

An Eye On The Future!

Annual Report and Accounts 2005



Our Strategy Moves On...

ESCORTS INVESTMENT BANK LIMITED

ESCORTS
BANK



About The Cover

In December 2001, the Board of Directors of Escorts Investment Bank Limited adopted an ambitious Business Plan "*Escorts Beyond 2001*" put-up by the newly appointed CEO. Against all odds the plan focused on transforming the Bank from a stagnant low performer to a Proactive, Progressive and Profitable Institution with a focus on genuine Investment Banking activities. *The success of Escorts Beyond 2001* is well reflected in Financial Results of the last four years.

Since the launching of *Escorts Beyond 2001*, EIBL has achieved major miles stones. Accomplishment of each of these milestones has not made any of us complacent. We, look at running EIBL as a marathon and not a 100-meter race. It is a journey, which should be enjoyed and made sustainable.

Our Strategy Moves On...



The current Five-Year Business Plan of Escorts Investment Bank, *Escorts Beyond 2001* was launched in January 2002 after a thorough S.W.O.T Analysis of the Bank, assessment of the Macro Economic and Financial Market trends and *An Eye On The Future!*

Broad Policy Objectives

- Value Creation for Shareholders on a sustainable basis.
- Shift from *Pseudo Commercial Banking* activities to genuine *Investment Banking* to address the issue of Legitimacy, and more importantly because we feel that Investment Banking is a high-end activity that is a better vehicle for achievement of our first Objective.
- Maintaining High Asset Quality.
- Good Governance & Best Business Practices.
- High Professional Efficiency and Constant Improvement Policy.

The Operational Strategy of the Business Plan is focused on Enhanced Profitability and Sustainable Growth through a broader range of Products & Services, Capacity Building in terms of Human Resource, Infrastructure, Systems Support and Risk Management Polices.

Rashid Mansur
President & CEO



*“To set-up the Bank was easy, building the Team took time;
It was the latter that brought Success.”*

Bashir Ahmed
Chairman



*“Institutions are built on Values;
their Viability on know-how!”*

Rashid Mansur
President & CEO

“Investment Banking ~ Our Preferred Profession!”

We have made a conscientious choice to remain an Investment Bank within the new Non Banking Financial Company (NBFC) structure, designed and regulated by the Securities and Exchange Commission of Pakistan (SECP). Our thinking stems from the internationally held perception that within the Financial Services Sector, Investment Banking stands out as the essence of high-end, superior, state-of-the-art service provision, catering to, and creating value for, a sophisticated clientele. In doing so the Investment Banks contribute significantly to the development of their national economies in general, and their financial markets in particular. Investment Banks are also known to attract, employ, develop and enrich top-of-the-line human capital.

Our team is proud to be known as *Investment Bankers!*”



“Our Bank’s exceptional progress, despite fierce competition, has been achieved through sheer dint of hard work and team effort, making the best of opportunities as they come by and focusing on Investment Banking which is at the high-end of the Banking industry.”

Muhammad Naeem Khan
Chief Operating Officer



“Escorts Investment Bank’s single, most valuable asset ~ our people ~ represents the greatest critical success factor. The ability to compete on the power of our ideas, rather than the mere size of the balance sheet, is central to differentiating our bank for our clients and our shareholders alike.”

Shazia Bashir
Executive Director (Head of HR & Admin)



“Institutions that encourage the flow of thoughts are more likely to prosper in today’s dynamic market. Escorts Bank has an open door policy, where every member of the team has freedom of speech and that’s what makes Escorts Bank a finer institution.”

Farooq Hameed Khawaja
Chief Financial Officer



“For our Bank “Treasury” means uninterrupted funding on the finest rates, innovative products, vigorous participation in Money Market Operations and increased spreads through efficient Interest Rate Management; for our clients: Valuable Corporate Services and access to a wider range of sophisticated, often hybrid, instruments.”

Arshad I. Khan
Head of Treasury



“Taking Capital Markets To The People!

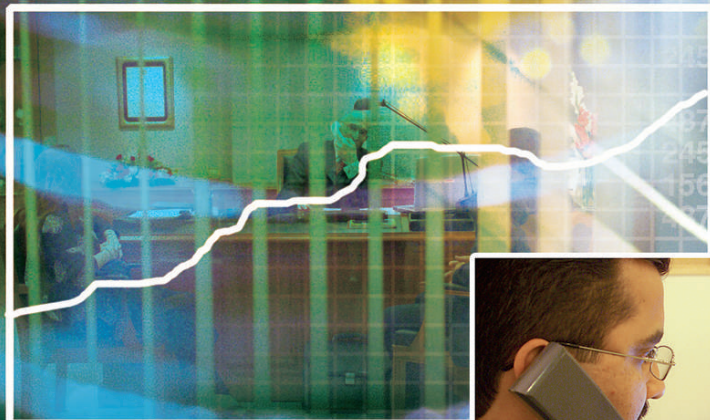
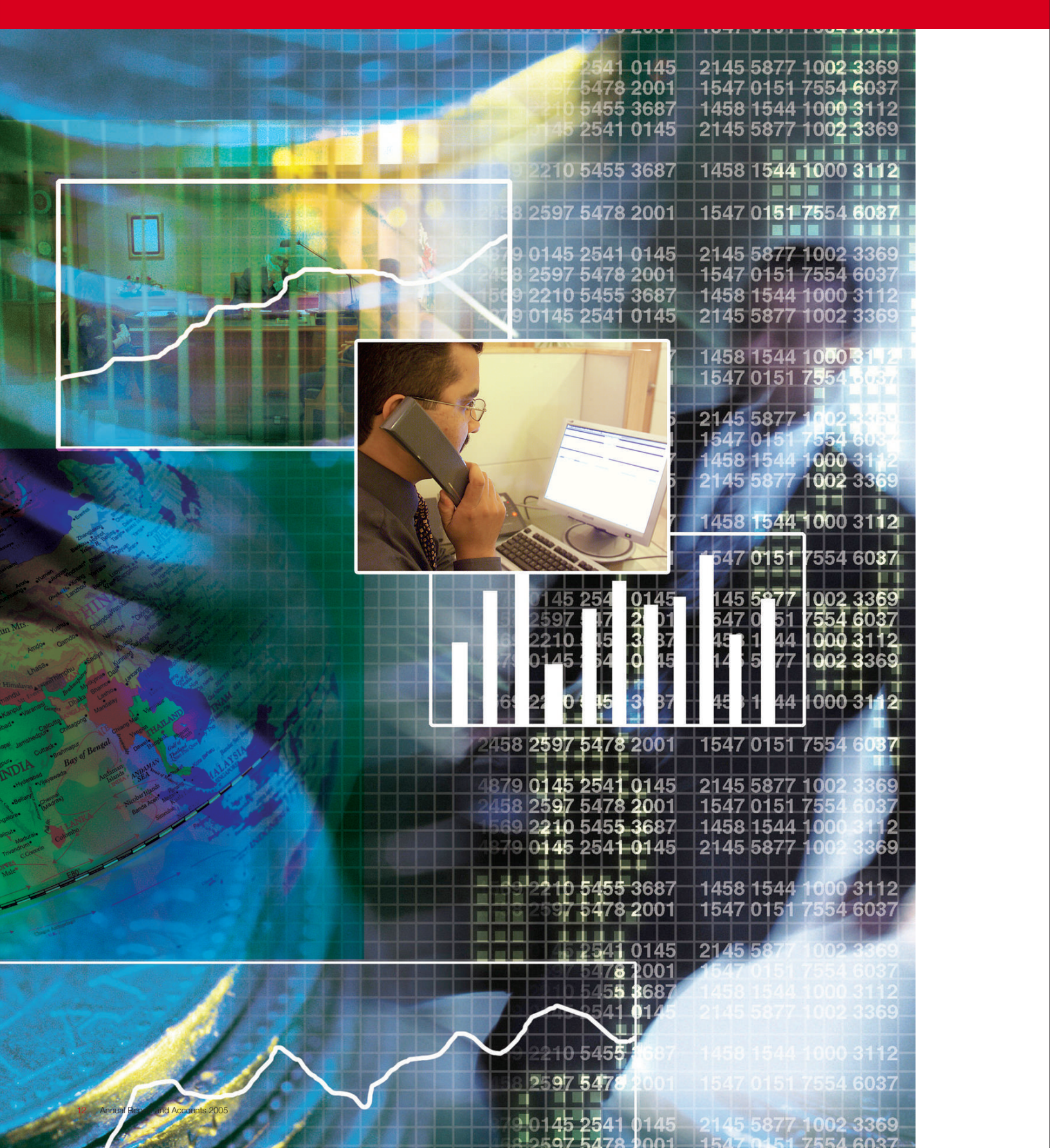
Development of a Retail Clientele, in an environment of geographic diversification, would give our business the required sustainability; that is the rationale behind opening of our Investment Services (Brokerage) Centers at Faisalabad, Sialkot and Peshawar in addition to our presence at Karachi, Lahore and Islamabad. In doing so we shall be contributing to the breadth of the Capital Markets of our country.”

Azhar A. Batla
Head of Capital Markets Division



“We work hand in hand with our clients to provide the best solutions for their unique and distinct requirements. In doing so, we bring specific industry and product expertise to each client, executing the most innovative and customized solutions to the most challenging issues.”

Salman M. Baray
Head of Corporate Finance & Advisory





Vision

Value addition for our stakeholders through enhanced business activity and emphasis on Better Risk Identification and Management as opposed to Risk Avoidance.

Mission

To build Escorts Investment Bank Limited into an elite institute comparable with, if not better than, any top quality local or foreign financial institution operating in Pakistan, in terms of a progressive corporate culture and an autonomous, committed and dedicated Executive Management with *An Eye On The Future!*



ESCORTS
BANK

ESCORTS INVESTMENT
BANK LIMITED



Contents

of Annual Report and Accounts 2005



16	Corporate Information
18	Executive Management
19	Organogram
20	Financial Highlights - Last Six Years of Escorts Bank at a Glance
22	Statement of Value Addition
23	Chairman's Message
24	Chief Executive's Review
28	Divisions
32	Enhanced Service Portfolio – Focus on Investment Promotion
33	Our Products and Services
40	Moments to Cherish

Financials (for year ended June 30, 2005)

45	Notice of the Annual General Meeting
46	Directors' Report
48	Statement of Compliance with the Code of Corporate Governance
49	Committees
49	Statement of Compliance with the Best Practices on Transfer Pricing
50	Statement of Ethics and Business Practices
51	Auditors' Review Report to the members on statement of compliance with the best practices of Code of Corporate Governance
51	Auditors' Report to the Members
52	Balance Sheet
53	Profit & Loss Account
54	Cash Flow Statement
55	Statement of Changes in Equity
56	Notes to the Accounts
81	Pattern of Shareholding
83	Proxy Form

Corporate Information



Board of Directors

Chairman	Bashir Ahmed
President & Chief Executive Officer	Rashid Mansur
Directors	Abdul Latif Uqaili <i>(Nominee Investment Corporation of Pakistan)</i>
	Bairam Qureshy
	Mutahir Ahmed
	Shazia Bashir
	Syed Asad Ali Shah
	Tajamul Hussain Bokhari <i>(Nominee National Bank of Pakistan)</i>
Company Secretary	Farooq Hameed Khawaja

Executive Management

President & Chief Executive Officer	Rashid Mansur
Chief Operating Officer	Muhammad Naeem Khan
Executive Director <i>(Head of HR & Admin)</i>	Shazia Bashir
Chief Financial Officer	Farooq Hameed Khawaja
Head of Treasury Division	Arshad I. Khan
Head of Capital Markets Division	Azhar A. Batla
Head of Corporate Finance & Advisory	Salman M. Baray

Audit Committee

Chairman	Bashir Ahmed
Members	Abdul Latif Uqaili Syed Asad Ali Shah
Secretary	Farooq Hameed Khawaja

Auditors

KPMG Taseer Hadi Khalid & Co.
Chartered Accountants

Legal Advisors

Mandviwalla & Zafar,
Advocates & Legal Consultants
Zafar, Iqbal & Raja,
Advocates & Legal Consultants

Tax Consultants

KPMG Taseer Hadi Khalid & Co.
Chartered Accountants

Share Registrars

Hameed Majeed Associates (Pvt.) Ltd.

Bankers

Bank Alfalah Limited
Bank Al-Habib Limited
Habib Bank Limited
Muslim Commercial Bank Limited
PICIC Commercial Bank Limited
The Bank of Khyber Limited

Head Office & Lahore Branch

Escorts House
26 – Davis Road, Lahore
Tel: (042) 637 1931 – 34
Fax: (042) 637 5950
Email: mailmanager@escortsbank.net
Web site: www.escortsbank.net

Branch Offices

Karachi Office:
Ground Floor, Bharia Complex I,
Moulvi Tamizzudin Khan Road, Karachi
Tel: (021) 920 4924 – 29
Fax: (021) 920 4930
Email: karachi@escortsbank.net

Islamabad Office:
15 – E, Mezzanine Floor,
Rehmat Center, Blue Area, Islamabad
Tel: (051) 287 4601 – 03
Fax: (051) 287 4604
Email: islamabad@escortsbank.net

Investment Services Centers (Brokerage)

Main – Lahore:
Ground Floor,
State Life Building, Davis Road, Lahore
Tel: (042) 630 0757 – 58
Fax: (042) 630 0816

Lahore Stock Exchange Building:
Room No. M-3 & M-6,
Lahore Stock Exchange Building,
19-Khayaeban-e-Iqbal, Lahore
Tel: (042) 630 7163 – 68
Fax: (042) 630 7168

Karachi Stock Exchange Building:
Room No. 53 & 53A,
Karachi Stock Exchange Building,
Stock Exchange Road, Karachi
Tel: (021) 247 1671 – 74 &
Tel: (021) 247 2370 – 73
Fax: (021) 247 2374

Karachi Office:
Ground Floor, Bharia Complex I,
Moulvi Tamizzudin Khan Road, Karachi
Tel: (021) 920 4924 – 29
Fax: (021) 920 4930

Islamabad Office:
15 – E, Mezzanine Floor,
Rehmat Center, Blue Area, Islamabad
Tel: (051) 287 4601 – 03
Fax: (051) 287 4604

Faisalabad Office:
Room No. 519, 5th Floor,
State Life Building No. 2,
2 Liaqat Road, Faisalabad
Tel: (041) 2624797 – 2624908 – 2617345
Fax: (041) 2625179

Saalkot Office:
Room No. 226, 2nd Floor, Cantt Plaza,
Saalkot Cantonment, Saalkot

Executive Management



(Left to Right)

Azhar A. Batla
Head of Capital Markets Division

Arshad I. Khan
Head of Treasury

Shazia Bashir
Executive Director (Head of HR & Admin)

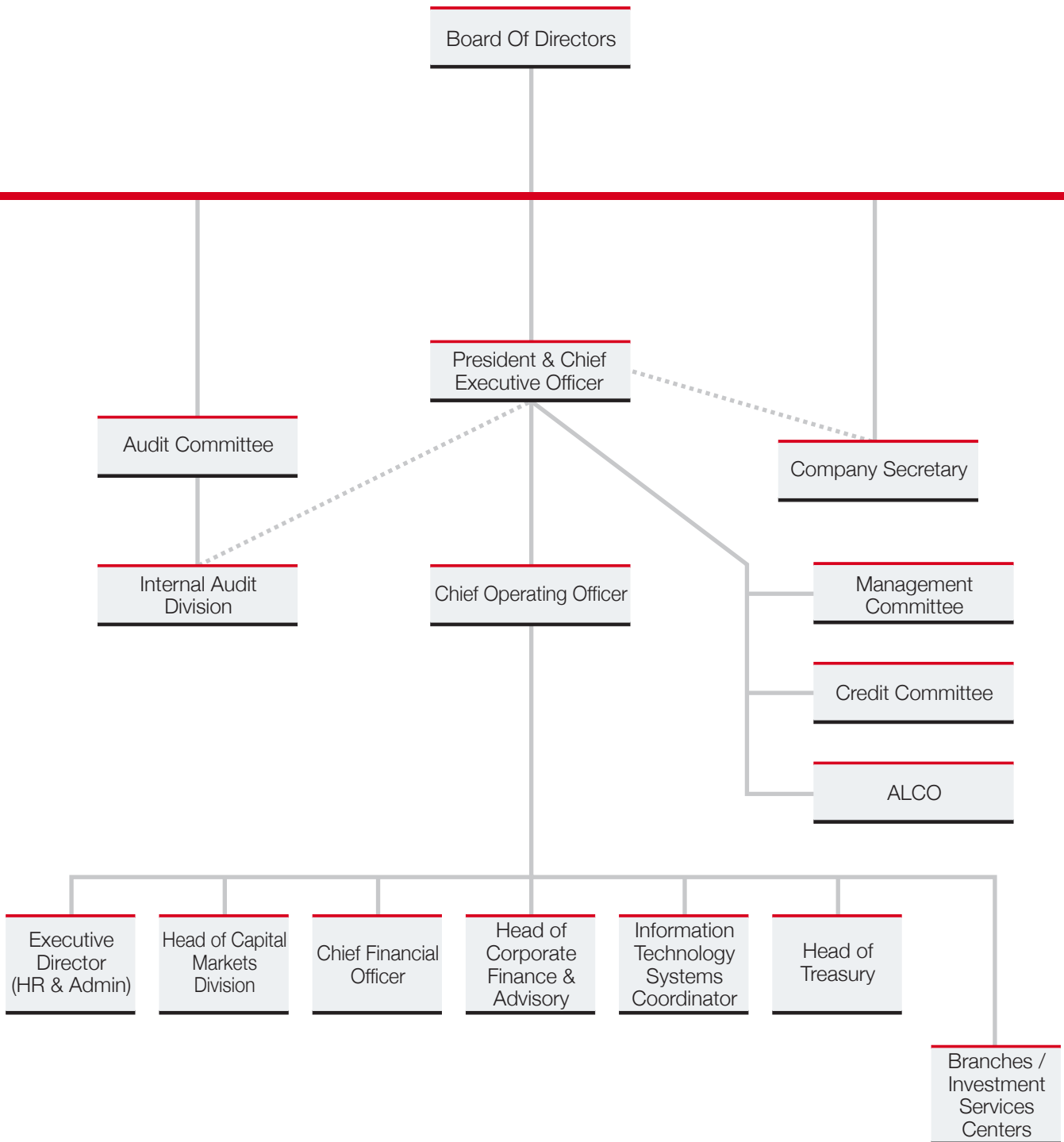
Rashid Mansur
President & CEO

Muhammad Naeem Khan
Chief Operating Officer

Farooq Hameed Khawaja
Chief Financial Officer

Salman M. Baray
Head of Corporate Finance & Advisory

Organogram



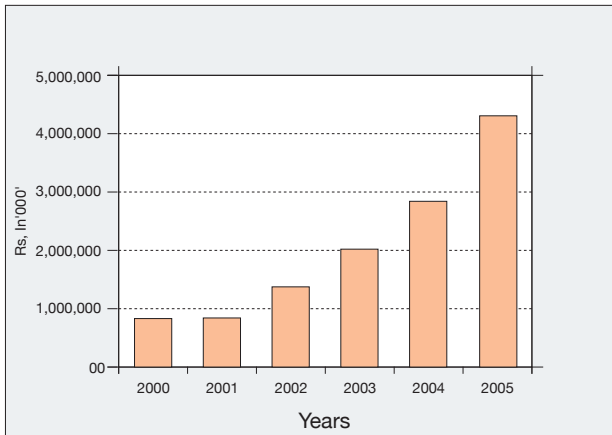
Financial Highlights

Last Six Years of Escorts Bank At A Glance

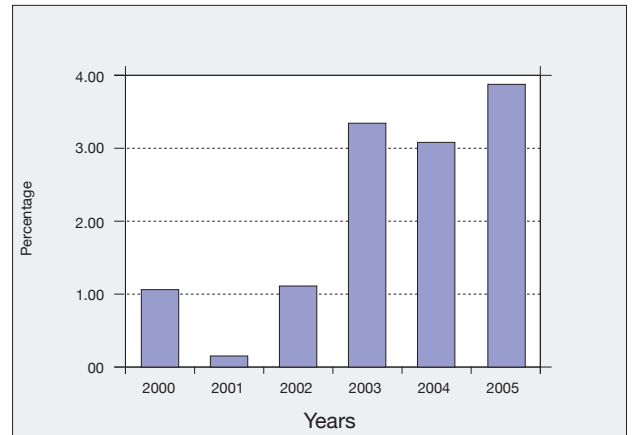
(Rupees in '000')

	2005	2004	2003	2002	2001	2000
FINANCIAL DATA						
Share Capital	300,000	300,000	200,000	200,000	200,000	200,000
Share Deposit Money	85,795	-	-	-	-	-
Reserves	154,218	114,816	71,195	25,632	13,350	22,662
Shareholders' Equity	540,013	414,816	271,195	225,632	213,350	222,662
Deposits	1,099,510	1,129,757	692,668	731,582	316,200	423,969
Borrowings from Financial Institutions	2,307,443	1,060,029	777,900	310,000	175,000	58,000
Total Liabilities	3,661,020	2,368,842	1,692,905	1,179,613	521,206	523,308
Tangible Assets	123,898	23,220	13,208	13,398	7,464	6,328
Intangible Fixed Assets	44,105	42,420	7,170	-	-	-
Financing - Net of Provision	746,860	481,396	375,654	207,014	123,551	99,348
Investments & Placements	2,266,564	1,899,916	1,427,863	938,660	498,876	523,619
Total Assets	4,177,687	2,742,118	2,026,831	1,412,104	735,256	735,970
OPERATING RESULTS						
Total Revenue	488,658	239,434	233,895	147,793	97,803	94,585
Markup Expense	158,418	85,142	115,310	88,004	63,406	58,870
Operating & Other Expenses	149,825	71,678	45,215	32,438	24,924	21,215
Provision against Non-Performing Loans	26,345	6,159	1,306	8,068	3,650	2,450
Impairment - Held to Maturity Investments	20,000	-	-	-	-	-
Profit before Tax	134,071	76,456	72,064	19,283	5,823	12,050
Profit after Tax	129,401	73,622	57,562	12,283	688	8,150
Dividends (%)	*20.00	15.00	15.00	6.00	-	5.00
<i>* includes proposed Bonus Shares @ 5%</i>						
FINANCIAL RATIOS						
Earning per Share (Rs.)	4.31	3.05	2.69	0.61	0.03	0.41
Net Asset Value per Share (Rs.)	15.14	13.83	13.56	11.28	10.67	11.13
Market Value per Share (Rs.)	10.60	14.90	9.40	7.75	5.00	5.50
Price Earning Ratio (Times)	2.46	4.89	3.50	12.62	147.06	13.51
Dividend per Share (Rs.)	2.00	1.50	1.50	0.60	-	0.50
Dividend Yield (%)	18.87	10.07	15.96	7.74	-	9.09
Dividend Payout Ratio (%)	46.37	49.26	55.85	97.72	-	122.85
Profit Before Tax Ratio (%)	27.44	31.93	30.81	13.05	5.95	12.74
Revenue to Expenses (Times)	1.59	1.53	1.46	1.23	1.11	1.18
Return on Average Assets (%)	3.74	3.09	3.35	1.14	0.09	1.08
Return on Capital Employed (%)	29.78	21.46	23.17	5.60	0.32	3.57
Total Assets Turnover Ratio (Times)	0.12	0.09	0.12	0.10	0.13	0.13
Advances to Deposits (Times)	0.68	0.43	0.54	0.28	0.39	0.23
Borrowings to Equity (Times)	6.31	5.28	5.42	4.62	2.30	2.16
Total Liabilities to Equity (Times)	6.78	5.71	6.24	5.23	2.44	2.35

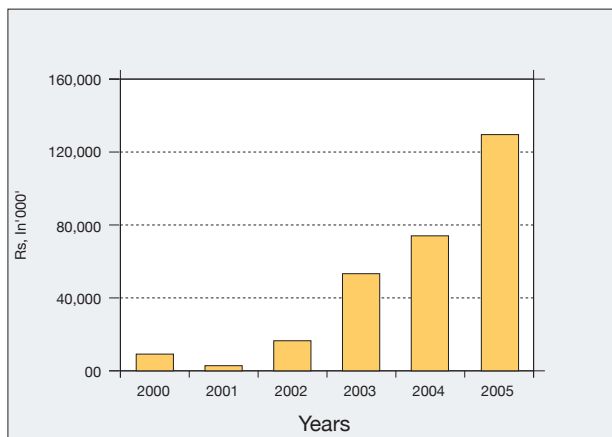
Total Assets



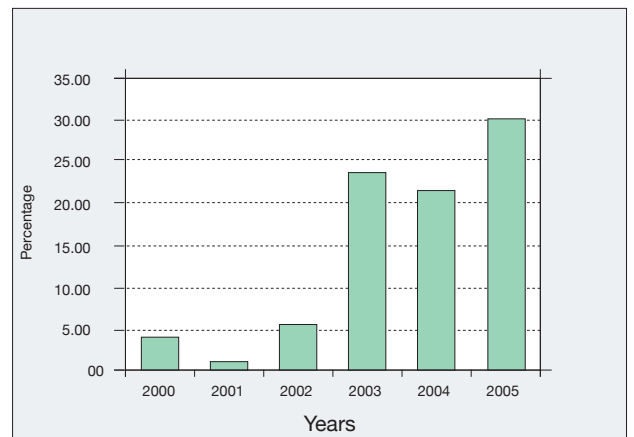
Return on Average Assets(%)



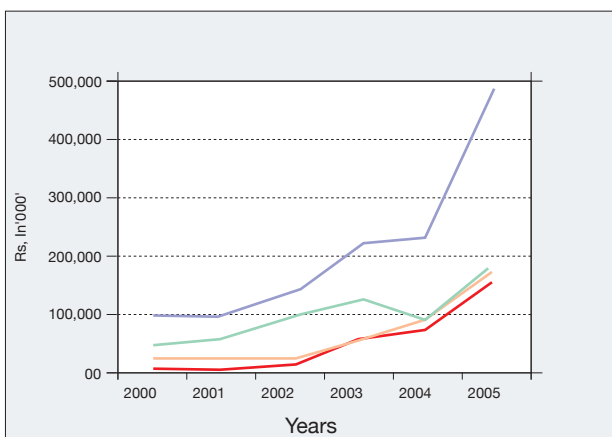
After-Tax Profit



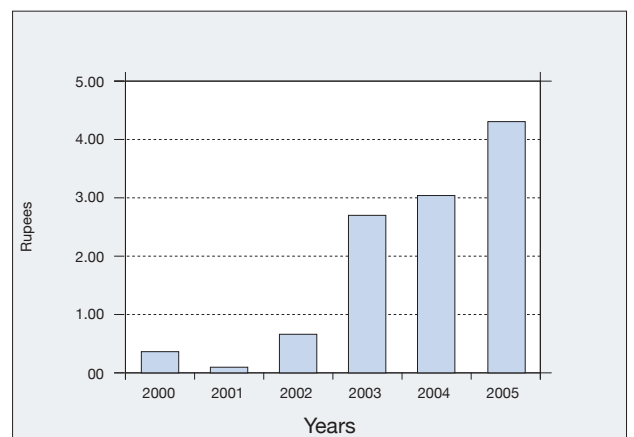
Return on Capital Employed(%)



Operating Results



Earning per Share (Rs.)



— Total Revenue — Markup Expense — Operating & Other Expenses — Profit after Tax

Statement of Value Addition

For the year ended 30 June 2005

	2005		2004	
	Rs. (000)	%	Rs. (000)	%
Gross Revenue	488,658		239,434	
Less: Financial Charges	158,418		85,142	
Operating & Other expenses (excluding staff cost)	67,134		31,003	
Provisions & Impairment	46,345		6,159	
Deferred Tax	(5,379)		333	
	222,140	100.00	116,797	100.00
Distribution to:				
Employees as remuneration	68,169	30.69	35,739	30.60
Government as taxes	10,049	4.52	2,500	2.14
Shareholders as dividend	45,000	20.26	45,000	38.53
Retained within the business				
Depreciation & Amortization	14,522	6.54	4,936	4.23
Statutory Reserve	25,880	11.65	14,724	12.61
Retained Profit	58,520	26.34	13,898	11.90
	98,922	44.53	33,558	28.73
	222,140	100.00	116,797	100.00

Chairman's Message



It gives me great pleasure to comment on the Annual Accounts of Escorts Investment Bank for the Financial Year 2004 ~ 2005.

It is heartening to see that the Strategy adopted in our Five-Year Business Plan *Escorts Beyond 2001* is moving on, yielding more than projected returns for the Shareholders. The pattern of robust growth has been sustained in all the areas of the Bank's Operations, ensuring stability and sustainability of business.

The Board has been pleased to recommend Bonus Shares @ 5% for the year 2004-05 in addition to the Interim Dividend at 15 % announced by the Board in their meeting dated April 18, 2005.

If I were to ascribe the success of the Bank's good results, I would assign it to a combination of Vision of the Board and the Expertise of the Executive Management.

The shareholders of the bank, on their part, have reposed their confidence in the Management by fully subscribing to the 40% Right Offer, despite uncertain Stock Market conditions prevailing at that time. The enhanced Equity would enable the bank to initiate new profitable business activities.

In conclusion I would like to say that going forward the outlook for Escorts Bank looks very positive and I look forward to sharing good news with you, year after year.

Sincerely,

Bashir Ahmed
Chairman



Rashid Mansur *President & CEO*

Mr. Mansur, who is also the current Chairman of The Investment Banks Association of Pakistan (IBAP), is an Associate of the Chartered Institute of Bankers London (ACIB), with specialization in International Banking Operations and International Finance and Investment. He is also a Fellow of the Institute of Bankers Pakistan (FIBP). He has had 18 years of experience (1974 – 1992) with Habib Bank Limited, including 10 years on overseas assignments. Other positions held include, President & CEO of an Investment Bank, Director & CEO of a Leasing Modaraba and Director of an Insurance Company. In the public sector he has held the position of Chairman and CEO of the Board of Investment and Trade Punjab. Besides English and Urdu he speaks French and Turkish.

Chief Executive's Review

An Eye On The Future!

Right from the day when I took charge of my present responsibilities as the President & CEO of Escorts Investment Bank, on December 1, 2001, and together with my colleagues, launched our Five - Year Business Plan *Escorts Beyond 2001*, I have believed that while we are engaged in creating Value for our Shareholders, Customers and Companies we do business with, we should avail of all occasions to communicate with them. This is one of those cherished moments again!

I am absolutely delighted to update you on the performance of Escorts Investment Bank Limited during the Financial Year July 2004 ~ June 2005.

Financial Highlights (As at June 30, 2005)

Audited Figures		Rupees in Million		
Description		June 2005	June 2004	Variance %
Profit Before Tax		134	76	76
Profit After Tax		129	74	74
Shareholder's Equity		540	414	30
Deposits & Borrowings		3,406	2,190	56
Financing		747	483	55
Investments		1,524	773	97
Total Assets		4,178	2,742	52
Earnings Per Share	Rs.	4.31	3.05	41
Return on Capital Employed	%	29.78	24.09	24
Dividend	%	* 20	15	33

* Includes interim Cash Dividend of 15% paid out and proposed Bonus Shares @ 5% for the year ended June 30, 2005

Towards a Tradition of “Sustained Value Creation” founded on the Bedrock of “Sound Values”!

My normal pattern in these Reviews, as you may have recognized, is to focus very specifically on the Bank's activities, in such a way that you can easily and accurately measure the progress (both *Quantitative* and *Qualitative*) within the year under review; get some sense or measure of its sustainability, and based on that, make your own forecast as to the Future Outlook for Escorts Bank.

Value Creation

All our activities contributed significantly; either through direct revenue generation or toward achievement of

our Broad Policy Objectives. As a result Gross Income grew by over 105 % from Rs 239 million to Rs. 489 million. Total Operating Profit (before provisions & tax) grew by 118 % to Rs.180 Million. Net After-Tax-Profit grew by 74 % to Rs.129 million. The significant increase in profit reflects the strength of our business. The Bank has been paying out consistent Cash Dividends at 15 % for the last three years (including the Interim Payout this year). Additionally the Board of Directors has recommended a Final Dividend in form of 5% Bonus shares i.e. one share for every twenty shares held.



Sustainability through Diversification

Business Diversity increases our stability, so as we grow, we are ensuring that our operations become more diverse, both in terms of Products and Geographical Diversification. In addition to our Investment Services (Brokerage) Centers (ISCs) at Karachi, Lahore and Islamabad another ISC has recently become operative at Faisalabad. All arrangements are also in place to start operations at our Investment Services (Brokerage) Center Sialkot, followed by Peshawar. The increase in Equity shall also enhance our ability to support new business initiatives and maintain good Credit Ratings. Moreover a simple look at the Financial Highlights of our accounts for the last four years would convince you of the Stability of our Operations and Sustainability of the Bank' growth under all heads.

From Pseudo Commercial Banking to Investment Banking

Our resolve to move on to sophisticated high-end Investment Banking Activities is amply reflected in the increase in our Fee and Commission Income, which grew by 342 % (over the last year) to Rs. 75 million. The share of Fee and Commission Income in Total Revenue increased more than two folds just within the year under review.

High Asset Quality

Prudent Asset Management Policies coupled with prompt and proactive remedial measures have kept delinquencies at their lowest thus ensuring the high

quality of our Assets; total infected portfolio (net of provisions) is 0.74% of the total assets.

Good Governance & Best Business Practices

Practicing Governance means ensuring that we have a comprehensive set of ethical principles plus a team that is committed to ensure that all our business activities are conducted according to those principles. In other words we have to live up to high standards that are independently verifiable. We have a very capable Board of Directors that approves the bank's Strategic Plans and formulate Policies. Complete Operational Autonomy has been granted to the Executive Management to ensure that all transactions are at arms length, in the best interest of the company and its shareholders at large. An independent Head of the Internal Audit reports to the Audit Committee of the Board and the Board receives Quarterly Reviews on Internal Controls. The Compliance Department has been further strengthened to ensure competent and vigilant oversight of all operations.

Professional Efficiency & Constant Improvement

Our unique mix of skills, combined with our more streamlined structure, enable us to act quickly with greater cost efficiency. Cost efficiency is particularly relevant to our business as it becomes more and more competitive and where regulatory changes and a roller-coaster interest rate regime have put added pressure on cost margins. Continuing Cost



Management Initiatives across the spectrum of our activities are evidenced by a gradual but constant decrease in the Expense to Income Ratio from 81.49% to 61.61%. Our lean model enables us to move quickly creating opportunities from changing market conditions.

Three and a Half Years of Escorts Beyond 2001

As a result of successful implementation of the Five-Year Business Plan, *Escorts Beyond 2001* starting January 2002, the Bank's Assets have grown by more than 5 times, Net Profit-after-Tax has shown an increase of 2785 %, EPS has moved from 46 Paisas to Rs. 4.31 per share while Net Asset Value per Share has increased from Rs. 10.78 to Rs. 15.14. The Shareholder's equity has more than doubled. Return on Capital Employed which was around 1 % is now 29.78 % and the Bank's Credit Rating has been upgraded three times by JCR-VIS to the present Rating of 'A' and 'A2' for long and short term, respectively.

Future Outlook

If the *past* is a precursor to the *future*, the contents of the preceding paragraph have already set the tone for the Future Outlook for Escorts Bank.

We remain firmly committed to our present well-defined and focused strategy. *Escorts Beyond 2001* has been a hugely successful Business Plan and we are very confident this will continue to serve as a road map for future. We are confident that our

strategy will continue to reward shareholders with returns significantly above market. We have a number of strategic priorities over the next year. System and Process Improvement is of paramount importance and we have set strict targets for improvement in all our activity areas.

All our successes stem from one common root; the skills and expertise of our team fuelled by sheer commitment, dedication and hard work. I owe my sincere gratitude and appreciation to all of them. On our part, we are determined to provide a safe, rewarding and enjoyable, though at times demanding environment, to each member of the *Escorts Team*.

I take this opportunity to thank the Chairman and the Board of Directors of our Bank for their guidance and support, and the State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their commitment to see the Reform Process through and for providing the necessary enabling environment.

Looking forward to your input and support!

With warm regard,

Sincerely,

Rashid Mansur
President & CEO

September 21, 2005

Divisions



Muhammad Naeem Khan
Chief Operating Officer

Mr. Khan is a graduate from Government College, Lahore. Mr. Khan carries over 30 years of international banking experience in both foreign and national banks. He has expertise in the fields of project financing, lease financing, consortium and syndicate financing, consumer financing and corporate finance. He has successfully executed a number of project financing. Mr. Khan has been working with the Bank since its inception in 1996.



Shazia Bashir
Executive Director (Head of HR & Admin)

Ms. Bashir obtained her degree in Business Administration from USA. She has been associated with the Bank since its inception in 1996. She is also a member of the Board.

Operations and Inter – Divisional Coordination

The Operations Division is the financial hub of the Bank where all the transactions, initiated by the different Front Offices of the Bank, are recorded, accounted for and reconciled. Designing and Production of timely MIS Reports is also an important function of this Division.

The Chief Operating Officer is vested with the most important operational responsibility i.e. to watch over all operational activities of the Bank and to ensure inter-divisional coordination. He has been instrumental in coordinating the activities of various divisions of the Bank to improve transaction efficiencies and maximizing the synergies between them, thus ensuring Goal Congruence.

Human Resource and Administration

The Bank recognizes Human Resource as the most important asset of the Bank. As such Escorts Bank endeavors to employ, develop and enrich top-of-the-line human capital. The division is responsible for all matters relating to administration, human resource management, including recruitment, staff training and evaluation. The Bank's HRM Policy is based upon selecting and rewarding exceptional skills relevant to the latest trends in Investment Banking. We consider the significance and importance of investment in human capital and acknowledge that competent people are necessary to implement more efficient business strategies. Employee Performance Appraisal is undertaken annually in an objective and judicious manner and a result-oriented approach is encouraged. Almost all of the Bank's successes stem from the quality of its team and their dedication to their profession and institution.



Farooq Hameed Khawaja
Chief Financial Officer

Mr Khawaja is an Associate Member of the Institute of Chartered Accountants of Pakistan and was associated with Ernst & Young Pakistan practice for eight years before joining Escorts Bank in 2003.



Arshad I. Khan
Head of Treasury Division

He has a Masters Degree in Business Administration from Keller Graduate School of Management, USA. Mr. Khan is a seasoned banker with over 20 years of banking experience with both foreign and national banks. Mr. Khan has been working with the Bank since 2001.

Finance and Accounts Division

The division is responsible primarily for corporate planning, management and financial reporting, which includes timely preparation of all Management Information reports and financial returns to regulatory authorities. The Division actively supervises and monitors Bank's business plans and future strategies, performance of the Bank against budget and market trends. Finance Division works as the backbone for all Bank's operations. The Division provides feedback to the senior management on various strategic and financing issues.

The division is also vested with the responsibility of financial control and discipline.

Treasury Division

The Escorts Treasury Function was revamped, relocated and centralized at Karachi as a part of our Business Plan. A wide range of new activities were initiated and an energetic team of professionals possessing relevant skills were hired.

Treasury operations of the Bank are concerned with proper Risk Exposure Management, which embraces credit, liquidity and interest rate risk considerations, Assets/Liabilities Management and Control and Development of dealing operations. In addition to the management of day-to-day funding requirements, liquidity, interest rate structures and sensitivity, funding of assets on the best possible terms, mobilization and utilization of funds together with future maturity profiles, are major considerations for Treasury. As a result of proactive marketing and also based on the strength of the Bank's Balance Sheet and improved Credit Rating a large number of fresh credit lines have been negotiated and availed on very favorable terms. Profitable Money Market Trading and Interest Rate Arbitrage in Fixed Income Securities has become the hallmark of the Escorts Treasury.



Azhar A. Batla

Head of Capital Markets Division

Mr. Batla did his Masters in Business Administration from the prestigious IBA, Karachi with specialization in Finance and Accounting. He brings to the Bank over a decade of experience of money and capital markets. Prior to joining the Bank in 2004, he was associated with a leading corporate brokerage house of Pakistan.



Salman M. Baray

Head of Corporate Finance & Advisory

Mr. Baray is an Associate Member of the Institute of Chartered Accountants of Pakistan and also a Member of the Association of Chartered Certified Accountants, UK. He was associated with Ernst & Young Pakistan for five years and worked in a managerial capacity with the Private Power & Infrastructure Board (PPIB) for the development and implementation of the Government of Pakistan's Power Policy 2002, before joining Escorts Bank.

Capital Markets Division

Capital Markets Division (CMD) banks on utilizing and developing the available technologies and human resources, for enhancing its Brokerage capabilities. The focus would be on both, the retail and institutional clients.

We are committed to our dictum of "*Taking Capital Markets To The People!*" Our major focus of the retail brokerage initiative is by enhancing the client base through an expanding branch network as well as through offering customers financial products related to capital markets. These include the establishment of equity sales offices in Karachi, Lahore and Islamabad and in the near future, expansion to other major urban centers of Pakistan.

Besides traditional brokerage accounts, the CMD has begun offering Margin Finance against tradable securities to its brokerage clients. This will allow them to better structure, manage and engineer their portfolios for maximum returns.

CMD is composed of competent human resources who offer diverse services to a wide range of clients

Corporate Finance and Advisory Division

This Division brings a new dynamism in serving the investment and financing needs of its customers by offering advisory services relating to the business and environment in which its customers operate. Our Corporate Finance team develops strategies and identifies opportunities that can help achieve client's objectives and assist clients in consolidating operations and enabling them to gain operating efficiencies. It is perfectly positioned to advise on the appropriateness of raising capital and tailoring its clients' needs such as refinancing original debt, project finance, or raising acquisition finance. Unlike commercial banks, this division offers specific 'tailor made' lending solutions to potential companies.

The Corporate Finance team is also responsible for Credit Appraisal, Risk Assessment and Management and Credit Administration. They employ the latest credit evaluation techniques and complex financial modeling with sensitivity analyses. Appropriate Marketing Intelligence exercises including Field Surveys ensure that potential risks are identified and mitigated in a timely manner. The Bank's enviable Asset Quality is the pleasant consequence of the due diligence of this Division.



Jawwad Ahmad

Head of Internal Audit

Mr. Ahmad has a Masters Degree in Finance. He brings to the Bank vast experience in the field of auditing. He was associated with Ernst & Young International Pakistan Practice for three years and a leading Pakistani Commercial Bank for one year before joining Escorts Bank.

Internal Audit Division

Good Corporate Governance, through a well defined and efficiently applied System of checks and balances along with provision of transparent, accurate and timely financial information, is one of the top priorities of the Business Plan *Escorts Beyond 2001*. Towards this end an independent Internal Audit Division has been established. The Head of Internal Audit Division reports directly to the Audit Committee of the Board. The committee comprises of three non-executive directors and ensures that the internal control system including financial and operational controls, accounting system and reporting structures are adequate and effective.

Enhanced Service Portfolio

- Focus on Investment Promotion



Our Products and Services

The Bank offers a variety of financial products and services in Fixed Deposits, Corporate Finance, Advisory Services and Capital Markets. Our philosophy is to provide and optimize value to our shareholders, customers, and employees. The belief in innovation, quality, customer service, team spirit, & integrity has led the Bank to tremendously expand its business operations over the last three years and financially increase its profit returns and shareholder earnings.

Escorts Bank enjoys a medium to long-term rating of A (Single A) and a short term rating of A-2 (Single A two) by JCR-VIS Credit Rating Agency of Pakistan. These ratings denote adequate credit quality, sound liquidity factors and company fundamentals, reasonable and sufficient protection factors and good certainty of timely payment.

The Bank focuses on providing financial services and solutions to different target groups in the market like Public and Private Institutions and individuals. We develop and execute a full spectrum of products and services for our clients. A brief introduction of our offered products and services is provided below.

BROKERAGE

ESCORTS

Investment Bank

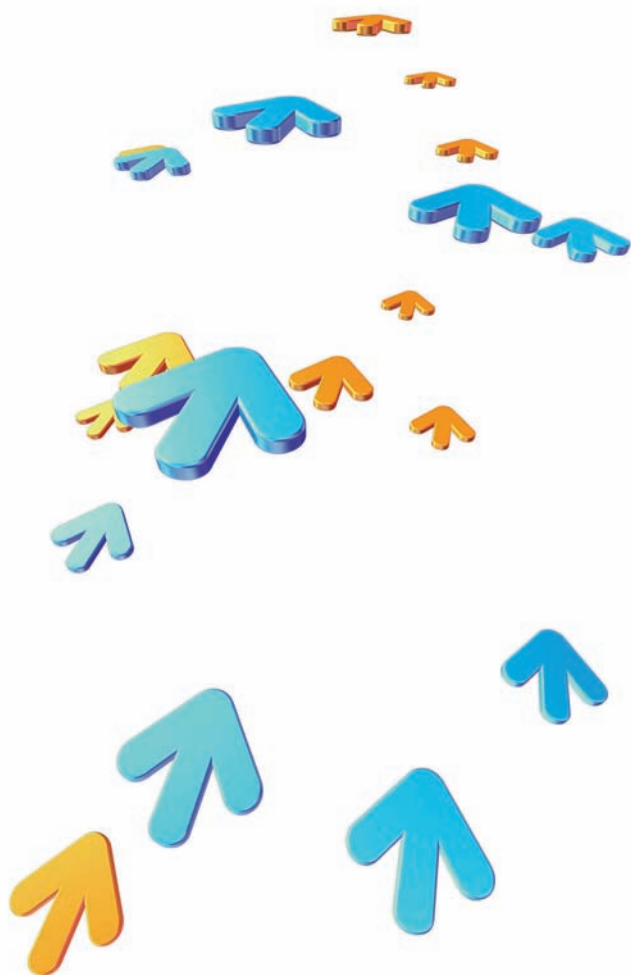
Investment Advisory

Deposit

Certificates

Custom-made Solutions

Certificates of Deposits



Custom-made for You

Open a Fixed Deposit Account with us and enjoy attractive rates of return. We offer a number of deposit schemes suited to our broad based clientele. With a minimum of one month, you will have the flexibility to choose the term of your deposit. The flexible terms of investment having maturities ranging from 1 month to 5 years help in providing end-to-end financial liquidity. Profits on investment are payable at the commercial bank of your choice or can be delivered at your doorstep. Our Fixed Deposit Account gives you flexibility, liquidity and competitive interest rates. In fact, we can safely say it's custom-made- for You.

We offer following investment schemes:

Escorts Zabardast Monthly Munafa

Profit is paid on a monthly basis. Certificates can be obtained for 6 months, 1, 2, 3, 4 and 5 years.

Escorts High Income Saving Certificates

Profit is paid at maturity. Certificates are available for 1, 2, 3 and 6 months maturities.

Escorts Income Growth Certificates

Profit is paid on a semi-annually basis. Tenure of Certificates ranges from 1 year to five years.

Escorts Money Multiplier Certificates

Profit is paid at maturity. Tenure of Certificates ranges from 1 year to five years.

Salient features of our deposit schemes are:

- Minimum deposit amount PKR 50,000
- Attractive interest rate; among the highest in the country
- Flexible term from 1 month to 5 years
- Profit payment of your choice (monthly, semi annually, annually or at maturity)
- Quick and simple procedure
- Automatic renew-ability
- Roll-over facility with various options upon maturity

Moreover, You can also get a personal loan against your deposit. We offer finance facility up to 80 % of your deposit amount at a very competitive rate thus providing you with liquidity without effecting your investments.

To open an account with us, kindly complete an application form which is available at your nearest Escorts Bank branch or you can simply request an application form by writing to us at our postal or email address. Once you have completed the application form in full, just call in to the branch of your choice for further assistance.

To know more about our Fixed Deposit Account, kindly visit one of our branches or call us at the numbers or email provided on page 17.

Brokerage Services

When it comes to investing or trading, the best way is your way

In line with our goal to be the premier provider of financial services, our Capital Markets Division provides stock brokerage services to institutional and individual investors. Equipped with the latest technology, our dealing rooms are connected on a *real time* basis with Karachi and Lahore Stock Exchanges.

We offer you an opportunity to invest in the Capital Markets where higher yields on investment can be realized keeping in view the low returns on bank deposits and National Saving Schemes. An investor has the option of investing funds by trading in shares listed on the Stock Exchanges and becomes eligible in realizing capital gains and dividend income.

At Escorts, we realize that you are like no other investor. You have specific requirements, a unique style, and special goals. Which is why we provide such a wide spectrum of resources and support. With our brokerage services, you always have a choice. You will be able to:

- Manage your investments by phone or online
- Make investment decisions in your own timeframe
- Trade smarter with real-time access to KSE & LSE
- Access to breaking news, market events, and company specific news
- Efficient and cost-effective order execution
- Safe custody of equities
- State-of-the-art and custom made Brokerage system
- Financial analysis of listed companies
- Finance facilities (subject to Bank's rules and regulations)
- No administrative or management fees
- Very competitive commission structure

Our dedicated traders and analysts can provide you with a one-stop shares trading and related services.



"Taking Capital Markets To The People!"

Speak to us today and start to manage all your investments in a hassle free environment. To schedule a meeting with a dedicated client advisor or to receive more information about our Brokerage Services, contact us at the numbers or email provided on page 17.

Structured Products



Investment Banking Advisory Services for Corporates

Escorts bring a new dynamism in serving the investment needs of its customers by offering Advisory Services relating to the business and environment in which its customers operate. We are here to service corporates, providing the entire range of investment/structured products and advisory services.

We are perfectly positioned to advise on the appropriateness of Privately Raising Capital and the form that it should take such as refinancing Original Debt, Project Finance, or raising Acquisition Finance.

Our Investment Banking team creatively matches alternative resources of funding with your needs and can help you restructure your businesses through sophisticated debt, equity and derivative instruments. They develop strategies and identify opportunities that can help achieve client's objectives and it can assist you in consolidating operations and enabling you to gain operating efficiencies. In addition, they structure a broad spectrum of innovative and synthetic products appealing to diverse and complex customer needs thus helping you reap benefits and improve productivity of your corporate entities.

We acknowledge and appreciate that each of our customer is unique with a different risk/return profile. As such, we take pride in our ability to structure products that are tailored to match those very unique requirements. With access to a full range of Capital and Money Market instruments, our team provides tailor-made structured products linked to a range of underlying exposures, including

- Loan Syndications
- Private Equity Placements
- Listed Corporate Debt
- Equity IPOs including guidance on all regulatory and all Stock Exchange related matters
- Quasi Equity Offerings

Our Structured Product solutions are for clients who value their money as a means to an end. That's why we invite you to sit down with us and define your own priorities. We will be delighted to discuss your needs and offer professional, impartial advice.

Corporate Banking

A Team-Based approach

As a premier Investment Bank, Escorts Bank is uniquely placed to assist you with fully customized Corporate Banking solutions for your company's needs. Our team-based approach allows us to maintain a high level of quality and integrity in developing and executing solutions for our clients' requirements.

We develop and execute a full spectrum of corporate banking products and services for our clients.

A – Project Finance

Within the perspective of project finance, we empirically promote Greenfield projects as well as established organizations for undertaking Balancing, Modernization and Replacement (BMR) of their existing production facilities. We offer Morabaha as a finance facility. The nexus of financing has prompted long to medium term loans as well as short-term loans. Operational methodology of Morabaha includes the purchase of goods by the Bank from a third party and then selling the same to the client. The whole procedure involves an agency agreement between the parties. The client has to make payment of a deferred marked up price to the Bank.

B – Working Capital Finance

To ensure the smooth operations of business ventures, we offer traditional working capital financing. These credit lines are making the companies eligible for credit by collateralizing the funds with appropriate securities, mainly earning assets. The tenor of these facilities is up to 12 months.

C – Bridge Finance

Bridge finance facility of the Bank provides a successful completion of the onset of the enterprise by meeting initial project cost or pooling equity until the committed funds become available. It is prior to permanent financing. We are abridging major capital needs for corporate sector in this way.



D – Letter of Guarantees

Guarantees are given by the Bank on behalf of customers against cash margins or collaterals or against other Banks' counter guarantees. We are catalyzing various avenues by offering a range of bank guarantees i.e. Performance Bonds and Bid Bonds. Our Guarantees:

- Facilitates the customer's transaction for which a guarantee is issued
- Protects the rights of the beneficiary

For further information on our Corporate Banking products, speak to us today. To schedule a meeting with our relationship manager, contact us at the numbers or email provided on page 17.

Share Margin Financing

Get your investment leveraged

At Escorts, we offer our customers the facility to trade in equities against their own equity portfolio. Investors interested in leveraging their Equity Portfolio can receive financing against shares from Escorts. The rates of mark up charged against this financing makes this a cost effective and attractive form of financing for secondary market activity. This product is even more attractive considering that an equity market investor can utilize a one window operation through Escorts as the Bank can also provide investors with Brokerage Services through its seats on KSE and LSE.

For further information, speak to us today and start to manage all your investments in a hassle free environment. To schedule a meeting with our relationship manager, contact us at the numbers or email provided on page 17.

Escorts Car Finance *A smarter way to get a great deal on your car*

Escorts Bank is giving insta-buying offer of vehicles. The repayment period is made flexible to suit the cash flows of the customer. This feature has received a very encouraging response, which has made Escorts Car Finance an ultimate success story.

Escorts Car Finance offers you the following Benefits:

- Finance your favourite car - New or Used (conditions apply)
- Highly competitive rates
- Fast approvals with minimum documentation
- 10% Down payment Facility
- Maximum Loan Value (Up to PKR 2,000,000)
- Flexible terms of repayment
- Fixed installments for easy budgeting
- Repayment period up to 60 months for a new car and up to 48 months for used cars
- 100% Finance for first year Fully Comprehensive Auto Insurance
- Convenience of using Escorts branch network

To know more about Escorts Car Finance, kindly visit one of our branches or call us at the numbers or email provided on page 17.

Escorts Bank is proud of its many remarkable attributes, but one asset stands above everything else: our loyal Customers. We have a very simple perspective on this: Create compelling and more innovative products and services, and customers will keep coming and stay longer, bringing more value to Escorts and our shareholders, customers, and employees.

To achieve our mission *"To build Escorts Investment Bank Limited into an elite institute comparable with, if not better than any top quality local or foreign financial institution operating in Pakistan..."* we have enhanced our existing business lines and introduced new ones in an effort to a sustained growth while also building stronger, deeper connections with our customers; introduce some great new products and lead the industry in developing a broad range of investment banking products.

Looking Ahead

We've made good progress, but it is important for us to remember that we've only just begun. As a result of the strong foundation Escorts Bank has laid and the clear path that has been established for the future, we believe we are in a great position to lead the growth and development of the business line translating into long-term, sustainable growth for Escorts and all its stakeholders.



Moments To Cherish

Taking Capital Markets To The People!



Lahore
(May 25, 2004)

Dr. Tariq Hassan, Chairman Securities & Exchange Commission of Pakistan (SECP), inaugurated First Model Investment Services Center of Escorts Investment Bank Limited at Davis Road, Lahore.

Addressing an audience at Lunch hosted in honor of the Chairman SECP, Mr. Rashid Mansur, President & CEO of Escorts Bank reiterated Escorts Bank's commitment to Shift from Pseudo Commercial Banking activities to genuine Investment Banking. He further added, "We had made a conscientious choice to remain an Investment Bank within the Non-Banking Financial Company structure, designed and regulated by the SECP". Speaking on the issue of enhancing the market outreach and *Taking Capital Markets To The People*, Mr. Mansur announced opening of five more such center in major cities of Punjab in near future. While sharing the performance of Escorts Bank with the audience, Mr. Mansur said that the assets of Escorts Bank have grown three times and net profitability 18 times, EPS moved from 23 paises to above Rs. 4.- per share, while the Return on Average Equity increased from around 2 % to over 31 %. Share Price of Escorts Bank also improved from Rs. 5.- to over Rs. 16.-, since launching of the current Business Plan, *Escorts Beyond 2001*.



Mr. Mansur added that Corporate Governance, transparent, accurate and timely Financial Information and a system of checks and balances are the factors on which Investor confidence rests. He also hoped that in these efforts Escorts Bank shall not be alone and that institutions like Escorts Bank will continue to receive support of SECP and the State Bank of Pakistan.

Dr. Tariq Hassan on the occasion appreciated the conscientious efforts being made by Escorts Bank for repositioning itself as a genuine Investment Bank. He, while emphasizing the need to enhance the market outreach and broadening of revenue stream, supported Escorts Bank's perspective of taking the Capital markets to the people. He also hoped that Escorts Bank would lead the NBFCs in covering the major cities of Punjab into proactive and vibrant financial centers.

"The investment banks' quarterly reports had been monitored by the SECP and it was pleasing to note that they have become profitable organisations," he added.

Earlier, Dr. Tariq Hassan was given a briefing on the basic philosophy of *Taking Capital Markets To The People*, that is the foundation for establishing Investment Services Centers all across Punjab, during the round of the Investment Services Center at Davis Road, Lahore.



Investment Banks Role Vital For Savings Mobilisation: Dr. Ishrat Hussain

KARACHI (July 14, 2004): State Bank Governor Dr Ishrat Husain said on Wednesday that the emerging role of investment banks was of high importance as the time has come to wake up and play a vital role for mobilisation of savings in the country.

He was speaking at a lunch regarding the opening of Investment Services Centre of Escorts Bank at Karachi Stock Exchange Building.

He said that after separation of role of SBP for commercial banks and Security Exchange Commission for non-bank finance institutions, more clarity was available regarding the functioning of the banks and non-banks.

He said he had some reservations about investment banking in the country and was trying to understand what was going to be the controlling instruments for investment banking.

He said he was pleasantly surprised with the performance of Escorts Bank and the experience he got from the Bank.

He said the role of investment banks was different from commercial banks. Copying commercial banks would not help investment banking as the commercial banks have inherited a number of advantages including the experienced skilled workforce.

He appreciated that investment banking was being taking out of Karachi to Lahore and other cities mobilising the saving activities across the country.

He said that financial sector has yet not reached the middle and lowers middle classes, which is essential for the development of banking. He said that access of middle and lower middle class to financial sector was essential for development.

He said the micro financing, SMEs, consumer banking and Islamic banking are the efforts to reach the middle and lower class.

He was of the view that there was no need for CIRC as the investment banks could do this job. They should restructure the sick units and sell at some premium value. This has been done in China, Malaysia, Indonesia and now in India.

He said depth in the market was required for commercial and investment banking. "It is time for the investment banking sector to wake up," said the Dr. Husain.

Earlier, CEO of Escorts Investment Bank Rashid Mansur said the macroeconomic stability of Pakistan has been restored. A set of well-designed and equally well-timed set of reforms have been implemented towards the consolidation of the banking sector, restructuring and strengthening of the non-banking finance companies and making them an integral part of the financial service industry.

"I had the opportunity of making a presentation to the Governor, on the Background, Objectives and the Operational Strategy of our Five-Year Business Plan - *Escorts Beyond 2001*. Again this morning, we have declared open our new Investment Services Centre at the Karachi Stock Exchange Building.

"One of the most important objectives of our business plan is to shift from 'pseudo-commercial' banking activities to genuine investment banking," said Mansur.

He said: "We have made a conscientious choice to remain an investment bank within the non-banking financial company structure designed and regulated by the SECP.

"I believe that the financial sector reforms introduced by the State Bank of Pakistan, coupled with the capital market reforms of SECP have made the stock market more efficient, transparent, accessible and acceptable, in terms of capping of systemic risk and an efficient settlement process."

The shift in the interest rates scenario has put a spotlight on the high costs of intermediation of some of the commercial banks and has also prompted the saving public to turn to stock markets for better returns. All these factors have created an atmosphere that now enables, inspires and encourages investment banks of the country to play their real role of providing high-end services, related to capital markets.

A progressive and proactive institution like Escorts Bank can capture the existing retail and institutional clientele in brokerage services and also create a new demand for retail brokerage services, by creating awareness, and by setting new standards in services offered.

He said: "After today's opening of our 'Investment Services Centre' at KSE Building Karachi, we intend to open five more such centres in major cities of Pakistan.

"From the time when we launched our business plan in January 2002, our assets have grown three times; our net profitability 18 times; EPS has moved from 23 paise to over Rs 3 per share while the return on average equity has increased from around 2 percent to over 31 percent. Share price of Escorts Bank has improved from Rs 5 to around Rs 15. Our credit rating has been upgraded twice. Considerable progress has also been achieved in terms of Asset Quality and Diversity of Revenue Streams; level of hedging against volatility of revenues; systems development and automation, human resource and Brand Visibility."

(Source: Business Recorder)

Moments To Cherish

JCR-VIS Credit Rating Company Limited

Affiliate of Japan Credit Rating Agency, Ltd.

Press Release

JCR-VIS upgrades ratings of Escorts Investment Bank Limited.

Karachi, January 31, 2005: JCR-VIS Credit Rating Company Limited (JCR-VIS) has upgraded the medium to long-term entity rating of Escorts Investment Bank Limited (EIBL) from 'A-' (Single A Minus) to 'A' (Single A) with a 'Stable' outlook. Short-term has been maintained at 'A-2' (A-Two)

The upgrade takes into consideration the commitment of the main sponsors of EIBL to contribute towards future enhancement of equity of the bank. This injection will increase the bank's loss absorption capacity. The institution has also diversified its business over the last financial period. A degree of interest rate risk is present and will be monitored in an environment of increasing rates.

Faheem Ahmad
President & CEO

Contact:

Jamal Abbas Zaidi /Nazia Saleem/ Sobia Maqbool

JCR-VIS Credit Rating Company Limited

Tel: 5680766, 5680996, 5671822, 5671833

Fax: 5681105, 5671600

E-mail: vispk@cyber.net.pk

Annual Accounts

for the year ended June 30, 2005

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 10th Annual General Meeting of the Shareholders of ESCORTS INVESTMENT BANK LIMITED ("the Company") will be held on Monday, October 31, 2005 at 1130 hours at the registered office of the Company at Escorts House, 26-Davis Road, Lahore to transact the following business:

Ordinary Business

1. To confirm the minutes of the 9th Annual General Meeting held on October 30, 2004;
2. To receive, consider and adopt the Audited Accounts of the Company together with the Auditors' and Directors' Reports for the year ended June 30, 2005;
3. To approve issuance of Bonus Shares @ 5% i.e. one share for every twenty shares held, for the year ended June 30, 2005 as recommended by the Board of Directors;
4. To appoint the auditors and to fix their remuneration. The present auditors M/s Taseer Hadi Khalid & Co. Chartered Accountants retire and being eligible, offer themselves for reappointment for the year ending June 30, 2006; and

Other Business

6. To transact any other business with the approval of the chair.

by order of the Board

Lahore: October 8, 2005

Farooq Hameed Khawaja
Company Secretary

Notes:

- i) The share transfer books of the Company will remain closed from October 25, 2005 to October 31, 2005 (both days inclusive). Transfers received at Hameed Majeed Associates (Private) Limited, H.M House, 7 Bank Square Lahore, by the close of business hours on October 24, 2004 will be treated in time for the purpose of the entitlement of Bonus Shares.
- ii) A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. Form of proxy is enclosed with the annual report.
- iii) CDC shareholders entitled to attend and vote at this meeting are requested to bring his/her original NIC or attested copy of the NIC for identification purposes.
- iv) Shareholders are requested to promptly notify the change in address, if any.

Directors' Report

The Board of Directors of Escorts Investment Bank Limited is pleased to present the annual report together with the audited financial statements for the year ended 30 June 2005.

The Board hereby confirms that:

- a) These 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;
- b) Proper books of accounts of the company have been maintained;
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements, except for changes as mention in the accounts, and accounting estimates are based on reasonable and prudent judgment;
- d) International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed;
- e) The system of internal control is sound in design and has been effectively implemented and monitored;
- f) There are no significant doubts upon the company's ability to continue as a going concern; and
- g) There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Financial Results

The financial results for the year under review are summarized as follows:

	2005 (Rupees)	2004 (Rupees)
Profit before provisions & taxation	180,415,528	82,614,445
Provision for doubtful finances & receivables	26,344,908	6,158,787
Impairment – Held to maturity investments	20,000,000	–
Profit before taxation	134,070,620	76,455,658
Less: Taxation	4,669,463	2,833,226
Profit after taxation	129,401,157	73,622,432

- Key financial data and ratios for the last six years are given on page 20.

The Bank during the year recorded 74% growth in profit after taxation, which increased from Rs. 74 million for the previous year, to Rs. 129 million for the year under review. Bank witnessed all-around progress both in quantitative as well as in qualitative terms.

Increase in paid-up capital towards the end of 2004 and issuance of term finance certificates during 2005 increased the operational capacity of the Bank. Further, the initiative of acquiring membership at Karachi Stock Exchange (G) Limited, which became operative in July 2004, supplemented the Brokerage Operations. The non-fund based fee income increased from Rs. 17 million to Rs. 75 million while through efficient and prudent deployment of funds, the Bank earned reasonable return on its investments.

Gross revenue during the year amounted to Rs. 489 million as compared to Rs. 239 million of the previous year. Borrowing cost increased from Rs. 85 million to Rs. 158 million, while administrative expenses during the year amounted to Rs. 141 million, in line with the increased business volume. Provision against doubtful finances and receivables amounted to Rs. 26 million. The Bank during the year booked impairment of Rs. 20 million on its held to maturity investments. The operating (pre-tax) profit increased to Rs. 134 million from Rs. 76 million last year, an increase of 76%.

Total assets as at 30 June 2005 stood at Rs. 4.178 billion as against Rs. 2.729 billion at the last year end, reflecting an improvement in the balance sheet size by 52% over 30 June 2004.

Earnings Per Share

In line with profitability, earnings per share of the Bank have risen from Rs. 3.04 in 2004-2005 to Rs. 4.31 during the year under review, showing an increase of 42%.

Dividend

During the year under review the Board of Directors declared 15% interim dividend, which has been paid out during the year. The Board now proposes issuance of Bonus Shares @ 5% i.e. one share for every twenty shares held, for the year 2004-05.

Credit Rating

As a witness to our performance, JCR-VIS Credit Rating Agency has upgraded Medium to Long-term rating to 'A' (Single A) while Short-term rating has been maintained at 'A-2' (Single A two), with Stable Outlook. These ratings denote good credit quality, sound liquidity factors and company fundamentals, adequate protection factors and good certainty of timely payments.

Board Meetings

The Board comprises of two executive and six non-executive directors. During the year ended 30 June 2005 Mrs. Darakhshan Bashir, Mr. Farrukh Ahmad Kamran and Mr. Qaim Mahdi resigned from the Board. The Board records its appreciation of the valuable services rendered by them during their tenure of office as Directors of the Bank. The Company in the meeting held on 30 October, 2004 resolved to reduce the number of directors from eleven to eight. Hence no casual vacancy occurred during the year. During the year, five meetings of the Board of Directors were held and the following is the detailed of attendance by the Directors:

Directors	Held during Tenure	Attended
Mr. Bashir Ahmed	5	5
Mr. Rashid Mansur	5	5
Mr. Abdul Latif Uqaili	5	5
Ms. Shazia Bashir	5	4
Mr. Tajamul Hussain Bokhari	5	3
Mr. Asad Ali Shah	5	5
Mr. Bairam Qureshy	5	4
Mr. Mutahir Ahmed	5	Nil

Leave of absence was granted to directors who could not attend some of the Board meetings.

Changes in Shareholding

During the year ended June 30, 2005 the CEO and the CFO/Company Secretary sold shares acquired last year. Other than this there was no other movement in shares. The detail of above sale is as under:

Name	Designation	No. of Shares sold
Mr. Rashid Mansur	CEO	150,000
Mr. Farooq Hameed Khawaja	Company Secretary & CFO	18,500

Subsequent to the year end the Board resolved to offer unsubscribed portion of the 40% Right Issue i.e. 1,030,375 shares, to the staff of the Bank. In exercise of the offer certain Executives including the Chief Executive Officer of the Bank have acquired shares of Escorts Investment Bank Limited.

Pattern of Shareholding

There were 285 shareholders of the Bank as of 30 June 2005. The pattern of shareholding, disclosing the aggregate number of shares held by various categories of shareholders, appears at the end of this annual report.

Value of Provident Fund Investment

The Bank operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by the Bank and the employee to the fund @ 10% of basic salary. The audit of the accounts of Provident Fund Trust is under process, however the value of its investments as at 30 June 2005 works out to Rs. 8.88 million.

CEO's Review

The Board endorses the CEO's review for the year ended June 30, 2005.

Auditors

The auditors M/s KPMG Taseer Hadi Khalid & Co., Chartered Accountants retire and being eligible, offer themselves for reappointment.

Future Outlook

During the year the competition remained intense, fuelled by changing interest rates scenario, focus of Commercial Banks on the investment banking activities due to absence of level playing ground for the investment banks and shortage of quality human resource. However, the Bank has been able not only to sustain its growth pattern rather exceeded the budgeted targets. Taking motivation from the results of the year 2005, the Bank will continue to look for business simplification opportunities for reducing costs and will remain alert to the fast-changing economic environment. Whilst focus on core investment banking activities will continue, there are opportunities for extending the product portfolio which are being explored, consequent to the increase in the equity, so as to ensure growth in the longer term for the Bank and thereby the returns to the stakeholders.

Personnel

The Board would like to take this opportunity to express its appreciation to the employees of the Bank for their commitment, hard work and co-operation throughout the year. The Bank recognizes and records its gratitude for all their efforts.

For and on behalf of the Board:



Rashid Mansur
Chief Executive Officer



Shazia Bashir
Director

Lahore: September 21, 2005

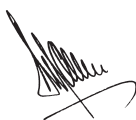
Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the listing regulations of stock exchanges where the Company's shares are listed, 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 Board of Directors of Escorts Investment Bank Limited ("the Company") has adopted and applied the principles contained in the Code in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors including two independent directors. The Company has on its Board one director representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including Escorts Investment Bank Limited.
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 or being a member of a stock exchange, has been declared a defaulter by that stock exchange.
4. During the year ended June 30, 2005, Mrs. Darakhshan Bashir, Mr. Farrukh Ahmad Kamran and Mr. Qaim Mahdi resigned from the Board. The Company in the meeting held on 30 October, 2004 resolved to reduce the number of directors from eleven to eight. Hence no casual vacancy occurred during the year.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been 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 Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director 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 meeting along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. The Board has approved appointment of the CFO and the Company Secretary including their remuneration, terms and conditions of employment as determined by the CEO.
10. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
13. The Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the committee.
15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the polices and procedures of the Company and are involved in the internal audit function on a full time basis.
17. 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 and all its partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board:



Rashid Mansur
Chief Executive Officer



Shazia Bashir
Director

Lahore: September 21, 2005

Committees

The Board of Directors and the Executive Management of Escorts Investment Bank Limited recognize the importance of and are committed to the principles of Good Corporate Governance and Best Business Practices as prescribed by the Securities and Exchange Commission of Pakistan and also enshrined in our own Statement of Ethical Business Practices.

In line with the above, the Board has constituted following Committees and has delegated specific responsibilities to these Committees:

Audit Committee:

The terms of reference for the Audit Committee have been formed and approved by the Board. The Committee consists of following non-executive directors of the Board:

Mr. Bashir Ahmad (Committee Chairman)
Mr. Abdul Latif Uqaili
Mr. Asad Ali Shah

Executive Management Committee:

The Committee meetings are held regularly to review the performance of the Bank in comparison to the last year and with the budgeted targets approved by the Board, plan future strategy and also to consider the rapidly changing market conditions and to devise plans for taking maximum advantage.

The Committee comprises of following:

President & CEO (Committee Chairman)
Chief Operating Officer
Executive Director
Chief Financial Officer

Credit Committee:

The Committee is responsible for approval of credit lines and investment in unlisted fixed income securities. The Board has approved authorization limits for the Committee. The Committee comprises of:

Chairman of the Board (Committee Chairman)
President & CEO
Chief Operating Officer
Executive Director
Chief Financial Officer

Asset Liability Committee:

The Committee reviews the maturity profile of the Bank's financial assets and liabilities on regular basis to ensure that there are no material mismatches and that the Bank is comfortably placed with regard to changing interest rate scenario. The Committee Comprises of:

President & CEO (Committee Chairman)
Chief Operating Officer
Executive Director
Chief Financial Officer
Head of Treasury

Statement of Compliance with Best Practices on Transfer Pricing for the year ended June 30, 2005

The Company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulations of the stock exchanges where the Company's shares are listed.

For and on behalf of the Board



Rashid Mansur
Chief Executive Officer

Lahore: September 21, 2005

Statement of Ethics and Business Practices

The following core values have been incorporated in our System to promote ethical business practices while producing quality products.

Business Practices

Escorts Bank recognizes responsibility in the following areas:

Shareholders: To protect shareholders investment and to provide them maximum return on their investment. We focus on maximizing long-term shareholders' value through strong financial performance and returns, disciplined and profitable expansion.

Customers: To provide them with the best investment opportunities and financial products that can cater to changing economic environment. Our focus is on building enduring relationships with our clients to help meet their financial goals, providing friendly, caring, seamless service and excellent value through a wide range of products and services. Prompt, efficient attention to complaints is integral to our client care commitment.

Employees: To provide our employees with a friendly and congenial environment to work in and to provide them an equal opportunity to prosper and grow. There are job opportunities available for the most deserving candidates depending on their professional achievements and skills in their chosen departments. We feel that strong relationship with employees is vital to our future success. Each employee plays an important role in advancing our reputation and is required to be fully familiar with our code of conduct. We are focused on providing leading-edge workplace practices, opportunities for continuous learning, and challenging and satisfying careers to our employees.

Society: To conduct business as a good corporate citizen of the society, while respecting and complying with the prevalent laws as a financial entity.

Business Integrity

Escorts Bank believes in the following five principles to be applied in all aspects of their business:

- Personal Responsibility
- Integrity
- Honesty
- Teamwork
- Diversity

All business transactions on behalf of Escorts Investment Bank Limited must be reflected accurately and fairly in the accounts of the Company in accordance with established procedures and should be subject to audit.

Reliability and Reporting

All transactions and contracts are fully documented and are available for review of the concerned quarters. Escorts Bank complies with the International Accounting Standards (as applicable in Pakistan) and all applicable laws and regulations, whereby its financial statements present a true picture of the underlying transactions.

Economic Principles

Maximization of profitability is essential for any financial institution, as this is used as a yardstick to determine efficiency. Also, it is necessary to allocate resources in a manner that will result in profitability. Escorts Bank allocates resources including Capital, Management Time, Human Resources and Information Technology according to a range of factors, such as size and complexity of the operation, growth prospects and contribution made by each area.

Political Activities

Escorts Bank believes in staying detached from all political activities.

Health and Safety

The maintenance of appropriate health and safety standards throughout Escorts Bank is a key responsibility of all managers. Escorts Bank's objective is to identify, remove, reduce or control material risks of fire and of accidents or injuries to employees and visitors.

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of ESCORTS INVESTMENT BANK LIMITED ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, 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 provision 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 our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2005.

Lahore
Dated: September 21, 2005

Taseer Hadi Khalid & Co.
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of ESCORTS INVESTMENT BANK LIMITED ("the Company") as at June 30, 2005 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 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 accounts 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, except for the change as stated in note 2.2 with which we concur;
 - 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 June 30, 2005 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.

Lahore
Dated: September 21, 2005

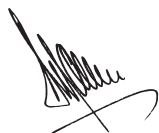
Taseer Hadi Khalid & Co.
Chartered Accountants

Balance Sheet

As at June 30, 2005

Note	2005 Rupees	2004 Rupees (Restated)	
ASSETS			
Non-current Assets			
3	Fixed capital expenditure	123,898,000	23,220,356
4	Cards and rooms	44,105,000	42,420,000
5	Long term investments	596,546,284	–
6	Long term finances	119,500,425	96,362,205
7	Long term loans, deposits and prepayments	7,466,205	8,299,350
8	Deferred tax asset	5,045,842	–
Current Assets			
9	Current maturities of non-current assets	81,605,345	100,216,698
10	Short term investments	917,255,694	773,280,555
11	Short term finances	563,239,877	290,342,369
12	Short term placements	742,095,424	1,126,635,890
13	Advances, deposits, prepayments and other receivables	305,724,464	220,836,840
14	Cash and bank balances	671,204,063	60,503,764
		3,281,124,867	2,571,816,116
		4,177,686,623	2,742,118,027
EQUITY AND LIABILITIES			
Share Capital and Reserves			
15	Share capital	300,000,000	300,000,000
16	Share deposit money	85,794,990	–
17	Reserves	154,218,143	114,816,986
		540,013,133	414,816,986
18	(Deficit)/Surplus on Revaluation of Investments	(23,346,354)	3,459,249
Non-Current Liabilities			
19	Term finance certificates	274,835,000	–
20	Long term certificates of deposit	305,463,946	146,327,455
8	Deferred tax liability	–	4,982,521
Current Liabilities			
21	Current maturities of non-current liabilities	28,236,515	25,787,370
22	Short term borrowings	1,660,000,000	1,060,029,319
23	Running finance under mark up arrangements	372,498,355	–
24	Short term certificates of deposit	765,919,222	958,674,659
25	Trade and other payables	241,518,195	89,278,385
26	Provision for taxation	12,548,611	38,762,083
		3,080,720,848	2,172,531,816
27	Contingencies and Commitments	4,177,686,623	2,742,118,027

The annexed notes 1 to 45 form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



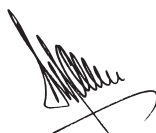
DIRECTOR

Profit and Loss Account

For the year ended June 30, 2005

Note	2005 Rupees	2004 Rupees
	INCOME	
28	47,779,930	43,419,734
29	27,913,738	18,946,799
30	332,028,040	157,828,173
31	75,366,182	17,039,680
	5,570,581	2,199,845
	488,658,471	239,434,231
	EXPENSES	
	75,603,652	58,867,441
	16,161,982	–
	6,508,679	489,043
	60,143,878	20,707,885
	–	132,705
	–	4,945,117
	8,358,449	–
32	141,142,791	71,214,931
	323,512	462,664
	308,242,943	156,819,786
	180,415,528	82,614,445
	3,844,908	6,158,787
	22,500,000	–
	20,000,000	–
	46,344,908	6,158,787
	134,070,620	76,455,658
33	4,669,463	2,833,226
	129,401,157	73,622,432
34	4.31	3.05

The annexed notes 1 to 45 form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



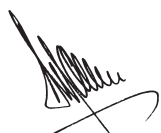
DIRECTOR

Cash Flow Statement

For the year ended June 30, 2005

	2005 Rupees	2004 Rupees
Cash flow from operating activities		
Profit before taxation	134,070,620	76,455,658
Adjustment for non cash expenses and other items:		
Depreciation	6,164,224	4,935,967
Provision for doubtful debts	3,844,908	6,158,787
Provision for doubtful receivables	22,500,000	-
Impairment loss - Held to maturity investments	20,000,000	-
Amortization of premium on held to maturity investments	8,358,449	-
Loss/(gain) on sale of fixed assets	50,968	(303,599)
Fixed assets written off	1,238,205	45,815
Mark-up/return income	(78,396,223)	(72,720,586)
Dividend income	(26,896,883)	(8,579,081)
Return on deposits and borrowings	158,418,191	80,064,369
	115,281,839	9,601,672
	249,352,459	86,057,330
(Increase)/decrease in operating assets		
Disbursements of finances - net	(268,005,458)	(111,901,196)
Investment in/(divestment from) placements - net	(254,821,173)	(445,999,999)
Investments - net	(171,639,731)	(160,608,474)
Loans, advances, deposits and prepayments	(112,112,082)	(92,446,225)
	(806,578,444)	(810,955,894)
Increase in operating liabilities		
Borrowings from financial institutions	599,970,681	282,129,319
(Repayments of) / receipts from certificates of deposit	(30,247,799)	437,089,899
Running finance facilities	372,498,355	-
Trade and other payables	147,741,705	78,676,819
	1,089,962,942	797,896,037
Net changes in operating assets and liabilities	283,384,498	(13,059,857)
Mark-up/return received	79,972,231	71,359,960
Return on deposits and borrowings paid	(141,673,321)	(75,398,357)
Dividend received	24,702,958	8,529,081
Net cash generated from operating activities before taxes	495,738,825	77,488,157
Taxes paid	(45,639,832)	(19,270,847)
Net cash generated from operating activities	450,098,993	58,217,310
Cash flow from investing activities		
Fixed capital expenditure incurred	(110,813,598)	(15,871,541)
Proceeds from sale of fixed assets	2,682,558	1,180,576
Investment in cards and rooms	(1,685,000)	(35,250,000)
Net cash used in investing activities	(109,816,040)	(49,940,965)
Cash flow from financing activities		
Share deposit money - Right Issue	85,794,990	100,000,000
Dividend paid	(89,290,642)	(29,985,223)
Subordinated loans	-	(84,030,171)
Term Finance Certificates - net	274,945,000	-
Repayment of lease obligation	(1,032,002)	(2,203,379)
Net cash generated/(used) in financing activities	270,417,346	(16,218,773)
Net increase/(decrease) in cash and cash equivalents	610,700,299	(7,942,428)
Cash and cash equivalents at the beginning of the year	60,503,764	68,446,192
Cash and cash equivalents at the end of the year	671,204,063	60,503,764

The annexed notes 1 to 45 form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



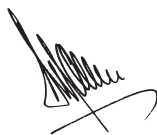
DIRECTOR

Statement of Changes in Equity

For the year ended June 30, 2005

	Share capital Rupees	Share deposit money Rupees	Statutory reserve Rupees	Un-appropriated profit Rupees	Total
Balance as at 1 July 2003 as previously stated	200,000,000	–	22,638,911	18,555,643	241,194,554
Effect of change in accounting policy with respect to dividend declared subsequent to the year end	–	–	–	30,000,000	30,000,000
Balance as at 1 July 2003 as restated	200,000,000	–	22,638,911	48,555,643	271,194,554
Right shares issued	100,000,000	–	–	–	100,000,000
Net profit for the year	–	–	–	73,622,432	73,622,432
Transfer to statutory reserve	–	–	14,724,486	(14,724,486)	–
Final dividend for 2003 paid @ 15% (Rs. 1.50 per share)	–	–	–	(30,000,000)	(30,000,000)
Proposed final dividend for 2004 @ 15% (Rs. 1.50 per share)	–	–	–	(45,000,000)	(45,000,000)
Balance as at 30 June 2004 as previously stated	300,000,000	–	37,363,397	32,453,589	369,816,986
Effect of change in accounting policy with respect to dividend declared subsequent to the year end	–	–	–	45,000,000	45,000,000
Balance as at 30 June 2004 as restated	300,000,000	–	37,363,397	77,453,589	414,816,986
Received against 40% right issue	–	85,794,990	–	–	85,794,990
Net profit for the year	–	–	–	129,401,157	129,401,157
Transfer to statutory reserve	–	–	25,880,231	(25,880,231)	–
Final dividend for 2004 paid @ 15% (Rs. 1.50 per share)	–	–	–	(45,000,000)	(45,000,000)
1st interim dividend for 2005 @ 15% (Rs. 1.50 per share)	–	–	–	(45,000,000)	(45,000,000)
Balance as at 30 June 2005	300,000,000	85,794,990	63,243,628	90,974,515	540,013,133

The annexed notes 1 to 45 form an integral part of these financial statements.



CHIEF EXECUTIVE OFFICER



DIRECTOR

Notes to the Financial Statements

For the year ended June 30, 2005

1. LEGAL STATUS AND NATURE OF BUSINESS

Escorts Investment Bank Limited ("the Company") is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984. The Company is listed on the Karachi and Lahore stock exchanges. The Company was incorporated in Pakistan on 15 May 1995 and started its commercial operation on 16 October 1996. Escort Investment Bank Limited is licensed to carry out all investment finance services as a Non-Banking Finance Company under Section 282C of the Companies Ordinance, 1984 and Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003. The registered office of the Company is situated at Escort House, 26 Davis Road, Lahore.

JCR VIS Credit Rating Company Limited has upgraded the Long Term Credit Rating of the Bank to "A" (Single A) from "A-" (Single A minus), while Short Term Credit Rating has been maintained at "A-2" (Single A two) with stable outlook.

The Company is a member of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

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

2.2 Statement of compliance

These financial statements have been prepared in accordance with approved 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 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

Change in Accounting Policy

During the year the Company has changed its accounting policy pertaining to recognition of dividends declared subsequent to the year end, consequent to the substitution of the fourth schedule of the Companies Ordinance, 1984 made by Securities and Exchange Commission of Pakistan. As per the new policy dividend declared subsequent to the year end is treated as non adjusting event and is not recognized in the financial statements as liability. Previously, dividend declared subsequent to the year end was being recognized in the financial statements as liability. The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in IAS 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies). Had this change in accounting policy not been made the un-appropriated profits would have been lower and capital reserves higher by Rs. 21 million for the year ended 30 June 2005.

During the current year, the Company has also changed its accounting policy in respect of valuation of investments classified as held to maturity. According to the new policy, these investments are carried at amortized cost. Previously, these investments were marked to market as per the requirements of SBP's BSD Circular No. 20 dated 4 August 2000 and the related surplus / deficit was shown in the balance sheet below equity. This change has been made to comply with the requirements laid down in BSD Circular No. 14 dated 24 September 2004, issued by the State Bank of Pakistan. The change in accounting policy did not have any impact on the profit and loss account for the current and the prior period. Had the accounting policy not been changed, the deficit on revaluation of investments as at 30 June 2005 would have been higher by Rs. 36,834,200 net of deferred tax.

Change in Accounting Estimate

During the year, the Company has changed its accounting estimate for charging depreciation on fixed assets from reducing balance method to straight line method. Full month depreciation is charged in the month of addition while no depreciation is charged in the month of disposal. Previously full year depreciation was being charged in the year of addition and no depreciation was being charged in the year of disposal. Had this change in accounting estimate not been made the depreciation charge for the year would have been higher by Rs. 6,189,477.

2.3 Fixed capital expenditure

These are stated at cost less accumulated depreciation and impairments, if any, except for Capital Work in Progress which is stated at cost. Depreciation is charged using "Straight line method" so as to write off the historical cost of an asset over its estimated useful life at the following rates:

	Rate in %
Office premises	5
Leasehold improvements	20
Furniture and fixture	10
Computer equipment	33
Office equipment	10
Motor vehicles	20

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.

Maintenance and normal repairs are charged to income as and when incurred.

Profit/(loss) on disposal of operating fixed assets is included in income currently.

2.4 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairments, if any. Amortization is recorded when these assets are available for use using straight line method whereby the cost of an intangible asset is written off over its estimated useful life.

2.5 Assets subject to finance lease

The Company accounts for assets acquired under finance lease by recording the assets and related liabilities at the lower of present value of minimum lease payments under the lease agreement and the fair value of leased assets. Financial charges are allocated to accounting periods in a manner so as to provide constant periodic rate of charge on the outstanding liability. Depreciation is charged using "straight line method" at the rates specified in note 2.3.

2.6 Cards and Rooms

These are stated at cost less impairments, if any. The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying value is in excess of recoverable amount, these are written down to their estimated recoverable amount.

2.7 Investments

The Company classifies its investments as held to maturity, available for sale or held for trading.

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 unidentified 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 that 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. In accordance with the BSD Circular No 10 of 2004 dated 13 July 2004 issued by State Bank of Pakistan, as clarified and amended vide Circulars 11 and 14 of 2004, the Company reclassified its investment in Government Securities from Available for Sale to Held to Maturity and deficit on revaluation relating to these investments amounting to Rs.20,466,095 net of deferred tax, as at the date of reclassification, was reversed.

All investments are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition, in accordance with the requirements of above referred circulars issued by State Bank of Pakistan, Investments held for Trading and Investments Available for Sale for which active market exists, are measured at their market value while 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.

All "regular way" purchases and sales of listed shares are recognized on the trade date, i.e. the date that the company commits to purchase/sell the asset.

Any surplus or deficit on revaluation of Held for Trading Investments are charged to income currently, while in case of available for sale investments, the resulting surplus/(deficit) is kept in a separate account and is shown

Notes to the Financial Statements

For the year ended June 30, 2005

in the balance sheet below the shareholders' equity. At the time of disposal the respective surplus or deficit is transferred to income currently. Amortization cost is charged to profit and loss account.

2.8 Securities under repurchase/reverse repurchase agreements

Transactions of repurchase/reverse repurchase of investment securities are entered into at contracted rates for specified periods of time and are accounted for as follows:

Repurchase agreements

Investments sold with a simultaneous commitment to repurchase at a specified future date (repo) continue to be recognized in the balance sheet and are measured in accordance with accounting policies for investments. The counterparty liability for amounts received under these agreements is included in borrowings from banks/ NBFCs. The difference between sale and repurchase price is treated as mark-up on borrowings from banks/ NBFCs and accrued over the life of the repo agreement.

Reverse repurchase agreements

Investments 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 agreements are recorded as fund placements. The difference between purchase and resale price is treated as return from fund placements with financial institutions or income from reverse repurchase transactions of listed shares, as the case may be, and accrued over the life of the reverse repo agreement.

2.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and deposit accounts.

2.10 Financial instruments

Financial assets

Financial assets are cash and bank balances, placements, investments, financing and other receivables. Finances and receivable from clients are stated at their nominal value as reduced by provision for doubtful finances and receivables, while other financial assets are stated at cost

except for investments, which have been revalued as per accounting policy.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include redeemable capital, certificates of deposit, borrowings, trade and other payables. Mark-up based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

Derivatives

Derivative instruments held by the Company comprise of future and forward contracts in the capital and money markets. These are stated at fair value at the balance sheet date. The fair value of the derivatives is equivalent to the unrealised gain or loss from marking the derivatives using prevailing market rates at the balance sheet date. The unrealised gains are included in other assets while unrealised losses are included in other liabilities in the balance sheet. The corresponding gains and losses are included in the profit and loss.

Recognition and derecognition

All the financial assets and financial liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

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 legally enforceable right to setoff the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.11 Provisions

Provisions are recorded when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying

economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.12 Staff retirement benefits

Employees compensated absences

Liability for accumulated compensated absences of employees is accounted for in the period in which these absences are earned.

Provident fund

The Company operates approved contributory provident fund for all permanent employees. Equal monthly contribution is made both by employees and the Company to the fund at 10% of Basic Salary. The fund is administrated by the Trustees.

2.13 Revenue recognition

- Return on finances provided, placements, government securities and term finance certificates are recognized on time proportionate basis.
- Brokerage commission and other advisory fee are recognized when such services are provided.
- Guarantee commission is received in advance, and deferred over the guarantee period.
- Consultancy and corporate advisory fee income is recognized using percentage of completion method.
- Dividend income is recognized when the right to receive payment is established.

2.14 Return on deposits and borrowings

Return on Certificates of Deposit (CODs) and borrowings are recognized on a time proportionate basis taking into account the relevant issue date and final maturity date.

2.15 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, rebates and exemptions, if any, or one-half of one percent of turnover, whichever is higher.

Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

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

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

2.16 Related party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods.

Notes to the Financial Statements

For the year ended June 30, 2005

Note		2005 Rupees	2004 Rupees
3. Fixed capital expenditure			
Tangible			
3.1	Operating fixed assets	122,998,000	20,658,703
	Capital work in progress - Lease hold improvements	–	1,863,216
		122,998,000	22,521,919
Intangible			
3.3	Capital work in progress - Software	900,000	698,437
		123,898,000	23,220,356

3.1 Operating fixed assets

	Cost			Depreciation			Net book value as at 30 June		
	As at 01 July 2004	Additions/ (disposals)	Transfers	As at 30 June 2005	As at 01 July 2004	For the year	(Disposals)/ transfers	As at 30 June 2005	at 30 June 2005
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Owned									
Office premises	–	89,685,600	–	89,685,600	–	373,690	–	373,690	89,311,910
Leasehold improvements	6,850,689	5,058,106 (2,447,004)	–	9,461,791	3,359,010	1,009,809	(2,076,107)	2,292,712	7,169,079
Office furniture and fixtures	3,755,519	2,208,763 (1,494,023)	–	4,470,259	966,272	291,736	(552,729)	705,279	3,764,980
Computer equipments	4,453,019	4,301,827 (781,425)	–	7,973,421	2,229,236	1,490,302	(560,104)	3,159,434	4,813,987
Office equipments	4,051,527	2,052,155 (412,129)	–	5,691,553	1,137,380	350,605	(179,521)	1,308,464	4,383,089
Vehicles	14,757,750	9,168,800 (3,851,612)	3,076,415	23,151,353	7,093,027	2,327,969	(1,646,001) 1,821,403	9,596,398	13,554,955
	33,868,504	112,475,251 (8,986,193)	3,076,415	140,433,977	14,784,925	5,844,111	(5,014,462) 1,821,403	17,435,977	122,998,000
Leased									
Vehicles	3,076,415	–	(3,076,415)	–	1,501,290	320,113	– (1,821,403)	–	–
2005	36,944,919	103,489,058	–	140,433,977	16,286,215	6,164,224	(5,014,462)	17,435,977	122,998,000
2004	25,867,566	13,309,888	2,232,535	36,944,919	12,659,992	4,935,967	1,309,743	16,286,216	20,658,703

3.2 Following assets were disposed off during the year

	Cost Rupees	Accumulated depreciation Rupees	Written down value Rupees	Sale proceeds Rupees	Gain/(loss) Rupees		
Vehicles	756,400	(369,123)	387,277	387,277	–	Negotiations	Mr. Saqib A. Khan, Ex employee
	1,000,620	(226,807)	773,813	800,496	26,683	Negotiations	Rtd. Admiral Kamal, Islamabad
	1,050,500	(634,558)	415,942	430,285	14,343	Company Policy	Mr. Rashid Mansur, President & CEO
	980,500	(363,439)	617,061	950,000	332,939	Insurance Claim	EFU Insurance
	60,492	(50,561)	9,931	28,000	18,069	Insurance Claim	EFU Insurance
	3,848,512	(1,644,488)	2,204,024	2,596,058	392,034		
Office furniture and fixtures	854,398	(339,693)	514,705	72,500	(442,205)	Negotiations	Misc. vendors
Office equipments	18,100	(3,303)	14,797	14,000	(797)	Negotiations	Mr. Khuram Shezad, Ex employee
	4,721,010	(1,987,484)	2,733,526	2,682,558	(50,968)		

Assets written-off

Leasehold improvements	2,447,004	(2,076,107)	370,897				
Office furniture and fixtures	639,625	(213,036)	426,589				
Computer equipments	781,425	(560,104)	221,321				
Office equipments	394,029	(176,218)	217,811				
Vehicles	3,100	(1,513)	1,587				
	4,265,183	(3,026,978)	1,238,205				
Total	8,986,193	(5,014,462)	3,971,731				

3.3 This represents amount paid as advance for purchase of Software.

Note	2005 Rupees	2004 Rupees
4. CARDS AND ROOMS		
Corporate membership of Karachi and Lahore stock exchanges	42,420,000	42,420,000
Rooms	1,685,000	–
	44,105,000	42,420,000

5. LONG TERM INVESTMENTS

Held to maturity

5.1	Pakistan Investment Bonds	577,862,851	–
5.2	Term Finance Certificates - Unlisted	29,350,033	–
		607,212,884	–
9	Less: Current maturity of Term Finance Certificates	10,666,600	–
		596,546,284	–

5.1 Pakistan Investment Bonds

Cost	606,221,300	–
Less: Amortization	8,358,449	–
	597,862,851	–
Less: Impairment loss	20,000,000	–
	577,862,851	–

These represent investment in 10 and 20 year bonds issued by the Government of Pakistan. Period to maturity of these investments range from six and a half years to 19 years and carry mark-up at rates (coupon rate) ranging from 10% to 12% per annum (2004: 10% to 12% per annum). These investments are held by other financial institutions as security under Repurchase Transaction.

In line with the continuing decline in fair value trend of these investments, the management has considered it prudent to provide for impairment of Rs. 20 million against this investment.

Notes to the Financial Statements

For the year ended June 30, 2005

5.2	Term finance certificates	Redemption terms	Rate	Rupees
	New Khan Transport Company (Private) Limited	Principal payable in 60 equal monthly installments, while mark-up is payable on quarterly basis in arrears.	4.50% above 6 months KIBOR with 8.25% as floor.	17,683,333
	Development Securitization Trust	Principal payable in 9 equal quarterly installments, while mark-up is payable on quarterly basis.	4.00% above 3 months KIBOR with 7.50% as floor.	11,666,700
				29,350,033

Note	2005 Rupees	2004 Rupees
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6. LONG TERM FINANCES

Related parties-Secured and considered good

6.1	Associated companies	4,136,111	3,391,036
6.2	Executives	15,481,246	4,207,193
		19,617,357	7,598,229

6.3	Others - Secured and considered good	133,033,485	164,091,090
		152,650,842	171,689,319

Considered doubtful

6.4	Others	42,678,623	31,713,645
6.5	Less: Provision for doubtful finances	11,709,405	11,045,946
		30,969,218	20,667,699
		183,620,060	192,357,018
9	Less: Current maturity	64,119,635	95,994,813
		119,500,425	96,362,205

6.1 Associated companies

These represent finance provided against hypothecation of vehicles for period ranging from 3 years to 5 years at mark-up rates ranging from 9% to 11% (2004: 9% to 10% per annum).

The maximum balance outstanding at the end any month during the year was:

	2005 Rupees	2004 Rupees
Escorts Pakistan Limited	3,675,082	3,391,036
Essem Hotel Limited	936,450	—

6.2 Executives

These represent finance provided to the Chief Executive Officer and Executives against mortgage of properties and hypothecation of vehicles in accordance with the terms of employment for period ranging from 2.5 years to 15 years and carry mark-up ranging from 6% to 12% (2004: 8% to 10% per annum).

	CEO Rupees	Executives Rupees	2005 Rupees	2004 Rupees
Opening Balance	–	4,207,193	4,207,193	2,279,508
Add: Disbursements during the year	9,984,000	1,363,900	11,347,900	1,979,000
	9,984,000	5,571,093	15,555,093	4,258,508
Less: Repayments during the year	19,258	54,589	73,847	51,315
	9,964,742	5,516,504	15,481,246	4,207,193

The maximum balance outstanding at the end of any month during the year. **15,481,246** 4,207,193

6.3 These finance facilities are secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stocks for a period up to 5 years. The expected rate of return range from 8% to 18% per annum (2004: 8% to 14% per annum).

6.4 These finance facilities include Rs. 42.679 million (2004: Rs. 31.714 million) which have been classified under non-performing status detailed below:

	2005 Rupees	2004 Rupees
Other assets especially mentioned	10,745,195	–
Substandard	15,821,694	15,601,911
Doubtful	15,133,334	15,133,334
Loss	978,400	978,400
	42,678,623	31,713,645

6.5 Particulars of provision for doubtful finances

Opening balance	11,045,946	6,305,879
Charge for the year	663,459	4,740,067
Less: Reversals	–	–
Net charge	663,459	4,740,067
Closing balance	11,709,405	11,045,946

Notes to the Financial Statements

For the year ended June 30, 2005

Note		2005 Rupees	2004 Rupees
7. LONG TERM LOANS, DEPOSITS AND PREPAYMENTS			
Loan to staff - Unsecured, considered good			
7.1	Executives - Related parties	1,093,155	1,747,945
	Other employees	1,729,776	1,671,113
		2,822,931	3,419,058
	Security deposits	2,477,150	2,630,292
	Prepayments	8,985,234	6,471,885
		14,285,315	12,521,235
9	Less: Current maturity	6,819,110	4,221,885
		7,466,205	8,299,350

7.1 These represent interest free loan to staff for a period of 3 years repayable in equal monthly installments, in accordance with the Company's Staff Policy.

	2005 Rupees	2004 Rupees
Opening Balance	1,747,945	1,026,898
Add: Disbursements during the year	453,679	1,830,045
	2,201,624	2,856,943
Less: Repayments during the year	1,108,469	1,108,998
	1,093,155	1,747,945

The maximum balance outstanding from executives at the end of any month during the year was:

	1,741,280	1,968,374
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8. DEFERRED TAX ASSET/(LIABILITY)

Taxable temporary differences on fixed assets	(20,688,579)	(333,226)
Deductible temporary differences on investments	9,925,457	–
Deductible temporary differences on finances and receivables	16,792,034	–
Taxable temporary differences on trade and other payables	(983,070)	–
Deductible temporary differences on surplus on revaluation of Government Securities	–	(4,649,295)
	5,045,842	(4,982,521)

9. CURRENT MATURITIES OF NON-CURRENT ASSETS

Long term investments	10,666,600	–
Long term finances	64,119,635	95,994,813
Long term loans, deposits and prepayments	6,819,110	4,221,885
	81,605,345	100,216,698

Notes to the Financial Statements

For the year ended June 30, 2005

Other particulars of listed TFCs are as follows:

Particulars	Certificate denomination	Profit rate per annum	Profit payments	Maturity date
Sugar and Allied				
Al-Noor Sugar Mills Limited	5,000	2.50% over SBP discount rate with 16.50% p.a. as floor and 18.50% p.a. as ceiling	Semi annually	30 October 2005
Shahmurad Sugar Mills Limited	5,000	15.50% p.a. subject to a maximum prompt payment bonus of 2.00% with floor at 15.50% p.a. and ceiling at 17.50% p.a.	Semi annually	20 May 2006
Chemical and Pharmaceutical				
Ittehad Chemicals Limited	5,000	2.50% over SBP discount rate with 7.00% p.a. as floor and 12.00% p.a. as ceiling.	Semi annually	27 June 2008
Pharmagen Limited	5,000	2.50% over weighted average of the last 3 cut-off yields of 5 year PIBs with 8.50% p.a. as floor and 11.50% p.a. as ceiling.	Semi annually	17 October 2005
Oil and Gas Exploration Companies				
First Oil and Gas Securitization Company Limited	5,000	2.50% over SBP's discount rate with 10.50% as floor and 14.50% as ceiling.		4 December 2006
Naimat Basal Oil and Gas Securitization Company	5,000	2.50% over 6 months KIBOR with 7.50% p.a. as floor and 13.00% p.a. as ceiling.	Monthly	12 April 2010
Cement				
Maple Leaf Cement Factory Limited	5,000	2.50% over weighted average of the last 3 cut-off yields of 5 year PIBs with 15.25% p.a. as floor and 17.75% p.a. as ceiling.	Semi annually	19 July 2007
Investment Companies and Banks				
Atlas Investment Bank Limited	5,000	15.00% p.a	Semi annually	27 September 2005
Prime Commercial Bank Limited	5,000	1.90% over 6 months KIBOR.	Semi annually	9 March 2014
Leasing				
AlZamin Leasing Modaraba - I	5,000	8.00% p.a	Semi annually	24 December 2008
AlZamin Leasing Modaraba - II	5,000	9.50% p.a	Semi annually	1 June 2010
Orix Leasing Pakistan Limited	5,000	2.00% over SBP discount rate with 10.00% p.a. as floor and 13.00% p.a. as ceiling.	Semi annually	31 July 2007
Crescent Standard Investment Bank Limited	5,000	2% over SBP discount rate with 10.50% p.a. as floor and 13.50% p.a. as ceiling.	Semi annually	7 July 2007

10.2 Particulars of listed shares / units

All shares / units have face value of Rs. 10 each, except for Atlas Income Fund (Rs. 500 each) and Faysal Balance Growth Fund (Rs. 100).

No. of Certificates		Name	2005		2004	
2005	2004		Cost Rupees	Market Value Rupees	Cost Rupees	Market Value Rupees
Mutual Fund - Open End						
20,000	20,000	Atlas Income Fund	10,000,000	10,000,000	10,000,000	10,377,000
50,000	50,000	Faysal Balanced Growth Fund	5,000,000	5,000,000	5,000,000	5,000,000
Mutual Fund - Close End						
–	50,000	Pak Premier Fund	–	–	764,666	960,000
2,500,000	2,500,000	Abamco Composite Fund	25,000,000	17,250,000	25,000,000	23,500,000
1,994,000	–	Pakistan Strategic Allocation Fund	19,940,000	19,242,100	–	–
Venture Capita						
24,000	24,000	Dawood Venture Capital	204,300	168,000	204,300	234,000
Commercial Banks						
–	100,000	Faysal Bank Limited	–	–	3,877,809	3,575,000
Textile Spinning						
1,737,826	–	Dewan Farooq Spinning Mills Limited	17,378,260	15,292,869	–	–
Cement						
–	350,000	Fauji Cement Limited	–	–	6,231,500	5,705,000
Refinery						
–	450,500	Bosicor (Pakistan) Limited	–	–	11,319,975	10,338,975
Power Generation and Distribution						
925,000	500,000	Hub Power Company Limited	31,065,727	24,420,000	18,677,324	16,150,000
24,000	50,000	Kohinoor Energy Limited	823,127	624,000	1,714,925	1,740,000
604,500	595,000	Southern Electric Power Company Limited	9,696,564	4,201,275	10,540,579	9,103,500
Oil and Gas Exploration Companies						
–	10,000	Pakistan Oil Fields Limited	–	–	2,183,440	2,085,000
Oil and Gas Marketing Companies						
–	30,000	Pakistan State Oil Company Limited	–	–	8,302,551	7,702,500
Fertilizer						
–	84	Fauji Fertilizer Bin Qasim Limited	–	–	840	1,587
Automobile parts and Accessories						
–	16,000	General Tires and Rubber Company of Pakistan Ltd.	–	–	895,950	736,000
Technology and Communication						
–	500,000	Pakistan Telecommunication Company Limited	–	–	21,984,468	21,075,000
–	100,000	TGR Pakistan Limited	–	–	780,000	635,000
–	120,000	World Call Communication Limited	–	–	1,889,926	1,704,000
Miscellaneous						
–	90,000	Macpac Films Limited	–	–	3,571,739	3,433,500
			119,107,977	96,198,244	132,939,992	124,056,062

Notes to the Financial Statements

For the year ended June 30, 2005

Note 10.3 Particulars of listed shares - Held for trading investments

Investment in ordinary shares of Rs. 10 each of the following companies:

No. of Certificates		Name	2005		2004	
2005	2004		Cost Rupees	Market Value Rupees	Cost Rupees	Market Value Rupees
Investment Banks / Investment Companies						
4,500	–	PICIC Limited	362,286	315,000	–	–
Commercial Banks						
193,900	–	Bank Alfalah Limited	8,721,722	7,901,425	–	–
125	–	Muslim Commercial Bank Limited	1,946	9,912	–	–
60,000	–	National Bank of Pakistan	6,480,354	6,477,000	–	–
Textile Weaving						
25,000	–	Samin Textile Mills Limited	262,526	143,750	–	–
Textile Composite						
25,000	–	Nishat Mills Limited	1,942,448	1,900,000	–	–
Cement						
266,750	–	Maple Leaf Cement Factory Limited	7,838,274	5,815,150	–	–
Oil and Gas Marketing Companies						
5,000	–	Pakistan State Oil Company Limited	1,931,941	1,930,000	–	–
15,000	–	Sui Northern Gas Pipeline Company Limited	979,098	919,500	–	–
328,500	–	Sui Southern Gas Pipeline Company Limited	10,867,336	7,604,775	–	–
Oil and Gas Exploration Companies						
85,000	–	Oil and Gas Development Company Limited	9,182,168	8,950,500	–	–
30,000	–	Pakistan Petroleum Limited	6,569,929	6,453,000	–	–
Technology and Communication						
50,000	–	Pakistan Telecommunication Company Limited	3,331,970	3,297,500	–	–
Fertilizer						
8,500	–	Fauji Fertilizer Bin Qasim Limited	248,305	228,650	–	–
Chemicals						
180,000	–	Pakistan PTA Limited	2,349,085	1,440,000	–	–
			61,069,388	53,386,162	–	–
10.3.1	Value of shares sold in futures market		646,288,943	649,950,934	–	–
			707,358,331	703,337,096	–	–

10.3.1 These represent investment in shares purchased and simultaneously sold in futures market with settlement dates subsequent to the year end.

Note		2005 Rupees	2004 Rupees
11. SHORT TERM FINANCES			
11.1	Related parties-Secured and considered good	10,000,000	–
11.1	Others - Secured and considered good	553,239,877	285,960,920
Considered doubtful			
11.2	Others	13,767,834	14,967,834
11.3	Less: Provision for doubtful finances	13,767,834	10,586,385
		–	4,381,449
		563,239,877	290,342,369

11.1 These are secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stocks. The expected rate of return range from 8% to 18% per annum (2004: 7.50% to 15% per annum). These include finances against pledge of listed shares and Bank's own Certificates of Deposit amounting to Rs. 87.297 million (2004: Rs. 29.868 million), while Rs. 225.899 million (2004: Rs. Nil) were disbursed as Margin Finance in accordance with Margin Trading Rules, 2004 issued by Securities and Exchange Commission of Pakistan.

11.2 These finance facilities include Rs. 13.768 million (2004: Rs. 14.968 million) which have been placed under non-performing status detailed below:

	2005 Rupees	2004 Rupees
Doubtful	–	1,200,000
Loss	13,767,834	13,767,834
	13,767,834	14,967,834

11.3 Particulars of provision for doubtful finances:

	2005	2004
Opening balance	10,586,385	9,167,665
Charge for the year	3,181,449	1,418,720
	13,767,834	10,586,385

12. SHORT TERM PLACEMENTS

Considered good

12.1	Unsecured	88,073,425	234,093,424
12.2	Secured under reverse repurchase agreements	654,021,999	892,542,466
		742,095,424	1,126,635,890

12.1 These represent clean placements with financial institutions for a period of upto 1 year and carry mark-up ranging from 6% to 15% per annum (2004: 4.25% to 10% per annum).

Notes to the Financial Statements

For the year ended June 30, 2005

Note	2005 Rupees	2004 Rupees
12.2 Securities held as collateral - Market value		
Pakistan Investment Bonds	215,096,630	523,370,000
Term Finance Certificates	131,560,000	–
Quoted shares	446,978,248	392,542,466
	793,634,878	915,912,466

These represent secured placements for a period of upto 1 year and carry mark-up ranging from 8% to 19% per annum (2004: 1.80% to 8.50% per annum).

	2005 Rupees	2004 Rupees
13. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances - Considered good		
Staff	795,681	–
Others	518,613	250,000
	1,314,294	250,000
Advance income tax	99,813,375	90,435,546
Accrued mark-up	17,756,754	19,332,762
Deposits against exposure limits	127,066,852	30,164,917
Prepayments	955,679	1,068,539
Dividend receivable	2,243,925	50,000
13.1 Receivable from clients	49,150,982	71,845,147
Income tax refundable	5,808,854	5,808,854
Fair value adjustment - derivative financial instrument	634,647	–
Other receivables	979,102	1,881,075
	305,724,464	220,836,840

13.1 Receivable from clients

Considered good	49,150,982	71,845,147
Considered doubtful	22,500,000	–
Less: Provision for doubtful receivable	22,500,000	–
	–	–
	49,150,982	71,845,147

14. CASH AND BANK BALANCES

Cash with banks		
Current account with:		
14.1 State Bank of Pakistan	382,194	9,744,568
Others	116,483,219	603,794
	116,865,413	10,348,362
14.2 Deposit accounts	554,338,650	50,155,402
	671,204,063	60,503,764

14.1 This includes Rs. 85.795 million (2004: Nil) received against 40% Right Issue approved by the Board of Directors on 21 February 2005. These funds are not available for use till issuance of No Objection Certificate from the Stock Exchanges for release of funds. Subsequent to the year end these funds have been released.

14.2 Rate of return on these accounts range from 0.5% to 2% per annum (2004: 1.30% to 3.00% per annum).

Note		2005 Rupees	2004 Rupees
	15. SHARE CAPITAL		
	Authorized share capital		
	50,000,000 (2004: 50,000,000) ordinary shares of Rs. 10 each	500,000,000	500,000,000
	Issued capital		
	42,000,000 (2004: 30,000,000) ordinary shares of Rs. 10 each	420,000,000	300,000,000
	Subscribed and paid-up capital		
	30,000,000 (2004: 30,000,000) ordinary shares of Rs. 10 each fully paid in cash	300,000,000	300,000,000

Essem Power (Private) Limited, an associated company, holds 39.01% (2004: 39.01%) ordinary shares in the Company.

16. SHARE DEPOSIT MONEY

This represents amount received against 40% Right Issue as at the year end. Subsequent to the year end the Company has received full amount against the issue i.e. Rs. 120 million and shares have been issued.

		2005 Rupees	2004 Rupees (Restated)
	17. RESERVES		
	Capital reserve		
17.1	Statutory reserve	63,243,628	37,363,397
	Revenue reserve		
	Unappropriated profits	90,974,515	77,453,589
		154,218,143	114,816,986

17.1 This represents special reserve created in compliance with the Rule 2 of Part III of Prudential Regulations for Non-Banking Finance Companies issued by Securities and Exchange Commission of Pakistan.

		2005 Rupees	2004 Rupees
	18. (DEFICIT)/SURPLUS ON REVALUATION OF INVESTMENTS		
	Government securities	-	13,283,700
	Other securities	(8,884,522)	3,585,919
	Shares of listed companies	(14,461,832)	(8,761,075)
		(23,346,354)	8,108,544
	Less: Related deferred tax liability	-	(4,649,295)
		(23,346,354)	3,459,249

Notes to the Financial Statements

For the year ended June 30, 2005

Note	2005 Rupees	2004 Rupees
19. TERM FINANCE CERTIFICATES		
Face value	275,000,000	—
Less: Redeemed during the year	55,000	—
	274,945,000	—
Less: Current maturity	110,000	—
	274,835,000	—

19.1 During the period, the Company issued unlisted Term Finance Certificates (TFCs) of Rs. 275 million to institutional investors carrying a profit rate of 6 months KIBOR plus 275 bps, provided that the applicable rate shall not be less than 5% per annum and will not exceed 10% per annum, payable semi annually. These are redeemable in 6 equal semi annual installments commencing from 30th month and carry call option exercisable after three years of the issue date. These are secured against hypothecation of Rs. 367 million on all present and future current assets of the Company. Face value of each certificate is Rs. 5,000,000.

	2005 Rupees	2004 Rupees
20. LONG TERM CERTIFICATES OF DEPOSIT		
20.1 Long term certificates of deposit	333,590,461	171,082,823
Less: Current maturity	28,126,515	24,755,368
	305,463,946	146,327,455

20.1 These have been issued for term ranging from 1 year to 5 years and expected return on these certificates ranges from 6.25% to 12.50% per annum (2004: 6.25% to 12.50% per annum) payable monthly, quarterly, semiannually or on maturity.

	2005 Rupees	2004 Rupees
21. CURRENT MATURITIES OF NON-CURRENT LIABILITIES		
Liability against assets subject to finance lease	—	1,032,002
Redeemable capital	110,000	—
Long term certificates of deposit	28,126,515	24,755,368
	28,236,515	25,787,370
22. SHORT TERM BORROWINGS		
22.1 Financial institutions Unsecured	715,000,000	125,000,000
22.2 Secured	945,000,000	935,029,319
	1,660,000,000	1,060,029,319

22.1 These carry mark-up ranging from 4.50% to 12% per annum (2004: 4.50% to 4.90% per annum) and are for a period from 2 days to 3 months (2004: 3 months).

22.2 These represent borrowings under repurchase agreements and carry mark-up ranging from 6.10% to 11.25% per annum (2004: 0.50% to 3.00% per annum) and are for a period from 2 days to 3 months (2004: 2 days to 6 months).

23. RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS

The aggregate unutilized running finance facilities under mark-up arrangements from commercial banks amount to Rs. 445 million (2004: 45 million). These facilities carry mark-up at the rates ranging from 8.74% to 10.28% per annum (2004: 5% per annum). These facilities are secured by pledge of Term Finance Certificates and Listed Shares.

24. SHORT TERM CERTIFICATES OF DEPOSIT

These have been issued for terms ranging from 1 month to 1 year and expected rate of return on these certificates ranges from 5% to 10% per annum (2004: 3.50% to 8% per annum) payable monthly, quarterly, semi-annually or on maturity.

	2005 Rupees	2004 Rupees
25. TRADE AND OTHER PAYABLES		
Payable to NCCPL	100,913,630	12,956,123
Customers' credit balances	84,598,974	53,704,986
Accrued return on certificates of deposit	13,761,842	12,244,101
Accrued return on redeemable capital	6,812,899	-
Accrued mark-up on unsecured borrowings	869,274	1,572,262
Accrued mark-up on secured borrowings	11,922,081	2,804,863
Accrued expenses and other payables	16,191,985	3,260,368
Provision for compensated absences	2,808,772	2,216,580
Unearned income	2,869,601	459,323
Unclaimed dividend	769,137	59,779
	241,518,195	89,278,385

26. PROVISION FOR TAXATION

26.1 Current status

The Company's assessments upto and including assessment year 2002-2003 have been finalised. Assessments for the tax years 2003 and 2004 were deemed assessed under the provisions of the Income Tax Ordinance, 2001. However, the case for tax year 2003 had been selected for total audit by the income tax department, against which the Company filed a suit in the Lahore High Court. The case has been decided in favor of the Company which has been appealed against by the department in the Supreme Court, which is pending decision. The Management is confident of a favorable outcome of the same.

26.2 Tax rate

The Company has used income tax rates applicable to listed companies (other than banking companies) in computing the tax liabilities for the tax year upto 2005.

In the initial assessments made by Deputy Commissioner of Income Tax (DCIT), the rate applicable to banking companies had been used for the assessment years 1997-1998 to 2001-2002, for which Company had filed appeals with the Commissioner of Income Tax (Appeals).

The Commissioner of Income Tax (Appeals) directed the DCIT to apply the rates applicable to listed companies for the assessment years 1997-1998 to 2001-2002 against which the department preferred appeals before Income Tax Appellate Tribunal (ITAT). ITAT has rejected these appeals in assessment years 1997-1998 to 1999-2000 whereas appeals in 2000-2001 and 2001-2002 are pending fixation. The Income Tax Department has filed a reference application before the ITAT for the assessment years 1997-1998 and 1998-1999, who have referred the case to the Lahore High Court for their authoritative resolution. The management is confident that the outcome of the case will be in their favor.

26.3 Taxability of dividend income

The ITAT has referred the matter of taxability of dividend income as separate block of income instead of business income for assessment years 1997-1998 and 1998-1999 to the Lahore High Court. The management is confident that the outcome of the case will be decided in their favor.

26.4 Withholding tax

In the assessments for the assessment years 1999-2000 and 2000-2001 no disallowances were made by the DCIT on the issue for non deduction of tax on return on interbank deposits, on the grounds that Company has been assigned the status of a banking company. This treatment, however, is subject to the decision of an appeal filed by the department in the Lahore High Court against the decision of ITAT on the same issue for previous assessment years. The management is of the opinion that these amounts are clean borrowings from the banks/NBFCs and not deposits and, therefore, withholding tax provision do not apply.

Notes to the Financial Statements

For the year ended June 30, 2005

27. CONTINGENCIES AND COMMITMENTS

27.1 Contingencies

a) *Guarantees*

Outstanding guarantees as on balance sheet date were Rs. 92.422 million (2004: Rs. 203.767 million).

b) *Taxation*

In event of unfavorable decisions pending detailed in Note 26, the Company would be faced with maximum tax liability of Rs. 8.619 million (2004: Rs. 8.619 million) and maximum charge of Rs. 27.01 million (2004: Rs. 27.01 million).

	2005 Rupees	2004 Rupees
27.2 Commitments		
Future sale contract - Shares	658,917,261	–
Forward sale contract - PIBs	50,000,000	50,000,000
Forward purchase contract - PIBs	50,000,000	250,000,000
Underwriting	5,000,000	–
Capital expenditure	2,100,000	1,554,421
28. PROFIT ON FINANCING		
Long term finances	17,663,205	21,429,075
Short term finances	30,116,725	21,990,659
	47,779,930	43,419,734
29. RETURN ON PLACEMENTS WITH FINANCIAL INSTITUTION		
Clean placements	10,690,862	14,302,720
Placements under reverse repurchase agreements	17,222,876	4,644,0709
	27,913,738	18,946,799
30. RETURN ON INVESTMENTS		
Mark-up / return on investments		
Held to maturity investments		
Government securities	62,417,121	48,710,235
Term Finance Certificates	2,224,391	–
Available for sale investments		
Term Finance Certificates	13,754,711	19,378,378
Musharika investment	–	2,117,972
WAPDA bonds	–	2,514,001
Dividend income		
Available for sale investments		
Listed shares/certificates/units	11,088,550	8,579,081
Held for trading investments		
Listed shares/certificates/units	15,808,333	–
Capital gain/(loss) on investments / reverse repurchase transactions		
Held to maturity investments	(3,235,850)	7,612,060
Available for sale investments	(3,192,579)	30,123,824
Held for trading investments	233,163,363	38,792,622
	332,028,040	157,828,173

Note		2005 Rupees	2004 Rupees
	31. FEES AND COMMISSION		
	Brokerage commission	73,150,826	13,684,047
	Guarantee commission	1,791,607	2,094,654
	Consultancy and corporate advisory	266,858	1,198,479
	Underwriting commission	156,891	62,500
		75,366,182	17,039,680

Note		2005 Rupees	2004 Rupees
	32. ADMINISTRATIVE AND OTHER OPERATING EXPENSES		
	Directors fee	13,000	10,000
32.1	Salaries, wages, other benefits and allowances	68,168,712	35,739,469
	Staff Training and Welfare	207,330	124,197
	Advertisement and business promotion	913,507	459,890
	Rent, rates and taxes	10,088,666	5,627,935
	Utilities	2,078,372	2,074,442
	Communication charges	5,036,824	3,213,578
	Traveling and vehicle maintenance	4,587,423	3,360,229
	Repair and maintenance	1,839,669	1,560,558
	Entertainment	2,040,049	1,824,064
	Fee and subscriptions	4,480,174	1,536,105
32.2	Legal and professional charges	3,317,737	2,057,832
	Printing and stationery	1,816,302	1,630,660
	Brokerage and commission	944,270	1,006,254
	CDC and clearing charges	25,930,342	4,816,517
	Insurance	1,424,565	979,556
3	Depreciation	6,164,224	4,935,967
	Loss on sale of fixed assets	50,968	-
	Fixed assets written off	1,238,205	45,815
	Miscellaneous expenses	802,452	211,863
		141,142,791	71,214,931

32.1 This includes contribution to provident fund amounting to Rs. 1.8 million (2004: Rs. 1.4 million) made by the Company.

	2005 Rupees	2004 Rupees
--	----------------	----------------

32.2 These include remuneration paid to the auditors as detailed below:

	2005 Rupees	2004 Rupees
Audit fee	140,000	125,000
Review of half yearly accounts	69,500	62,500
Certification and consultancy charges	90,000	54,200
Out of pocket expenses	46,091	69,323
	345,591	311,023

33. TAXATION

Current taxation - Current year	10,048,531	2,500,000
Deferred taxation	(5,379,068)	333,226
	4,669,463	2,833,226

33.1 In view of the available tax losses, provision for current year taxation represents minimum tax payable under section 113 and final discharge of liability in respect of commission income under section 233A of the Income Tax Ordinance, 2001.

Notes to the Financial Statements

For the year ended June 30, 2005

Note	2005	2004
34. EARNINGS PER SHARE BASIS AND DILUTED		
Profit for the year after taxation (Rupees)	129,401,157	73,622,432
Weighted average number of ordinary shares	30,000,000	24,176,125
Earnings per share (Rupees)	4.31	3.05

34.1 No figure for diluted earnings per share has been computed as the company has not issued any instrument which would have an impact on its earnings per share.

35. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise, local associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:

	2005 Rupees	2004 Rupees
Associated companies:		
Transactions during the year		
Return on finances received	594,359	771,431
Guarantee commission earned	726,900	739,592
Profit paid on certificates of deposit	2,363,307	1,930,310
Chairman's secretariat expenses	3,600,000	3,600,000
Balance at year end		
Advances outstanding	14,136,111	3,391,036
Letter of guarantee outstanding	78,940,000	53,940,000
Certificates of deposit outstanding	50,940,720	15,400,000
Directors:		
Transactions during the year		
Return on finances received	–	302,247
Guarantee commission earned	225,000	225,000
Profit paid on certificates of deposit	6,853,953	5,759,989
Markup on subordinated debt	–	4,945,117
Office rent	7,063,662	–
Purchase of fixed assets	86,190,000	–
Balance at year end		
Letter of guarantee outstanding	–	90,000,000
Certificates of deposit outstanding	120,500,000	96,500,000
Executives:		
Transactions during the year		
Return on finances received	550,389	353,920
Profit paid on certificates of deposit	758,621	1,075,573
Fixed assets sold	817,562	484,096
Balance at year end		
Advances outstanding	16,272,632	6,073,389
Letter of guarantee outstanding	15,512,750	12,804,002
Others:		
Transactions during the year		
Contribution to staff retirement benefits plan	1,813,378	1,400,188

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	Chief Executive		Directors		Executives	
	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees
Managerial remuneration	4,388,242	3,463,708	1,085,100	1,016,400	5,740,170	5,160,544
House rent allowance	270,000	–	270,000	–	1,360,922	576,954
Utilities	438,822	346,369	108,516	101,640	574,011	840,914
Bonus/commission	–	–	–	92,400	284,394	520,675
Leave encashment	–	377,560	–	–	109,918	235,215
Retirement benefits	436,380	340,070	–	–	521,306	442,727
Other benefits	900,000	1,173,714	184,800	84,480	500,820	762,509
	6,433,444	5,701,421	1,648,416	1,294,920	9,091,541	8,539,538
Number of persons	1	1	1	1	5	5

- i) In addition to above the Chief Executive, Executive Director and Executives were provided with use of Company maintained cars and reimbursement of medical expenses.
- ii) Fee was paid to one Director for attending the board meetings.
- iii) Chairman secretariat expenses have been reimbursed.

37. LIQUIDITY RISKS

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company has diversified its funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored on regular basis at ALCO to ensure that adequate liquidity is maintained. The table below summaries the maturity profile of the Company's assets and liabilities:

Description	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees
As at 30 June 2005				
ASSETS				
Fixed capital expenditure	123,898,000	5,688,008	28,898,082	89,311,910
Cards and rooms	44,105,000	–	–	44,105,000
Deferred tax asset	5,045,842	5,045,842	–	–
Investments	1,524,468,578	927,922,294	18,683,433	577,862,851
Finances	746,859,937	627,359,512	119,500,425	–
Loan, advances, deposits, prepayments and other receivables	320,009,779	312,543,574	4,989,055	2,477,150
Placements	742,095,424	742,095,424	–	–
Cash and bank balances	671,204,063	671,204,063	–	–
	4,177,686,623	3,291,858,717	172,070,995	713,756,911
LIABILITIES				
Term finance certificates	274,945,000	110,000	274,835,000	–
Borrowings from financial institutions	1,660,000,000	1,660,000,000	–	–
Running finance under mark up arrangements	372,498,355	372,498,355	–	–
Certificates of deposit	1,099,509,683	794,045,737	305,463,946	–
Trade and other payables	241,518,195	241,518,195	–	–
Provision for taxation	12,548,611	12,548,611	–	–
	3,661,019,844	3,080,720,898	580,298,946	–
NET ASSETS	516,666,779	211,137,819	(408,227,951)	713,756,911
Represented by:				
SHARE CAPITAL AND RESERVES	540,013,133			
SURPLUS ON REVALUATION OF INVESTMENTS	(23,346,354)			
	516,666,779			

Notes to the Financial Statements

For the year ended June 30, 2005

Description	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees
As at 30 June 2004				
ASSETS				
Fixed capital expenditure	23,220,356	–	–	23,220,356
Cards and rooms	42,420,000	–	–	42,420,000
Investments	773,280,555	773,280,555	–	–
Finances	482,699,387	386,337,182	96,362,205	–
Loan, advance s, deposits, prepayments and other receivables	233,358,075	225,058,725	4,342,763	3,956,587
Placements	1,126,635,890	1,126,635,890	–	–
Cash and bank balances	60,503,764	60,503,764	–	–
	2,742,118,027	2,571,816,116	100,704,968	69,596,943
LIABILITIES				
Deferred tax liability	4,982,521	4,982,521	–	–
Liability against assets subject to finance lease	1,032,002	1,032,002	–	–
Borrowings from financial institutions	1,060,029,319	1,060,029,319	–	–
Certificates of deposit	1,129,757,482	983,430,027	146,327,455	–
Trade and other payables	89,278,385	89,278,385	–	–
Provision for taxation	38,762,083	38,762,083	–	–
	2,323,841,792	2,177,514,337	146,327,455	–
NET ASSETS	418,276,235	394,301,779	(45,622,487)	69,596,943
Represented by:				
SHARE CAPITAL AND RESERVES	414,816,986			
SURPLUS ON REVALUATION OF INVESTMENTS	3,459,249			
	418,276,235			

38. CREDIT RISK AND CONCENTRATIONS OF CREDIT RISKS

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 management attempts to control credit risk through monitoring credit exposures, limiting transactions with specific counterparties, and continuous assessing of the credit worthiness of counterparties.

Concentration of credit risk arises when a number of counterparties 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.

38.1 SEGMENT INFORMATION

Class of business	Morabaha financing		Certificates of deposits		Letter of guarantee	
	2005 Percentage	2004 Percentage	2005 Percentage	2004 Percentage	2005 Percentage	2004 Percentage
Chemical and pharmaceuticals	2.35	1.79	–	–	–	–
Agribusiness	–	2.98	–	–	–	–
Textile	9.62	2.98	–	–	–	–
Sugar	8.53	15.31	0.45	–	–	–
Financial	1.21	6.56	33.65	27.17	–	–
Insurance	–	–	0.27	0.27	–	–
Electronics and electrical appliances	2.82	–	3.64	0.88	85.41	70.64
Production and transmission of energy	7.59	3.18	17.70	10.97	–	–
Steel and allied products	–	–	–	–	–	–
Individuals	43.72	35.98	26.52	39.91	11.34	–
Engineering and Construction	15.64	–	–	–	–	13.39
Sports	–	–	5.58	6.73	–	–
Communications	–	–	–	0.44	–	4.83
Non-Government Organizations	0.27	–	–	2.04	–	–
Others	8.25	31.22	12.19	11.59	3.25	11.14
	100.00	100.00	100.00	100.00	100.00	100.00

38.2 Geographical Segment

These financial statements represent operations of the Company in Pakistan only.

39. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest will affect the value of financial instruments. Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities that mature or reprise in a given period.

The Company's exposure to interest rate risk and the effective rates on its financial assets and financial liabilities are summarized as follows:

	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees	Not exposed to interest rate risk Rupees
As at 30 June 2005					
FINANCIAL ASSETS					
Investments	1,524,468,578	10,666,600	18,683,433	577,862,851	917,255,694
Finances	746,859,937	746,859,937	–	–	–
Loan, advances, deposits, prepayments and other receivables	74,902,635	–	–	–	74,902,635
Placements	742,095,424	742,095,424	–	–	–
Cash and bank balances	671,204,063	554,338,650	–	–	116,865,413
	3,759,530,637	2,053,960,611	18,683,433	577,862,851	1,109,023,742
FINANCIAL LIABILITIES					
Term finance certificates	274,945,000	274,945,000	–	–	–
Borrowings from financial institutions	1,660,000,000	1,660,000,000	–	–	–
Running finance under mark up arrangements	372,498,355	372,498,355	–	–	–
Certificates of deposit	1,099,509,683	794,045,737	305,463,946	–	–
Trade and other payables	191,621,467	–	–	–	191,621,467
	3,598,574,505	3,101,489,092	305,463,946	–	191,621,467
Total Interest rate sensitivity gap		(1,047,528,481)	(286,780,513)	577,862,851	
Cumulative interest rate sensitivity gap		(1,047,528,481)	(1,334,308,994)	(756,446,143)	
As at 30 June 2004					
FINANCIAL ASSETS					
Investments	773,280,555	–	–	–	773,280,555
Finances	482,699,387	482,699,387	–	–	–
Loan, advances, deposits, prepayments and other receivables	96,778,042	–	–	–	96,778,042
Placements	1,126,635,890	1,126,635,890	–	–	–
Cash and bank balances	60,503,764	50,155,402	–	–	10,348,362
	2,539,897,638	1,659,490,679	–	–	880,406,959
FINANCIAL LIABILITIES					
Obligation under finance lease	1,032,002	1,032,002	–	–	–
Borrowings from financial institutions	1,060,029,319	1,060,029,319	–	–	–
Certificates of deposit	1,129,757,482	983,430,027	146,327,455	–	–
Trade and other payables	68,937,468	–	–	–	68,937,468
	2,259,756,271	2,044,491,348	146,327,455	–	68,937,468
Total Interest rate sensitivity gap		(385,000,669)	(146,327,455)	–	
Cumulative interest rate sensitivity gap		(385,000,669)	(531,328,124)	(531,328,124)	

Mark-up rates are mentioned in the respective notes to the accounts.

40. 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.

The carrying value of financial assets and financial liabilities approximate their fair values as reflected in the financial statements.

41. NUMBER OF EMPLOYEES

The total number of employees at year end was 98 (2004: 77).

42. FINANCIAL RELIEF AND PROVISION AGAINST NON-PERFORMING ADVANCES

As no relief was given or loan written off during the year under review, the information for Statements required to be filed under Section 33A of the Banking Companies Ordinance, 1962 is "Nil".

43. DATE OF AUTHORIZATION FOR ISSUE

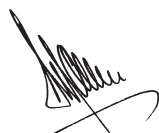
These financial statements were authorized for issue on 21 September 2005 by the Board of Directors of the Company.

44. DIVIDEND

The Board of Directors at their meeting held on 21 September 2005 have proposed issuance of Bonus Shares @ 5% i.e. one share for every twenty shares held, for the year ended 30 June 2005 for approval of the members at the Annual General Meeting to be held on 31 October 2005. The financial statements do not reflect this proposed dividend, as explained in note 2.2.

45. GENERAL

- i) Figures have been rounded off to the nearest rupee.
- ii) Previous year's figures have been rearranged, wherever necessary for the purpose of comparison. Material rearrangements are summarized below:
 - a) Current assets and liabilities have been presented separately in accordance with the Fourth Schedule to the Companies Ordinance, 1984 for better presentation and understanding of the users.
 - b) Dividend declared has been derecognized as liability as explained in note 2.2.
 - c) Investments in listed shares amounting to Rs. 357.5 million have been reclassified as secured placements for better presentation and understanding of the users.
 - d) An amount of Rs. 12.9 million previously included in "Payable to clients" has been shown as "Payable to NCCPL" for better presentation.
 - e) Heads of income have been rearranged for better presentation and better understanding of the users of the financial statement.



CHIEF EXECUTIVE OFFICER



DIRECTOR

Pattern of Share Holding as on June 30, 2005

Number of Shareholders		Shareholdings		Total Shares Held	
3	From	1	To	100	22
55	From	101	To	500	25,905
57	From	501	To	1000	55,250
98	From	1001	To	5000	286,625
16	From	5001	To	10000	130,500
9	From	10001	To	15000	115,750
3	From	15001	To	20000	56,000
3	From	20001	To	25000	75,000
2	From	25001	To	30000	53,250
1	From	30001	To	35000	35,000
4	From	35001	To	40000	146,000
2	From	45001	To	50000	86,500
2	From	50001	To	55000	94,500
2	From	55001	To	60000	105,229
1	From	65001	To	70000	60,000
1	From	70001	To	75000	67,117
3	From	90001	To	95000	220,000
1	From	95001	To	100000	95,000
3	From	105001	To	110000	300,000
1	From	120001	To	125000	120,500
2	From	145001	To	150000	299,500
1	From	150001	To	200000	215,000
1	From	220001	To	225000	237,500
3	From	295001	To	300000	900,000
1	From	500001	To	505000	445,500
1	From	640001	To	645000	605,250
1	From	845001	To	850000	641,601
1	From	860001	To	865000	890,000
1	From	995001	To	1000000	1,000,000
1	From	1360001	To	1365000	1,362,500
1	From	1710000	To	1715000	1,713,000
1	From	2200001	To	2205000	2,203,500
1	From	2450001	To	2455000	2,451,502
1	From	3200001	To	3205000	3,204,046
1	From	11700001	To	11705000	11,702,953
285				30,000,000	

There are no shareholdings in the slabs not included above.

Categories of Shareholders	Number of Shareholders	Shares Held	Percentage
Individuals	267	14,944,817	49.82
Investment Companies	1	641,601	2.14
Joint Stock Companies	11	11,785,082	39.28
Financial Institutions	4	1,501,000	5.00
Mutual Funds	2	1,127,500	3.76
	285	30,000,000	100.00

Pattern of Share Holding as on June 30, 2005

Information as Required by Code of Corporate Governance

Categories of Shareholders	Number of Shareholders	Shares held	Percent
Directors, Chief Executive Officer, and their spouse and minor children			
Mr. Bashir Ahmad	1	3,204,046	10.68
Ms. Shazia Bashir	1	2,451,502	8.17
Mrs. Darakshan Bashir	1	1,713,000	5.71
Mr. Mutahir Ahmed	1	150,000	0.50
Mr. Bairam Qureshi	1	750	0.00
Mr. Asad Ali Shah	1	500	0.00
Associated Companies, Undertakings and Related Parties			
M/S ESSEM Power (Pvt) Ltd.	1	11,702,953	39.01
Executive	1	325	0.00
ICP			
	1	641,601	2.14
Banks Deleopment Financial Institutions, Non Banking Financial Institutions			
	4	1,501,000	5.00
Insurance Companies			
	–	–	–
Modarabas and Mutual Funds			
	2	1,127,500	3.76
General Public			
Local	260	7,424,694	24.75
Others			
	10	82,129	0.28
Total	285	30,000,000	100.00

SHARE HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST

Categories of Shareholders	Number of Shareholders	Shares held	Percent
Mr. Bashir Ahmad	1	3,204,046	10.68
M/S ESSEM Power (Pvt) Ltd.	1	11,702,953	39.01

Form Of Proxy

I/We, _____

of _____

Escorts Investment Bank Limited hereby appoint Mr. / Mrs. / Ms. _____

_____ of _____

as my proxy to vote for me / us and on my / our behalf at the annual general meeting to be held on the 31st day of October 2005 at 11:30 A.M. and at any adjournment thereof.

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

Signed by _____

of _____

Signature and address of witnessed

Please affix
revenue
stamp

Signature of member

Note:

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him / her.

The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorized in writing, if the appointer is a corporation, under the common seal or the hand of an officer or attorney duly authorized. A proxy need not be a member.

The instrument appointing a proxy, together with the Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should reach the registered office of the Company not less than 48 hours before the time of the meeting.

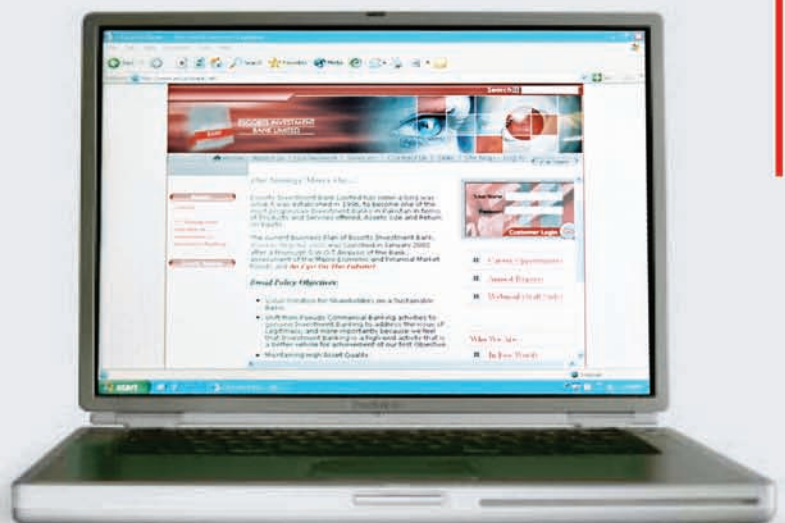
AFFIX
CORRECT
POSTAGE

The Company Secretary:

ESCORTS INVESTMENT BANK LIMITED

Escorts House,
26-Davis Road,
Lahore.

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