SECURITY INVESTMENT BANK LIMITED



15th Annual Report

2006

THE MONEY WISE BANK

VISION

Aiming for continued growth, we will further develop our strengths to seize new opportunities and maintain our steadfast commitment.

MISSION

- *Meet the challenges of highly competitive market with our expertise, creativity and service.*
- *Develop & maintain strong client relationship.*
- *Continuously enhance our contributions towards industrial development of the country.*
- *Above all, in a tradition of prudent growth, our unwavering determination to strengthen long-term earnings and return on shareholders' equity will endure.*

CONTENTS

CORPORATE INFORMATION	2
NOTICE OF THE ANNUAL GENERAL MEETING	3
DIRECTORS' REPORT TO THE SHAREHOLDERS	4
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE	9
REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE	11
SECURITY INVESTMENT BANK LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006	12
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006	46
PATTERN OF SHAREHOLDING	80

CORPORATE INFORMATION

BOARD OF DIRECTORS	Mr. Khursheed K. Marker (Chairman) Haji Jan Muhammad Haji Abdul Rauf Mr. Muhammad Younus Abdul Aziz Tabba Mr. Maqbool H. H. Rahimtoola Mr. Muhammad Iqbal Kasbati Mr. Muhammad Saleem Rathod
PRESIDENT & CHIEF EXECUTIVE	Mr. Muhammad Saleem Rathod
AUDIT COMMITTEE	Mr. Khursheed K. Marker Haji Jan Muhammad Mr. Muhammad Iqbal Kasbati
CFO & COMPANY SECRETARY	Mr. Muhammad Amin Khatri
AUDITORS	Muniff Ziauddin & Co. Chartered Accountants
TAX ADVISORS	Anjum Asim Shahid Rahman Chartered Accountants
LEGAL ADVISORS	Bawaney & Partners Muhammad Tariq Qureshi
BANKERS	Habib Metropolitan Bank Limited. Al-Baraka Islamic Bank B.S.C. (E.C.) MCB Bank Limited. The Bank of Khyber. Habib American Bank, New York.
REGISTERED OFFICE	Flat No. 4, 3rd Floor, Al-Baber Centre, Main Markaz, F-8, Islamabad. Tel : (051) 2856978-80 Fax: (051) 2856987 Website : www.sibl.com.pk
KARACHI OFFICE	606, 6th Floor, Unitowers, I.I. Chundrigar Road, Karachi. Tel : (021) 2418410 - 13 Fax : (021) 2418414 E-mail : sibl@sibl.com.pk

NOTICE OF THE SIXTEENTH ANNUAL GENERAL MEETING

Notice is hereby given that the Sixteenth Annual General Meeting of Security Investment Bank Limited will be held at the Registered Office of the company located at Flat No. 4, 3rd Floor, Al-Baber Centre, Main Markaz, F-8, Islamabad, on Monday, April 30, 2007 at 11.00 a.m. to transact the following business:

ORDINARY BUSINESS

1) To confirm the minutes of Fifteenth Annual General Meeting held on April 24, 2006.
2) To receive and adopt the audited accounts of the company for the year ended December 31, 2006 together with the Directors' and Auditors' report thereon.
3) To approve the payment of cash dividend @ 20% i.e. Rs. 2/- per share as recommended by the Board of Directors, for the year ended December 31, 2006.
4) To appoint auditors and fix their remuneration for the year ending December 31, 2007. The present auditors M/s. Muniff Ziauddin & Co., Chartered Accountants retire and being eligible, offer themselves for re-appointment.

ANY OTHER BUSINESS

5) To transact such other business as may be placed before the meeting with the permission of the Chair.

BOOK CLOSURE

The share transfer books of the company will remain closed from 23rd day of April 2007 to 30th day of April 2007 (both days inclusive). Transfer received in order at the office of the share registrar of the company by the close of business on 21st day of April 2007 will be treated in time.

By order of the Board

Muhammad Amin Khatri
Company Secretary

Islamabad,
Date: March 31, 2007

NOTES:

1) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. Proxies in order to be effective must be received at the office of the share registrar of the company duly stamped and signed not less than 48 hours before the meeting.
2) Members are requested to promptly communicate to the company any change in their addresses.
3) Account holders and sub-account holders holding book entry securities of the company in the Central Depository System of Central Depository Company of Pakistan Limited, who wish to attend the Annual General Meeting, are requested to please bring their original National Identity Card with copies thereof duly attested by their bankers for identification purposes.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Security Investment Bank Limited (SIBL) are pleased to present the fifteenth Annual Report along with the audited financial statements and Auditor's report thereon for the year ended December 31, 2006.

ECONOMIC OUTLOOK

Pakistan's economy has continued to reflect satisfactory growth for the past few years and the expected GDP growth for the fiscal year ending June 30, 2007 is to remain around 7%.

The oil prices in the international market have witnessed a downward trend; however, they are still on a higher level and it is expected that the prices will remain at their current level. This is one of the main reasons for high inflation and trade deficit. State Bank of Pakistan (SBP) has continued its tight monetary policy to control inflation, which is expected to continue in the next fiscal year.

The financial sector has witnessed increased growth with developments in the Islamic Banking sector and Mutual Funds industry. Banking sector has witnessed consolidation process as many local banks have changed their hands with the foreign banks, which depicts healthy business environment of our country. The Foreign Direct Investments inflows are improving to attractive levels and similar pattern is expected to continue in future.

During the year 2006, Stock Market remained highly volatile. Karachi Stock Exchange's "KSE 100 Index" reached the highest ever level of 12,273 points. It was stretched to steep down fall in April 2006 and over major portion of the year 2006.

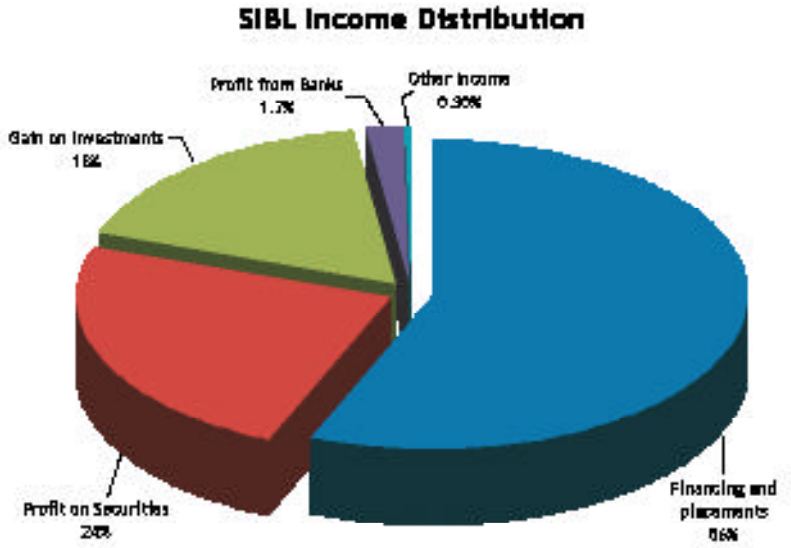
OPERATIONAL PERFORMANCE OF SIBL

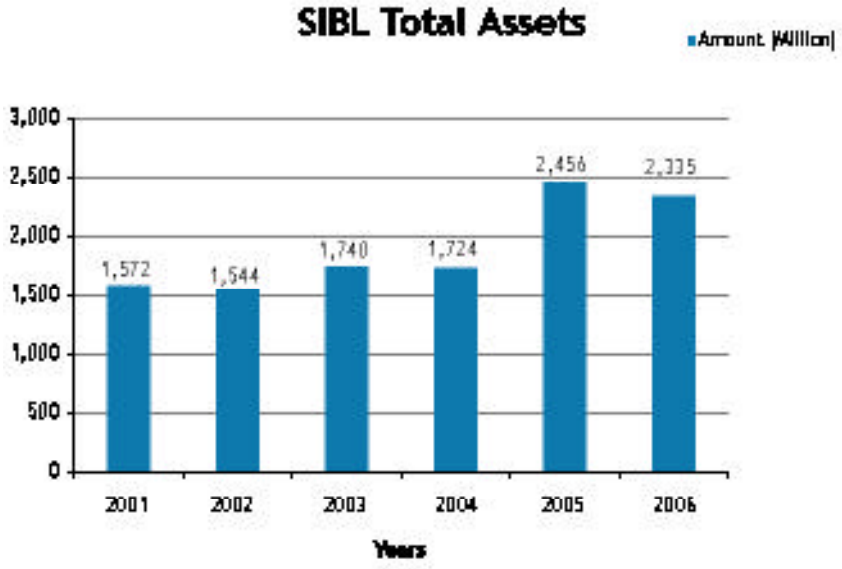
During the year 2006, the State Bank of Pakistan has exercised tight monetary policy, which has substantially increased the cost of deposits and borrowings of entire financial sector. SIBL's cost of deposits and borrowings increased by 36% as a result, compared to last year. However, we have been able to maintain our growth.

The financial performance for the year 2006 is summarized below:

	(Rupees in Million)	
	2006	2005
Profit before taxation	105.050	91.845
Less: Taxation	18.847	21.207
Profit after taxation	86.203	70.638

SIBL has maintained its revenue growth by making Rs. 105.05 million operating profit, an increase of around 14% over the profit earned during the year 2005. Profit after tax of the SIBL has increased to Rs.86.203 million from Rs. 70.638 million, which is 22% higher than the last year's net profit. The bank managed to earn capital gain of Rs.41.268 million,which is 75% more than the capital gain earned during the year 2005. Return on financing and placements have increased by 32% over the last year although the cost of deposits and borrowings has increased by 36% when compared to last year.


SIBL Income Distribution
Profit from Banks
1.7%
Other Income
0.30%
Gain on Investments
18%
Profit on Securities
Financing and
placements
66%


SIBL Total Assets
Amount (Million)
3,000
2,500
2,000
1,500
1,000
500
0
1,572
1,544
1,740
1,724
2,456
2,335
2001
2002
2003
2004
2005
2006
Years

CORPORATE GOVERNANCE

The Board regularly reviews the company's strategic direction, business plans and performance in the light of the Company's overall objectives. The board is committed to maintain the high standards of good corporate governance. The company is complying with the provisions set out by the State Bank of Pakistan, Securities & Exchange Commission of Pakistan and the listing rules of the Stock Exchanges. We further would like to confirm that:

- The financial statements, prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account of the company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements, and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and there has been no departure from them.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of last six years of Security Investment Bank Limited are as follows:

	December 2006	December 2005	December 2004	December 2003	December 2002	December 2001 (18 months)	June 2000
Share Capital	429	373	373	324	282	201	165
Shareholder's Equity	650	602	530	463	387	356	232
Deposits	976	565	448	478	270	254	499
Borrowings	727	1,253	726	703	728	948	285
Advances	196	171	230	288	240	286	311
Investments	565	289	556	877	1,125	724	219
Operating Profit	105	92	83	132	68	65	55
Provisions against non-performing advances	–	–	–	–	–	–	–
Net Profit after provisions	86	71	68	108	68	65	55
Total Assets	2,335	2,456	1,724	1,727	1,544	1,572	1,046
Dividend	20%	10%	–	10%	12.5%	–	–
Bonus	–	15%	15%	15%	–	–	22%

- As on December 31, 2006 based on the unaudited accounts, the value of investment of Provident Fund is Rs. 1.410 million.

- The pattern of shareholding as at December 31, 2006 along with the disclosure required under the Code of Corporate Governance is annexed to the report. No trade in the shares of the company during the year were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children except the receipt of 15% Bonus Shares issued during the year by SIBL.

- During the year ended December 31, 2006, the Board of Directors held four meetings. Attendance of each Director is as follows:

Name	No. of Meetings Attended
Mr. Khursheed K.Marker	4
Haji Jan Muhammad	3
Haji Abdul Rauf	1
Mr. Muhammad Younus Abdul Aziz Tabba	2
Mr. Maqbool H. H. Rahimtoola	3
Mr. Muhammad Iqbal Kasbati	2
Mr. Muhammad Saleem Rathod	4

Leave of absence was granted to Directors who could not attend some meetings.

EARNINGS PER SHARE

Eearnings per share of your Bank have risen from Rs.1.65 to Rs. 2.01 during the year 2006, showing an inrease of 22%.

DIVIDEND

As per our policy, we would like to share earnings of SIBL with our shareholders and for the year ended December 31, 2006, the Board is pleased to announce Cash Dividend of 20% (i.e. Rs. 2 per share).

CREDIT RATING

JCR VIS Credit Rating Company Limited has reaffirmed the medium to long-term rating of A (Single A) and short-term rating of A-1 (A One) to SIBL.

EXCHANGE COMPANY

SIBL Exchange Company (Private) Limited, a wholly owned subsidiary of SIBL, has commenced its operations from February 28, 2006. The business is in its initial stage and it will take time to mature.

FUTURE OUTLOOK

Pakistan economy is expected to remain on a high growth trajectory during the year 2007. FDI position will improve further due to privatization and attractive investment policy of government. GDP growth may show

improvements as goverment has subsidized different sectors of economy including manufacturing, telecommunication and other service industries.The continued interest of foreign financial institutions will result in a robust growth of economy in the years to come.

However, we feel that following factors may adversely affect the overall business scenario of Pakistan in the year 2007-

- the tight monetary policy being enforced by the SBP,
- the outcome of pending inquires initiated by the Government and the SECP in respect of the affairs of Stock Exchanges,
- the political situation, considering the year 2007 is an election year, and
- the overall geopolitical situation of our region.

AUDITORS

The present auditors of the bank M/s. Muniff Ziauddin & Co, retire and being eligible, offer themselves for reappointment.

ACKNOWLEDGEMENT

The Directors express their deepest gratitude for the continuous support and encouragement extended by Securities & Exchange Commission of Pakistan and State Bank of Pakistan. We also acknowledge the understanding shown by the shareholders. The management and the staff are also worth praising for their efforts in achieving these results.

On behalf of the Board
Khursheed K. Marker
(Chairman)

Karachi;
March 31, 2007

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board comprises of six non-executive directors.

2. The directors have confirmed that none of them is serving as a director in ten or more listed companies.

3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFC. No director in the board is a member of any of the stock exchanges in Pakistan.

4. No casual vacancy occurred during the year under review.

5. The Company has prepared and adopted a 'Statement of Ethics and Business Practices', which has been reviewed and signed by all the directors and employees of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The CEO conducted orientation course for the directors during the year to apprise them of their duties and responsibilities.

10. The Board has approved appointment of Head of Internal Audit and CFO including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.

11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises three members, all of whom are non-executive Directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the company and are involved in the internal audit function on a full time basis.

18. The statutory auditors of the Company 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 Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

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. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Muhammad Saleem Rathod
Chief Executive

Khursheed K. Marker
Chairman

Karachi;
March 31, 2007

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2006, prepared by the Board of Directors of Security Investment Bank Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, Listing Regulation No. 40 Chapter XIII of the Lahore Stock Exchange (Guarantee) Limited and Listing Regulation No. 36 of the Islamabad Stock Exchange (Guarantee) Limited, where the Company is listed.

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

As part of the 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 company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2006.

Karachi;
March 31, 2007

MUNIFF ZIAUDDIN & CO.
Chartered Accountants

SECURITY INVESTMENT BANK LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

AUDITORS' REPORT TO THE MEMBERS 14

BALANCE SHEET 15

PROFIT AND LOSS ACCOUNT 16

CASH FLOW STATEMENT 17

STATEMENT OF CHANGES IN EQUITY 18

NOTES TO THE FINANCIAL STATEMENTS 19

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of SECURITY INVESTMENT 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, for the year then ended 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 company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(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 Companies Ordinance, 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 company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(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 Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi;
March 31, 2007

MUNIFF ZIAUDDIN & CO.
Chartered Accountants

BALANCE SHEET

AS AT DECEMBER 31, 2006

	Note	2006 Rupees	2005 Rupees
NON-CURRENT ASSETS			
Tangible fixed assets	5	**1,838,745**	2,744,507
Stock exchange membership card - intangible	6	**36,000,000**	36,000,000
Long term investments	7	**151,378,660**	476,244,904
Deferred tax asset	8	**10,860,955**	487,443
Deferred cost	9	–	115,648
CURRENT ASSETS			
Short term financing	10	**195,834,198**	170,634,198
Short term placements	11	**911,653,295**	1,154,645,225
Short term investments	12	**564,961,306**	289,403,485
Advances, deposits, prepayments and other receivables	13	**73,557,495**	68,290,371
Cash and bank balances	14	**389,399,475**	257,698,952
		2,135,405,769	1,940,672,231
		2,335,484,129	2,456,264,733
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised Capital			
50,000,000 ordinary shares of Rs. 10/- each		**500,000,000**	500,000,000
Issued, subscribed and paid up capital	15	**428,612,993**	372,706,950
Statutory reserve	16	**116,477,482**	99,236,880
Unappropriated profit		**105,474,437**	129,688,766
		650,564,912	601,632,596
(Deficit)/Surplus on revaluation of investments-net	17	**(41,743,845)**	10,711,063
NON-CURRENT LIABILITIES			
Deferred liabilities	18	**4,325,000**	4,001,955
CURRENT LIABILITIES			
Borrowings	19	**727,500,000**	1,252,500,000
Short term deposits	20	**975,808,919**	564,883,949
Accrued and other liabilities	21	**19,029,143**	22,535,170
		1,722,338,062	1,839,919,119
Contingencies and Commitments	22		
		2,335,484,129	2,456,264,733

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 Rupees	2005 Rupees
INCOME			
Return on financing and placements	23	**131,213,722**	99,255,963
Return on securities	24	**55,848,295**	53,642,499
Gain on sale of investments		**41,267,744**	23,622,172
Profit on deposit with banks		**4,051,877**	11,175,532
Other income	25	**859,482**	1,585,571
		233,241,120	189,281,737
EXPENDITURE			
Return on deposits and borrowings	26	**103,287,426**	75,814,414
Operating expenses	27	**24,903,502**	21,622,357
		128,190,928	97,436,771
PROFIT FOR THE YEAR BEFORE TAXATION		**105,050,192**	91,844,966
Provision for taxation	28	**18,847,181**	21,206,938
PROFIT AFTER TAXATION		**86,203,012**	70,638,028
BASIC EARNINGS PER SHARE	29	**2.01**	1.65

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 Rupees	2005 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**105,050,192**	91,844,966
Adjustment for non-cash and other items			
Depreciation		**1,013,878**	85,360
Amortization of deferred cost		**115,648**	101,205
(Gain) on disposal of shares		**(41,267,744)**	(23,622,172)
(Gain) on disposal of fixed assets		**(38,159)**	–
(Gain) on sale of securities		**(221,770)**	(83,260)
Provision for gratuity		**821,586**	768,000
		(39,576,561)	(22,750,867)
Cash Flows From Operating Activities Before Working Capital Changes		**65,473,631**	69,094,099
Decrease/(increase) in financing and placements		**217,791,930**	(318,692,886)
(Increase) in advances, deposits, prepayments and other receivables		**(6,199,897)**	(17,170,245)
Increase in deposits		**410,924,970**	117,358,153
(Decrease)/increase in borrowings		**(525,000,000)**	526,257,425
(Decrease)/increase in accrued and other liabilities		**(4,447,524)**	9,272,295
		93,069,479	317,024,742
Income tax paid		**(17,681,793)**	(16,407,702)
Gratuity paid		**(498,541)**	(484,820)
Dividend paid		**(36,329,198)**	(1,306,811)
		(54,509,532)	(18,199,333)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**104,033,577**	367,919,508
CASH FLOWS FROM INVESTING ACTIVITIES			
(Purchase)/sale of fixed assets		**(69,957)**	(2,061,320)
(Purchase)/sale of investments (shares)		**15,098,345**	(70,181,750)
(Purchase)/Sale of securities		**12,638,558**	(3,047,412)
Investment in subsidiary		**–**	(100,000,000)
NET CASH FLOW FROM INVESTING ACTIVITIES		**27,666,946**	(175,290,482)
CASH FLOWS FROM FINANCING ACTIVITIES		**–**	–
Net increase in cash and cash equivalents		**131,700,523**	192,629,026
Cash and cash equivalents at the beginning of the year		**257,698,952**	65,069,926
Cash and cash equivalents at the end of the year	14	**389,399,475**	257,698,952

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share Capital (Note 15)	Statutory Reserve (Note 16)	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at January 01, 2005	372,706,950	85,109,274	73,178,344	530,994,568
Net profit for the year	–	–	70,638,028	70,638,028
Appropriations:				
Statutory reserve	–	14,127,606	(14,127,606)	–
Balance as at December 31, 2005	**372,706,950**	**99,236,880**	**129,688,766**	**601,632,596**
Net profit for the year	–	–	86,203,012	86,203,012
Issuance of bonus shares 2005	55,906,043	–	(55,906,043)	–
Dividend paid for the year 2005	–	–	(37,270,695)	(37,270,695)
Appropriation:				
Statutory reserve	–	17,240,602	(17,240,602)	–
Balance as at December 31, 2006	**428,612,993**	**116,477,482**	**105,474,437**	**650,564,912**

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. LEGAL STATUS AND OPERATION

Security Investment Bank Limited (SIBL) is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984. Its shares are qouted on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of SIBL is situated at Flat No.4, 3rd Floor, Al-Baber Centre, Main Markaz, F-8, Islamabad.

SIBL is licensed to carry out business of investment finance services as a Non-Banking Finance Company (NBFC) under section 282C of the Companies Ordinance, 1984 and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 issued by the Securities and Exchange Commission of Pakistan (SECP) (previously this was covered under SRO 585(1)/87 dated July 13, 1987, issued by the Ministry of Finance).

JCR - VIS Credit Rating Company Limited has reaffirmed medium to long-term rating of SIBL at **'A' (Single A) with stable outlook** and the short-term rating at **'A-1' (A One).**

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved International Accounting Standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. 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, Non Banking Finance Companies Rules, 2003 and Prudential Regulations for NBFCs along with directives issued by the Securities and Exchange Commission of Pakistan (SECP) where the requirements of these directives differ with these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1 Standards, interpretations and amendments to Published Approved Accounting Standards that are not yet effective.

The following standards and amendments to the approved accounting standards, effective for accounting periods beginning on or after January 01, 2007 are either not relevant to Bank's operations or are not expected to have significant impact on the Bank's future financial statements other than certain increased disclosure-

IAS-1 Presentation of Financial Statements-amendments relating to Capital disclosures
IFRS-2 Share Based Payments
IFRS-3 Business Combinations
IFRS-5 Non-current assets held for sale and discontinued operations
IFRS-6 Exploration for and evaluation of mineral resources

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for held for trading and available for sale investments, which are stated at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Fixed Assets and Depreciation

Operating fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to income applying the straight line method, whereby the cost of an asset is written off over its estimated useful life.

Full month's depreciation is charged on additions during the month in which asset is acquired, while no depreciation is charged in the month of disposal.

Minor renewals or replacements, maintenance, repairs and profit or loss on disposal of fixed assets are included in current year's income. Major renewals and repairs are capitalized.

4.2 **Intangible**

This is stated at acquisition cost. Provisions are made for permanent diminution in value of such assets, if any.

4.3 **Investments in Subsidiary**

Investment in Subsidiary (not held for disposal purpose) are carried at cost less impairment losses, if any.

4.4 **Deferred Cost**

Deferred cost comprising formation and preliminary expenses, shares issue expenses, pre-operating expenses and office renovation expenses are amortized over a period of five years.

4.5 **Investments**

The management of Security Investment Bank Limited determines the appropriate classification of its investments at the time of purchase and classifies these investments as held-for-trading, held-to-maturity or available-for-sale.

Held-to-maturity

Investments with fixed maturity where management has both the intent and ability to hold to maturity, are classified as held-to-maturity.

Available-for-sale

Investments intended to be held for an indefinite period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available-for-sale.

Held-for-trading

Investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or dealer's margin are classified as held-for-trading.

All Investments are initially recorded at cost, being the fair value of the consideration given.

Subsequent to initial recognition, investments available for sale and investments held for trading for which active market exists, are measured at market value using rates quoted on Reuters, stock exchange quotes and broker's quotations, in accordance with the requirements of SECP circular No. 19 of August 13, 2003. Any difference between the carrying value and the revalued amount is reported below equity, until realised on disposal. At the time of disposal the respective surplus or deficit is transferred to income currently. Amortization cost is charged to profit and loss account.

Investments held till maturity are stated at amortized cost using the effective interest rate method less impairment, if any. The amortization for the period has been charged to the profit and loss account.

4.6 **Securities under repurchase / resale agreement**

Transactions of repurchase / resale of government securities, term finance certificates and shares are entered into at contracted rates for specified period of time.

The securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are included in borrowings from institutions. The difference between sale and repurchase price is amortized as expense over the life of the repo agreement.

The securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet. Amounts paid under these obligations are included in placements. The difference between purchase and resale price is accrued as income over the life of the reverse repo agreement.

4.7 **Trade date and Settlement date accounting**

All "regular way" purchases and sales of financial assets are recognized on the settlement date, i.e. the date on which the asset is delivered to or by Security Investment Bank Limited . Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market place.

4.8 **Staff retirement benefits**

4.8.1 **Defined contribution plan**

The company operates an approved Provident Fund Scheme for all its permanent employees. Equal monthly contibutions are made, both by the company and the employee, to the fund @ 10% of basic salary.

4.8.2 **Defined benefit plan**

The company operates an Unfunded Gratuity for its permanent employees who complete the qualifying period of service. Provision has been made in accordance with actuarial recommendations using the Projected Unit Credit Method. The results of current valuation are summarized in Note 31. Actuarial gains / losses in excess of 10% of the actuarial liabilities or plan assets are recognized over the average lives of the employees.

4.9 **Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.10 **Financial instruments**

All financial assets and financial liabilities are recognized at the time when Security Investment Bank Limited becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to income currently.

4.11 **Classification of deposits and financing**

Deposits and financing are classified as long and short term considering the remaining period at the balance sheet date.

4.12 **Revenue**

Income on financing and advances is generally recognized on time proportion basis taking into account the principal / net investment outstanding and applicable rates of profit / return thereon. Income on discounted commercial papers is recognized on a time proportion basis over the life of instruments. Where recovery is considered doubtful, income is recognized on receipts basis.

Dividends on equity investments are recognized as income if declared on or before the balance sheet date.

Income from capital gains is recognized on earned basis.

Fee, commission, liquidated damages, etc. are recorded on actual receipt basis except guarantee commission received in advance which is spread over the guarantee period.

4.13 **Taxation**

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax rebates and credits, if any, or at 0.5% of turnover whichever is higher.

Deferred

Deferred tax is accounted for using the liability method on all temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, if any, to the extent that it is probable that sufficient taxable income will be available against which the deductable temporary differences and unused tax losses can be utilised.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Deferred tax on surplus/(deficit) on revaluation of investments is charged or credited directly to the same account.

4.14 **Foreign currencies**

Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the balance sheet date. However, liabilities representing deposits in foreign currencies and the return on these deposits are converted at the rate prevailing on the date of deposits, where the option of exchange risk cover has been exercised.

Other foreign currency transactions are converted at the rates prevailing on the date of the transactions.

Exchange differences are included in the current year's income.

4.15 **Provision for doubtful debts - on financing**

Provision is made against doubful receivable in pursuance of Securities & Exchange Commission of Pakistan's Prudential Regulations for Non Banking Financial Institutions (NBFIs).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

5. TANGIBLE FIXED ASSETS

(In Rupees)

PARTICULARS	COST				RATE %	DEPRECIATION				Written down Value as at Dec. 31, 2006
	As at Jan. 01, 2006	Additions	Deletions	As at Dec. 31, 2006		As at Jan. 01, 2006	Charge for the year	Adjustment	As at Dec. 31, 2006	
Furniture & fixtures	2,934,800	133,486	–	3,068,286	**10**	2,888,897	28,325	–	2,917,222	151,064
Computers and equipments	3,042,095	414,426	(155,550)	3,300,971	**20**	2,701,692	258,622	(152,856)	2,807,458	493,513
Telephone system	225,496	–	–	225,496	**10**	168,643	8,470	–	177,113	48,383
Vehicles	6,147,695	–	(596,300)	5,551,395	**20**	3,885,476	705,765	(129,198)	4,462,043	1,089,352
Generator	497,148	–	–	497,148	**10**	460,502	7,715	–	468,217	28,931
Sign board	149,000	30,000	–	179,000	**10**	146,517	4,981	–	151,498	27,502
Rupees 2006	**12,996,234**	**577,912**	**(751,850)**	**12,822,296**		**10,251,727**	**1,013,878**	**(282,054)**	**10,983,551**	**1,838,745**

(In Rupees)

PARTICULARS	COST				RATE %	DEPRECIATION				Written down Value as at Dec. 31, 2005
	As at Jan. 01, 2005	Additions	Deletions	As at Dec. 31, 2005		As at Jan. 01, 2005	Charge for the year	Adjustment	As at Dec. 31, 2005	
Furniture & fixtures	2,934,800	–	–	2,934,800	**10**	2,862,553	74,823	(48,479)	2,888,897	45,903
Computers and equipments	2,981,425	60,670	–	3,042,095	**20**	2,785,113	211,886	(295,307)	2,701,692	340,403
Telephone system	225,496	–	–	225,496	**10**	164,185	8,470	(4,012)	168,643	56,853
Vehicles	4,147,045	2,000,650	–	6,147,695	**20**	3,716,251	696,610	(527,385)	3,885,476	2,262,219
Generator	497,148	–	–	497,148	**10**	496,715	7,715	(43,928)	460,502	36,646
Sign board	149,000	–	–	149,000	**10**	141,550	14,900	(9,933)	146,517	2,483
Rupees 2005	**10,934,914**	**2,061,320**	**–**	**12,996,234**		**10,166,367**	**1,014,404**	**(929,044)**	**10,251,727**	**2,744,507**

5.1 Cost and accumulated depreciation as at the end of the year include Rs. 9,586,322 (2005: Rs. 6,403,517/-) in respect of fully depreciated assets still in use.

5.2 Schedule of disposal of fixed assets

Particulars	Cost	Accumulated depreciation	Written down value	Sale Proceeds	Gain	Sold to	Mode of disposal
Computers and equipment							
Computers	155,550	152,856	2,694	7,955	5,261	Computer Zone	Trade in
Vehicles							
Suzuki Cultus	596,300	129,198	467,102	500,000	32,898	SIBL Exchange Co. (Pvt) Ltd.	Sale
Rupees-2006	751,850	282,054	469,796	507,955	38,159		

	Note	2006 Rupees	2005 Rupees
6. STOCK EXCHANGE MEMBERSHIP CARD-Intangible			
Corporate membership of Karachi Stock Exchange		**36,000,000**	36,000,000
7. LONG TERM INVESTMENTS			
SIBL Exchange Company (Pvt) Ltd. 10,000,000 ordinary shares of Rs. 10 each Wholly Owned Subsidiary - un-quoted		**100,000,000**	100,000,000
Pakistan Investment Bonds - Held to Maturity	7.1	**51,378,660**	376,244,904
		151,378,660	476,244,904
7.1 **Pakistan Investment Bonds**			
Cost		**51,457,812**	380,009,784
Less: Amortization		**(79,152)**	(3,764,880)
		51,378,660	376,244,904

These represent investment in 20 year bonds issued by the Government of Pakistan having face value of Rs. 50,000,000 (2005: Rs. 350,000,000) and carrying mark-up rates (coupon rate) of 10% per annum (2005: 9% to 11%). Their period to maturity is seventeen and a half year.

The company has reclassified Pakistan investment bonds having face value of Rs. 300,000,000 as "Available for Sale" securities which were previously classified as "Held to Maturity" securities.

8. DEFERRED TAX ASSET		
Deferred tax assets arising in respect of		
Surplus/(deficit) on revaluation of securities	**10,606,125**	–
Accelerated depreciation	**182,241**	353,178
Provision for gratuity	**113,066**	169,687
	10,901,432	522,865
Deferred tax liabilities arising due to		
Deferred cost	**(40,477)**	(35,422)
	10,860,955	487,443
9. DEFERRED COST		
Opening balance	**115,648**	216,853
Amortized during the year	**(115,648)**	(101,205)
	–	115,648

10. SHORT TERM FINANCING-secured

Demand finance	10.1	**199,414,796**	174,214,796
Provision for non-performing loans	10.2	**(3,580,598)**	(3,580,598)
		195,834,198	170,634,198

10.1 These are secured by demand promissory notes, hypothecation or a charge on assets of customers and certificates of deposits. The mark-up rates range from 10% to 18% per annum (2005: 7% to 16% per annum).

10.2 Particulars of provision against non-performing loans

Opening balance	**3,580,598**	3,580,598
(Reversal) or Write-off during the year	**–**	–
Closing balance	**3,580,598**	3,580,598

11. SHORT TERM PLACEMENTS - considered good

With financial institution - Unsecured		–	765,000,000
Under reverse repurchase agreements of quoted shares - secured	11.1	**911,653,295**	389,645,225
		911,653,295	1,154,645,225

11.1 This represents secured placements against shares in "Continuous Funding Supply" for a maximum period of 60 days and carry mark-up ranging from 14.5% to 18% (2005: 12% to 18%) per annum.

12. SHORT TERM INVESTMENTS

Available for Sale

Pakistan Investment Bonds	12.1	**290,798,150**	–
Wapda Bonds - 10th issue	12.1	**50,000,000**	50,000,000
Term Finance Certificates	12.1	**83,448,873**	91,840,420
Quoted shares	12.2	**140,714,283**	139,075,467
		564,961,306	280,915,887

Held for Trading

Quoted shares		–	8,487,598
		564,961,306	289,403,485

12.1 **Securities given as collateral under repurchase agreements.**

Particulars of investments by type	Note	2006 Held by SIBL	2006 Repo	2006 Total	2005 Held by SIBL	2005 Repo	2005 Total
		----------Rupees----------			----------Rupees----------		
Pakistan Investment Bonds	12.1.1	–	**290,798,150**	**290,798,150**	–	–	–
Wapda Bonds - 10th issue	12.1.2	**50,000,000**	–	**50,000,000**	50,000,000	–	50,000,000
Term Finance Certificates	12.1.3	**83,448,873**	–	**83,448,873**	91,840,420	–	91,840,420

12.1.1 Pakistan investment bonds (PIBs) have face value of Rs.300,000,000 (2005: Nil) with income receivable semi annually at 9% to 11% (2005: Nil) per annum and having maturity period from 5 years & 2 months to seventeen years & six months. The company has reclassified Pakistan investment bonds having fave value of Rs. 300,000,000 as "Available for Sale" securities which were previously classified as "Held to Maturity" securities.

12.1.2 These include 10,000 certificates of unlisted bonds having face value of Rs. 5,000/- each with income receivable semi-annually at 8.75% (2005: 8.75%) per annum, having 5 years maturity period.

12.1.3 Particulars of listed Term Finance Certificates (TFC):

No. of Certificates 2006	No. of Certificates 2005	Issuer of TFC	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			----------Rupees----------			
–	2,022	Shakarganj Sugar Mills Limited	–	–	4,041,573	3,839,496
1,586	1,588	Bank Alfalah Limited	**7,927,295**	**8,006,568**	7,930,472	7,970,123
4,527	4,534	Union Bank Limited	**22,633,728**	**22,860,065**	22,642,796	22,756,009
6,475	7,000	Pakistan International Airlines	**32,373,705**	**30,107,546**	34,123,635	29,687,562
512	897	Pakistan Services Limited	**2,561,319**	**2,561,319**	3,841,979	3,841,980
4,686	5,000	TeleCard Limited	**23,427,500**	**19,913,375**	24,995,000	23,745,250
			88,923,547	**83,448,873**	97,575,455	91,840,420

Terms of redemption of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption Terms
Bank Alfalah Limited	5,000	1.35% over last auction of five years Pakistan Investment Bonds yield with 10.00% per annum as floor and 15% as ceiling	Semi-annually	Six years from December 19, 2002
Union Bank Limited	5,000	2.25% over last auction of five years Pakistan Investment Bonds yield with 11.00% per annum as floor and 15.50% per annum as ceiling	Semi-annually	Five and half year from December 22, 2002
Pakistan International Airlines	5,000	0.50% over SBP discount rate with 8.00% per annum as floor and 12.50% per annum as ceiling	Semi-annually	Eight years from February 20, 2003
Pakistan Services Limited	5,000	2.25% over SBP discount rate with 9.75% per annum as floor and 13.75% per annum as ceiling	Semi-annually	Five years from November 12, 2003
TeleCard Limited	5,000	3.75% over 6 months KIBOR	Semi-annually	Six years from May 27, 2005

12.2 Quoted shares

No. of ordinary shares, certificates/units			2006		2005	
2006	2005		**Cost**	**Market Value**	Cost	Market Value
			----------Rupees----------			
		Modarabas / Mutual funds				
1,389,697	1,389,697	UTP Large Capital Fund	**13,896,970**	**11,117,576**	13,896,970	13,271,606
69,627	71,764	UTP Growth Fund	**1,085,040**	**905,151**	1,085,040	1,151,812
500	500	Long Term Venture Modaraba	**800**	**225**	800	225
13,046	13,046	Pakistan Premium Fund	**90,189**	**169,598**	90,189	201,561
4,500	3,000	PICIC Growth Fund	**185,013**	**126,675**	132,513	148,800
		Leasing				
40,353	40,353	Saudi Pak Leasing	**1,450,590**	**387,389**	1,450,590	550,818
		Investment Banks / Cos. / Banks				
10,000	–	Askari Commercial Bank Limited	**1,040,958**	**1,049,500**	–	–
25,416	13,750	Bank Alfalah Limited	**943,346**	**1,062,389**	617,991	1,014,063
41,715	41,200	Bank of Punjab	**2,961,179**	**4,223,644**	3,011,940	4,220,940
31,672	12,650	Faysal Bank Limited	**1,797,278**	**1,916,156**	524,430	937,365
40,000	–	MCB Bank Limited	**10,526,495**	**9,844,000**	–	–
104,374	156,479	National Bank of Pakistan	**20,150,380**	**23,405,870**	19,558,672	31,209,737
50,000	–	Pakistan Industrial Credit. Inv. Corp. Limited	**3,875,725**	**3,122,500**	–	–
12,500	–	Saudi Pak Commercial Bank Limited	**224,023**	**211,875**	–	–
		Insurance				
7,416	–	PICIC Insurance Limited	**74,160**	**139,050**	–	–
		Synthetic and Rayon				
2,750	5,750	Dewan Salman Fibre Limited	**69,325**	**21,038**	144,953	92,000
18,750	18,750	Pakistan Synthetics Limited	**688,500**	**131,250**	688,500	173,438
		Cement				
78	768	Cherat Cement Company Limited	**3,406**	**3,198**	38,463	67,776
14,493	26,541	D.G. Khan Cement Company Limited	**815,856**	**912,334**	1,741,441	2,829,270
2,375	2,875	Lucky Cement Limited	**232,164**	**142,263**	214,117	241,212
45,200	57,200	Maple Leaf Cement	**946,290**	**701,160**	1,188,226	1,934,040

No. of ordinary shares, certificates/units			2006		2005	
2006	2005		**Cost**	**Market Value**	Cost	Market Value
			----------Rupees----------			
		Fuel and Energy				
75,000	75,000	Hub Power Company Limited	**2,489,106**	**2,025,000**	2,489,106	1,800,00
–	6,000	Japan Power Generation	**–**	**–**	32,704	40,500
12,500	45,000	Karachi Electric Supply Corporation	**100,947**	**81,250**	363,411	346,500
184,829	334,829	Oil and Gas Development Co. Ltd.	**21,543,022**	**21,199,724**	35,212,977	39,509,822
32,750	15,200	Pakistan Oilfields Limited	**12,102,011**	**11,454,313**	4,373,060	6,505,600
62,500	–	Pakistan Petroleum Limited	**15,179,441**	**14,500,00**	–	–
18,500	–	Pakistan State Oil Company Limited	**5,938,531**	**5,439,000**	–	–
2,750	3,500	Sui Nothern Gas Pipelines Limited	**295,030**	**180,125**	226,210	238,000
67,000	97,000	Sui Southern Gas Company Limited	**2,052,516**	**1,574,500**	2,971,554	2,594,750
		Automobiles and Transport				
250	5,250	Dewan Farooque Motors Limited	**9,381**	**3,875**	197,000	175,350
45,000	45,000	Pakistan International Airlines Corporation	**900,481**	**317,250**	900,481	553,500
		Technology and Communication				
402,500	330,000	Pakistan Telecommunication Co. Limited	**27,497,321**	**17,830,750**	24,725,017	21,582,000
45,000	55,000	TRG Pakistan Limited	**617,867**	**393,750**	755,171	728,750
		Fertilizer				
35,586	40,586	Fauji Fertilizer Company Limited	**3,569,167**	**3,756,102**	4,070,652	5,560,282
–	10,000	Fauji Fertilizer Bin Qasim	**–**	**–**	386,539	381,500
		Chemical				
7,500	–	ICI Pakistan Limited	**1,136,851**	**866,250**	–	–
255,000	125,000	Pakistan PTA Limited	**2,417,742**	**1,249,500**	1,532,653	1,006,250
		Sugar & Allied Industries				
100	100	Hamza Sugar	**8,000**	**8,000**	8,000	8,000
		Jute				
240	–	Thal Limited	**48,105**	**39,480**	–	–
		Textile Composite				
9,250	–	Azgard Nine Limited	**323,159**	**202,575**	–	–
			157,286,365	**140,714,283**	122,629,370	139,075,467

		2006	2005
		Rupees	Rupees
13. **ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
Advances			
For expenses		**395,566**	347,408
For office premises		**2,500,000**	2,500,000
Advance income tax less payments and provision for tax		**29,044,525**	29,977,297
		31,940,090	32,824,705
Deposits			
Security		**2,181,288**	2,645,288
KSE exposure limits		**11,500,000**	6,000,000
High Court	13.1	**2,566,112**	2,566,112
		16,247,400	11,211,400
Prepayments		**424,932**	356,310
Other receivables			
Income receivable	13.2	**19,418,606**	23,353,606
Other receivables		**5,526,466**	544,350
		24,945,073	23,897,956
		73,557,495	68,290,371

13.1 This represents the amount of foreign currency deposits adjusted against financing to a customer. This amount was subsequently deposited with the High Court in pursuance of a High Court order dated January 12, 1998 as the subject settlement by the company has been challenged by the customer in the High Court.

13.2 **Income receivable**

Not due	13.2.1	**19,826,800**	23,761,800
Provision for doubtful debts		**(408,194)**	(408,194)
		19,418,606	23,353,606

13.2.1 This represents income on financing, placements and government securities not matured/due on December 31, 2006.

	Note	**2006** **Rupees**	2005 Rupees
14. CASH AND BANK BALANCES			
With State Bank of Pakistan in:			
Reserve account	14.1	**6,725,000**	6,725,000
Current account		**1,370,009**	3,670,423
		8,095,009	10,395,423
With other banks in:			
Current accounts		**8,704,595**	16,807,907
Deposit accounts	14.2	**372,593,905**	230,486,771
		381,298,500	247,294,678
Cash in hand		**5,966**	8,851
		389,399,475	257,698,952

14.1 This represents amount deposited with the State Bank of Pakistan as required under the relevant provisions of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions to meet the additional liquidity reserve of 1% of certain specified liabilities.

14.2 Rate of return on these deposits accounts range from 3.5% to 12% per annum (2005: 3.00% to 11.25% per annum).

15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of shares				
2006	2005			
23,552,000	23,552,000	Ordinary shares of Rs. 10/- each fully paid in cash	**235,520,000**	235,520,000
19,309,299	13,718,695	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	**193,092,993**	137,186,950
42,861,299	37,270,695		**428,612,993**	372,706,950

16. STATUTORY RESERVE

This reserve is created @ 20% of profit for the year from ordinary acitivities after taxation in compliance with Regulation No. 2 of part III of SECP's Regulations for NBFCs.

		2006 Rupees	2005 Rupees
17. SURPLUS/(DEFICIT) ON REVALUATION OF INVESTMENTS - Net			
Government Securities		**(30,303,214)**	–
Term Finance Certificates		**(5,474,674)**	(5,735,035)
		(35,777,888)	(5,735,035)
Related defered tax asset		**10,606,125**	–
		(25,171,763)	(5,735,035)
Quoted shares		**(16,572,082)**	16,446,098
		(41,743,845)	10,711,063
18. DEFERRED LIABILITY			
Gratuity-unfunded		**4,325,000**	4,001,955
		4,325,000	4,001,955
19. BORROWINGS			
Secured under repurchase agreements against Government Securities	19.1	**277,500,000**	300,000,000
Unsecured from			
Financial Institutions	19.2	**450,000,000**	865,000,000
Cash Management Accounts		**–**	87,500,000
		450,000,000	952,500,000
		727,500,000	1,252,500,000

19.1 This represents amount borrowed from financial institutions at mark-up rates ranging from 9.35% to 9.45% per annum (2005: 8.40% to 8.75% per annum) and having maturity period upto 3 months. These are secured against Pakistan Investment Bonds sold under repurchase agreements.

		2006	2005
		Rupees	Rupees

19.2 These carry mark-up ranging from 11.5% to 12.25% per annum (2005: 9.70% to 10.50% per annum) and having maturity period of upto 3 months.

20. SHORT TERM DEPOSITS

Local currency	20.1	**975,808,919**	564,883,949

20.1 These include deposits with maturity ranging from one month to twelve months. The rate of return on these deposits range from 6% to 12.75% per annum (2005: 5% to 10.10% per annum).

21. ACCRUED AND OTHER LIABILITIES

Accrued expenses		
Return on borrowings - unsecured	**1,198,288**	10,734,809
Return on deposits	**13,297,608**	5,263,434
Profit accrued on special US$ bonds	**3,278**	3,278
Mark-up on Repo against FIBs/PIBs/TFCs	**454,203**	3,347,000
Others	**475,496**	700,059
	15,428,873	20,048,580
Other liabilities		
Unclaimed dividend	**3,176,082**	2,234,585
Others	**424,188**	252,005
	3,600,270	2,486,590
	19,029,143	22,535,170

22. CONTINGENCIES AND COMMITMENTS

Contingencies		
Guarantees issued on behalf of customer	**12,630,000**	17,100,000
Commitments		
Future sale contract - Shares	–	8,628,950

	2006 Rupees	2005 Rupees
23. RETURN ON FINANCING AND PLACEMENTS		
Financing		
Demand finance	**20,846,164**	16,589,627
Placements		
Unsecured	**16,813,998**	8,903,004
Secured against reverse repurchase agreements of:		
Government securities & TFCs	**1,682,452**	3,339,623
Quoted shares	**91,871,108**	70,423,709
	131,213,722	99,255,963
24. RETURN ON SECURITIES		
Return on Government Securities	**31,669,464**	33,343,243
Return on TFCs	**15,405,193**	15,497,361
	47,074,657	48,840,604
Gain on sale of government securities	**221,770**	83,260
Dividend income	**8,551,868**	4,718,635
	55,848,295	53,642,499
25. OTHER INCOME		
Gain on sale of fixed assets	**38,159**	–
Commission	**542,490**	95,403
Miscellaneous	**278,833**	1,490,168
	859,482	1,585,571
26. RETURN ON DEPOSITS AND BORROWINGS		
Return on deposits	**33,679,011**	21,545,768
Return on borrowings	**41,568,960**	29,604,608
Return on repurchase agreement borrowings (Repo)	**28,039,455**	24,664,038
	103,287,426	75,814,414

	Note	2006 Rupees	2005 Rupees
27. OPERATING EXPENSES			
Salaries, wages and other benefits		**9,665,556**	9,309,819
Contribution to provident fund		**524,390**	520,470
Gratuity scheme expenses		**821,586**	768,000
Rent, rates and taxes		**1,640,363**	1,857,908
Telephone, telex and fax		**942,704**	780,218
Electricity, water and gas		**659,158**	576,467
Printing, postage and stationery		**589,348**	481,007
Insurance		**469,248**	375,424
Fees and membership		**790,560**	667,266
Brokerage and Commission		**3,339,052**	3,036,910
Central Depository Company charges		**921,140**	796,020
Auditors' remuneration	27.1	**275,000**	273,850
Legal and professional fees		**395,400**	280,933
Vehicle running and maintenance		**730,882**	760,301
Repairs and maintenance		**404,687**	207,302
Advertisement		**895,192**	225,287
Travelling and entertainment		**156,285**	156,261
Depreciation (refer note 5)		**1,013,878**	85,360
Amortization of deferred cost (refer note 9)		**115,648**	101,205
Bank charges		**107,087**	124,466
Old age benefit		**38,550**	42,750
Books, periodicals & newspapers		**29,310**	24,802
Other Expenses		**378,478**	170,331
		24,903,502	21,622,357
27.1 Auditor's remuneration			
Statutory audit fee		**190,000**	165,000
Half yearly review and other certificates		**80,000**	105,000
Out of pocket		**5,000**	3,850
		275,000	273,850
28. PROVISION FOR TAXATION			
Current			
- for the year	28.1	**18,614,568**	20,794,750
Deferred			
- opening balance		**487,443**	899,631
- for the year		**(254,830)**	(487,443)
		232,613	412,188
		18,847,181	21,206,938

		2006	2005
		Rupees	Rupees
28.1	**Relationship between tax expense and accounting profit**		
	Profit for the year from ordinary activities before taxation	**105,050,192**	91,844,967
	Tax at the applicable rate of 35% (December 31, 2005: 35%)	**36,767,567**	32,145,738
	Tax effect of expenses that are not allowable in determining taxable income	**(1,016,645)**	(1,667,638)
	Tax effect of dividend income taxed at a lower rate	**(3,183,025)**	(1,415,590)
	Tax effect of capital gains-exempt from tax	**(14,443,710)**	(8,267,760)
	Tax effect on gain / (loss) on sale of assets	**6,942**	–
	Tax payable in respect of receipt/income covered under PTR	**497,323**	–
	Tax charge	**18,614,568**	20,794,750

The provision for taxation for the current year has been made applying rates applicable to Public Companies listed on Stock Exchange other than a banking company. In the initial assessment for the assessment years 1993-94 to 2001-02, the status of a banking company was assigned to SIBL by the tax department. For the assessment years 1993-94 to 1996-97 and 1998-99 to 2000-01 the issue was settled in favour of SIBL by the Income Tax Appellate Tribunal (ITAT) and the department's reference applications for the assessment years 1996-97 and 1998-99 to 2000-01 were also rejected by the ITAT. For the assessment year 2001-2002, cross appeals were filed before the ITAT, hearing for which has been concluded and the decision is awaited. The department appeals for the assessment years 1992-93, 1995-96 and 1996-97, filed before the Honourable High Court are pending.

The provisions of Section 122 of the Income Tax Ordinance, 2001 were invoked by the Department for the assessment years 1995-96, 1996-97, 1998-99 to 2000-01, and for tax year 2003 on account of apportionment of the total expenses against income claimed exempt under the head Capital Gains, which was appealed before the Commissioner of Income Tax (Appeals) [CIT(A)], who set aside the orders for reconsideration, against whose decision cross appeals were filed before the ITAT, hearing for which has been concluded and the decision is awaited. The management of SIBL is confident that these matters would be settled in its favour and possibility of any liability arising is considered remote. The declared results for tax years 2004, 2005 and 2006 are deemed to be assessed in terms of Section 120(1)(b) of the Income Tax Ordinance, 2001.

29. EARNINGS PER SHARE- BASIC AND DILUTED

29.1	**Basic**		
	Profit after taxation	**86,203,012**	70,638,028
	Weighted average number of ordinary shares	**42,861,299**	42,861,299
	Earnings per share	**2.01**	1.65

29.2 **Diluted**

No figure for diluted earnings per share has been presented as Security Investment Bank Limited has not issued any instrument which would have an impact on its earnings exercised.

30. STAFF STRENGTH

Number of employees at end of the year	**30**	30

		2006	2005
		Rupees	Rupees

31. **DEFINED BENEFIT PLAN**

31.1 **General description**

The scheme provides for terminal benefits for all permanent employees who complete qualifying period of service with Security Investment Bank Limited at varying percentages of last drawn salary. The percentage depends on the number of service years with SIBL.

Annual provision is based on actuarial valuation, which was carried out as at December 31, 2006 using the Projected Unit Credit Method.

31.2 **Principal actuarial assumptions**

Following principal actuarial assumptions were used for the valuation.

Estimated rate of increase in salary of the employees	**8.89%**	**7.40%**
Discount rate	**11.00%**	**9.50%**

31.3 **Reconciliation of provision for gratuity scheme**

Present value of defined benefit obligation		**(4,348,000)**	(4,019,955)
Unrecognized transitional liability		**23,000**	18,000
		(4,325,000)	(4,001,955)

31.4 **Gratuity Liability**

Provision at beginning of year		**(4,001,955)**	(3,718,775)
Expense	31.4.1	**(822,000)**	(768,000)
Benefits paid		**498,541**	484,820
		(4,325,414)	(4,001,955)

31.4.1 **Gratuity scheme expense**

Current service cost	**462,000**	436,000
Interest Cost	**358,000**	331,000
Recognition of loss	**2,000**	1,000
	822,000	768,000

The company amortizes gains and losses over the expected remaining service of current employees.

31.5 **Historical Experience**

The following table shows obligation at the end of each year and the experience loss (gain) during the year:

	2006	2005	2004	2003	2002
Obligation	4,348,000	4,023,000	3,738,000	3,386,000	2,804,000
Loss on obligation	4,000	3,000	11,000	9,000	–

32. REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	Chief Executive		Directors	
	2006	2005	**2006**	2005
	----------Rupees----------			
Director's fee	**–**	–	**120,000**	150,000
Managerial remuneration	**2,520,000**	2,520,000	**–**	–
Housing	**–**	–	**–**	–
Bonus	**230,000**	230,000	**–**	–
Utilities	**240,000**	240,000	**–**	–
Other benefits	**99,880**	100,000	**–**	–
Reimbursable expenses	**146,194**	234,339	**–**	–
	3,236,074	3,324,339	**120,000**	150,000
Number of persons	**1**	1	**6**	6

The company provides free use of company maintained cars to its Chief Executive and other Senior Executives.

33. MATURITIES OF ASSETS AND LIABILITIES

DESCRIPTION	2006	2006			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	----------Rupees----------				
Assets					
Tangible fixed assets	1,838,745	–	–	–	1,838,745
Membership card	36,000,000	–	–	–	36,000,000
Long term investment	151,378,660	–	–	–	151,378,660
Deferred tax asset	10,860,955	–	–	–	10,860,955
Deferred cost	–	–	–	–	–
Short term financing	195,834,198	182,834,198	13,000,000	–	–
Short term placement	911,653,295	911,653,295	–	–	–
Short term investments	564,961,306	128,691,556	34,882,792	110,588,808	290,798,150
Advances and other receivables	73,557,495	32,718,956	40,838,509	–	–
Cash and bank balances	389,399,475	389,399,475	–	–	–
	2,335,484,129	1,645,297,510	88,721,301	110,588,808	490,876,518
Liabilities					
Deferred liabilities	4,325,000	–	–	–	4,325,000
Borrowings	727,500,000	727,500,000	–	–	–
Short term deposits	975,808,919	835,102,838	140,706,081	–	–
Accrued expenses	19,029,143	15,853,061	3,176,082	–	–
	1,726,663,062	1,578,455,899	143,882,163	–	4,325,000
Net assets	608,821,067				
Represented by:					
Share capital and reserves	650,564,912				
(Deficit) on revaluation of investments - net	(41,743,844)				
	608,821,067				

DESCRIPTION	2005	2005			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	----------Rupees----------				
Assets					
Tangible fixed assets	2,744,507	–	–	–	2,744,507
Membership card - intangible	36,000,000	–	–	–	36,000,000
Long term investment	476,244,904	–	–	–	476,244,904
Deferred tax asset	487,443	–	–	–	487,443
Deferred cost	115,648	–	–	115,648	–
Short term financing	170,634,198	136,066,498	34,567,700	–	–
Placements	1,154,645,225	1,154,645,225	–	–	–
Short term investments	289,403,485	147,563,065	3,839,496	84,607,764	53,393,160
Advances, deposits and other receivable	68,290,371	2,847,408	35,465,666	29,977,297	–
Cash and bank balances	257,698,952	257,698,952	–	–	–
	2,456,264,733	1,698,821,148	73,872,862	114,700,709	568,870,013
Liabilities					
Deferred liabilities	4,001,955	–	–	–	4,001,955
Borrowings	1,252,500,000	1,150,000,000	102,500,000	–	–
Short term deposits	564,883,949	495,224,725	69,659,224	–	–
Accrued expenses	22,535,170	–	22,535,170	–	–
	1,843,921,074	1,645,224,725	194,694,394	–	4,001,955
Net assets	612,343,659				
Represented by:					
Share capital and reserves	601,632,596				
Surplus on revaluation of investments - net	10,711,063				
	612,343,659				

34. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the credit worthiness of counter-parties.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry.

The company follows two sets of guidelines. Firstly, it has its own operating policies duly approved by the Board of Directors. Secondly, it adheres to the regulations issued by the SECP & SBP. The operating policies define the extent of fund and non-fund based exposures with reference to a particular sector or group.

The company seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentration of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate. Details of finance portfolio is given below:

	2006		2005	
FINANCE	Rupees	%	Rupees	%
Sugar	20,000,000	10.03	25,000,000	14.35
Textile spinning	6,400,000	3.21	6,400,000	3.67
Cables and electric goods	156,866,498	78.66	129,666,498	74.43
Individuals	3,148,298	1.58	3,148,298	1.81
Others	13,000,000	6.52	10,000,000	5.74
	199,414,796	100.00	174,214,796	100.00

35. INTEREST RATE RISK

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2006 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
	----------Rupees----------				
ASSETS					
Tangible fixed assets	1,838,745	–	–	–	1,838,745
Membership card - Intangible	36,000,000	–	–	–	36,000,000
Long term investment	151,378,660	–	–	51,378,660	100,000,000
Deferred tax asset	10,860,955	–	–	–	10,860,955
Deferred cost	–	–	–	–	–
Short term financing	195,834,198	195,834,198	–	–	–
Short term placements	911,653,295	911,653,295	–	–	–
Investment in Wapda Bonds	50,000,000	–	50,000,000	–	–
Investment in TFCs	83,448,873	–	83,448,873	–	–
Investment in shares	140,714,283	–	–	–	140,714,283
Investment in Govt.Bonds	290,798,150	–	–	290,798,150	–
Advances, deposits and other receivable	73,132,563	–	–	–	73,132,563
Prepayments	424,932	–	–	–	424,932
Balances with banks and cash in hand	389,399,475	381,298,500	–	–	8,100,975
Total	**2,335,484,129**	**1,488,785,993**	**133,448,873**	**342,176,810**	**371,072,453**
SHARE CAPITAL AND RESERVES	650,564,912	–	–	–	650,564,912
Deficit on revaluation of investments-net	(41,743,844)	–	–	–	(41,743,844)
LIABILITIES					
Deposits	975,808,919	975,808,919	–	–	–
Deferred liabilities	4,325,000	–	–	–	4,325,000
Borrowings	727,500,000	727,500,000	–	–	–
Profit accrued on deposits & borrowings	15,425,593	–	–	–	15,425,593
Accrued and other liabilities	3,603,548	–	–	–	3,603,548
Total	**2,335,484,129**	**1,703,308,919**	**–**	**–**	**632,175,210**
Total interest rate sensitivity gap		**(214,522,926)**	**133,448,873**	**342,176,810**	**(261,102,757)**
Cumulative interest rate sensitivity gap		**(214,522,926)**	**(81,074,053)**	**261,102,757**	**–**

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2005 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
	----------Rupees----------				
ASSETS					
Tangible fixed assets	2,744,507	–	–	–	2,744,507
Membership card	36,000,000	–	–	–	36,000,000
Long term investment	100,000,000	–	–	–	100,000,000
Investment in Government Securities	376,244,904	–	–	376,244,904	–
Deferred tax assets	487,443	–	–	–	487,443
Deferred costs	115,648	–	–	–	115,648
Short term financing	170,634,198	170,634,198	–	–	–
Short term placements	1,154,645,225	1,154,645,225	–	–	–
Investment in Wapda Bonds	50,000,000	–	50,000,000	–	–
Investment in TFC's - quoted	91,840,420	3,839,496	34,568,112	53,432,812	–
Investment in shares - quoted	147,563,065	–	–	–	147,563,065
Advances, deposits and other receivable	14,603,158	–	–	–	14,603,158
Prepayments	356,310	–	–	–	356,310
Income tax recoverable	29,977,297	–	–	–	29,977,297
Income receivable	23,353,606	–	–	–	23,353,606
Balance with bank and cash in hand	257,698,952	247,294,678	–	–	10,404,274
Total	**2,456,264,733**	**1,576,413,597**	**84,568,112**	**429,677,716**	**365,605,308**
SHARE CAPITAL AND RESERVES	601,632,596	–	–	–	601,632,596
Surplus on revaluation of investments - net	10,711,063	–	–	–	10,711,063
LIABILITIES					
Deposit	564,883,949	564,883,949	–	–	–
Deferred liabilities	4,001,955	–	–	–	4,001,955
Borrowings	1,252,500,000	1,252,500,000	–	–	–
Profit accrued on deposits & borrowings	20,045,302	–	–	–	20,045,302
Accrued and other liabilities	2,489,868	–	–	–	2,489,868
Total	**2,456,264,733**	**1,817,383,949**	**–**	**–**	**638,880,784**
Total interest rate sensitivity gap		**(240,970,352)**	**84,568,112**	**429,677,716**	**(273,275,476)**
Cumulative interest rate sensitivity gap		**(240,970,352)**	**(156,402,240)**	**273,275,476**	**–**

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

	2006		2005	
FINANCIAL ASSETS	Book value	Fair value	Book value	Fair value
	----------Rupees----------			
Financing	195,834,198	195,834,198	170,634,198	170,634,198
Placements	911,653,295	911,653,295	1,154,645,225	1,154,645,225
Investments	616,339,966	609,701,806	665,648,389	631,802,884
Advances and other receivables	44,512,971	44,512,971	38,313,074	38,313,074
Cash and bank balances	389,399,475	389,399,475	257,698,952	257,698,952
	2,157,739,905	2,151,101,745	2,286,939,838	2,253,094,333
FINANCIAL LIABILITIES				
Deferred liabilities	4,325,000	4,235,000	4,001,955	4,001,955
Borrowings	727,500,000	727,500,000	1,252,500,000	1,252,500,000
Short term deposits	975,808,919	975,808,919	564,883,949	564,883,949
Accrued expenses and other liabilities	19,029,143	19,029,143	22,535,170	22,535,170
	1,726,663,062	1,726,663,062	1,843,921,074	1,843,921,074

As at December 31, 2006, the fair value of all financial instruments is based on the valuation methodology outlined below:

a) **Finances and certificate of deposits**
For all finances and deposits, the fair values have been taken at book values as these are not considered materially different based on the current market rates of return and reprising profiles of similar advances and deposits.

b) **Investments**
The fair value of quoted investments is based on quoted market prices or average of quotations received from brokers. Unquoted investments are stated at cost which approximates to their fair value in the absence of an active market.

c) **Other financial instruments**
The fair values of all other financial instruments are considered approximate to their book values as they are short term in nature.

	2006	2005
	Rupees	Rupees

37. **TRANSACTIONS WITH RELATED PARTIES**

Financing		
- Associated undertakings	**121,395,857**	94,195,857
- Others	**45,470,641**	45,470,641
Return on		
- Associated undertakings	**3,985,298**	1,945,815
- Others	**1,532,299**	979,227
Deposits	**177,510,235**	114,713,922
Return on deposits	**4,191,821**	3,879,360
Sale of vehicle	**500,000**	–

Transactions with associated undertakings / related parties i.e. shareholders, directors and their related concerns are accounted for in accordance with comparable uncontrolled price method and are in the normal course of business at contracted rates and terms determined in accordance with market rates.

38. **DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors on March 31, 2007.

39. **FIGURES**

- have been rounded off to the nearest rupee.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

SECURITY INVESTMENT BANK LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

AUDITORS' REPORT TO THE MEMBERS 47

CONSOLIDATED BALANCE SHEET 48

CONSOLIDATED PROFIT AND LOSS ACCOUNT 49

CONSOLIDATED CASH FLOW STATEMENT 50

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 51

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS 52

AUDITORS' REPORT TO THE MEMBERS

We have examined the annexed consolidated financial statements comprising the consolidated balance sheet of **Security Investment Bank Limited** and its subsidiary company as at **December 31, 2006** and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, (here-in after referred to as the 'financial statements') for the year then ended. We have also expressed a separate opinion on the financial statements of Security Investment Bank Limited. While the financial statements of the subsidiary company for the half year ended December 31, 2006 have also been reviewed by us in accordance with the International Standard on Review Engagements 2400.

It is responsibility of the holding company's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984 (XL VII of 1984). Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements examined by us, present fairly the financial position of Security Investment Bank Limited and its subsidiary company as at December 31, 2006 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Karachi;
March 31, 2007

MUNIFF ZIAUDDIN & CO.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2006

	Note	2006 Rupees	2005 Rupees
NON-CURRENT ASSETS			
Tangible fixed assets	5	**3,594,181**	3,153,963
Intangible assets	6	**36,344,167**	36,000,000
Long term investments	7	**51,378,660**	376,244,904
Deferred tax asset	8	**10,860,955**	487,443
Deferred cost	9	**281,024**	509,083
CURRENT ASSETS			
Short term financing	10	**195,834,198**	170,634,198
Short term placements	11	**911,653,295**	1,154,645,225
Short term investments	12	**589,961,306**	289,403,485
Advances, deposits, prepayments and other receivables	13	**71,522,144**	66,349,224
Cash and bank balances	14	**394,433,275**	259,708,952
		2,163,404,218	1,940,741,084
		2,265,863,205	2,357,136,477
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised Capital			
50,000,000 ordinary shares of Rs. 10/- each		**500,000,000**	500,000,000
Issued, subscribed and paid up capital	15	**428,612,993**	372,706,950
Statutory reserve	16	**116,831,575**	99,460,611
Unappropriated profit		**106,890,812**	130,583,692
		652,335,380	602,751,253
(Deficit)/Surplus on revaluation of investments-net	17	**(41,743,845)**	10,711,063
NON-CURRENT LIABILITIES			
Deferred liabilities	18	**4,325,000**	4,001,955
CURRENT LIABILITIES			
Borrowings	19	**727,500,000**	1,252,500,000
Short term deposits	20	**904,194,964**	464,824,344
Accrued and other liabilities	21	**19,251,706**	22,347,862
		1,650,946,670	1,739,672,206
Contingencies and Commitments	22		
		2,265,863,205	2,357,136,477

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	**2006** **Rupees**	2005 Rupees
INCOME			
Return on financing and placements	23	**131,213,722**	99,255,963
Return on securities	24	**57,588,455**	53,642,499
Gain on sale of investments		**41,267,744**	23,622,172
Profit on deposit with banks		**4,051,877**	11,175,532
Other income	25	**1,694,602**	1,585,571
		235,816,400	189,281,737
EXPENDITURE			
Return on deposits and borrowings	26	**101,051,879**	73,306,656
Operating expenses	27	**28,711,544**	23,011,458
		129,763,423	96,318,114
PROFIT FOR THE YEAR BEFORE TAXATION		**106,052,977**	92,963,623
Provision for taxation	28	**19,198,156**	21,206,938
PROFIT AFTER TAXATION		**86,854,822**	71,756,685
BASIC EARNINGS PER SHARE	29	**2.03**	1.67

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 Rupees	2005 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**106,052,977**	92,963,623
Adjustment for non-cash and other items			
Depreciation		**1,247,998**	117,715
Amortization of deferred cost and intangibles		**233,892**	269,820
(Gain) on disposal of shares		**(41,267,744)**	(23,622,172)
(Gain) on disposal of fixed assets		**(5,261)**	–
(Gain) on sale of securities		**(221,770)**	(83,260)
Provision for gratuity		**821,586**	768,000
		(39,191,299)	(22,549,897)
Cash Flows From Operating Activities Before Working Capital Changes		**66,861,678**	70,413,726
Decrease/(increase) in financing and placements		**217,791,930**	(318,692,886)
(Increase) in advances, deposits, prepayments and other receivables		**(5,786,001)**	(14,999,729)
Increase in deposits		**439,370,620**	17,298,548
(Decrease)/increase in borrowings		**(525,000,000)**	526,257,425
(Decrease)/increase in accrued and other liabilities		**(4,037,653)**	9,084,987
		122,338,896	218,948,345
Income tax paid		**(18,582,549)**	(16,637,070)
Gratuity paid		**(498,541)**	(484,820)
Dividend paid		**(36,329,198)**	(1,306,811)
		(55,410,288)	(18,428,701)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**133,790,286**	270,933,370
CASH FLOWS FROM INVESTING ACTIVITIES			
(Purchase)/sale of fixed assets and intangibles		**(1,825,057)**	(2,503,132)
(Purchase)/sale of investments (shares)		**15,098,346**	(70,181,750)
Sale of securities		**(12,339,252)**	(3,047,412)
Investment in subsidiary		**–**	(562,050)
NET CASH USED IN INVESTING ACTIVITIES		**934,037**	(76,294,344)
CASH FLOWS FROM FINANCING ACTIVITIES		**–**	–
Net increase in cash and cash equivalents		**134,724,323**	194,639,026
Cash and cash equivalents at the beginning of the year		**259,708,952**	65,069,926
Cash and cash equivalents at the end of the year	14	**394,433,275**	259,708,952

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share Capital (Note 15)	Statutory Reserve (Note 16)	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at January 01, 2005	372,706,950	85,109,274	73,178,344	530,994,568
Net profit for the year	–	–	71,756,685	71,756,685
Appropriations:				
Statutory reserve	–	14,351,337	(14,351,337)	–
Balance as at December 31, 2005	**372,706,950**	**99,460,611**	**130,583,692**	**602,751,253**
Net profit for the year	–	–	86,854,822	86,854,822
Issuance of bonus shares 2005	55,906,043	–	(55,906,043)	–
Dividend paid for the year 2005	–	–	(37,270,695)	(37,270,695)
Appropriation:				
Statutory reserve	–	17,370,964	(17,370,964)	–
Balance as at December 31, 2006	**428,612,993**	**116,831,575**	**106,890,812**	**652,335,380**

The annexed notes 1 to 39 form an integral part of these financial statements.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. **LEGAL STATUS AND OPERATION**

Security Investment Bank Limited (SIBL) is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984. Its shares are qouted on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of SIBL is situated at Flat No.4, 3rd Floor, Al-Baber Centre, Main Markaz, F-8, Islamabad.

SIBL is licensed to carry out business of investment finance services as a Non-Banking Finance Company (NBFC) under section 282C of the Companies Ordinance, 1984 and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 issued by the Securities and Exchange Commission of Pakistan (SECP) (previously this was covered under SRO 585(1)/87 dated July 13, 1987, issued by the Ministry of Finance).

JCR - VIS Credit Rating Company Limited has reaffirmed medium to long-term rating of SIBL at **'A' (Single A) with stable outlook** and the short-term rating at **'A-1' (A One).**

1.1 BASIS OF CONSOLIDATION

The Consolidated financial statements include the Financial Statements of Parent Company and Subsidiary Company. The Financial Statements of Subsidiary are included in the consolidated financial statements from the date of its incorporation.The financial statements of subsidiary has been consolidated on a line by line basis. All intercompany balance, transactions and resulting profit/(losses) have been eliminated.

2. **STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved International Accounting Standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. 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, Non Banking Finance Companies Rules, 2003 and Prudential Regulations for NBFCs along with directives issued by the Securities and Exchange Commission of Pakistan (SECP) where the requirements of these directives differ with these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.1 Standards, interpretations and amendments to Published Approved Accounting Standards that are not yet effective

The following standards and amendments to the approved accounting standards, effective for accounting periods beginning on or after January 01, 2007 are either not relevant to Bank's operations or are not expected to have significant impact on the Bank's future financial statements other than certain increased disclosure.

IAS-1 Presentation of Financial Statements-amendments, relating to Capital disclosures
IFRS-2 Share Based Payments
IFRS-3 Business Combinations
IFRS-5 Non-current assets held for sale and discontinued operations
IFRS-6 Exploration for and evaluation of mineral resources

3. **BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention, except for held for trading and available for sale investments, which are stated at fair value.

4. **SIGNIFICANT ACCOUNTING POLICIES**

4.1 **Fixed Assets and Depreciation**

Operating fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to income applying the straight line method, whereby the cost of an asset is written off over its estimated useful life.

Full month's depreciation is charged on additions during the month in which asset is acquired, while no depreciation is charged in the month of disposal.

Minor renewals or replacements, maintenance, repairs and profit or loss on disposal of fixed assets are included in current year's income. Major renewals and repairs are capitalized.

4.2 **Intangible**

This is stated at acquisition cost. Provisions are made for permanent diminution in value of such assets, if any.

4.3 **Investments in Subsidiary**

Investments in Subsidiary (not held for disposal purpose) are carried at cost less impairment losses, if any.

4.4 **Deferred Cost**

Deferred cost comprising formation and preliminary expenses, shares issue expenses, pre-operating expenses and office renovation expenses are amortized over a period of five years.

4.5 **Investments**

The management of Security Investment Bank Limited determines the appropriate classification of its investments at the time of purchase and classifies these investments as held-for-trading, held-to-maturity or available-for-sale.

Held-to-maturity

Investment with fixed maturity where management has both the intent and ability to hold to maturity, are classified as held-to-maturity.

Available-for-sale

Investments intended to be held for an indefinite period of time which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available-for-sale.

Held-for-trading

Investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or dealer's margin are classified as held-for-trading.

All investments are initially recorded at cost, being the fair value of the consideration given.

Subsequent to initial recognition, investments available for sale and investments held for trading for which active market exists, are measured at market value using rates quoted on Reuters, stock exchange quotes and broker's quotations, in accordance with the requirements of SECP circular No. 19 of August 13, 2003. Any difference between the carrying value and the revalued amount is reported below equity, until realised on disposal. At the time of disposal the respective surplus or deficit is transferred to income currently. Amortization cost is charged to profit and loss account.

Invstments held till maturity are stated at amortized cost using the effective interest rate method less impairment, if any. The amortization for the year has been charged to the profit and loss account.

4.6 **Securities under repurchase / resale agreement**

Transactions of repurchase / resale of government securities, term finance certificates and shares are entered into at contracted rates for specified period of time.

The securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are included in borrowings from institutions. The difference between sale and repurchase price is amortized as expense over the life of the repo agreement.

The securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the balance sheet. Amounts paid under these obligations are included in placements. The difference between purchase and resale price is accrued as income over the life of the reverse repo agreement.

4.7 **Trade date and Settlement date accounting**

All "regular way" purchases and sales of financial assets are recognized on the settlement date, i.e. the date on which the asset is delivered to or by Security Investment Bank Limited. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market place.

4.8 **Staff retirement benefits**

4.8.1 **Defined contribution plan**

The company operates an approved Provident Fund Scheme for all its permanent employees. Equal monthly contibutions are made, both by the company and the employees, to the fund @ 10% of basic salary.

4.8.2 **Defined benefit plan**

The company operates an Unfunded Gratuity for its permanent employees who complete the qualifying period of service. Provision has been made in accordance with actuarial recommendations using the Projected Unit Credit Method. The results of current valuation are summarized in Note 31. Actuarial gains / losses in excess of 10% of the actuarial liabilities or plan assets are recognized over the average lives of the employees.

4.9 **Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.10 **Financial instruments**

All financial assets and financial liabilities are recognized at the time when Security Investment Bank Limited becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to income currently.

4.11 **Classification of deposits and financing**

Deposits and financing are classified as long and short term considering their remaining period at the balance sheet date.

4.12 **Revenue**

Income on financing and advances is generally recognized on time proportion basis taking into account the principal / net investment outstanding and applicable rates of profit / return thereon. Income on discounted commercial papers is recognized on a time proportion basis over the life of instruments. Where recovery is considered doubtful, income is recognized on receipts basis.

Dividends on equity investments are recognized as income if declared on or before the balance sheet date.

Income from capital gains is recognized on earned basis.

Fee, commission, liquidated damages etc. are recorded on actual receipt basis except guarantee commission received in advance which is spread over the guarantee period.

4.13 **Taxation**

Current

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax rebates and credits, if any, or at 0.5% of turnover whichever is higher.

Deferred

Deferred tax is accounted for using the liability method on all temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, if any, to the extent that it is probable that sufficient taxable income will be available against which the deductable temporary differences and unused tax losses can be utilised.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Deferred tax on surplus/(deficit) on revaluation of investments is charged or credited directly to the same account.

4.14 **Foreign currencies**

Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the balance sheet date. However, liabilities representing deposits in foreign currencies and the return on these deposits are converted at the rate prevailing on the date of deposits, where the option of exchange risk cover has been exercised.

Other foreign currency transactions are converted at the rates prevailing on the date of the transactions.

Exchange differences are included in the current year's income.

4.15 **Provision for doubtful debts - on financing**

Provision is made against doubful receivable in pursuance of Securities & Exchange Commission of Pakistan's Prudential Regulations for Non Banking Financial Institutions (NBFIs).

5. TANGIBLE FIXED ASSETS

(In Rupees)

PARTICULARS	COST				RATE %	DEPRECIATION				Written down Value as at Dec. 31, 2006
	As at Jan. 01, 2006	Additions	Deletions	As at Dec. 31, 2006		As at Jan. 01, 2006	Charge for the year	Adjustment	As at Dec. 31, 2006	
Furniture & fixtures	2,934,800	708,486	–	3,643,286	**10**	2,888,897	52,283	–	2,941,180	702,106
Computers and equipments	3,273,895	869,726	(155,550)	3,988,071	**20**	2,728,964	385,486	(152,856)	2,961,594	1,026,477
Telephone system	290,496	–	–	290,496	**10**	170,810	14,429	–	185,239	105,257
Vehicles	6,147,695	500,000	(596,300)	6,051,395	**20**	3,885,476	764,098	(129,198)	4,520,376	1,531,019
Generator	497,148	–	–	497,148	**10**	460,502	7,715	–	468,217	28,931
Sign board	294,012	79,800	–	373,812	**10**	149,434	23,987	–	173,421	200,391
Rupees 2006	**13,438,046**	**2,158,012**	**(751,850)**	**14,844,208**		**10,284,083**	**1,247,998**	**(282,054)**	**11,250,027**	**3,594,181**

(In Rupees)

PARTICULARS	COST				RATE %	DEPRECIATION				Written down Value as at Dec. 31, 2005
	As at Jan. 01, 2005	Additions	Deletions	As at Dec. 31, 2005		As at Jan. 01, 2005	Charge for the year	Adjustment	As at Dec. 31, 2005	
Furniture & fixtures	2,934,800	–	–	2,934,800	**10**	2,862,553	74,823	(48,479)	2,888,897	45,903
Computers and equipments	2,981,425	292,470	–	3,273,895	**20**	2,785,113	239,158	(295,307)	2,728,964	544,931
Telephone system	225,496	65,000	–	290,496	**10**	164,185	10,637	(4,012)	170,810	119,686
Vehicles	4,147,045	2,000,650	–	6,147,695	**20**	3,716,251	696,610	(527,385)	3,885,476	2,262,219
Generator	497,148	–	–	497,148	**10**	496,715	7,715	(43,928)	460,502	36,646
Sign board	149,000	145,012	–	294,012	**10**	141,550	17,817	(9,933)	149,434	144,578
Rupees 2005	**10,934,914**	**2,503,132**	**–**	**13,438,046**		**10,166,367**	**1,046,760**	**(929,044)**	**10,284,083**	**3,153,963**

5.1 Cost and accumulated depreciation as at the end of the year include Rs. 9,586,322 (2005: 6,403,517/-) in respect of fully depreciated assets still in use.

5.2 Schedule of disposal of fixed assets

Particulars	Cost	Accumulated depreciation	Written down value	Sale Proceeds	Gain	Sold to	Mode of disposal
Computers and equipment							
Computers	155,550	152,856	2,694	7,955	5,261	Computer Zone	Trade in
Rupees-2006	155,550	152,856	2,694	7,955	5,261		

	Note	2006 **Rupees**	2005 Rupees
6. INTANGIBLE			
Corporate membership of Karachi Stock Exchange		**36,000,000**	36,000,000
Computer software less amortization		**344,167**	–
		36,344,167	36,000,000
7. LONG TERM INVESTMENTS			
Pakistan Investment Bonds - Held to Maturity	7.1	**51,378,660**	376,244,904
		51,378,660	376,244,904
7.1 **Pakistan Investment Bonds**			
Cost		**51,457,812**	380,009,784
Less: Amortization		**(79,152)**	(3,764,880)
		51,378,660	376,244,904

These represent investment in 20 year bonds issued by the Government of Pakistan having face value of Rs. 50,000,000 (2005: Rs. 350,000,000) and carrying mark-up rates (coupon rate) of 10% per annum (2005: 9% to 11%). Their period to maturity is seventeen and a half year.

The company has reclassified Pakistan investment bonds having face value of 300,000,000 as "Available for Sale" securities which were previously classified as "Held to Maturity" securities.

8. DEFERRED TAX ASSET		
Deferred tax assets arising in respect of		
Surplus/(deficit) on revaluation of securities	**10,606,125**	–
Accelerated depreciation	**182,241**	353,178
Provision for gratuity	**113,066**	169,687
	10,901,432	522,865
Deferred tax liabilities arising due to		
Deferred cost	**(40,477)**	(35,422)
	10,860,955	487,443
9. DEFERRED COST		
Opening balance	**509,083**	778,903
Amortized during the year	**(228,059)**	(269,820)
	281,024	509,083

10. SHORT TERM FINANCING-secured

Demand finance	10.1	**199,414,796**	174,214,796
Provision for non-performing loans	10.2	**(3,580,598)**	(3,580,598)
		195,834,198	170,634,198

10.1 These are secured by demand promissory notes, hypothecation or a charge on assets of customers and certificates of deposits. The mark-up rates range from 10% to 18% per annum (2005: 7% to 16% per annum).

10.2 Particulars of provision against non-performing loans

Opening balance	**3,580,598**	3,580,598
(Reversal) or Write-off during the year	**–**	–
Closing Balance	**3,580,598**	3,580,598

11. SHORT TERM PLACEMENTS - considered good

With financial institution - Unsecured		–	765,000,000
Under reverse repurchase agreements of quoted shares - secured	11.1	**911,653,295**	389,645,225
		911,653,295	1,154,645,225

11.1 This represents secured placements against shares in Continued Funding System for a maximum period of 60 days and carry mark-up ranging from 14.5% to 18% (2005: 12% to 18%) per annum.

12. SHORT TERM INVESTMENTS

Available for Sale

Pakistan Investment Bonds	12.1	**290,798,150**	–
Wapda Bonds - 10th issue	12.1	**50,000,000**	50,000,000
Term Finance Certificates	12.1	**83,448,873**	91,840,420
Quoted shares	12.2	**140,714,283**	139,075,467
Treasury bills	12.3	**25,000,000**	–
		589,961,306	280,915,887

Held for Trading

Quoted shares	–	8,487,598
	589,961,306	289,403,485

12.1 Securities given as collateral under repurchase agreements.

Particulars of investments by type	Note	2006			2005		
		Held by SIBL	Repo	Total	Held by SIBL	Repo	Total
		----------Rupees----------			----------Rupees----------		
Pakistan Investment Bonds	12.1.1	–	**290,798,150**	**290,798,150**	–	–	–
Wapda Bonds - 10th issue	12.1.2	**50,000,000**	–	**50,000,000**	50,000,000	–	50,000,000
Term Finance Certificates	12.1.3	**83,448,873**	–	**83,448,873**	91,840,420	–	91,840,420

12.1.1 Pakistan investment bonds (PIBs) have face value of Rs.300,000,000 (2005: Nil) with income receivable semi annually at 9% to 11% (2005: Nil) per annum and having maturity period from 5 years & 2 months to seventeen years & six months. The company has reclassified Pakistan investment bonds having fave value of Rs. 300,000,000 as "Available for Sale" securities which were previously classified as "Held to Maturity" securities.

12.1.2 These include 10,000 certificates of unlisted bonds having face value of Rs. 5,000/- each with income receivable semi-annually at 8.75% (2005: 8.75%) per annum, having 5 years maturity period.

12.1.3 Particulars of listed Term Finance Certificates (TFC):

No. of Certificates			2006		2005	
2006	2005	**Issuer of TFC**	**Cost**	**Market value**	Cost	Market value
			----------Rupees----------			
–	2,022	Shakarganj Sugar Mills Limited	–	–	4,041,573	3,839,496
1,586	1,588	Bank Alfalah Limited	**7,927,295**	**8,006,568**	7,930,472	7,970,123
4,527	4,534	Union Bank Limited	**22,633,728**	**22,860,065**	22,642,796	22,756,009
6,475	7,000	Pakistan International Airlines	**32,373,705**	**30,107,546**	34,123,635	29,687,562
512	897	Pakistan Services Limited	**2,561,319**	**2,561,319**	3,841,979	3,841,980
4,686	5,000	TeleCard Limited	**23,427,500**	**19,913,375**	24,995,000	23,745,250
			88,923,547	**83,448,873**	97,575,455	91,840,420

Terms of redemption of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption Terms
Bank Alfalah Limited	5,000	1.35% over last auction of five years Pakistan Investment Bonds yield with 10.00% per annum as floor and 15% as ceiling	Semi-annually	Six years from December 19, 2002
Union Bank Limited	5,000	2.25% over last auction of five years Pakistan Investment Bonds yield with 11.00% per annum as floor and 15.50% per annum as ceiling	Semi-annually	Five and half year from December 22, 2002
Pakistan International Airlines	5,000	0.50% over SBP discount rate with 8.00% per annum as floor and 12.50% per annum as ceiling	Semi-annually	Eight years from February 20, 2003
Pakistan Services Limited	5,000	2.25% over SBP discount rate with 9.75% per annum as floor and 13.75% per annum as ceiling	Semi-annually	Five years from November 12, 2003
TeleCard Limited	5,000	3.75% over 6 months KIBOR	Semi-annually	Six years from May 27, 2005

12.2 Quoted shares

No. of ordinary shares, certificates/units			2006		2005	
2006	2005		**Cost**	**Market Value**	Cost	Market Value
			----------Rupees----------			
		Modarabas / Mutual funds				
1,389,697	1,389,697	UTP Large Capital Fund	**13,896,970**	**11,117,576**	13,896,970	13,271,606
69,627	71,764	UTP Growth Fund	**1,085,040**	**905,151**	1,085,040	1,151,812
500	500	Long Term Venture Modaraba	**800**	**225**	800	225
13,046	13,046	Pakistan Premium Fund	**90,189**	**169,598**	90,189	201,561
4,500	3,000	PICIC Growth Fund	**185,013**	**126,675**	132,513	148,800
		Leasing				
40,353	40,353	Saudi Pak Leasing	**1,450,590**	**387,389**	1,450,590	550,818
		Investment Banks / Cos. / Banks				
10,000	–	Askari Commercial Bank Limited	**1,040,958**	**1,049,500**	–	–
25,416	13,750	Bank Alfalah Limited	**943,346**	**1,062,389**	617,991	1,014,063
41,715	41,200	Bank of Punjab	**2,961,179**	**4,223,644**	3,011,940	4,220,940
31,672	12,650	Faysal Bank Limited	**1,797,278**	**1,916,156**	524,430	937,365
40,000	–	MCB Bank Limited	**10,526,495**	**9,844,000**	–	–
104,374	156,479	National Bank of Pakistan	**20,150,380**	**23,405,870**	19,558,672	31,209,737
50,000	–	Pakistan Industrial Credit. Inv. Corp. Limited	**3,875,725**	**3,122,500**	–	–
12,500	–	Saudi Pak Commercial Bank Limited	**224,023**	**211,875**	–	–
		Insurance				
7,416	–	PICIC Insurance Limited	**74,160**	**139,050**	–	–
		Synthetic and Rayon				
2,750	5,750	Dewan Salman Fibre Limited	**69,325**	**21,038**	144,953	92,000
18,750	18,750	Pakistan Synthetics Limited	**688,500**	**131,250**	688,500	173,438
		Cement				
78	768	Cherat Cement Company Limited	**3,406**	**3,198**	38,463	67,776
14,493	26,541	D.G. Khan Cement Company Limited	**815,856**	**912,334**	1,741,441	2,829,270
2,375	2,875	Lucky Cement Limited	**232,164**	**142,263**	214,117	241,212
45,200	57,200	Maple Leaf Cement	**946,290**	**701,160**	1,188,226	1,934,040

No. of ordinary shares, certificates/units			2006		2005	
2006	2005		**Cost**	**Market Value**	Cost	Market Value
			----------Rupees----------			
		Fuel and Energy				
75,000	75,000	Hub Power Company Limited	**2,489,106**	**2,025,000**	2,489,106	1,800,00
–	6,000	Japan Power Generation	**–**	**–**	32,704	40,500
12,500	45,000	Karachi Electric Supply Corporation	**100,947**	**81,250**	363,411	346,500
184,829	334,829	Oil and Gas Development Co. Ltd.	**21,543,022**	**21,199,724**	35,212,977	39,509,822
32,750	15,200	Pakistan Oilfields Limited	**12,102,011**	**11,454,313**	4,373,060	6,505,600
62,500	–	Pakistan Petroleum Limited	**15,179,441**	**14,500,00**	–	–
18,500	–	Pakistan State Oil Company Limited	**5,938,531**	**5,439,000**	–	–
2,750	3,500	Sui Nothern Gas Pipelines Limited	**295,030**	**180,125**	226,210	238,000
67,000	97,000	Sui Southern Gas Company Limited	**2,052,516**	**1,574,500**	2,971,554	2,594,750
		Automobiles and Transport				
250	5,250	Dewan Farooque Motors Limited	**9,381**	**3,875**	197,000	175,350
45,000	45,000	Pakistan International Airlines Corporation	**900,481**	**317,250**	900,481	553,500
		Technology and Communication				
402,500	330,000	Pakistan Telecommunication Co. Limited	**27,497,321**	**17,830,750**	24,725,017	21,582,000
45,000	55,000	TRG Pakistan Limited	**617,867**	**393,750**	755,171	728,750
		Fertilizer				
35,586	40,586	Fauji Fertilizer Company Limited	**3,569,167**	**3,756,102**	4,070,652	5,560,282
–	10,000	Fauji Fertilizer Bin Qasim	**–**	**–**	386,539	381,500
		Chemical				
7,500	–	ICI Pakistan Limited	**1,136,851**	**866,250**	–	–
255,000	125,000	Pakistan PTA Limited	**2,417,742**	**1,249,500**	1,532,653	1,006,250
		Sugar & Allied Industries				
100	100	Hamza Sugar	**8,000**	**8,000**	8,000	8,000
		Jute				
240	–	Thal Limited	**48,105**	**39,480**	–	–
		Textile Composite				
9,250	–	Azgard Nine Limited	**323,159**	**202,575**	–	–
			157,286,365	**140,714,283**	122,629,370	139,075,467

12.3 These are treasury bills having face value of Rs. 25,000,000 (2005: Nil) carrying mark-up of 8.76% per annum (2005: Nil).

		2006	2005
		Rupees	Rupees
13. **ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
Advances			
For expenses		**501,566**	522,408
For office premises		**2,500,000**	2,500,000
Advance income tax less payments and provision for tax		**29,593,585**	30,206,666
		32,595,151	33,229,074
Deposits			
Security		**2,181,288**	2,645,288
KSE exposure limits		**11,500,000**	6,000,000
High Court	13.1	**2,566,112**	2,566,112
		16,247,400	11,211,400
Prepayments		**474,205**	356,310
Other receivables			
Income receivable	13.2	**19,418,806**	21,523,440
Other receivables		**2,786,781**	29,000
		22,205,388	21,552,440
		71,522,144	66,349,224

13.1 This represents the amount of foreign currency deposits adjusted against financing to a customer. This amount was subsequently deposited with the High Court in pursuance of a High Court order dated January 12, 1998 as the subject settlement by the company has been challenged by the customer in the High Court.

13.2 **Income receivable**

Not due	13.2.1	**19,826,800**	21,931,634
Provision for doubtful debts		**(408,194)**	(408,194)
		19,418,606	21,523,440

13.2.1 This represents income on financing, placements and government securities not matured/due on December 31, 2006.

	Note	**2006** **Rupees**	2005 Rupees
14. CASH AND BANK BALANCES			
With State Bank of Pakistan in:			
Reserve account	14.1	**6,725,000**	6,725,000
Current account		**3,132,309**	3,670,423
		9,857,309	10,395,423
With other banks in:			
Current accounts		**9,079,815**	18,817,907
Deposit accounts	14.2	**372,593,905**	230,486,771
		381,673,720	249,304,678
Cash in hand		**2,902,246**	8,851
		394,433,275	259,708,952

14.1 This represents amount deposited with the State Bank of Pakistan as required under the relevant provisions of the State Bank of Pakistan's Prudential Regulations for Non-Banking Financial Institutions to meet the additional liquidity reserve of 1% of certain specified liabilities.

14.2 Rate of return on these deposits accounts range from 3.5% to 12% per annum (2005: 3.00% to 11.25% per annum).

15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of shares				
2006	2005			
23,552,000	23,552,000	Ordinary shares of Rs. 10/- each fully paid in cash	**235,520,000**	235,520,000
19,309,299	13,718,695	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	**193,092,993**	137,186,950
42,861,299	37,270,695		**428,612,993**	372,706,950

16. STATUTORY RESERVE

This reserve is created @ 20% of profit for the year from ordinary acitivities after taxation in compliance with Regulation No. 2 of part III of SECP's Regulations for NBFCs.

		2006 Rupees	2005 Rupees
17. SURPLUS/(DEFICIT) ON REVALUATION OF INVESTMENTS - Net			
Government Securities		**(30,303,214)**	–
Term Finance Certificates		**(5,474,674)**	(5,735,035)
		(35,777,888)	(5,735,035)
Related defered tax asset		**10,606,125**	–
		(25,171,763)	(5,735,035)
Quoted shares		**(16,572,082)**	16,446,098
		(41,743,845)	10,711,063
18. DEFERRED LIABILITY			
Gratuity-unfunded		**4,325,000**	4,001,955
		4,325,000	4,001,955
19. BORROWINGS			
Secured under repurchase agreements against Government Securities	19.1	**277,500,000**	300,000,000
Unsecured from			
Financial Institutions	19.2	**450,000,000**	865,000,000
Cash Management Accounts		**–**	87,500,000
		450,000,000	952,500,000
		727,500,000	1,252,500,000

19.1 This represents amount borrowed from financial institutions at mark-up rates ranging from 9.35% to 9.45% per annum (2005: 8.40% to 8.75% per annum) and having maturity period upto 3 months. These are secured against Pakistan Investment Bonds sold under repurchase agreements.

		2006	2005
		Rupees	Rupees

19.2 These carry mark-up ranging from 11.5% to 12.25% per annum (2005: 9.70% to 10.50% per annum) and having maturity period of upto 3 months.

20. SHORT TERM DEPOSITS

Local currency	20.1	**904,194,964**	464,824,344

20.1 These include deposits with maturity ranging from one month to twelve months. The rate of return on these deposits range from 6% to 12.75% per annum (2005: 5% to 10.10% per annum).

21. ACCRUED AND OTHER LIABILITIES

Accrued expenses		
Return on borrowings - unsecured	**1,198,288**	10,734,809
Return on deposits	**13,060,948**	5,044,126
Profit accrued on special US$ bonds	**3,278**	3,278
Mark-up on Repo against FIBs/PIBs/TFCs	**454,203**	3,347,000
Others	**919,719**	732,059
	15,636,436	19,861,272
Other liabilities		
Unclaimed dividend	**3,176,082**	2,234,585
Others	**439,188**	252,005
	3,615,270	2,486,590
	19,251,706	22,347,862

22. CONTINGENCIES AND COMMITMENTS

Contingencies		
Guarantees issued on behalf of customer	**12,630,000**	17,100,000
Commitments		
Future sale contract - Shares	–	8,628,950

		2006	2005
		Rupees	Rupees
23.	**RETURN ON FINANCING AND PLACEMENTS**		
	Financing		
	Demand finance	**20,846,164**	16,589,627
	Placements		
	Unsecured	**16,813,998**	8,903,004
	Secured against reverse repurchase agreements of:		
	Government securities & TFCs	**1,682,452**	3,339,623
	Quoted shares	**91,871,108**	70,423,709
		131,213,722	99,255,963
24.	**RETURN ON SECURITIES**		
	Return on Government Securities	**33,409,624**	33,343,243
	Return on TFCs	**15,405,193**	15,497,361
		48,814,817	48,840,604
	Gain on sale of government securities	**221,770**	83,260
	Dividend Income	**8,551,868**	4,718,635
		57,588,455	53,642,499
25.	**OTHER INCOME**		
	Gain on sale of fixed assets	**5,261**	–
	Commission	**1,410,508**	95,403
	Miscellaneous	**278,833**	1,490,168
		1,694,602	1,585,571
26.	**RETURN ON DEPOSITS AND BORROWINGS**		
	Return on deposits	**31,443,464**	19,038,010
	Return on borrowings	**41,568,960**	29,604,608
	Return on repurchase agreement borrowings (Repo)	**28,039,455**	24,664,038
		101,051,879	73,306,656

	Note	2006 Rupees	2005 Rupees
27. OPERATING EXPENSES			
Salaries, wages and other benefits		**11,529,057**	9,756,645
Contribution to provident fund		**524,390**	520,470
Gratuity scheme expenses		**821,586**	768,000
Rent, rates and taxes		**1,640,363**	1,857,908
Telephone, telex and fax		**1,195,492**	780,218
Electricity, water and gas		**823,718**	616,477
Printing, postage and stationery		**672,006**	481,007
Insurance		**701,313**	375,424
Fees and membership		**816,952**	671,342
Brokerage and Commission		**3,339,052**	3,036,910
Central Depository Company charges		**921,140**	796,020
Auditors' remuneration	27.1	**306,000**	305,850
Legal and professional fees		**406,200**	535,933
Vehicle running and maintenance		**923,626**	760,301
Repairs and maintenance		**480,335**	472,302
Advertisement		**895,192**	299,983
Travelling and entertainment		**366,369**	156,261
Depreciation (refer note 5)		**1,247,998**	117,715
Amortization of deferred cost (refer note 9)		**228,059**	269,820
Bank charges		**107,087**	124,466
Old age benefit		**38,550**	42,750
Books, periodicals & newspapers		**29,310**	24,802
Other Expenses		**697,749**	240,854
		28,711,544	23,011,458
27.1 Auditor's remuneration			
Statutory audit fee		**190,000**	181,000
Half yearly review and other certificates		**110,000**	121,000
Out of pocket		**6,000**	3,850
		306,000	305,850
28. PROVISION FOR TAXATION			
Current			
- for the year	28.1	**18,965,543**	20,794,750
Deferred			
- opening balance		**487,443**	899,631
- for the year		**(254,830)**	(487,443)
		232,613	412,188
		19,198,156	21,206,938

		2006 Rupees	2005 Rupees
28.1	**Relationship between tax expense and accounting profit**		
	Profit for the year from ordinary activities before taxation	**106,052,977**	91,844,966
	Tax at the applicable rate of 35% (December 31, 2005: 35%)	**37,118,542**	32,145,738
	Tax effect of expenses that are not allowable in determining taxable income	**(1,016,645)**	(1,667,638)
	Tax effect of dividend income taxed at a lower rate	**(3,183,025)**	(1,415,590)
	Tax effect of capital gains exempt from tax	**(14,443,710)**	(8,267,760)
	Tax effect on gain / (loss) on sale of assets	**(6,942)**	–
	Tax payable in respect of receipt/income covered under PTR	**497,323**	–
	Tax charge	**18,965,543**	20,794,750

The provision for taxation for the current year has been made applying rates applicable to Public Companies listed on Stock Exchange other than a banking company. In the initial assessment for the assessment years 1993-94 to 2001-02, the status of a banking company was assigned to SIBL by the tax department. For the assessment years 1993-94 to 1996-97 and 1998-99 to 2000-01 the issue was settled in favour of SIBL by the Income Tax Appellate Tribunal (ITAT) and the department's reference applications for the assessment years 1996-97 and 1998-99 to 2000-01 were also rejected by the ITAT. For the assessment year 2001-2002, cross appeals were filed before the ITAT, hearing for which has been concluded and the decision is awaited. The department appeals for the assessment years 1992-93, 1995-96 and 1996-97, filed before the Honourable High Court are pending.

The provisions of Section 122 of the Income Tax Ordinance, 2001 were invoked by the Department for the assessment years 1995-96, 1996-97, 1998-99 to 2000-01, and for tax year 2003 on account of apportionment of the total expenses against income claimed exempt under the head Capital Gains, which was appealed before the Commissioner of Income Tax (Appeals) [CIT(A)], who set aside the orders for reconsideration, against whose decision cross appeals were filed before the ITAT, hearing for which has been concluded and the decision is awaited. The management of SIBL is confident that these matters would be settled in its favour and possibility of any liability arising is considered remote. The declared results for tax years 2004, 2005 and 2006 are deemed to be assessed in terms of Section 120(1)(b) of the Income Tax Ordinance, 2001.

29. EARNINGS PER SHARE- BASIC AND DILUTED

29.1	**Basic**		
	Profit after taxation	**86,854,822**	717,756,685
	Weighted average number of ordinary shares	**42,861,299**	42,861,299
	Earnings per share	**2.03**	1.67

29.2 **Diluted**

No figure for diluted earnings per share has been presented as Security Investment Bank Limited has not issued any instrument which would have an impact on its earnings exercised.

30. STAFF STRENGTH

Number of employees at end of the year	**30**	30

		2006	2005
		Rupees	Rupees

31. **DEFINED BENEFIT PLAN**

31.1 **General description**

The scheme provides for terminal benefits for all permanent employees who complete qualifying period of service with Security Investment Bank Limited at varying percentages of last drawn salary. The percentage depends on the number of service years with SIBL.

Annual provision is based on actuarial valuation, which was carried out as at December 31, 2006 using the Projected Unit Credit Method.

31.2 **Principal actuarial assumptions**

Following principal actuarial assumptions were used for the valuation.

Estimated rate of increase in salary of the employees	**8.89%**	**7.40%**
Discount rate	**11.00%**	**9.50%**

31.3 **Reconciliation of provision for gratuity scheme**

Present value of defined benefit obligation		**(4,348,000)**	(4,019,955)
Unrecognized transitional liability		**23,000**	18,000
		(4,325,000)	(4,001,955)

31.4 **Gratuity Liability**

Provision at beginning of year		**(4,001,955)**	(3,718,775)
Expense	31.4.1	**(822,000)**	(768,000)
Benefits paid		**498,541**	484,820
		(4,325,414)	(4,001,955)

31.4.1 **Gratuity scheme expense**

Current service cost	**462,000**	436,000
Interest Cost	**358,000**	331,000
Recognition of loss	**2,000**	1,000
	822,000	768,000

The company amortizes gains and losses over the expected remaining service of current employees.

31.5 **Historical Experience**

The following table shows obligation at the end of each year and the experience loss (gain) during the year:

	2006	2005	2004	2003	2002
Obligation	4,348,000	4,023,000	3,738,000	3,386,000	2,804,000
Loss on obligation	4,000	3,000	11,000	9,000	–

32. REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	Chief Executive		Directors	
	2006	2005	**2006**	2005
	----------Rupees----------			
Director's fee	**–**	–	**120,000**	150,000
Managerial remuneration	**2,935,200**	2,520,000	**–**	–
Housing	**167,280**	–	**–**	–
Bonus	**230,000**	230,000	**–**	–
Utilities	**281,520**	240,000	**–**	–
Other benefits	**99,880**	100,000	**–**	–
Reimbursable expenses	**146,194**	234,339	**–**	–
	3,860,074	3,324,339	**120,000**	150,000
Number of persons	**2**	1	**6**	6

The company provides free use of company maintained cars to its Chief Executives and other Senior Executives.

33. MATURITIES OF ASSETS AND LIABILITIES

DESCRIPTION	2006	2006			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	----------Rupees----------				
Assets					
Tangible fixed assets	3,594,181	–	–	–	3,594,181
Membership card	36,344,167	–	–	–	36,344,167
Long term investment	51,378,660	–	–	–	51,378,660
Deferred tax asset	10,860,955	–	–	–	10,860,955
Deferred cost	281,024	–	–	281,024	–
Short term financing	195,834,198	182,834,198	13,000,000	–	–
Short term placement	911,653,295	911,653,295	–	–	–
Short term investments	589,961,306	153,691,556	34,882,792	110,588,808	290,798,150
Advances and other receivables	71,522,144	30,683,635	40,838,509	–	–
Cash and bank balances	394,433,275	394,433,275	–	–	–
	2,265,863,205	1,673,295,959	88,721,301	110,869,832	392,976,113
Liabilities					
Deferred liabilities	4,325,000	–	–	–	4,325,000
Borrowings	727,500,000	727,500,000	–	–	–
Short term deposits	904,194,964	763,488,883	140,706,081	–	–
Accrued expenses	19,251,706	16,075,624	3,176,082	–	–
	1,655,271,670	1,507,064,507	143,882,163	–	4,325,000
Net assets	610,591,535				
Represented by:					
Share capital & Reserves	652,335,380				
(Deficit) on revaluation of investments - net	(41,743,845)				
	610,591,535				

DESCRIPTION	2005	2005			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	----------Rupees----------				
Assets					
Tangible fixed assets	3,153,963	–	–	–	3,153,963
Membership card - intangible	36,000,000	–	–	–	36,000,000
Long term investment	376,244,904	–	–	–	376,244,904
Deferred tax asset	487,443	–	–	–	487,443
Deferred cost	509,083	–	–	509,083	–
Short term financing	170,634,198	136,066,498	34,567,700	–	–
Placements	1,154,645,225	1,154,645,225	–	–	–
Short term investments	289,403,485	147,563,065	3,839,496	84,607,764	53,393,160
Advances, deposits and other receivables	66,349,224	2,847,408	35,465,666	28,036,150	–
Cash and bank balances	259,708,952	259,708,952	–	–	–
	2,357,136,477	1,700,831,148	73,872,862	113,152,997	469,279,470
Liabilities					
Deferred liabilities	4,001,955	–	–	–	4,001,955
Borrowings	1,252,500,000	1,150,000,000	102,500,000	–	–
Short term deposits	464,824,344	395,165,120	69,659,224	–	–
Accrued expenses	22,347,862	–	22,347,862	–	–
	1,743,674,161	1,545,165,120	194,507,086	–	4,001,955
Net assets	613,462,316				
Represented by:					
Share capital and reserves	602,751,253				
Surplus on revaluation of investments - net	10,711,063				
	613,462,316				

34. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the credit worthiness of counter-parties.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of a company's performance to developments affecting a particular industry.

The company follows two sets of guidelines. Firstly, it has its own operating policies duly approved by the Board of Directors. Secondly, it adheres to the regulations issued by the SECP & SBP. The operating policies define the extent of fund and non-fund based exposures with reference to a particular sector or group.

The company seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentration of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate. Details of finance portfolio is given below:

	2006		2005	
FINANCE	Rupees	%	Rupees	%
Sugar	20,000,000	10.03	25,000,000	14.35
Textile spinning	6,400,000	3.21	6,400,000	3.67
Cables and electric goods	156,866,498	78.66	129,666,498	74.43
Individuals	3,148,298	1.58	3,148,298	1.81
Others	13,000,000	6.52	10,000,000	5.74
	199,414,796	100.00	174,214,796	100.00

35. INTEREST RATE RISK

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2006 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
	----------Rupees----------				
ASSETS					
Tangible fixed assets	3,594,181	–	–	–	3,594,181
Intangible	36,344,167	–	–	–	36,344,167
Long term investment	51,378,660	–	–	51,378,660	–
Deferred tax asset	10,860,955	–	–	–	10,860,955
Deferred cost	281,024	281,024	–	–	–
Short term financing	195,834,198	195,834,198	–	–	–
Short term placement	911,653,295	911,653,295	–	–	–
Investment in Wapda Bonds	50,000,000	–	50,000,000	–	–
Investment in TFCs	83,448,873	–	83,448,873	–	–
Investment in shares	140,714,283	–	–	–	140,714,283
Investment in Govt.Bonds	315,798,150	25,000,000	–	290,798,150	–
Advances, deposits and other receivable	71,047,939	–	–	–	71,047,939
Prepayments	474,205	–	–	–	474,205
Balances with banks and cash in hand	394,433,275	381,673,720	–	–	12,759,555
Total	**2,265,863,205**	**1,514,442,237**	**133,448,873**	**342,176,810**	**275,795,285**
SHARE CAPITAL AND RESERVES	652,335,380	–	–	–	652,335,380
Deficit on revaluation of investments-net	(41,743,845)	–	–	–	(41,743,845)
LIABILITIES					
Deposits	904,194,964	904,194,964	–	–	–
Deferred liabilities	4,325,000	–	–	–	4,325,000
Borrowings	727,500,000	727,500,000	–	–	–
Profit accrued on deposits & borrowings	15,633,158	–	–	–	15,633,158
Accrued and other liabilities	3,618,548	–	–	–	3,618,548
Total	**2,265,863,205**	**1,631,694,964**	**–**	**–**	**634,168,241**
Total interest rate sensitivity gap		**(117,252,727)**	**133,448,873**	**342,176,810**	**(358,372,955)**
Cumulative interest rate sensitivity gap		**(117,252,727)**	**16,196,146**	**358,372,958**	**–**

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2005 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
	----------Rupees----------				
ASSETS					
Tangible fixed assets	3,153,963	–	–	–	3,153,963
Membership card	36,000,000	–	–	–	36,000,000
Investments in government securities	376,244,904	–	–	376,244,904	–
Deferred tax assets	487,443	–	–	–	487,443
Deferred cost	509,083	–	–	–	509,083
Short term financing	170,634,198	170,634,198	–	–	–
Short term placements	1,154,645,225	1,154,645,225	–	–	–
Investment in Wapda Bonds	50,000,000	–	50,000,000	–	–
Investment in TFCs-quoted	91,840,420	3,839,496	34,568,112	53,432,812	–
Investment in shares - quoted	147,563,065	–	–	–	147,563,065
Advances, deposits and other receivable	14,262,808	–	–	–	14,262,808
Prepayments	356,310	–	–	–	356,310
Income tax recoverable	30,206,666	–	–	–	30,206,666
Income receivable	21,523,440	–	–	–	21,523,440
Balance with bank and cash in hand	259,708,952	249,304,678	–	–	10,404,274
Total	**2,357,136,477**	**1,578,423,597**	**84,568,112**	**429,677,716**	**264,467,052**
SHARE CAPITAL AND RESERVES	602,751,253	–	–	–	602,751,253
Surplus on revaluation of investments-net	10,711,063	–	–	–	10,711,063
LIABILITIES					
Deposits	464,824,344	464,824,344	–	–	–
Deferred liabilities	4,001,955	–	–	–	4,001,955
Borrowings	1,252,500,000	1,252,500,000	–	–	–
Profit accrued on deposits & borrowings	19,857,994	–	–	–	19,857,994
Accrued and other liabilities	2,489,868	–	–	–	2,489,868
Total	**2,357,136,477**	**1,717,324,344**	**–**	**–**	**639,812,133**
Total interest rate sensitivity gap		**(138,900,747)**	**84,568,112**	**429,677,716**	**(375,345,081)**
Cumulative interest rate sensitivity gap		**(138,900,747)**	**(54,332,635)**	**375,345,081**	**–**

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

	2006		2005	
FINANCIAL ASSETS	Book value	Fair value	Book value	Fair value
	----------Rupees----------			
Financing	195,834,198	195,834,198	170,634,198	170,634,198
Placements	911,653,295	911,653,295	1,154,645,225	1,154,645,225
Investments	641,339,966	634,701,806	665,648,389	631,802,884
Advances and other receivables	41,928,559	41,928,559	36,142,558	36,142,558
Cash and bank balances	394,433,275	394,433,275	259,708,952	259,708,952
	2,185,189,293	2,178,551,133	2,286,779,322	2,252,933,817
FINANCIAL LIABILITIES				
Deferred liabilities	4,325,000	4,325,000	4,001,955	4,001,955
Borrowings	727,500,000	727,500,000	1,252,500,000	1,252,500,000
Short term deposits	904,194,964	904,194,964	464,824,344	464,824,344
Accrued expenses and other liabilities	19,251,706	19,251,706	22,347,862	22,347,862
	1,655,271,670	1,655,271,670	1,743,674,161	1,743,674,161

As at December 31, 2006, the fair value of all financial instruments is based on the valuation methodology outlined below:

a) **Finances and certificate of deposits**
For all finances and deposits, the fair values have been taken at book values as these are not considered materially different based on the current market rates of return and reprising profiles of similar advances and deposits.

b) **Investments**
The fair value of quoted investments is based on quoted market prices or average of quotations received from brokers. Unquoted investments are stated at cost which approximates to their fair value in the absence of an active market.

c) **Other financial instruments**
The fair values of all other financial instruments are considered approximate to their book values as they are short term in nature.

	2006	2005
	Rupees	Rupees

37. **TRANSACTIONS WITH RELATED PARTIES**

Financing		
- Associated undertakings	**121,395,857**	94,195,857
- Others	**45,470,641**	45,470,641
Return on		
- Associated undertakings	**3,985,298**	1,945,815
- Others	**1,532,299**	979,227
Deposits	**105,896,280**	114,713,922
Return on deposits	**1,219,227**	3,879,360

Transactions with associated undertakings / related parties i.e. shareholders, directors and their related concerns are accounted for in accordance with comparable uncontrolled price method and are in the normal course of business at contracted rates and terms determined in accordance with market rates.

38. **DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors on March 31, 2007.

39. **FIGURES**

- have been rounded off to the nearest rupee.

MUHAMMAD SALEEM RATHOD
Chief Executive

KHURSHEED K. MARKER
Chairman

PATTERN OF SHAREHOLDING

AS AT DECEMBER 31, 2006

Number of Shareholders	Shareholding From	To	Total number of shares held	Percentage %
738	1	100	37,513	0.09
716	101	500	190,940	0.45
259	501	1,000	194,747	0.45
682	1,001	5,000	1,143,794	2.67
69	5,001	10,000	485,033	1.13
25	10,001	15,000	296,765	0.69
17	15,001	20,000	274,800	0.64
6	20,001	25,000	129,115	0.30
3	25,001	30,000	78,786	0.18
3	30,001	35,000	99,063	0.23
6	40,001	45,000	257,081	0.60
2	45,001	50,000	92,704	0.22
2	50,001	55,000	105,538	0.25
1	55,001	60,000	57,146	0.13
1	95,001	100,000	100,000	0.23
1	115,001	120,000	115,316	0.27
1	140,001	145,000	141,440	0.33
1	155,001	160,000	155,713	0.36
1	285,001	290,000	286,667	0.67
1	290,001	295,000	292,274	0.68
3	295,001	300,000	890,507	2.08
1	310,001	315,000	312,886	0.73
1	360,001	365,000	364,598	0.85
1	760,001	765,000	764,868	1.78
1	905,001	910,000	908,250	2.12
2	925,001	930,000	1,857,230	4.33
1	980,001	985,000	982,151	2.29
1	1,520,001	1,525,000	1,520,875	3.55
2	1,855,001	1,860,000	3,710,934	8.66
1	1,860,001	1,865,000	1,860,402	4.34
1	1,975,001	1,980,000	1,976,623	4.61
1	2,330,001	2,335,000	2,330,095	5.44
1	2,435,001	2,440,000	2,436,541	5.68
1	3,040,001	3,045,000	3,041,750	7.10
1	3,850,001	3,855,000	3,853,265	8.99
1	5,430,001	5,435,000	5,432,389	12.67
1	6,080,001	6,085,000	6,083,500	14.19
2,556			**42,861,299**	**100.00**

Categories of Shareholders	**Number**	**Shares Held**	**Percentage**
INDIVIDUALS	2,538	38,640,707	90.15%
INVESTMENT COMPANIES	4	1,692	0.00%
INSURANCE COMPANIES	1	313,377	0.73%
JOINT STOCK COMPANIES	3	628	0.00%
FINANCIAL INSTITUTIONS	6	3,868,422	9.03%
MODARABA COMPANIES	3	34,823	0.08%
COOPERATIVE SOCIETIES	1	1,650	0.00%
	2,556	42,861,299	100.00%

DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

Categories of Shareholders	Shares Held
Individuals	26,187,505
Investment Companies except ICP	1,692
Public/Private Sector Companies and Corporations	–
Directors, Chief Executive Officer and their spouse and minor children	
1) Mr. Khursheed K. Marker	1,946
2) Haji Jan Muhammad	1,018
3) Haji Abdul Rauf	2,300
4) Mr. Muhammad Younus Abdul Aziz Tabba	928,660
5) Mr. Muhammad Iqbal Kasbati	1,150
6) Mr. Maqbool H. Rahimtoola (NIT)	1,150
National Bank of Pakistan, Trustee Department	3,853,265
7) Mr. Muhammad Saleem Rathod	1,946
Investment Corporation of Pakistan	1,421
Associated Companies, Undertakings and Related Parties	–
Banks, DFIs, NBFCs, Insurance Companies, Modarabas and Mutual Funds except National Bank of Pakistan, Trustee Deptt.	363,357
Shareholders holding ten percent or more voting interest	
H.A.R	5,432,389
Amina Bano	6,083,500

FORM OF PROXY

SIXTEENTH ANNUAL GENERAL MEETING

I/We .....

of .....

a member / members of SECURITY INVESTMENT BANK LIMITED and holding .....

ordinary shares, as per Register Folio .....

do hereby appoint.....

of .....

to vote for me/us and on my/our behalf at the Sixteenth Annual General Meeting of the Company to be held on _____ and at any adjournment thereof.

As Witness my/our hand this ..... day of 2007

Folio No.

REVENUE STAMP RS. 5/-

SIGNATURE OF MEMBER(S)

IMPORTANT:

1. Signature of Member(s) should agree with specimen registered with the Company.
2. A member entitled to attend Sixteenth Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him.
3. The instrument appointing a proxy should be signed by the member or by his attorney duly authorized in writing. If the member is a corporation its common seal (if any) should be affixed on the instrument.
4. The proxies shall be deposited at the Share registrar's office of the Company not less than 48 hours before the time of the meeting.



SECURITY INVESTMENT BANK LIMITED

Islamabad Office:
GPO Box No. 2967, Flat # 4,3rd Floor,
Al-Babar Centre, Main Markaz F-8 Islamabad
Ph: (051) 285679-80 Fax: (051) 2856987

Karachi Office:
6th Floor, Unitowers,
I.I Chundrigar Road, Karachi-74000.
Tel: (021) 2418410-13 Fax: (021) 2418414

Design & Printed by: Kodwavi Printing Services Ph: 2212361