
Oil & Gas Development Company Limited	AAA	56,802	29,341
Pakistan State Oil Company Limited	AAA	8,565	22,999
Pakistan Oilfields Limited		66,774	-
Pakistan International Container Terminal Limited	A-	5,098	-
Pioneer Cement Limited		7,080	-
Pakistan Petroleum Limited		18,547	24,289
Pakistan Telecommunication Company Limited		-	13,241
Sui Southern Gas Company Limited	AA	15,119	-
Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)		-	3,333
Union Leasing Limited	A +	1,651	-
<b>9.4.8 Ordinary shares-unlisted</b>			
Pakistan Export Finance Guarantee Agency Limited		5,680	5,680
Khushhali Bank Limited	A -	10,000	10,000
		<b>8,927,569</b>	<b>5,967,316</b>

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**9.5 Investment in fully paid up ordinary share-listed**

<b>December 31, 2006</b>	<b>December 31, 2005</b>	<b>Paid up value per share</b>	<b>Name of Investee</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>No. of Ordinary Shares</b>		<b>Rupees</b>		<b>Rupees in '000</b>	
-	25,000	10	Adamjee Insurance Company Limited	-	3,512
-	26,500	10	Allied Bank Limited	-	2,244
<b>111,713</b>	-	10	Bank Alfalah Limited	<b>5,685</b>	-
<b>12</b>	300,000	10	The Bank Of Punjab	<b>1</b>	30,717
-	100,000	10	Callmate Telips Telecom Limited	-	8,038
<b>291,422</b>	-	10	D.G.Khan Cement Company Limited	<b>29,415</b>	-
<b>70,000</b>	-	10	Engro Chemical Pakistan Limited	<b>14,369</b>	-
-	179,500	10	Fist National Equity Limited	-	7,871
<b>500,000</b>	-	10	Fauji Cement Company Limited	<b>13,235</b>	-
<b>63,200</b>	-	10	Fauji Fertilizer Company Limited	<b>8,161</b>	-
<b>732,156</b>	-	10	Faysal Bank Limited	<b>58,441</b>	-
<b>800,000</b>	800,000	10	Hub Power Company Limited	<b>33,328</b>	33,328
<b>100,000</b>	-	10	ICI Pakistan Limited	<b>16,759</b>	-
<b>1,422,000</b>	-	10	Japan Power Generation Limited	<b>10,310</b>	-
<b>100,000</b>	-	10	Lucky Cement Limited	<b>10,484</b>	-
<b>25,000</b>	49,600	10	MCB Bank Limited	<b>6,551</b>	8,325
<b>725,000</b>	-	10	Maple Leaf Cement Factory Limited	<b>32,130</b>	-
<b>100,000</b>	100,000	10	National Bank of Pakistan Limited	<b>26,967</b>	19,828
<b>440,000</b>	-	10	Nishat Mills Limited	<b>53,752</b>	-
<b>376,000</b>	250,000	10	Oil & Gas Development Company Limited	<b>56,802</b>	29,341
<b>25,000</b>	55,000	10	Pakistan State Oil Company Limited	<b>8,565</b>	22,999
<b>147,500</b>	-	10	Pakistan Oilfields Limited	<b>66,774</b>	-
<b>100,000</b>	-	10	Pakistan Industrial Credit & Investment Corporation Limited	<b>7,030</b>	-
<b>50,000</b>	-	10	Pakistan International Container Terminal Limited	<b>5,098</b>	-
<b>114,962</b>	-	10	Pioneer Cement Limited	<b>7,080</b>	-
<b>75,000</b>	115,300	10	Pakistan Petroleum Limited	<b>18,547</b>	24,289
-	200,000	10	Pakistan Telecommunication Company Limited	-	13,241
<b>50,000</b>	-	10	Prime Commercial Bank Limited	<b>2,664</b>	-
<b>350,000</b>	-	10	Sui Southern Gas Company Limited	<b>15,119</b>	-
-	50,000	10	Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)	-	3,333
<b>120,000</b>	-	10	Union Leasing Limited	<b>1,651</b>	-
<b>6,888,965</b>	<b>2,250,900</b>			<b>508,918</b>	<b>207,066</b>

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**9.6 Investment in fully paid up ordinary share-unlisted**

<b>December 31, 2006</b>	<b>December 31, 2005</b>	<b>Paid up value per share Rupees</b>	<b>Name of Investee</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>No. of Ordinary Shares</b>				<b>Rupees in '000</b>	
<b>568,000</b>	568,000	10	Pakistan Export Finance Guarantee Agency Limited Chief Executive Mr. S.M Zaeem	<b>5,680</b>	5,680
<b>10</b>	10	1,000,000	Khushali Bank Limited Chief Executive Mr. Ghalid Nishter	<b>10,000</b>	10,000
<b><u>568,010</u></b>	<b><u>568,010</u></b>			<b><u>15,680</u></b>	<b><u>15,680</u></b>

**9.6.1** 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.

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**9.7 Investment in term finance certificates, debentures, bonds and participation term certificates**

**9.7.1 Term finance certificates-Listed**

Name of Investee	No. of Certificates held	Paid up value per certificate (Rupees)	December 31, 2006 Rupees in '000	December 31, 2005
Al Zamin Leasing Modaraba	4,000	5000	<b>20,000</b>	20,000
Allied Bank Limited	33,843	5000	<b>169,215</b>	-
Azgard Nine Limited	100,000	5000	<b>500,000</b>	-
Bank Al-Habib Limited	6,000	5000	<b>29,976</b>	29,988
Bank Al-Falah Limited	-	-	-	50,000
Crescent Leasing Corporation Limited	3,500	5000	<b>17,500</b>	17,500
Escort Investment Bank Limited	-	-	<b>10,000</b>	-
Fist Dawood Leasing Modaraba	2,000	5000	<b>10,000</b>	-
Fist Dawood Investment Bank Limited	-	-	-	10,000
Orix Leasing Pakistan Limited	-	-	-	35,000
Saadi Cement Limited	-	-	<b>45,332</b>	-
Shahmurad Sugar Mills Limited	-	-	-	3,332
Sitara Chemical Industries Limited	-	-	-	7,839
Worldcall Telecom Limited	1,840	5000	<b>9,200</b>	-
Zaver Petroleum Corporation Limited	40,000	5000	<b>200,000</b>	-
	<u>191,183</u>		<u><b>1,011,223</b></u>	<u>173,659</u>

**9.7.2 Term finance certificates-Unlisted**

Name of Investee	Name of Chief Executive	No. of Certificates held	Paid up value per certificate (Rupees)	December 31, 2006 Rupees in '000	December 31, 2005
Bosicar Pakistan Limited	Mr. Pervez Abbasi	20,000	5000	<b>85,714</b>	100,000
Dewan Mushtaq Textile Mills Limited	Mr. Dewan M. Ayub Khalid	5,000	7000	<b>4,375</b>	13,125
Dewan Textile Mills Limited	Mr. Dewan G. Mustafa Khalid	13,000	5000	<b>8,125</b>	24,375
Crescent Standard Investment Bank Limited	Mr. Mahmood Ahmed	5,000	5000	<b>11,781</b>	-
Hira Textile Mills Limited	Mr. Nadeem Aslam Butt	9,988	5000	<b>49,910</b>	49,930
Kohinoor Textile Mills Limited	Mr. Taufique Saeed Saigol	20	500000	<b>4,388</b>	6,875
Pacific Leasing Limited	Mr. S.M Yousuf	-	-	-	16,660
Pakistan Mobile Communications Limited	Mr. Alf Barry	14,000	5000	<b>56,000</b>	70,000
Security Leasing Corporation Limited	Mr. M.R Khan	5,000	5000	<b>18,750</b>	25,000
		<u>72,008</u>		<u><b>239,043</b></u>	<u>305,965</u>

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**9.8 Mutual Funds**

<b>December 31, 2006</b>	<b>December 31, 2005</b>	<b>Paid up value per unit</b>	<b>Name of Investee</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>No. of units</b>				<b>Rupees in '000</b>	
<b>5,224,895</b>	5,224,895	10	ABAMCO Composite Fund	<b>52,249</b>	52,249
<b>2,046,000</b>	2,046,000	10	Pakistan Strategic Allocation Fund	<b>20,460</b>	20,460
<b>617,476</b>	500,000	100	Faysal Balance Growth Fund	<b>50,000</b>	50,000
<b>1,649,358</b>	-	100	AMZ Plus Income Fund	<b>175,000</b>	-
<b>16,679,851</b>	-	10	NAFA Cash Fund	<b>175,000</b>	-
<b>476,372</b>	-	100	KASB Liquid Fund	<b>50,000</b>	-
<b>334,689</b>	-	500	Atlas Income Fund	<b>175,000</b>	-
<b>1,668,117</b>	-	10	Dawood Money Market Fund	<b>175,000</b>	-
<b>329,846</b>	-	500	UTP Income Fund	<b>175,000</b>	-
<b>1,670,182</b>	-	100	United Money Market Fund	<b>175,000</b>	-
<b>1,000,000</b>	-	10	NAMCO Balance Fund	<b>10,000</b>	-
<b>3,331,430</b>	-	50	Arif Habib Pakistan Income Fund	<b>175,000</b>	-
<b>200,000</b>	-	50	PICIC Growth Fund	<b>8,598</b>	-
<b>1,650,632</b>	-	100	Askari Income Fund	<b>175,000</b>	-
<b><u>36,878,848</u></b>	<b><u>7,770,895</u></b>			<b><u>1,591,307</u></b>	<b><u>122,709</u></b>

**9.9** This includes investment in 5 million (2005: 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% (2005: 9.25%) per annum on the issue price.

**9.10** This also includes the investment in 1.5 million (2005: 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.

**9.11** This represents investment in 5 million (2005: 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.

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**9.12 Investment in associated undertaking**

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

Summarized financial information in respect of associate as at December 31, 2006 is set out below:

	<b>December 31, 2006</b>	December 31, 2005
	<b>Rupees in '000</b>	
Total assets	<b>344,170</b>	242,000
Total liabilities	<b>128,736</b>	59,000
Net assets	<b>215,434</b>	183,000
Revenue	<b>101,893</b>	31,000
Loss for the period	<b>16,764</b>	17,000
Share of loss from associate	<b>10,370</b>	5,100

**9.12.1 Share of loss from associate**

Opening balance	<b>5,100</b>	-
Charge for the year	<b>5,270</b>	5,100
Reversal during the year	-	-
Closing balance	<b>10,370</b>	5,100

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		December 31, 2006	Restated December 31, 2005
Rupees in '000			
<b>10</b>	<b>ADVANCES</b>		
	Loans, cash credits, running finances, etc.		
	In Pakistan	<b>29,789,903</b>	20,317,248
	Outside Pakistan	-	-
		<b>29,789,903</b>	20,317,248
	Bills discounted and purchased (excluding treasury bills)		
	Payable in Pakistan	<b>1,001,502</b>	236,691
	Payable outside Pakistan	<b>256,335</b>	585,451
		<b>1,257,837</b>	822,142
		<b>31,047,740</b>	21,139,390
	Financing in respect of Continuous Funding System	10.2 <b>479,333</b>	494,408
		<b>31,527,073</b>	21,633,798
	Provision for non-performing advances - specific	10.3 <b>(2,477,406)</b>	(2,093,293)
	Provision against consumer finance- general	10.5.1 <b>(27,693)</b>	(26,778)
	<b>Advances net of provisions</b>	<b>29,021,974</b>	19,513,727

**10.1 Particulars of advances (Gross)**

<b>10.1.1</b>	In local currency	<b>27,454,024</b>	19,271,387
	In foreign currencies	<b>1,567,950</b>	242,340
		<b>29,021,974</b>	19,513,727
<b>10.1.2</b>	Short term ( for up to one year)	<b>16,727,582</b>	14,418,111
	Long term ( for over one year)	<b>12,294,392</b>	5,095,616
		<b>29,021,974</b>	19,513,727

**10.2** This represents secured financing in respect of purchase of shares from CFS market. These carry markup ranging from 11% to 18% (2005: 12.54 to 18%) per annum.

**10.3** Advances include Rs. 4.635 million (2005: Rs. 4.496 million) which have been placed under non-performing status as detailed below :

Category of Classification - Specific	Classified advances	Provision required (Domestic)	Provision held
----- Rupees in '000 -----			
Substandard	416,665	51,784	51,784
Doubtful	459,089	90,600	90,600
Loss	3,758,941	2,335,022	2,335,022
	<b>4,634,695</b>	<b>2,477,406</b>	<b>2,477,406</b>

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**10.4 Particulars of provision against non-performing advances**

	December 31, 2006			December 31, 2005		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	2,093,293	26,778	2,120,071	1,718,274	33,357	1,751,631
Charge for the year	629,780	915	630,695	586,942	-	586,942
Reversals for the year	(165,792)	-	(165,792)	(96,471)	(6,579)	(103,050)
Net charge / (reversal) for the year	463,988	915	464,903	490,471	(6,579)	483,892
Written off 10.7	(79,875)	-	(79,875)	(115,452)	-	(115,452)
Closing balance	2,477,406	27,693	2,505,099	2,093,293	26,778	2,120,071

**10.5** General provision represents provision made against consumer financing portfolio as required by the Prudential Regulations issued by the SBP for consumer financing.

**10.5.1 Particulars of provision for consumer financing - general - in local currency**

	December 31, 2006	December 31, 2005
	Rupees in '000	
Opening balance	26,778	33,357
Charge for the year	915	-
Reversals	-	6,579
Closing balance	27,693	26,778

**10.6** During the current year, a prior period error has been rectified by restating the amount of advance by Rs. 96.925 million with a corresponding credit to the specific provisions for non-performing advances. This rectification/ restatement has no effect on profit and loss account of current and corresponding period.

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	December 31, 2006	December 31, 2005
	Rupees in '000	
<b>10.7 Particulars of write offs</b>		
<b>10.7.1</b> Against provision	<b>79,875</b>	115,452
Directly charged to Profit and Loss Account	-	729
	<u><b>79,875</b></u>	<u>116,181</u>
<b>10.7.2</b> Write offs of Rs. 500,000 and above	<b>77,867</b>	115,355
Write offs of below Rs. 500,000	<b>2,008</b>	826
	<u><b>79,875</b></u>	<u>116,181</u>

**10.8 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, 2006 is given in Annexure-I. However, this write-off does not affect the bank's right to recover the debts from these customers.

**10.9 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	<b>825</b>	905
Loans granted during the year	<b>3,117</b>	328
Repayments	<b>(2,788)</b>	(408)
Balance at end of the year	<u><b>1,154</b></u>	<u>825</u>

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	<b>33,332</b>	76,084
Loans granted during the year	<b>2,050,471</b>	2,045,878
Repayments	<b>1,972,022</b>	2,088,630
Balance at end of the year	<u><b>111,781</b></u>	<u>33,332</u>

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	<u>-</u>	<u>-</u>

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		December 31, 2006	December 31, 2005
Rupees in '000			
<b>11</b>	<b>OPERATING FIXED ASSETS</b>		
	Capital work-in-progress	11.1 <b>93,914</b>	60,641
	Property and equipment	11.2 <b>2,214,455</b>	1,470,854
	Intangible assets	11.3 <b>14,002</b>	10,041
		<u><b>2,322,371</b></u>	<u>1,541,536</u>
<b>11.1</b>	<b>Capital work-in-progress</b>		
	Civil works	11.1.1 <b>93,914</b>	60,641
	Equipment	-	-
	Advances to supplier and contractor	-	-
		<u><b>93,914</b></u>	<u>60,641</u>
<b>11.1.1</b>	<b>Civil work</b>		
	Opening balance	<b>60,641</b>	24,265
	Additions during the year	<b>159,089</b>	93,552
	Transferred to property and equipment	<u><b>(125,816)</b></u>	<u>(57,176)</u>
		<u><b>93,914</b></u>	<u>60,641</u>

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**11.2 Property and equipments**

	Cost / Revaluation				Accumulated depreciation				Net Book value as at December 31, 2006	Rate of Depreciation %	
	As at January 01, 2006	Adjustment	Additions/ Revaluation*/ Lease**	Disposal	As at December 31, 2006	As at January 01, 2006	Adjustment	Charge for the year/ (Revaluation)* / Deletions)			As at December 31, 2006
----- Rupees in '000 -----											
Freehold land	305,408	-	3,000 139,738 *	-	448,146	-	-	-	-	448,146	
Building on freehold land	64,000	-	-	-	64,000	6,400	-	3,200 (9,600) *	-	64,000	5
Leasehold land	642,100	-	- 381,919 *	-	1,024,019	-	-	-	-	1,024,019	
Building on leasehold land	195,119	-	- 12,066 *	-	207,185	10,019	-	9,756 (19,599) *	176	207,009	5
Leasehold improvements	130,160	-	113,398	-	243,558	42,895	-	14,715	57,610	185,948	10
Furniture and fixture	59,020	-	19,792	740	78,072	16,535	-	6,719 (310)	22,944	55,128	10
Other equipments	94,994	-	41,481	2,542	133,933	35,163	-	23,061 (1,808)	56,416	77,517	20
Computers	124,916	(72,242)	59,062	3,067	108,669	80,861	(16,225)	36,145 (3,067)	97,714	10,955	33.30
Vehicles	92,553	(7,454)	65,036	7,309	142,826	46,069	1,162	25,477 (6,598)	66,110	76,716	20
	1,708,270	(79,696)	835,492	13,658	2,450,408	237,942	(15,063)	84,689	300,970	2,149,438	
<b>Assets held under finance lease</b>											
Vehicles	2,714	(2,714)	8,999 **	-	8,999	2,188	(2,188)	-	-	8,999	33.30
Computers			56,018 **	-	56,018	-	-	-	-	56,018	20
	2,714	(2,714)	65,017	-	65,017	2,188	(2,188)	-	-	65,017	
<b>2006</b>	<b>1,710,984</b>	<b>(82,410)</b>	<b>301,769</b> <b>533,723 *</b> <b>65,017 **</b>	<b>13,658</b>	<b>2,515,425</b>	<b>240,130</b>	<b>(17,251)</b>	<b>119,073</b> <b>(29,199)</b> <b>(11,783)</b>	<b>300,970</b>	<b>2,214,455</b>	
2005	1,275,898	-	138,609 436,006	139,529	1,710,984	181,071	(5,059)	77,536 (13,418)	247,509	1,470,854	

11.2.1 The Bank's land and building were revalued on December 31, 2006 by Hasib Associates, on market value basis. The revaluation resulted in a surplus of Rs. 533.723 million (2005: 436.006 million) over the properties net book value of Rs. 1,177.428 million (2005: Rs. 836.336 million) as on that date. This surplus has been added in the cost of the related assets with the amount of Rs. 533.723 (2005: 436.006 million).

Had there been no revaluation, the carrying value of the revalued assets would have been Rs. 546.464 million (2005: 488.781 million).

11.2.2 Details of disposal of fixed assets - By negotiations

Description	Cost / revaluation	Accumulated	Book value	Sale proceeds	Gain / (Loss)	Particulars of purchasers
----- Rupees in '000 -----						
Suzuki Cultus	609	355	254	540	286	Mr. Shahzada Imran - Bank Employee
Honda Civic	1,088	1,088	-	300	300	Mr. Ubaid Yousuf- Bank Employee
Honda Civic	1,000	1,000	-	475	475	Mr. Aizaz-ur-Rahman Akhtar Bank Employee
Computer Equipment	3,067	3,067	-	27	27	M/s United Computer Services Adjacent Murad Shipping News G-Allana Road near Mereweather Tower Karachi-74000
Various TV & VCR	894	607	287	102	(185)	M/s Fakhar Group Shop # 2, 1st Floor, Usmania Centre, F-2, Commercial Area M.A.M.H.S Karachi
Air Conditioners	1,108	758	350	85	(265)	M/s Abdul Hameed Shop # LC-192, Sector 1, Near Technical School Gulshan-e-Zahoor, Nursery Road, Karachi.
Misc Equipment, Furniture & Fixture	610	270	340	56	(284)	Mr Qasim Ali Karachi Auction Mart, 7-C, Mai- Kolachi Road Karachi.
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000	5,282	4,637	645	2,275	1,630	Various
	13,658	11,782	1,876	3,860	1,984	

**December 31, 2006**    **December 31, 2005**  
**Rupees in '000**

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

Furniture, electrical, office and computer equipment	80,381	32,661
Vehicles	12,675	16,954
	<b>93,056</b>	<b>49,615</b>

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11.3 Intangible assets	Cost			Accumulated amortization			Net Book value as at December 31, 2006	Amortization Rate in percentage	
	As at January 01, 2006	Additions	Disposal	As at December 31, 2006	As at January 01, 2006	Amortization for the year			As at December 31, 2006
	----- Rupees in '000 -----								
Computer software	17,420	11,606	-	29,026	7,379	7,645	15,024	14,002	33.33
2005	2,863	14,557		17,420	1,251	6,128	7,379	10,041	33.33

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	December 31, 2006	December 31, 2005
	Rupees in '000	
<b>12 DEFERRED TAX ASSETS - NET</b>		
<b>Deferred tax debits arising in respect of</b>		
Provision against:		
Balances with other banks	-	131,444
Investments	34,513	50,766
Non-performing advances	867,092	758,619
Consumer financing	9,693	10,176
Other assets	34,883	5,320
Accumulated loss	132,841	-
Gratuity	-	3,226
Revaluation of securities	36,096	36,290
21.1	<b>1,115,118</b>	995,841
<b>Deferred tax credits arising in respect of</b>		
Liabilities against assets subject to finance lease	(695)	(216)
Accelerated tax depreciation	(83,733)	(70,024)
Revaluation of property and equipment	(19,869)	(14,294)
21.2	<b>(104,297)</b>	(84,534)
	<b>1,010,821</b>	911,307
<b>13 OTHER ASSETS</b>		
Income/ Mark-up accrued in local currency	880,154	635,152
Income/ Mark-up accrued in foreign currency	1,032	1,113
Advances, deposits, advance rent and other prepayments	150,286	220,815
Advance taxation (payments less provisions)	331,497	167,154
Non-banking assets acquired in satisfaction of claims	292,868	-
Unrealized gain on forward foreign exchange contracts	12,332	-
Deferred costs	-	16,668
Others	129,976	96,522
	<b>1,798,145</b>	1,137,424
Less: Provision held against other assets	(99,667)	(99,469)
<b>Other assets (net of provision)</b>	<b>1,698,478</b>	1,037,955
<b>13.1 Market value of Non-Banking assets acquired in satisfaction of claims</b>	<b>292,868</b>	-
<b>13.2 Provisions against other assets</b>		
Opening balance	99,469	80,874
Charge for the year	198	18,595
Reversals	-	-
Amount written off	-	-
Closing balance	<b>99,667</b>	99,469

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	December 31, 2006	December 31, 2005
	Rupees in '000	
<b>14</b>	<b>BILLS PAYABLE</b>	
In Pakistan	408,342	199,143
Outside Pakistan	-	-
	<u>408,342</u>	<u>199,143</u>
<b>15</b>	<b>BORROWINGS FROM FINANCIAL INSTITUTIONS</b>	
In Pakistan	4,236,775	5,481,288
Outside Pakistan	-	-
	<u>4,236,775</u>	<u>5,481,288</u>
<b>15.1</b>	<b>Particulars of borrowings from financial institutions</b>	
In local currency	4,236,775	5,481,288
In foreign currencies	-	-
	<u>4,236,775</u>	<u>5,481,288</u>
<b>15.2</b>	<b>Details of borrowings from financial institutions</b>	
<b>Secured</b>		
Borrowings from State Bank of Pakistan		
Under export refinance scheme	1,528,061	1,326,132
LTF.-Export Oriented Projects	99,938	-
Loans from SBP	-	1,500,000
Repurchase agreement borrowing	2,258,776	2,401,652
	<u>3,886,775</u>	<u>5,227,784</u>
<b>Unsecured</b>		
Call borrowings	350,000	250,000
Overdrawn nostro accounts	-	3,504
	<u>350,000</u>	<u>253,504</u>
	<u>4,236,775</u>	<u>5,481,288</u>
15.2.1	These represents funds borrowed from the local interbank money market carrying interest rate ranging from 8.50 % to 9.10 % (2005: 8.00 % to 8.45 %) per annum with maturities up to January 2007.	
15.2.2	These represents unsecured borrowings from the local money market carrying at interest rate of 12 % (2005: 9.90% to 10.00%) per annum with maturities up to January 2007.	
<b>16</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>	
<b>Customers</b>		
Fixed deposits	26,328,636	10,454,747
Savings deposits	15,088,460	12,441,498
Current accounts - non-remunerative	4,348,803	4,322,078
Margin accounts - non -remunerative	691,888	638,786
Others	224,712	124,605
	<u>46,682,499</u>	<u>27,981,714</u>
<b>Financial institutions</b>		
Remunerative deposits	2,320,883	9,122,405
Non-remunerative deposits	11,708	31,923
	<u>2,332,591</u>	<u>9,154,328</u>
	<u>49,015,090</u>	<u>37,136,042</u>
	<b>December 31, 2006</b>	<b>December 31, 2005</b>

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Rupees in '000

**16.1 Particulars of deposits**

In local currency	<b>46,394,496</b>	34,395,998
In foreign currencies	<b>2,620,594</b>	2,740,044
	<b>49,015,090</b>	37,136,042

**17 SUB ORDINATED LOANS - UNSECURED**

<b>650,000</b>	650,000
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This represents short term bridge finance provided by Saudi Pak Industrial & Agricultural Investment Company (Private) Limited (SAPICO) with the approval of SBP through a formal agreement executed between the bank and SAPICO on December 31, 2003 initially for a period of six months which was later rolled over up to June 30, 2007. The rate of markup on this finance is base rate (6-months average ask KIBOR to be set on the date of commencement of each quarter) plus 2% and is payable quarterly.

Under the term of approval granted by the State Bank of Pakistan the said bridge finance is countable towards Tier II capital of the bank. The debt is subordinated, unsecured and not redeemable without prior permission of State Bank of Pakistan.

**18 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

Period	December 31, 2006			December 31, 2005		
	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	23,833	7,035	16,798	620	51	569
Later than one year and not later than five years	52,182	5,950	46,232	-	-	-
Over five years	-	-	-	-	-	-
	<b>76,015</b>	<b>12,985</b>	<b>63,030</b>	<b>620</b>	<b>51</b>	<b>569</b>

**18.1** The bank enters into various lease agreements with leasing companies for computers and motor vehicles. Lease rentals are payable monthly and include finance charge at the rate of base rate plus 3.75 % (2005: 16%) 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.

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	<b>December 31, 2006</b>	<b>December 31, 2005</b>
	<b>Rupees in '000</b>	
<b>19 OTHER LIABILITIES</b>		
Mark-up/ Return/ Interest payable in local currency	<b>582,246</b>	256,855
Mark-up/ Return/ Interest payable in foreign currency	<b>20,274</b>	15,308
Unearned commission and income on bills discounted	<b>27,831</b>	21,624
Accrued expenses	<b>68,933</b>	8,844
Branch adjustment account	<b>9,063</b>	36,445
Unrealized loss on forward foreign exchange contracts	<b>-</b>	6,527
Provision for gratuity	<b>23,956</b>	9,217
Others	<b>97,269</b>	120,085
	<b>829,573</b>	474,905

**20 SHARE CAPITAL**

**20.1 Authorized capital**

<b>December 31, 2006</b>	<b>December 31, 2005</b>		<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>No. of shares in '000</b>				
<b>1,000,000</b>	<b>400,000</b>	Ordinary shares of Rs. 10 each.	<b>10,000,000</b>	<b>4,000,000</b>

**20.2 Issued, subscribed and paid up share capital**

<b>December 31, 2006</b>	<b>December 31, 2005</b>		<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>No. of shares in '000</b>				
<b>284,750</b>	284,750	Fully paid up ordinary shares of Rs. 10 each	<b>2,847,500</b>	2,847,500
<b>100,000</b>	100,000	Fully paid up ordinary shares of Rs. 10 each issued at a discount of Rs.2.5 per share	<b>1,000,000</b>	1,000,000
<b>384,750</b>	<b>384,750</b>		<b>3,847,500</b>	<b>3,847,500</b>

**20.3** Saudi Pak Industrial and Agricultural Investment Company (Private) Limited holds 228,366,314 (2005: 228,489,375) ordinary shares of Rs. 10 each in the bank which is equivalent to 59.35% (2005: 60.15%) of the total paid up share capital.

Saudi Pak Industrial and Agricultural Investment Company (Private) Limited (SAPICO) has signed an agreement for purchase of 32,938,868 shares, transfer of which is in process. After completion of this transaction, SAPICO's shareholding will increase to 261,305,182 shares.

**20.4 Reconciliation of number of ordinary shares of Rs. 10 each**

At the beginning of the year	<b>384,750</b>	225,000
Issued during the year	<b>-</b>	159,750
At the end of the year	<b>384,750</b>	384,750

**20.5** The Board of Directors in their meeting held on November 27, 2006 announced issue of 30% right shares at par. The proceeds of right shares amounting to Rs 1,154.250 million will be received by March 17, 2007. After issuance of right shares, the paid up share capital of the Bank would amount to Rs 5,000.750 million.

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		<b>December 31, 2006</b>	<b>December 31, 2005</b>
		<b>Rupees in '000</b>	
<b>21</b>	<b>SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX</b>		
	(Deficit) on revaluation of securities	21.1 <b>(207,189)</b>	(71,413)
	Surplus on revaluation of property and equipment	21.2 <b>1,227,887</b>	672,031
		<b>1,020,698</b>	<b>600,618</b>
<b>21.1</b>	<b>(Deficit) on revaluation of securities</b>		
	Federal government securities	<b>(103,382)</b>	(103,686)
	Quoted securities	<b>(139,903)</b>	(4,017)
	Other securities	-	-
		<b>(243,285)</b>	(107,703)
	Deferred tax (asset) recognized	9.2 12 <b>36,096</b>	36,290
		<b>(207,189)</b>	<b>(71,413)</b>
<b>21.2</b>	<b>Surplus on revaluation of property and equipments</b>		
	Surplus on revaluation of properties	21.2.1 <b>1,247,756</b>	686,325
	Deferred tax (liability) recognized	12 <b>(19,869)</b>	(14,294)
		<b>1,227,887</b>	<b>672,031</b>
<b>21.2.1</b>	<b>Reconciliation of surplus on revaluation of property and equipments</b>		
	At the beginning of the year	<b>686,325</b>	321,583
	Surplus during the year	<b>562,923</b>	436,006
	Surplus realized on disposal of property and equipment	-	(70,790)
	Surplus realized on account of incremental depreciation (net of tax)	<b>(1,492)</b>	(474)
	At the end of the year	<b>1,247,756</b>	<b>686,325</b>

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		<b>December</b>	December
		<b>31, 2006</b>	31, 2005
		<b>Rupees in '000</b>	
<b>22</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>22.1</b>	<b>Direct credit substitutes</b>	-	91,829
<b>22.2</b>	<b>Transaction-related contingent liabilities</b>		
	Guarantees favoring:		
	Government	<b>4,025,908</b>	1,397,898
	Banking companies and other financial institutions	<b>152,750</b>	214,893
	Directors	-	-
	Officers	-	-
	Associated undertakings	-	-
	Others	<b>1,413,897</b>	<b>4,107,108</b>
<b>22.3</b>	<b>Trade-related contingent liabilities</b>		
	Letters of credit and acceptances favoring:		
	Government	-	-
	Banking companies and other financial institutions	-	-
	Directors	-	-
	Officers	-	-
	Associated undertakings	-	-
	Others	<b>6,542,695</b>	<b>5,559,064</b>
<b>22.4</b>	<b>Other contingencies</b>		
	Claims against the bank not acknowledged as debt	<b>51,974</b>	<b>51,974</b>
<b>22.4.1</b>	This includes penalties of Rs 20.732 million (2005: 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 lawyer.		
<b>22.4.2</b>	This includes value of proposed indemnity bond to State Bank of Pakistan amounting to Rs 31.242 million (equivalent US \$ 524,000) representing twice the value of US Dollar bonds of US \$ 262,000 lost by the Bank.		
<b>22.5</b>	<b>Commitments in respect of</b>		
	Forward Exchange Contracts with State Bank of Pakistan, banks and other institutions		
	Sale	<b>4,549,516</b>	1,866,229
	Purchase	<b>4,665,381</b>	3,598,744
		<b>9,214,897</b>	<b>5,464,973</b>
<b>22.6</b>	<b>Commitments in respect of</b>		
	Property, civil work & equipment	<b>52,303</b>	57,555
	Purchase of software	<b>101,983</b>	9,861
		<b>154,286</b>	<b>67,416</b>

## **23 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 22.5. There was no equity futures position at the year end.

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		December 31, 2006	December 31, 2005
		Rupees in '000	
<b>24</b>	<b>MARK-UP / RETURN / INTEREST EARNED</b>		
	On loans and advances to:		
	Customers	24.1 <b>2,264,920</b>	2,006,121
	Financial institutions	-	-
	On Investments in:	-	-
	Held-for-trading securities	-	-
	Available-for-sale securities	<b>476,290</b>	219,973
	Held-to-maturity securities	<b>385,732</b>	335,468
	Associated undertakings		
	On deposits with financial institutions	<b>98,251</b>	13,302
	On call money lendings	<b>157,498</b>	32,283
	On securities purchased under resale agreements	<b>319,210</b>	25,338
		<b><u>3,701,901</u></b>	<b><u>2,632,485</u></b>
<b>24.1</b>	This figure is net of markup suspended during the year in accordance with the Prudential Regulations of the State Bank of Pakistan amounting to Rs 69.691 million (2005 : Rs 147.560 million)		
<b>25</b>	<b>MARK-UP / RETURN / INTEREST EXPENSED</b>		
	Deposits	<b>2,922,874</b>	1,342,925
	Securities sold under repurchase agreements	<b>186,250</b>	291,005
	Call borrowings	<b>8,190</b>	101,352
	Borrowing from State Bank of Pakistan under export refinance scheme	<b>67,377</b>	55,287
	Other short term borrowings	-	-
	Long term borrowings	-	-
	Interest on sub-ordinated loan	<b>73,352</b>	53,563
	Others	<b>2,910</b>	5,057
		<b><u>3,260,952</u></b>	<b><u>1,849,189</u></b>
<b>26</b>	<b>GAIN / (LOSS) ON SALE OF SECURITIES</b>		
	Federal Government securities		
	Market treasury bills	<b>(1,648)</b>	(909)
	Pakistan investment bonds	-	(24,218)
	Federal investment bonds	-	-
	Other Federal Government securities	-	-
	Provincial Government securities	-	-
	Shares		
	Listed	<b>78,270</b>	69,102
	Unlisted	-	-
	Term finance certificates	<b>442</b>	-
	Mutual funds	<b>68,113</b>	-
		<b><u>145,177</u></b>	<b><u>43,975</u></b>

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	December 31, 2006	Restated December 31, 2005
	Rupees in '000	
<b>27 OTHER INCOME</b>		
Rent on property	11,962	10,697
Net profit on sale of property and equipment	1,984	163,254
Income from non-banking assets and profit from sale of or dealing with such assets	-	44,200
Recovery of expenses from customers	23,654	21,234
Others	101,004	26,391
	<u>138,604</u>	<u>265,776</u>

	December 31, 2006	December 31, 2005
	Rupees in '000	
<b>28 ADMINISTRATIVE EXPENSES</b>		
Salaries, allowances and other benefits	523,459	279,649
Charge for defined benefit plan	34.5 14,739	9,217
Contribution to defined contribution plan	12,564	8,726
Non-executives directors' fees, allowances and other expenses	3,167	1,827
Rent, taxes, insurance, electricity, etc.	168,444	133,305
Legal and professional charges	43,403	19,270
Communications	44,062	34,528
Repairs and maintenance	22,253	18,799
Financial charges on leased assets	51	134
Stationery and printing	26,481	16,775
Security charges	22,520	16,472
Advertisement and publicity	132,516	38,253
Donation	28.1 -	400
Auditors' remuneration	28.2 1,200	1,445
Depreciation	11.2 119,073	77,536
Amortization of intangible assets	11.3 7,645	6,128
Fuel and traveling expenses	44,290	23,055
Brokerage and commission	25,100	17,709
Subscriptions and newspapers	3,003	1,580
Entertainment	8,216	6,622
Others	40,262	21,373
	<u>1,262,448</u>	<u>732,803</u>

**28.1 Detail of donations in excess of Rs. 100,000**

President Relief Fund for Earthquake Victims	-	400
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None of the directors or their spouse had any interest in the above donee.

**28.2 Auditors' remuneration**

Audit fee	807	700
Special certifications, limited scope review	350	710
Out-of-pocket expenses	43	35

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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<u>1,200</u>	<u>1,445</u>
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**SAUDI PAK COMMERCIAL BANK LIMITED**  
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		December 31, 2006	December 31, 2005
		Rupees in '000	
<b>29</b>	<b>OTHER CHARGES</b>		
	NAB Commission	29.1 <b>69,000</b>	-
	Penalty imposed by SBP	29.2 <b>6,700</b>	11,300
		<u><b>75,700</b></u>	<u>11,300</u>
<b>29.1</b>	This represents commission paid to National Accountability Bureau (NAB) on account of settlement of Bank's claim.		
<b>30</b>	<b>TAXATION</b>		
	For the year		
	Current	-	156,100
	Deferred	<b>(105,282)</b>	<b>(80,243)</b>
		<b>(105,282)</b>	75,857
	For prior period		
	Current	-	-
	Deferred	-	-
		<u>-</u>	<u>-</u>
		<u><b>(105,282)</b></u>	<u>75,857</u>
<b>30.1</b>	<b>Current tax</b>		
	Charge for current tax under section 113 of the Income Tax Ordinance 2001 has not been provided in these financial statements as the management expects that the bank will earn sufficient taxable income in the succeeding years to claim the minimum tax so paid. Hence, reconciliation of tax charge and accounting loss has not been presented in these financial statements.		
<b>30.2</b>	<b>Status of assessments</b>		
	The income tax assessment of the bank has been completed up to and including tax year 2006. The bank has filed appeals in assessment years 1995-96, 1996-97 & 1997-98 which are pending for adjudication before the High court. The bank has also filed appeals before the Income Tax Appellate Tribunal (ITAT) against certain disallowances amounting to Rs. 35.95 million made by the Taxation Officer in assessment years / tax years 2000-2001, 2001-02, 2002,2003, 2003 and 2004.		
	The bank's assessment in respect of AJK branch operation has been completed up to and including tax year 2006, 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 in respect of demands raised by the Taxation Officer has been made in these financial statements.		
<b>31</b>	<b>BASIC / DILUTED EARNINGS / (LOSS) PER SHARE</b>		
	(Loss) / Profit after taxation for the year	<b>(319,477)</b>	64,613
	Weighted average number of ordinary shares	<b>384,750</b>	280,926
	Basic / diluted earnings / (loss) per share - Rupee	<u><b>(0.83)</b></u>	<u>0.23</u>
<b>32</b>	<b>CASH AND CASH EQUIVALENTS</b>		

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**December 31,      December 31,  
2006                      2005  
Rupees in '000**

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	December 31, 2006	December 31, 2005
	<b>Rupees in '000</b>	
Cash and balances with treasury banks	3,994,136	2,525,340
Balances with other banks	613,678	923,044
Call money lendings	1,957,500	3,160,000
	<u>6,565,315</u>	<u>6,608,384</u>
<b>33 STAFF STRENGTH</b>	<b>Number of persons</b>	
Permanent	987	826
Temporary/ Contractual basis	26	42
Daily wages	-	1
Others	-	-
Bank's own staff strength at the end of the year	<u>1,013</u>	<u>869</u>
Outsourced	<u>413</u>	<u>112</u>
<b>Total staff strength</b>	<u>1,426</u>	<u>981</u>
<b>34 DEFINED BENEFIT PLAN</b>		
<b>34.1 General description</b>		
The bank has carried out actuarial valuation as at December 31, 2006 under the 'Projected Unit Credit Method'. The valuation was carried out by an independent valuer M/s Akhtar & Hasan (Private) Limited..		
The main assumptions used for actuarial valuation are as under:		
<b>34.2 Principal actuarial assumption</b>		
Discount factor used per annum	10%	9%
Expected increase in eligible pay per annum	10%	9%
Normal retirement age	60 years	60 years
Average future remaining working life of employees	15 years	15 years
	December 31, 2006	December 31, 2005
	<b>Rupees in '000</b>	
<b>34.3 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligation	25,530	8,983
(Unrecognized) / Recognized actuarial gain	(1,574)	234
Liability recognized in balance sheet	<u>23,956</u>	<u>9,217</u>
<b>34.4 Movement in payable to defined benefit plan</b>		
Opening balance	9,217	-
Charge for the year	14,739	9,217
Closing balance	<u>23,956</u>	<u>9,217</u>
<b>34.5 Charge for defined benefit plan</b>		
Current service cost	13,332	8,820
Interest cost	1,407	397
	<u>14,739</u>	<u>9,217</u>

**SAUDI PAK COMMERCIAL BANK LIMITED**  
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**35 COMPENSATION OF DIRECTORS AND EXECUTIVES**

	December 31,		December 31,		December 31,	
	2006	2005	2006	2005	2006	2005
	<b>President / CEO</b>		<b>Directors</b>		<b>Executives</b>	
	----- Rupees in '000 -----					
Managerial remuneration	5,318	4,333	-	-	62,844	27,624
Charge for defined benefit plan	443	-	-	-	3,686	
Contribution to defined contribution plan	361	394	-	-	4,180	1,622
Rent and house maintenance	2,393	1,950	-	-	24,042	8,228
Utilities	532	433	-	-	6,371	2,219
Medical	532	433	-	-	6,060	1,916
Conveyance		-	-	-	11,333	2,552
Others	3,397	-	-	-	27,834	1,498
	<b>12,976</b>	<b>7,543</b>	<b>-</b>	<b>-</b>	<b>146,350</b>	<b>45,659</b>
Number of persons	<b>1</b>	<b>1</b>			<b>66</b>	<b>26</b>

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.

**36 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**36.1 On-balance sheet financial instruments**

	December 31, 2006		December 31, 2005	
	Book value	Fair value	Book value	Fair value
	----- Rupees in '000 -----			
<b>Assets</b>				
Cash balances with treasury banks	3,994,136	3,994,136	2,525,340	2,525,340
Balances with other banks	613,678	613,678	923,044	923,044
Lending to financial institutions	4,747,567	4,747,567	8,831,063	8,831,063
Investments	15,702,482	15,702,482	12,464,577	12,464,577
Advances	29,021,974	29,021,974	19,513,727	19,513,727
Other assets	880,154	880,154	635,152	636,265
	<b>54,959,991</b>	<b>54,959,991</b>	<b>44,892,903</b>	<b>44,894,016</b>
<b>Liabilities</b>				
Bills payable	408,342	408,342	199,143	199,143
Borrowings	4,236,775	4,236,775	5,481,288	5,481,288
Deposits and other accounts	49,015,090	49,015,090	37,136,042	37,136,042
Sub-ordinated loans	650,000	650,000	650,000	650,000
Liabilities against assets subject to finance lease	63,030	63,030	569	569
Other liabilities	602,520	602,520	272,163	272,163
	<b>54,975,757</b>	<b>54,975,757</b>	<b>43,739,205</b>	<b>43,739,205</b>

**36.2 Off-balance sheet financial instruments**

Forward purchase of foreign exchange	4,665,381	4,665,381	3,598,744	3,598,744
Forward agreements for borrowing				
Forward sale of foreign exchange	4,549,516	4,549,516	1,866,229	1,866,229
Forward agreements for lending				

**SAUDI PAK COMMERCIAL BANK LIMITED**  
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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 10.4

The effective yield / interest rates and maturity and repricing profile are stated in notes 40.2.3 and 40.3.1 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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**37 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.

	<b>December 31, 2006</b>				
	<b>Corporate Finance</b>	<b>Trading &amp; Sales</b>	<b>Retail Banking</b>	<b>Commercial Banking</b>	<b>Total</b>
	----- Rupees in '000 -----				
<b>Current year</b>					
Total income	-	1,629,951	53,924	2,440,246	4,124,122
Total expenses	73,352	197,349	-	2,990,251	3,260,952
Net income (loss)	(73,352)	1,432,602	53,924	(550,005)	863,170
Segment assets (gross)	3,550,449	22,182,108	1,293,656	34,562,700	61,588,913
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)	7.32	4.28	3.17	-
Segment cost of funds (%)	11.28	7.52	-	5.76	-
	----- Rupees in '000 -----				
	<b>December 31, 2005</b>				
<b>Prior year</b>					
Total income	-	746,680	52,861	2,183,458	2,982,999
Total expenses	56,563	392,357	-	1,403,269	1,852,189
Net income (loss)	(56,563)	354,323	52,861	780,189	1,130,810
Segment assets (gross)	1,997,436	22,857,240	1,550,930	23,436,236	49,841,842
Segment non performing loans				4,496,826	4,496,826
Segment provision required				2,093,293	2,093,293
Segment liabilities	650,000	2,683,056	18,050	40,590,841	43,941,947
Segment Return on net Assets (ROA) (%)	(4.20)	1.76	3.45	(4.55)	-
Segment cost of funds (%)	8.70	14.62	-	3.46	-

**SAUDI PAK COMMERCIAL BANK LIMITED**  
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**38 RELATED PARTY TRANSACTION**

Related parties comprise of 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 of 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. Facility of group life insurance and hospitalization insurance is also provided to staff and executives. In addition to this, executives of the bank have been provided with Bank maintained car.

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

	December 31, 2006			December 31, 2005		
	Directors	Key Management Personnel	Associated Companies & common Directorship	Directors	Key Management Personnel	Associated Companies & common Directorship
----- Rupees in '000 -----						
<b>Balances</b>						
<b>Loans</b>						
Outstanding at the beginning of the year	-	825	33,333	-	905	76,084
Loans given during the year	-	3,117	2,050,470	-	328	2,045,878
Loans repaid during the year	-	(2,788)	(1,972,022)	-	(408)	(2,088,630)
Loans outstanding at the end of the year	-	1,154	111,781	-	825	33,332
<b>Deposits</b>						
Deposits at the beginning of the year	3,718	13,129	434,478	3,214	15,165	306,323
Deposit received during the year	25,934	165,143	25,520,628	25,252	92,024	38,946,900
Deposit repaid during the year	(28,646)	(144,622)	(25,745,851)	(24,748)	(94,060)	(38,818,745)
Deposit at the end of the year	1,006	33,651	209,255	3,718	13,129	434,478
Subordinated loan	-	-	650,000	-	-	650,000
Letter of credit and acceptance	-	-	39	-	-	307,647
Investment in Term Finance Certificates	-	-	105,714	-	-	127,839
Forward foreign exchange contracts	-	-	1,644,395	-	-	-
<b>Transactions</b>						
Short term employment benefits	-	90,016	-	-	52,180	-
Termination benefits	-	5,090	-	-	4,211	-
Mark-up and commission earned	-	77	20,382	-	132	25,766
Mark-up and commission paid	113	237	107,401	53	132	75,800
Brokerage paid	-	-	154	-	-	515
Revaluation & exchange income	-	-	15,624	-	-	-

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**39 CAPITAL ADEQUACY**

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

	<b>December 31, 2006</b>	December 31, 2005
	<b>Rupees in '000</b>	
<b>Regulatory Capital Base</b>		
<b>Tier I Capital</b>		
Shareholders capital / Assigned capital	<b>3,847,500</b>	3,847,500
Reserves	<b>218,556</b>	218,556
Unappropriated / unremitted profits (Net of losses)	<b>(1,178,057)</b>	(860,072)
	<b>2,887,999</b>	3,205,984
Less: Adjustments		
Deficit on account of revaluation of available-for-sale investments	<b>207,189</b>	71,414
<b>Total Tier I Capital</b>	<b>2,680,810</b>	3,134,570
<b>Tier II Capital</b>		
Subordinated debt (up to 50% of total Tier I Capital)	<b>650,000</b>	650,000
General Provisions subject to 1.25% of Total Risk Weighted Assets	<b>27,693</b>	26,778
Revaluation Reserve (up to 50%)	<b>543,948</b>	336,016
<b>Total Tier II Capital</b>	<b>1,221,641</b>	1,012,794
<b>Eligible Tier III Capital</b>	<b>-</b>	-
<b>Total Regulatory Capital (a)</b>	<b>3,902,451</b>	4,147,364

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**Risk-Weighted Exposures**

	December 31, 2006		December 31, 2005	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
----- Rupees in '000 -----				
<b>Credit risk</b>				
Balance sheet Items				
Cash and other liquid assets	4,607,814	183,646	3,448,384	215,588
Money at call	4,747,567	1,957,500	8,831,063	2,760,000
Investments	15,702,482	3,286,621	12,464,577	932,525
Loans and advances	27,156,960	24,094,481	16,476,065	12,809,024
Fixed assets	2,322,371	2,322,371	1,541,536	1,541,536
Other assets	2,709,299	2,392,480	1,949,262	1,692,738
	<u>57,246,493</u>	<u>34,237,099</u>	<u>44,710,887</u>	<u>19,951,411</u>
Off balance sheet items				
Loan repayment guarantees	-	-	91,829	91,829
Purchase and resale agreements	-	-	-	-
Performance bonds etc	4,642,839	2,321,420	4,830,699	2,415,350
Revolving underwriting commitments	-	-	-	-
Stand-by letters of credit	3,751,585	1,562,520	2,716,639	1,098,799
Acceptances	2,687,629	2,687,629	2,437,973	2,437,973
Outstanding foreign exchange contracts				
Purchase	4,665,381	18,662	3,598,744	14,395
Sale	4,549,516	18,198	1,866,229	7,465
	<u>20,296,950</u>	<u>6,608,428</u>	<u>15,542,113</u>	<u>6,065,811</u>
<b>Credit risk-weighted exposures</b>		<u>40,845,527</u>		<u>26,017,222</u>
<b>Market Risk</b>				
General market risk		43,213		-
Specific market risk		81,126		55,725
<b>Market risk-weighted exposures</b>		<u>124,339</u>		<u>55,725</u>
<b>Total risk-weighted exposures (b)</b>		<u>40,969,866</u>		<u>26,072,947</u>
<b>Capital Adequacy Ratio [ (a) / (b) x 100 ]</b>		<b>9.53</b>		<b>15.91</b>

#### **40 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 State Bank of Pakistan has issued guidelines for its implementation. The Bank wants to meet the requirements by using the standardized (simplified) credit risk approach and the Basic Indicator approach for operational risk and plans to submit its application to the State Bank in 2007.

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;

<b>Credit risk</b>	The risk of losses because counterparties fail to meet all or part of their obligations towards the Bank.
<b>Market risk</b>	The risk of losses because the market value of the Bank's assets and liabilities will vary with changes in market conditions.
<b>Operational risk</b>	The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.
<b>Liquidity risk</b>	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.

#### **40.1 Credit Risk**

##### ***Credit risk management objectives and policies***

Credit Risk is the risk of loss due to a counterparty defaulting on a contract, or more generally the risk of loss due to some "credit event". Credit risk management is the process of finding risk in an investment, whether it be in mortgage-backed security or asset-backed security. Credit risk is managed in terms of lending policy approved by the Board of Directors and other laid down procedures outlined in the standard procedures manual and related circulars. Credit limits are established for all counter parties after a careful assessment of their credit worthiness. An effective credit granting procedure, which requires pre-sanction evaluation of credit proposal, adequacy of security and pre-disbursement examination of charge documents has been established and managed by Credit Risk Policy & Management Group and Credit Administration at Central office. All loans and advances are secured by regulatory compliant and acceptable form of collateral. The Credit Risk Policy and Management Group is also responsible for continuing review and monitoring of borrowers' accounts and effective compliance of Prudential Regulations.

A dedicated Credit Risk Management Unit working as a part of Risk Management Division is responsible for Basel II implementation regarding credit risk. It is structured upon well-established framework for credit risk under Credit Manual and Credit Risk Management policies duly approved by Board of Directors. Its major objective is to align the bank's lending policy with Basel II best practices which will help in aligning it to Basel II implementation plan adopted by State Bank of Pakistan.

Out of the total financial assets of Rs. 54,961 million, the financial assets which were subject to credit risk amounted to Rs. 31,527 million without taking account of the fair value/forced sale value of any collateral.

Bank is currently dependent upon ratings provided by ECAI's (External Credit Assessment Institutions) where available. At the same time SBP has already developed a rating system for Corporate and SME which is in the process of validation and implementation. Subsequently after appropriate modification it would be mapped to a recognized ECAI for supervisory review and approval for IRB approaches.

Presently Credit Risk Management unit is using Excel based models for performing Portfolio Analysis. New Core banking and risk management software solutions in the pipeline will strengthen the risk measuring and monitoring ability of the bank. For all approaches of Basel II accord, IT based systems and modeling will be developed to quantify and mitigate credit risk. The industry standard modeling techniques for calculation of Credit risk will be employed.

Major factors of banking failures and crises are due to poor credit quality along with weak credit risk management practices. This can be addressed by developing Credit Risk Mitigation framework which covers acceptance of Basel II eligible collateral, standby letters of credit/guarantees, structuring of collateral and legal clauses that allow netting arrangements, setting strict loan covenants.

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**40.1.1 SEGMENTAL INFORMATION**

**40.1.1.1 Segments by class of business**

	<b>December 31, 2006</b>					
	<b>Advances (Gross)</b>		<b>Deposits</b>		<b>Contingencies and Commitments</b>	
	<b>Rupees in '000</b>	<b>Percent</b>	<b>Rupees in '000</b>	<b>Percent</b>	<b>Rupees in '000</b>	<b>Percent</b>
Chemical and Pharmaceuticals	3,020,101	9.58%	1,525,876	3.11%	1,401,166	6.50%
Agribusiness	47,574	0.15%	289,406	0.59%	-	0.00%
Cement	670,646	2.13%	567,438	1.16%	452,685	2.10%
Sugar	971,154	3.08%	52,680	0.11%	301,790	1.40%
Textile	5,148,683	16.33%	210,341	0.43%	1,983,189	9.20%
Footwear and Leather garments	940,661	2.98%	43,281	0.09%	-	0.00%
Automobile and transportation equipment	1,051,604	3.34%	268,216	0.55%	185,385	0.86%
Electronics and electrical appliances	500,003	1.59%	82,296	0.17%	392,327	1.82%
Power (electricity), Gas, Water, Sanitary	1,310,610	4.16%	1,967,119	4.01%	1,155,423	5.36%
Financial	998,312	3.17%	5,895,412	12.03%	10,036,663	46.56%
Insurance	36,166	0.11%	220,674	0.45%	349,214	1.62%
Individuals	2,275,642	7.22%	11,206,989	22.86%	4,311	0.02%
Others	14,555,917	46.17%	26,685,362	54.44%	5,294,253	24.56%
	<b>31,527,073</b>	<b>100.00%</b>	<b>49,015,090</b>	<b>100.00%</b>	<b>21,556,406</b>	<b>100.00%</b>

	<b>December 31, 2005</b>					
	<b>Rupees in '000</b>	<b>Percent</b>	<b>Rupees in '000</b>	<b>Percent</b>	<b>Rupees in '000</b>	<b>Percent</b>
Chemical and Pharmaceuticals	1,347,235	6.23%	1,628,491	4.39%	1,832,040	7.32%
Agribusiness	75,053	0.35%	108,296	0.29%	-	-
Textile	3,862,791	17.86%	286,404	0.77%	2,317,581	9.26%
Cement	635,392	2.94%	310,996	0.84%	578,144	2.31%
Sugar	542,415	2.51%	22,246	0.06%	302,837	1.21%
Shoes and leather garments	303,592	1.40%	86,647	0.23%	-	-
Automobile/transportation equipments	683,926	3.16%	30,530	0.08%	177,698	0.71%
Financial	349,926	1.62%	9,039,611	24.34%	11,955,814	47.77%
Insurance	37,165	0.17%	114,717	0.31%	-	-
Electronics and electrical appliances	578,013	2.67%	290,185	0.78%	453,004	1.81%
Production and transmission of energy	2,142,263	9.90%	1,015,048	2.73%	1,061,182	4.24%
Individuals	1,139,636	5.27%	7,433,823	20.02%	2,503	0.01%
Others	9,936,391	45.93%	16,769,048	45.16%	6,347,068	25.36%
	<b>21,633,798</b>	<b>100%</b>	<b>37,136,042</b>	<b>100%</b>	<b>25,027,871</b>	<b>100%</b>

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**40.1.1.2 Segment by sector**

	December 31, 2006					
	Advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	13,700,915	28%	3,278,714	15%
Private	31,527,073	100%	35,314,175	72%	18,277,692	85%
	<b>31,527,073</b>	<b>100%</b>	<b>49,015,090</b>	<b>100%</b>	<b>21,556,406</b>	<b>100%</b>
December 31, 2005						
Public / Government	39,537	0.18%	7,169,436	19%	35,606	0.21%
Private	21,594,261	99.82%	29,966,606	81%	16,919,549	99.79%
	<b>21,633,798</b>	<b>100%</b>	<b>37,136,042</b>	<b>100%</b>	<b>16,955,155</b>	<b>100%</b>

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

	December 31, 2006		December 31, 2005	
	Classified Advances	Specific Provisions	Classified Advances	Specific Provisions
-----Rupees in '000-----				
Agriculture, forestry, hunting and fishing	131,263	52,512	131,289	21,620
Mining and quarrying	-	-	-	-
Textile	882,186	282,755	635,206	180,814
Chemical and pharmaceuticals	46,685	37,299	42,273	29,083
Cement	42,699	10,675	-	-
Sugar	21,868	21,868	21,868	21,868
Footwear and leather garments	14,516	14,516	29,663	13,930
Automobile and transportation equipment	8,063	8,063	8,400	2,690
Electronics and electrical appliances	143,498	43,255	109,473	31,221
Construction	3,928	982	11,723	11,730
Power (electricity), gas, water, sanitary	203,257	4,353	-	-
Wholesale and retail trade	-	-	-	-
Exports / Imports	-	-	24,898	572
Transport, storage and communication	-	-	-	-
Financial	147,606	147,606	159,109	137,372
Insurance	-	-	37,165	-
Services	879	440	-	-
Individuals	37,128	21,346	7,900	6,577
Others	2,951,117	1,831,737	3,374,783	1,635,815
	<b>4,634,695</b>	<b>2,477,407</b>	<b>4,593,750</b>	<b>2,093,293</b>

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**40.1.1.4 Details of non-performing advances and specific provisions by sector**

	<b>December 31, 2006</b>		December 31, 2005	
	<b>Classified Advances</b>	<b>Specific Provisions</b>	Classified Advances	Specific Provisions
	-----Rupees in '000-----			
Public / Government	-	-	-	-
Private	<b>4,634,695</b>	<b>2,477,407</b>	4,593,750	2,093,293
	<b>4,634,695</b>	<b>2,477,407</b>	4,593,750	2,093,293

**40.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS**

	<b>December 31, 2006</b>			
	<b>Profit before taxation</b>	<b>Total assets employed</b>	<b>Net assets employed</b>	<b>Contingencies and commitments</b>
	-----Rupees in '000-----			
Pakistan	(424,759)	59,111,507	3,908,697	21,556,406
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<b>(424,759)</b>	<b>59,111,507</b>	<b>3,908,697</b>	<b>21,556,406</b>
	-----Rupees in '000-----			
	<b>December 31, 2005</b>			
Pakistan	140,470	47,748,549	3,806,602	16,955,155
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	140,470	47,748,549	3,806,602	16,955,155

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**40.2 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 and 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.

**40.2.1 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.

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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.

	<b>December 31, 2006</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net foreign currency exposure</b>
	----- Rupees in '000 -----			
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
Deutsche mark	-	-	-	-
Japanese yen	8,601,871	-	-	8,601,871
Euro	23,323,184	-	-	23,323,184
Other currencies (to be specified, if material)	64,224	-	-	64,224
	<b>54,961,022</b>	<b>54,975,756</b>	<b>-</b>	<b>(14,734)</b>
	<b>December 31, 2005</b>			
Pakistan rupee	43,940,334	40,993,389	(1,732,549)	1,214,395
United States dollar	898,831	2,239,896	1,298,616	(42,449)
Great Britain pound	38,859	271,366	231,463	(1,045)
Japanese yen	780	-	(2,537)	(1,757)
Euro	14,515	234,553	205,008	(15,030)
Other currencies	697	-	-	697
	<b>44,894,016</b>	<b>43,739,205</b>	<b>-</b>	<b>1,154,811</b>

**40.2.2 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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**40.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities**

**December 31, 2006**

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		
<b>On-balance sheet financial instruments</b>												
----- Rupees in '000 -----												
<b>Assets</b>												
Cash and balances with treasury banks	<b>3,994,136</b>	438,586	-	-	-	-	-	-	-	-	-	3,555,550
Balances with other banks	12.15% <b>613,678</b>	-	300,000	-	-	-	-	-	-	-	-	313,678
Lending to financial institutions	8.59% <b>4,747,567</b>	3,648,150	1,099,417	-	-	-	-	-	-	-	-	-
Investments	6.81% <b>15,702,482</b>	318,528	511,772	516,223	5,483,995	105,175	75,100	1,404,102	5,142,553	-	-	2,145,034
Advances	10.29% <b>29,021,974</b>	5,206,124	3,182,112	2,701,873	3,807,258	1,517,444	1,932,444	3,360,816	4,030,625	1,177,859	-	2,105,419
Other assets	<b>881,186</b>	-	-	-	-	-	-	-	-	-	-	881,186
	<b>54,961,023</b>	9,611,388	5,093,301	3,218,096	9,291,253	1,622,619	2,007,544	4,764,918	9,173,178	1,177,859	-	9,000,867
<b>Liabilities</b>												
Bills payable	<b>408,342</b>	-	-	-	-	-	-	-	-	-	-	408,342
Borrowings	8.71% <b>4,236,775</b>	2,863,451	509,354	764,030	-	19,988	19,988	39,976	19,988	-	-	-
Deposits and other accounts	7.83% <b>49,015,090</b>	3,437,753	15,212,924	6,416,358	10,320,310	1,018,993	1,586,151	1,971,112	2,514,743	1,257,372	-	5,279,374
Sub-ordinated loans	10.85% <b>650,000</b>	-	-	650,000	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	14.05% <b>63,030</b>	1,310	2,667	4,123	8,698	19,373	26,859	-	-	-	-	-
Other liabilities	<b>602,520</b>	-	-	-	-	-	-	-	-	-	-	602,520
	<b>54,975,757</b>	6,302,514	15,724,945	7,834,511	10,329,008	1,058,354	1,632,998	2,011,088	2,534,731	1,257,372	-	6,290,236
<b>On-balance sheet gap</b>	<b>(14,734)</b>	<b>3,308,874</b>	<b>(10,631,644)</b>	<b>(4,616,415)</b>	<b>(1,037,755)</b>	<b>564,265</b>	<b>374,546</b>	<b>2,753,830</b>	<b>6,638,447</b>	<b>(79,513)</b>	-	<b>2,710,631</b>
<b>Off-balance sheet financial instruments</b>												
Forward Lending (Including call lending, repurchase agreement, commitments to extend credit, etc.)	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings (Including call borrowing, repurchase agreement borrowing etc.)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Yield / Interest Risk Sensitivity Gap</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		<b>3,308,874</b>	<b>(7,322,770)</b>	<b>(11,939,185)</b>	<b>(12,976,940)</b>	<b>(12,412,675)</b>	<b>(12,038,129)</b>	<b>(9,284,299)</b>	<b>(2,645,852)</b>	<b>(2,725,365)</b>	-	<b>(14,734)</b>

#### **40.3 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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**40.4 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.

A dedicated Operational Risk unit is working independently to cover operational risk. It is structured upon well established control procedures that take a proactive approach to the minimization of fraud and operational loss.

Risk policy sets minimum standards and requires all business units to identify and assess risks.

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

**41 RECLASSIFICATIONS**

Following corresponding figures have been reclassified for the purpose of better presentation:

<b>From</b>	<b>To</b>	<b>December 31, 2006</b> <b>Rupees '000</b>
Computer software Property and equipment	Computer software Intangible assets	14,002
Advance rent Other assets	Civil works Capital work-in-progress	58,832

**42 SUBSEQUENT EVENTS**

There were no significant adjustable events subsequent to December 31, 2006, 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 07, 2007 by the Board of Directors of the Bank.

**44 GENERAL**

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

**President and CEO**

**Chairman**

**Director**

**Director**

## **President/ CEO Message**

It gives me pleasure to present the review of the bank for the year 2006. During the year, we continued with our two pronged strategy – undertaking new business initiatives to bring in growth, while, simultaneously cleaning up the balance sheet to make it more robust and profitable.

During the period from January 01, 2006 to December 31, 2006, deposits of the bank increased by 32 per cent to Rs. 49,015 million and net advances grew by 49 per cent to Rs 29,022. Total assets increased to Rs. 59,112 million reflecting an increase of 24 per cent. The bank with Almighty’s blessings, is now fully geared to capitalize on new opportunities.

Our major achievements in 2006 include the introduction of technologically advanced innovative products, substantial recoveries of NPLs and improvement in customer service. In a short span of time, we have managed to develop a diversified and growing product portfolio by introducing competitive liability and assets products that are now contributing positively to our balance sheet. Consumer Banking Division is now all geared up for extending the consumer product line. After launching Top Gear –the auto loan product, the division is now working on Personal Cash, Mortgages and other products. Relationship management and Liability sales teams are well positioned to strengthen our assets and liability portfolio.

We believe in quality partnership that redefines convenience for the customers. Our alliance with PSO is a step in this direction enhancing our focus on providing additional alternative delivery channels. With this partnership, we have installed Self Service Banking Units, named “Bank 24X7”, at various PSO outlets at Karachi, Lahore and Islamabad. These self service banking centers will be equipped with ATMs, Kiosk and a help desk, providing added convenience to our customers.

Keeping with the tradition of offering innovative products, we have launched “Saudi Pak Transact Internet & Mobile Banking”, through which customers can bank at their convenience, anywhere, anytime in the most secured and simple way. Saudi Pak Transact offers far more to consumers than what prevails in the market of Internet Banking. What makes “Transact” unique is its accessibility through GPRS enabled mobile phones, a service being introduced *first time ever* by Saudi Pak Bank offering customers to access and manage their funds in the most convenient manner.

Recovery of Non Performing Loans (NPLs) is another area where all out efforts are being made. Since the approval of Classified Accounts Reduction Plan by the Board in July 2005, a number of recovery suits, involving a substantial amount, have been filed against defaulters. In addition, sizeable cash recoveries were made and advances were regularized as a part of the portfolio cleansing process.

We are extremely grateful for the confidence which our sponsors have shown in our long term plans. This is reflected in the recent decision to issue 30% right shares. By virtue of this decision, paid up capital of the bank will now be over Rs. 5 billion.

Our achievements today are the result of the spirit of team work that is alive in our employees. To conclude, I must say that we have to be consistent with this same spirit and passion, and enhance our focus this year on profitability to ensure our continued success over the coming years.

**Mansoor M. Khan**  
**President/CEO**

Karachi  
March 07, 2007

## **Directors' Report to the Shareholders**

On behalf of the Board of Directors, it gives me pleasure to present to you the twelfth Annual Report of Saudi Pak Commercial Bank Limited for the year ended December 31, 2006 alongwith the Audited Financial Statements.

### **Financial Results**

In the year 2006, the deposits increased by 32 per cent to Rs. 49,015 million which is a reflection of confidence of depositors in the Bank. Advances witnessed a growth of 49 per cent during the period. The total assets base, which as on December 31, 2005 was Rs. 47,749 million increased to Rs. 59,112 million as on December 31, 2006, reflecting an increase of 24 per cent.

Markup income increased by 41 per cent to Rs. 3,702 million in 2006 from Rs. 2,632 million in the previous year. Markup expense on the other hand increased to Rs. 3,261 million from Rs. 1,849 million.

Operating profit (before gross provisions and mark-up suspense), during the period under review, amounted to Rs. 522 million. The management, however, taking a very conservative and prudent approach and to make the credit portfolio neat and sound, made provisions against advances and suspended mark up income. As a result, the Bank incurred loss before tax amounting to Rs. 424 million for the year ended December 31, 2006 as against the pre-tax profit of Rs. 140 million in the previous year. Net loss amounted to Rs. 319 million as against profit after tax of Rs. 65 million in the previous year. The provisions made would strengthen the risk absorption capacity and provide a stable base for further growth of the Bank. This supported by development of an effective infrastructure, building an efficient team, improved internal control, enhanced image in the market place, would ensure improved profitability in the future.

## Appropriations

In view of the accumulated losses inherited by the new management at the time of takeover, the Board passed over the dividend for the year 2006. The appropriations are recommended as under:

	<b>(Rs in million)</b>
Loss before tax	(424)
Provision for tax	(105)
Loss after tax	(319)
Un-appropriated loss brought forward	(918)
Transfer from surplus on revaluation of fixed assets	-
Appropriations:	
Un-appropriated loss carried forward	<u>(1,237)</u>
Earning per share (Rupee)	<u>(0.83)</u>

## Social Contribution

The Bank recognizes its responsibility as a social partner with the rest of the community and has contributed both in cash and time, to the goals and aspirations of many community based organizations.

## Risk Management Framework

Success in the banking business is dependent on how well an institution manages its risks. The main goal is not to eliminate risk, but rather to be proactive in assessing and managing risks to an organization's strategic advantage.

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.

A number of initiatives have been taken and planned in this regard which reflects the management's commitment to upgrade the quality of the risk management process. Our risk management policies and procedures ensure that risks are effectively identified, evaluated, monitored and managed.

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

### **Credit Rating**

The JCR-VIS Credit Rating Company has assigned long term rating of Single A- (single A Minus) to the Bank, whereas the short term entity rating is A-2. Both ratings are with a "Negative Outlook"

### **Right Issue**

The sponsors of the Bank have once again shown their commitment and support by issuing 30% right shares. By virtue of this decision, paid up capital of the bank will be over Rs. 5 billion.

### **Provident Fund**

The investment in Provident Fund and Gratuity Fund as on December 31, 2006 was Rs 60 million and Rs 24 million respectively (based on un-audited accounts). (2005: Rs 20 million and Rs NIL 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 to banks 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 eight Board meetings were held. These meetings were attended by the directors as under:

Name of Director	No of meetings	
	Held during directorship	Attended
Muhammad Rashid Zahir	8	8
Muhammad Nasimuddin Mirza	8	3
Basheer A. Chowdry	8	8
Farrukh S. Ansari	8	7
M. Hidyatulla K. Khaishgi	8	8
Mrs. Sadaf Aamir	8	8
Syed Mansoor Naqvi	8	8

- 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.
- j. No trading was carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children in the shares of the Bank during the year.

### **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, 2007. On the suggestion of the Audit Committee, the Board recommends the appointment of Messrs Anjum Asim Shahid Rahman, Chartered Accountants as statutory auditors for the year 2007.

### **Acknowledgement**

We have a team of executives and staff committed to providing our customers a superior service experience. Importantly, there is now a commonality of purpose which pervades

every level of our great team. From the leadership of our senior executive group, our head office staff, through to our business relationship managers and on to our branch managers and their key front line service staff, there is a firm commitment throughout the Bank to make Saudi Pak Commercial Bank Ltd. as one of the best banks in Pakistan.

We would like to thank the 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 to transform the Bank into a leading financial institution of the country.

**For and on behalf of the Board**

**Muhammad Rashid Zahir**  
**Chairman**

**Karachi**

**Dated: March 07, 2007**

## **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 the concept of 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. 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.
8. The meetings of the Board were presided over by the Chairman and the Board met eight 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.

9. An orientation course was held during the year for the Directors to apprise them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of the shareholders.
10. 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.
11. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements.
15. The Board has formed an audit committee comprising of four non-executive Directors including the Chairman of the committee.
16. 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.
17. The Board has set-up an effective internal audit function. The internal audit department reports to the Audit Committee.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. 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.

20. 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, 2006 have been audited and will be circulated in accordance with clause (xxii) of the Code.
21. 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.
22. 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, 2007

## **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 control by the management.

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 the 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 during the year 2006 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 7, 2007

## 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, 2006**.

Karachi **Anjum Asim Shahid Rahman**  
Date: **Chartered accountants**

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## 1. Review report on statement compliance with the best practices of code of corporate governance

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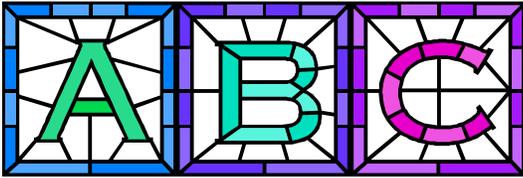
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For the half year ended JuneDecember 301, 200520064**

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Corporation AMZ Technologies Access (Private) ABC Company  
Pty Ltd limited  
For the half year ended June December 301, 200520064**

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**Union Leasing Pollution Engineering Pakistan Independent Media  
Corporation AMZ Technologies Access (Private) ABC Company  
Pty Limited  
For the half year ended June December 301, 200520064**

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# 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, 2006** 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 the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of financing covered more than 60% of the total financing 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;

- (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 give a true and fair view of the state of the Bank's affairs as at the December 31, 2006, 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.

The financial statements of the bank for the year ended December 31, 2006 were audited by another firm of chartered accountants who have issued an unmodified opinion thereon in their report to the members dated March 6, 2006.

Karachi  
Date:

**Anjum Asim Shahid Rahman**  
Chartered accountants

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2006**

	Note	December 31, 2006	Restated December 31, 2005
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	3,994,136	2,525,340
Balances with other banks	7	613,678	923,044
Lending to financial institutions	8	4,747,567	8,831,063
Investments	9	15,702,482	12,464,577
Advances	10	29,021,974	19,513,727
Operating fixed assets	11	2,322,371	1,541,536
Deferred tax assets - net	12	1,010,821	911,307
Other assets	13	1,698,478	1,037,955
		<b>59,111,507</b>	<b>47,748,549</b>
<b>LIABILITIES</b>			
Bills payable	14	408,342	199,143
Borrowings from financial institutions	15	4,236,775	5,481,288
Deposits and other accounts	16	49,015,090	37,136,042
Sub-ordinated loan	17	650,000	650,000
Liabilities against assets subject to finance lease	18	63,030	569
Deferred tax liabilities		-	-
Other liabilities	19	829,573	474,905
		<b>55,202,810</b>	<b>43,941,947</b>
<b>NET ASSETS</b>		<b>3,908,697</b>	<b>3,806,602</b>
<b>REPRESENTED BY</b>			
Share capital	20	3,847,500	3,847,500
Reserves		218,556	218,556
Accumulated losses		(1,178,057)	(860,072)
		<b>2,887,999</b>	<b>3,205,984</b>
Surplus on revaluation of assets - net of tax	21	1,020,698	600,618
		<b>3,908,697</b>	<b>3,806,602</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

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

**President and CEO**

**Chairman**

**Director**

**Director**

**SAUDI PAK COMMERCIAL BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Note	December 31, 2006	Restated December 31, 2005
Rupees in '000			
Mark-up / return / interest earned	24	3,701,901	2,632,485
Mark-up / return / interest expensed	25	3,260,952	1,849,189
<b>Net mark-up / interest income</b>		<b>440,949</b>	<b>783,296</b>
Provision against non-performing loans and advances - net	10.4	463,988	490,471
Provision / (Reversal) against consumer finance	10.4	915	(6,579)
(Reversal) / Provision for diminution in the value of investments - net		(56,806)	671
Bad debts written off directly		-	729
		<b>408,097</b>	<b>485,292</b>
Net mark-up / interest income after provisions		<b>32,852</b>	<b>298,004</b>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		305,464	240,648
Dividend income		59,851	41,347
Income from dealing in foreign currencies		56,907	68,518
Gain on sale of securities	26	145,177	43,975
Other income	27	138,604	265,776
<b>Total non-markup / interest income</b>		<b>706,002</b>	<b>660,264</b>
		<b>738,854</b>	<b>958,268</b>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	28	1,262,448	732,803
Other (reversal) / provisions / write offs		(202,435)	18,595
Unrealized loss on revaluation of investment classified as held for trading		5,962	-
Other charges	29	75,700	11,300
<b>Total non-markup/interest expenses</b>		<b>1,141,676</b>	<b>762,698</b>
		<b>(402,822)</b>	<b>195,570</b>
Amortization of deferred cost		16,667	50,000
Share of loss from associate	9.12	5,270	5,100
Extra ordinary items		-	-
<b>(LOSS) / PROFIT BEFORE TAXATION</b>		<b>(424,759)</b>	<b>140,470</b>
Taxation - Current	30	-	156,100
- Prior years		-	-
- Deferred		(105,282)	(80,243)
		<b>(105,282)</b>	<b>75,857</b>
<b>(LOSS) / PROFIT AFTER TAXATION</b>		<b>(319,477)</b>	<b>64,613</b>
Accumulated losses brought forward		(918,413)	(983,026)
<b>Accumulated losses carried forward</b>		<b>(1,237,890)</b>	<b>(918,413)</b>
<b>Basic / Diluted earning / (loss) per share (Rupee)</b>	31	<b>(0.83)</b>	<b>0.23</b>

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

President and CEO

Chairman

Director

Director

