



Its all there

ESCORTS INVESTMENT BANK LIMITED Annual Report and Accounts 2006





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“ A bank is only as good as the People who run it. It is on this very account that Escorts Investment Bank stands tall as a Model NBFC. ”



Chairman's Message

It gives me great pleasure to comment on the Annual Accounts of Escorts Investment Bank for the Financial Year 2005 - 2006.

I am once again delighted to note that our Bank's Strategy of sustained growth, through a very well conceived and efficiently implemented Business Plan, is right on track. The bank's current Business Plan, Escorts Beyond 2001 owes its success to:

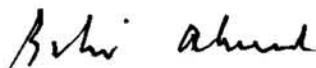
- A realistic, honest and correct assessment of the affairs of the Bank as they stood prior to the launch of the New Strategy;
- A redefined Mission, Vision and Statement of Broad Policy Objectives, based on Value Creation for shareholders;
- A renewed focus on High Asset Quality, Good Corporate Governance and High Professional Efficiency;
- An Operational policy geared towards Enhanced Profitability through a broad spectrum of Products and Services.

The right demarcation of the roles of the Board and the Executive Management has also in my opinion, played a decisive role in making this Business Plan a resounding success. Although designing of the New Strategy was a two-way stream between the Board and the Executive Management, once the Business Plan was approved by the Board, complete Operational Autonomy was granted to the Executive Management for the execution of the Plan.

I am very pleased to note that during a short period of four and half years the Bank has managed to generate high levels of Value Creation and Payouts. Once again, this year the Board has been pleased to recommend a Cash Dividend at the rate of 20 %. Moreover an amount of Rs. 97.85 million will be retained in business, from this year's profits.

It is my firm belief that, in the final analysis, a bank is only as good as the People who run it. It is on this very account that Escorts Investment Bank stands tall as a Model NBFC.

Sincerely



Bashir Ahmed
Chairman



Nothing succeeds like success

Escorts Investment Bank has a well conceived Vision and Mission; clearly defined Policy Objectives and a professionally crafted Business Plan. The Bank's Operational Strategy is geared to create Value for its Shareholders, on a sustainable basis, through a broad spectrum of Products and Services. Commitment to Good Corporate Governance and Best Business Practices is the Management's most revered Policy Objective.

From the best-suited Infrastructure, Technology Accelerators, constantly Re-engineered Work Processes to High Professional Proficiency, Time Efficiency, Customer Focus and a Constant Improvement Policy - each one is a contributor to success.

Many banks have one of these ingredients; some may have some of them, but not many have all of them. That is why, all banks are not good banks; good banks are not great banks. What makes a bank great?

The Team that comes up with the perfect blend - The Recipe for Success!

I am proud to be associated with a Great Bank. At Escorts Investment Bank

It is all there

Sincerely,

A handwritten signature in black ink, appearing to read "Rashid Mansur", is positioned above the typed name and title.

Rashid Mansur
President & CEO

September 15, 2006





ESCORTS
BANK

TS INV
NK LI

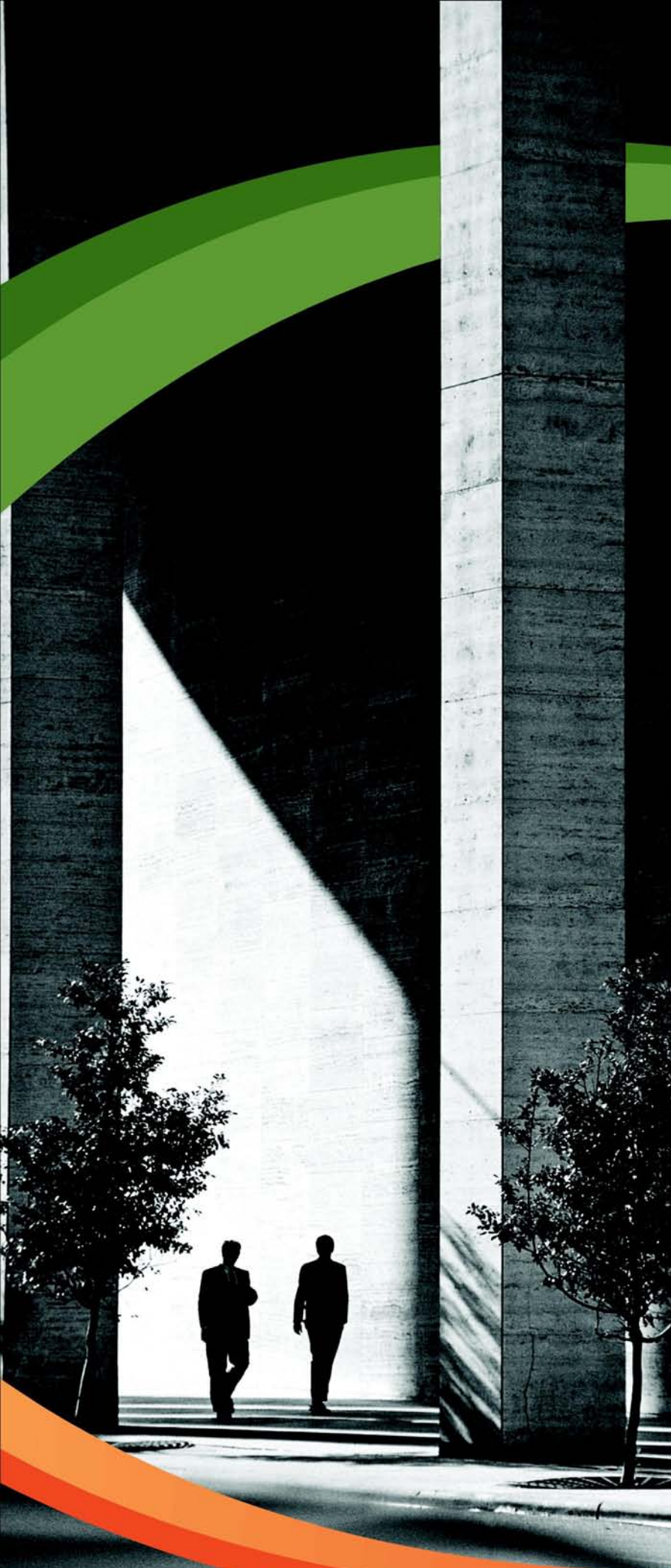


VISION

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, in terms of a progressive corporate culture and an autonomous, committed and dedicated Executive Management with
An Eye On The Future



Broad Policy Objectives

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

- Value Creation for Shareholders on a sustainable basis.
- Shift from Pseudo Commercial Banking activities to genuine Investment Banking.
- 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 Policies.

Corporate Information

Board of Directors

Chairman
Bashir Ahmed

President & Chief Executive Officer
Rashid Mansur

Directors
Rais Ahmed (nominee Investment Corporation of Pakistan)
Bairam Qureshy
Mutahir Ahmed
Shazia Bashir
Sayed Asad Ali Shah
Tajamul Hussain Bokhari (nominee National Bank of Pakistan)

Company Secretary
Ahmed Hasan Khan

Executive Management

President & Chief Executive Officer
Rashid Mansur

Chief Operating Officer
Muhammad Naeem Khan

Executive Director / Head of HR & Administration
Shazia Bashir

Chief Financial Officer
Farooq Hameed Khawaja

Company Secretary / Head of Legal & Corporate Affairs
Ahmed Hasan Khan

Head of Treasury Division
Arshad I. Khan

Head of Capital Markets Division
Muhammad Jawad Akhtar

Head of Corporate Finance & Advisory
Muhammad Kamran Nasir

Head of MIS & Settlements
Azmat Baig

Head of Proprietary Investments (Equity & Equity related Products)
Hassan Abid Zaidi

Audit Committee

Chairman
Bashir Ahmed

Members
Rais Ahmed
Bairam Qureshy

Secretary
Ahmed Hasan Khan

Internal Auditors

A. F. Fergusons & Co.
Chartered Accountants

External Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors

Zafar, Iqbal & Raja
Advocates and Legal Consultants

International Legal Services
Advocates and Legal Consultants

Tax Consultants

KPMG Taseer Hadi & 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





ESCORTS INVESTMENT BANK LIMITED

Products & Services



Our Products & Services


The Bank offers a variety of financial products and services. 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 few years through ever increasing product range.

Escorts Bank enjoys a medium to long-term rating of A (Single A) and a short term rating of A-1 (Single A one) by JCR-VIS Credit Rating Agency of Pakistan, with stable outlook. 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. 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 on the next few pages.

Spectrum of Services

- Certificates of Deposit
- Brokerage Services
- Corporate and Consumer Leasing
- Corporate Finance
- Structured Products & Advisory
- Housing Finance Services



A mix that suits your needs

Certificates of Deposit

At Escorts Investment Bank Limited, we give you the best possible returns and continuously strive to make it as much flexible for you as is possible.

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-annual basis. Tenure of Certificates ranges from one year to five years.

Escorts Money Multiplier Certificates

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

Make your own choice...

Distinct Features

- Minimum deposit amount PKR 50,000.
- Attractive interest rates.
- Flexible term from one month to five years.
- Profit payment of your choice (monthly, semi annual, annual or at maturity).
- Quick and simple procedure.
- Automatic renew-ability.
- Roll-over facility with various options upon maturity.
- Financing facility up to 80% of your deposit amount.

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



Taking Capital Markets to the People

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, at Escorts, we realize that you are like no other investor. You may have your specific requirements, a unique style or 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 can

- 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
- Ensure efficient and cost-effective order execution
- Ensure safe custody of securities
- Rely on the state of the art and custom made brokerage system
- Access thorough financial analysis of listed companies
- Benefit from no administrative or management fees
- Benefit from very competitive commission structure
- **Avail Margin Finance-Leveraging facility against your shares**

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.

Leasing

Consumer Leasing

Drive the vehicle of your choice with Escorts Car Leasing...

- Finance your favorite 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

Corporate Leasing

Determine the mode of transaction of your choice...

- Sale and Lease Back Transactions
- Finance Lease
- Operating Lease

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

Enhance Your Purchasing Power



Managing Your Liquidity Needs

Corporate Banking

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.

Project Finance

Long and medium term morabaha financing

Working Capital Finance

Credit lines of up to 12 months

Bridge Finance

Facilitates till the time committed funds become available

Letter of Guarantees

Facilitates the customer's transaction for which a guarantee is issued and protects the rights of the beneficiary

A Team-Based approach...



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.

Structured Products & Advisory

High-end pure investment banking...

The world has changed for all individuals, institutional investors and companies and decisions are no longer made in ignorance. Expertise and professional guidance is sought before putting in every penny to optimize results. Our most valued, dedicated and diversified team has it all, whether it is about staying within the boundaries or the requirement is country specific, we are up there with the very best in the world.

You Determine, We Advise

New Projects

- Feasibility Studies & Financial Modeling
- Incorporation of Entities
- Debt & Equity Structuring
- Initial Public Offerings
- Department Function Establishment
- Financing Arrangements

Existing Projects

- Debt Restructuring
- BMR
- BPR

Strategic Transactions Advisory

- Acquisition
- Merger
- Asset Purchase and Disposition
- Restructuring & Reorganization
- Spin Offs
- Pension Funds
- Debt Capacity & Valuation Analysis
- Loan Syndications
- Listed Corporate Debt
- Private Equity Placements

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

Realize Your Dreams

Housing Finance Services

We Acquire, Develop, Build, Manage, Market and Finance...

In times where the property prices have risen beyond reach and colonies and commercial buildings are being built at every possible place, we place our strength into transparency to earn the lost confidence of the people. We thrive hard to earn the utmost potential that makes the people realize value for money in the most professional manner.

Our products include but are not limited to

- Housing Finance up to 80% of the assessed market value.
- Land Acquisition and Development.
- Housing Projects.
- Commercial Projects.
- Managing Housing and Commercial Schemes.
- Marketing and Professional Management.

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

Head Office & Lahore Branch

Escorts House
26 – Davis Road, Lahore
Tel: (042) 637 1931 – 34
Fax: (042) 637 5950
info@escotsbank.net
www.escotsbank.net

Branch Offices

Karachi Office
Ground Floor, Bahria Complex I,
Moulvi Tamizzudin Khan Road, Karachi
Tel: (021) 563 6061 - 66
Fax: (021) 563 6075
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
Ground Floor, Bahria Complex I,
Moulvi Tamizzudin Khan Road,
Karachi
Tel: (021) 563 6061 - 66
Fax: (021) 563 6075

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

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

Sailkot
Room No. 226, 2nd Floor, Cantt Plaza,
Sailkot Cantonment, Sailkot
Tel: 052 – 6634320 – 4
Fax: 052 – 4595097

Our Network

ESCORTS
BANK

ESCORTS INVESTMENT
BANK LIMITED



Executive Management

Sitting from Left to Right

Rashid Mansur
President & CEO

Shazia Bashir
Executive Director
Head of HR & Administration

Standing from Left to Right

Muhammad Jawad Akhtar
Head of Capital Markets Division

Farooq Hameed Khawaja
Chief Financial Officer

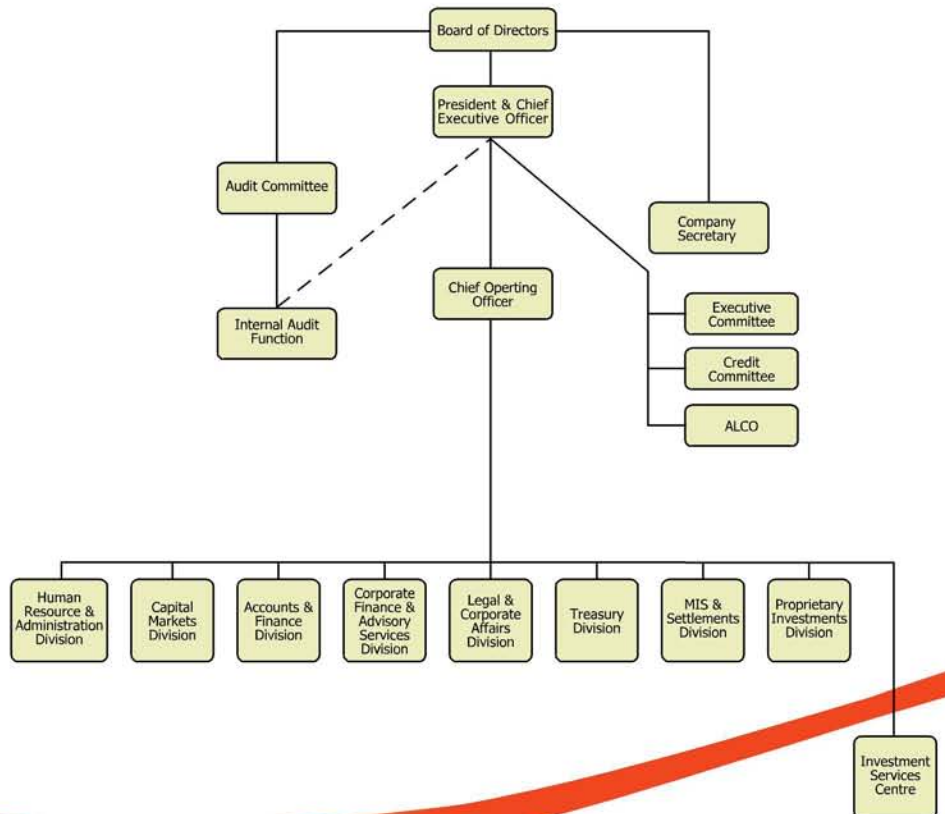
Muhammad Naeem Khan
Chief Operating Officer

Arshad I. Khan
Head of Treasury

Ahmed Hasan Khan
Company Secretary
Head of Corporate & Legal Affairs

Muhammad Kamran Nasir
Head of Corporate Finance & Advisory

Azmat Baig
Head of MIS & Settlements





ESCORTS INVESTMENT BANK LIMITED

Review by the President & CEO





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.

Annual Review

Financial Year Ended June 30, 2006

Our Strategy moves on...

I am delighted to update you on the performance of Escorts Investment Bank during the Financial Year July - June 2006.

The easy part first

Once again, I am reminded that there are two parts of this exercise - the easy part and the difficult one. The easy part is to place before you, the Financial Highlights of the period under review - Nothing remarkable about the format, which you may, by now, find standard. I find it easy, as operations of Financial Institutions are well documented and there exists a widely agreed upon definition of results and measures of success. Therefore, I will let the Figures speak for themselves and let you be the judge and the jury. However what I find remarkable is that **Culture of Discipline**, which has worked in concert, to bring to you progressive and sustained growth, consistently, quarter-after-quarter and year-after year - The difficult part comes when I attempt to depict before you the picture of this **Culture of Discipline**.

Let me follow the habit of tackling the easy part first and let you look at the Financial Highlights.

Financial Highlights (As at June 30, 2006)

AUDITED FIGURES		Rupees in Million		
Sr.#	Description	June 2006	June 2005	Variance (% age)
1	Gross Revenues	716	489	46
2	Profit Before Tax	198	134	48
3	Profit After Tax	186	129	44
4	Shareholder's Equity	760	540	41
5	Deposits & Borrowings	3,687	3,406	8
6	Financing (including Leasing)	374	747	(50)
7	Investments & Placements	3,710	2,267	64
8	Total Assets	4,876	4,178	17
9	Earnings Per Share	Rs. 4.44	3.77	18
10	Net Asset Value Per Share	Rs. 17.24	15.14	14
11	Market Value Per Share	Rs. 16.00	10.60	51
12	Return on Capital Employed	% 28.62	29.78	(1)
13	Dividend	% 20	*20	-

* Comprises 15% cash dividend and 5% bonus shares

The Financial Year under review has been another record-breaking year for Escorts Investment Bank, demonstrating the strength and flexibility of our Strategy. The year was characterized by continued growth and strong transaction flows across most of our businesses. Substantial volume growth, optimized margins, vigilant cost control and strict

capital discipline enabled us to deliver another set of enviable results, displayed in the table above. Through a clear focus on return led growth, we were able to maintain the high rate of Return on Capital Employed, despite the anticipated shrinkage due to rising funding costs. It also implies that we are in good shape to deliver profitable growth in future.

A Culture of Discipline

In today's dynamic financial world, organizations are constantly evolving. Team working is rapidly becoming the preferred practice as traditional corporate hierarchies have given way to flat, multi-skilled working methods. Escorts Investment Bank, under a new Executive Management, since the start of the year 2002, has recognized and appreciated the twin demands of increased efficiency and high productivity. The Bank has undergone radical change, under its current Five-year Business Plan *Escorts Beyond 2001*.

The Camaraderie Facilitate - Inspire - Implement

A question that never ceases to intrigue my mind is: What really distinguishes successful organizations from the rest? The answer is not likely to be found in the formal management structures and organizational hierarchies. Like most institutions, Escorts Investment Bank also has an Organogram that dictates the formal hierarchy and functional layout of a Divisional set-up. Yet I am increasingly convinced that the Bank's success comes from something else. Something that is far less formal - something abstract that no Organogram can depict. It is the camaraderie, between different individuals and informal groups, which has been the real driver of success.

Formally, we too have a Cross-functional **Executive Committee** that heads the Team. However equally effective, and sometimes more productive, are different **Business Teams** that utilize their expertise in their particular fields and those **Cross-functional Groups** that exist at different levels. Then there are **Hot Groups** that come together temporarily to tackle creative tasks. (Incidentally, the credit, for the theme, content and layout of this **Annual Report**, goes to one such group). **Support Teams** (the unsung soldiers) provide the much needed back-up services. The **Project Team** handles specific issues and the **Finance Team** looks after the Financial Control. In a nutshell, various departments that traditionally worked in isolation, now work closely together, at all levels, to pool their expertise.

Last but not the least, the **Change Management Team** takes a detached view of the whole value chain and manages the **Perpetual Change** and **Constant Improvement Process**. (Change Management at Escorts was the subject of a Case Study by LUMS and I enjoyed the privilege of making my Presentation to their MBA students and members of the faculty, at their Business Leaders @ LUMS Forum).



Rigorous and Relentless Not Ruthless

In a fiercely competitive marketplace, delivering better and better results requires rigorous and relentless efforts on the part of the Team. Yet sustainable success is most likely to be achieved by only those institutions that take the broadest view of their responsibilities. Therefore, in pursuit of higher and higher levels of value creation for our shareholders, we have remained absolutely and totally committed to Good Corporate Governance and Best Business Practices.

What we do is important but not as important as, how we do it!

Investor confidence rests on three factors namely:

- Corporate Governance
- Financial Information that is transparent, accurate and timely, and
- A System of checks and balances.

Capital Formation is encouraged only by maintaining trust in each of these.

Realizing the moral imperative of responsible corporate citizenship and with the objective of inculcating the above values, last May, we joined hands with IFC – World Bank Group, to hold a Conference on Corporate Governance. The interest invoked by the Conference was reflective of a positive change in the corporate thinking in Pakistan.

Progressive & Proactive Yet Prudent

A progressive and proactive approach to business has resulted in enhancing the Brand Visibility of the Bank and its Products and Services, yielding higher revenues. The resounding vote of confidence cast by an ever-increasing number of satisfied and loyal customers is our most valued asset.

At the same time, strong Prudential Risk Management, based on Risk Identification and Risk Management rather than Risk Avoidance, has been a key to the Bank's success. We have a systematic approach to managing risk with emphasis on all risks, including but not limited to market risk, credit risk, liquidity risk, operational risk and legal compliance and documentation risk. This will remain a key area of management focus, in the future also.

Our results for the last few years amply demonstrate that, in the long run, Prudence and Profitability are not mutually exclusive, rather compliment each other.

Four and a half years of Escorts Beyond 2001

Following are the Highlights of our **Repositioning for Growth Initiative**:

- Shareholders' Equity increased from Rs. 216 million to Rs. 760 million, of which Rs. 324 million has been added through retained earnings during this period;
- Rs. 132 million were paid out as cash dividends (excluding the proposed Cash Dividend of 20%);
- Market Capitalization increased from Rs. 100 million to Rs. 706 million;
- The Deposit base increased from Rs. 281 million to Rs. 1,480 million;
- Resources under management (excluding equity) increased from Rs. 414 million to Rs. 4,131 million;
- Balance Sheet size increased from Rs. 708 million to Rs. 4,875 million;
- Total Annual Revenues increased from Rs. 98 million to Rs. 716 million;
- Earnings per share increased from Paisa 3 to Rs. 4.44;
- Return on Capital Employed increased from 0.32 % to 28.62 %;
- The JCR – VIS Credit Rating improved from "BBB" to "A", for Medium to Long Term and from "A - 2" to "A - 1", for Short Term.



Writing the Next Chapter - Escorts Towards 2012

The last half-decade including the year under review has been a very challenging yet exciting and rewarding period for me, and the whole team at Escorts. We shall be concluding five years of *Escorts Beyond 2001*, next year.

The conceptual framework of our next Five - year plan, *Escorts Towards 2012* is already taking shape and would be focused on the following Objectives:

- Aligning ourselves to the spirit and functionality of the new NBFC Structure, in a comprehensive manner, taking full advantage of the Enabling Regulatory Environment;
- Placing our Products and Services upfront at new fully equipped Branch Premises, at competitive locations, in all the major cities of Pakistan;
- Building Franchise and Brand Promotion;
- Corporate and Consumer Leasing in custom tailored packages.
- Supplementing our Institutional and Retail Brokerage Services with Margin Finance with the aim of **Taking Capital Markets to the People** and serving as a Role Model for Corporate Brokerage Businesses, in terms of transparent and responsible culture of regulatory compliance;
- Introducing Housing Finance Services, under our newly acquired License;
- Launching an Asset Management Company as a Subsidiary of Escorts Investment Bank;
- Offering at least two Country Specific Corporate Advisory Services, namely
 - **Merhaba Türkiye - Business Forum and;**
 - **Bonjour France - Forum d'affaires**

Before I conclude, I would like to add a few words, in my capacity as the current Chairman of The Investment Banks Association of Pakistan. The NBFC Structure as designed and regulated by the Securities and Exchange Commission of Pakistan (SECP) has created an atmosphere that now enables, inspires and encourages the Investment Banks of the country to play their role of providing the much required high-end services. The Draft of the Revised Version of the NBFC Rules 2003 has been proposed by the SECP after extensive consultative sessions with the stakeholders and is a positive step in the right direction. I take this opportunity to thank the SECP for their business friendly, progressive and facilitative approach to the Regulatory Reform Process.

I would also like to place on record my sincere thanks to the Chairman and the Board of Directors of our Bank for their guidance and support.

Finally, I would like to record by utmost respect and appreciation for each and every member of **The Team** that, once again, made it all happen.

Sincerely,



RASHID MANSUR
President & CEO
September 15, 2006

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 domestic banks. He has expertise in the fields of project financing, lease financing, consortium and syndicate financing, consumer and corporate financing. He has successfully executed a number of project financing transactions. Mr. Khan has been working with the Bank since its inception in 1996.

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.

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.

Mr Khan plays a pivotal role in keeping liaison with the Internal Audit Function including responding to the queries and timely addressing them to ensure the effectiveness of the internal control systems in place. He also coordinates with various other divisions to ensure that the bank remains compliant with the regulations as framed by SECP, KSE & LSE from time to time.



Shazia Bashir

Executive Director
Head of Human Resource & Administration

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.

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 recognize 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.





Muhammmad Jawad Akhtar

Head of Capital Markets Division

Mr. Akhtar did his Graduation in Commerce from the University of the Punjab. He brings to the Bank over a decade of experience in capital markets. Prior to joining the Bank in 2005, he was heading the brokerage business of a leading corporate brokerage house in Pakistan.

Capital Markets

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

We are committed to our dictum of 'Taking Capital Markets to the People'. Besides traditional brokerage accounts, the CMD has begun offering Margin Finance against tradable securities to its brokerage clients. This allows our clients 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.



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 domestic banks. Mr. Khan has been working with the Bank since 2001.

Treasury

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.



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.

Finance & Accounts

The division is responsible primarily for corporate planning, management and financial reporting, which includes timely preparation of all Management Information reports and filing 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 of entire 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.



Muhammad Kamran Nasir

Head of Corporate Finance & Advisory

Mr. Nasir is an Associate Member of the Association of Chartered Certified Accountants, UK. He was associated with KPMG Pakistan for five years and has worked in a managerial capacity with an International BPO Company before joining Escorts Bank. The hands on experience of Mr. Nasir allows him to understand the needs of the entrepreneurs helping them to find the best available solutions to their diverse needs.

Corporate Finance & Advisory

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 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 analysis. 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.



Ahmed Hasan Khan

Company Secretary
Head of Corporate and Legal Affairs Division

Mr. Khan is an LL.M from Cornell University, USA. He was associated with M/s Hassan & Hassan (Advocates) as a lawyer where he had a rich experience of drafting legal documents and giving legal advice to corporate clients. He has also been a visiting lecturer at various law colleges for eight years. He has served as the Company Secretary of the Lahore Stock Exchange (Guarantee) Limited before joining Escorts Investment Bank Limited.

Corporate & Legal Affairs

The Division manages the processes involved with developing and implementing company legislation, regulation and best practices. He is responsible for ensuring that Board members are properly advised of their responsibilities by coordinating the proper and efficient flow of information to them. He provides required input and advises members of the Legal and Governance implications of proposed policies. The Division also develops and oversees the systems which ensure that the Bank complies with all applicable codes as well as its legal and statutory requirements. By making sure that legal and regulatory requirements are covered, the Division provides the basis from which the Bank can successfully operate and develop. In addition to above, Mr Khan also performs secretarial duties in his capacity as the Company Secretary of the Bank.



Azmat Baig

Head of MIS & Settlements

Mr. Baig is an MBA from Preston University, Lahore. He brings with himself over a decade of experience in the investment banking field. He has served in various managerial positions before joining Escorts Investment Bank Limited in early 2002.

MIS & Settlements Division

The Division manages the processes involved with developing and implementing of MIS with an overall view to provide appropriate feed back for the efficient running of operations. The division is also responsible for the settlement of transactions and maintaining congruence between the various activities in the Capital Markets to ensure smooth Settlements in coordination with the Treasury Division.

This division brings together the rich resources from various fields of Investment Banking and plays an important role in providing appropriate and timely feed back for decision making purposes.



Hassan Abid Zaidi

Head of Proprietary Investments
(Equity and Equity related Products)

Mr. Zaidi is a graduate from the University of the Punjab. His association with the Capital Markets dates back to 1990. He has served in various managerial positions before joining Escorts Investment Bank Limited in 2000.

Proprietary Investments

The Division is responsible for deployment of available funds in the most efficient manner. The management of investment portfolio in coordination with other departments is one of the major tasks performed by this division. The division also looks after the hedged positions and arbitrage activities.



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:

Bashir Ahmad (Committee Chairman)
Rais Ahmed
Bairam Qureshy

Executive 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, to plan future strategy, 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
Head of Corporate & Legal Affairs Division

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

Assets & 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



Opening Speech by Rashid Mansur President & CEO, Escorts Investment Bank Limited & Chairman Investment Banks Association of Pakistan

Conference on Corporate Governance

Lahore - May 31, 2006

Ladies and Gentlemen,

Thank you so much for being with us today. It is an honor and a pleasure for me to be able to speak to such a distinguished gathering.

Please join me in welcoming our chief guest, Mr. Salman Ali Shaikh, Commissioner, Securities and Exchange Commission of Pakistan.

On behalf of Escorts Investment Bank and The Investment Banks Association of Pakistan, I would like to express my gratitude to, Mr. Zahid Zaheer, CEO, Pakistan Institute of Corporate Governance, and Mr. Sebastian-A Monlineus and Mr. Kaiser H. Naseem, from IFC, for joining us today, to share their expertise on Good Corporate Governance.

In the interest of good governance of this event, I am going to be brief. That will leave time for the experts, to make their case, and for you, Ladies and Gentlemen, to do justice to both - the Presentations and the Lunch.

In the next ten minutes, I am going to share with you,

- The International Corporate Perspective with regard to

Governance,

- The Pakistani Scenario,
- The viewpoint of the Investment Banks Association of Pakistan, and finally,
- The Governance Initiative of Escorts Investment Bank.

Internationally, and typically, in the US and Europe, Corporate Governance has evolved over the past century to effectively promote the allocation of resources to most productive uses. Generally speaking, the resulting structure of business incentives, reporting, and accountability has worked well. Yet, events like the bankruptcy of Enron, preceded and followed by, several lesser such incidents, suggest that the governance of corporations may have strayed from the generally held perceptions of how it is supposed to work. With the growth of business units, de facto shareholder control has diminished, resulting in the emergence of super powerful CEO's.

This situation is well reflected in a passage I have borrowed from Alan Greenspan and I quote:

"...The Board of Directors appointed by the shareholders are, in the overwhelming majority of cases, chosen from the slate



Sitting Left to Right: Sebastian A. Monlineus (IFC), Rashid Mansur (CEO & President, Escorts Investment Bank Limited), Zahid Zaheer (CEO, Pakistan Institute of Corporate Governance), Kaisar H. Naseem (IFC)

proposed by the CEO. The CEO sets the business strategy... and strongly influences the choice of the accounting practices that measure the ongoing degree of success or failure of that strategy. Outside auditors are generally chosen by the CEO or by an Audit Committee of CEO chosen directors. Shareholders usually instinctively affirm such choices."

He goes on to say:

"...the current CEO-dominant paradigm, with all its faults will likely to be viewed as the most viable form of corporate governance."

In Pakistan, as we all know, the CEO-dominant Paradigm is neither present nor evident. The corporate scene in Pakistan may differ from that of the US or Europe, in more than one way but I have only taken up this particular difference, to make the point that prescriptions for Good Corporate Governance may not be universally applicable.

The recent regulations introduced by the SECP toward strengthening the position of the CEO's at the Stock Exchanges of Pakistan, amply prove my point.

In Pakistan, there is a dire need for demarcating the roles of the Board of Directors and the Executive Management.

Framing of the Broad Policy and Strategy, along with general stewardship of the company, falls in the domain of the Board while the day-to-day operations rest with the executive management. In reality we may find that in many companies including financial institutions, the roles seem to have been reversed.

At The Investment Banks Association of Pakistan, we believe

that there is no substitute to responsible Management.

"Institutions are built on Values; their Viability on know-how!"

In today's dynamic financial sector, sustainable success is most likely to be achieved, by those institutions that take the broadest view of their responsibilities.

Investor confidence rests on three factors, which are:

- A. Corporate Governance,
- B. Transparent, accurate and timely Financial Information, and
- C. A System of checks and balances.

Capital Formation is encouraged only by maintaining trust in each of these.

Our Association has therefore, in addition to Quantitative measures also identified, specific Qualitative Performance Measures for our Member Institutions.

Ladies and Gentlemen

In the light of my foregoing remarks, Escorts Investment Bank is a good case study.

The current Five-Year Business Plan **Escorts Beyond 2001** restated the Banks Mission, Vision and Statement of Broad Policy Objectives. Good Corporate Governance was identified as one of the five pillars of the Bank's Strategy.

A combination of customer focus, innovative products and quality service, supported by a committed team, and operating within an accountable framework of social, ethical and corporate responsibility has proved to be a powerful formula. It has also proved to be a highly successful one.

Event in Spotlight

ESCORTS
BANK



Chief Guest, Salman Ali Shaikh (Commissioner, Securities & Exchange Commission of Pakistan)

We strongly believe that:

What we do is important... but not as important as, how we do it!

Practicing Good 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 these principles.

In other words, we have to live up to high standards that are independently verifiable. Although designing Strategy has, at times been a two-way stream between the Board and Executive Management, we have a very capable Board of Directors that finally approves all our Strategic Plans and Policies. Once that is done, complete Operational Autonomy is 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.

I would like to conclude my remarks with a passage, again from Alan Greenspan,

"...a market economy requires a structure of formal rules – a law of contract, bankruptcy statutes, a code of shareholders rights – to name but a few. But rules cannot substitute for character. In virtually all transactions, whether with customers or with colleagues, we rely on the word of those with whom we do business. If we could not do so, goods and services could not be exchanged efficiently.

Companies run by people with high ethical standards arguably do not need detailed rules to act in the long-run interests of shareholders and, presumably, themselves.

But, regrettably, human beings come as we are – some with enviable standards, but others who continually seek to cut corners. Yet there can be only one set of rules for corporate governance, and it must apply to all. Crafting the rules to

provide the proper mix of regulatory and market-based incentives and penalties has never been easy."

Ladies and Gentlemen:

This is the dilemma of Governance. This is exactly what makes today's Presentations, so interesting, stimulating and thought provoking for all of us.

Thank you once again.

I would like to conclude my remarks with a passage, again from Alan Greenspan,

"...a market economy requires a structure of formal rules – a law of contract, bankruptcy statutes, a code of shareholders rights – to name but a few. But rules cannot substitute for character. In virtually all transactions, whether with customers or with colleagues, we rely on the word of those with whom we do business. If we could not do so, goods and services could not be exchanged efficiently.

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Ladies and Gentlemen:

This is the dilemma of Governance. This is exactly what makes today's Presentations, so interesting, stimulating and thought provoking for all of us.

Thank you once again.

DAWN Asia Finance Conference

Karachi - May 13, 2006

Investment Banking in Pakistan under the NBFC Structure

Speech by Rashid Mansur President & CEO, Escorts Investment Bank Limited & Chairman Investment Banks Association of Pakistan

Ladies and Gentlemen

Assalam – o – Alaikum

On behalf of the Investment Banks Association of Pakistan, I would like to thank the DAWN Group for providing me with the opportunity to speak to such a distinguished gathering. It is indeed an honor and a pleasure for me.

Two types of Presentations pose an Operational Risk for the speaker - those immediately before Lunch and the ones immediately following the Lunch. The fact that today is a Sunday adds another dimension to this Risk. I was at LUMS for a Presentation on the Change Management Initiative of Escorts Investment Bank. LUMS had taken it up as a case study.

A sumptuous Punjabi Lunch had preceded the Presentation and I must confess I had myself abandoned my usual Prudential Lunch Regime. To my surprise, notwithstanding the heavy lunch, I was faced by an amazingly vibrant audience, like the one I see here today. I was half way through the presentation when, talking about the NPAs, i.e Non-Performing Assets, I noticed a young man who had visibly migrated to fairyland. As a realistic banker, I said,

"I am willing to write-off, up to one percent NPAs – and this time NPA stands for Non Performing Audience - The rest of you, please stay with me!"

In the next precise 16 - (one six) minutes, I am going to share with you, some diverse perspectives of Investment Banking, contemporary trends, challenges and our response. I will talk about the Historical Perspective of Investment Banking in Pakistan, Investment Banking under the NBFC Structure, The Vision, Mission and Objectives of the Investment Banking Sector, its present status in the Financial Markets, the Future Outlook, and finally, the factors that we consider crucial to the development of the sector.

The term Investment Banking invokes different images in the developed countries than in Pakistan. The historic perspective also differs. In the US or Europe, and more recently the Far and the Middle East, it brings to mind the legendary long hours, the hefty bonuses, the mega billion dollar deals and of course the jet-setting pinstriped investment banker. An intensely competitive, high energy, action oriented, profit hungry environment, dominated by young hotshots; or maybe, some senior persons who may look older, yet feel as young as the youngest hotshot .

I assure you, Ladies and Gentlemen, any resemblance to this humble speaker here is purely coincidental. In short, a larger-than-life-world where Mega-Deals are concluded and huge fortunes made overnight – Definitely a high-end activity where the learning curve is very steep!

On the other hand, Commercial Banking is considered more

routine, mundane and a run-of-the-mill activity. Although I must admit that recently, with huge improvement in automation, and creativity with respect to products, services and marketing, the Commercial Banks have also taken a number of innovative and diversified steps.

In Pakistan, the story has been quite different. Contrary to the west, the Commercial Banks were considered relatively "Superior Institutions". This was probably because of the larger number of branches and the kind of high Brand Visibility that goes with a broader market outreach.

As regards the regulation and development of Investment Banking was concerned, the Investment Banks had always complained that the State Bank of Pakistan, the then regulator, was preoccupied with the larger sector of Commercial Banking. The SBP lacked either the will, or the capacity, or both, to do justice with the smaller, lesser known yet more sophisticated and specialized group of Investment Banking activities. On the other hand, the SBP had also complained, and with good justification, that the Investment Banks confined themselves to Pseudo Commercial Banking and did little to develop Investment Banking Products suited to the peculiar local environment.

It was against this background that the Regulation of Investment Banking was passed on, from the State Bank of Pakistan to the SECP. This shift in itself implied a recognition of the need for "**Specialization of the Function of Regulation.**"

In the yesterday's session, a comment was addressed to the Governor State Bank of Pakistan, on the need for one single Regulator, for the whole Financial Sector. We feel that who regulates us is not important. It is all about how we are regulated. Regulators of today are not merely watchdogs. They are expected to also be promoters, facilitators and motivators. In order to be able to do so they have to have the capacity in terms of the expertise, human resource and the tools like Automation to understand, monitor and manage the different Risks, inherent in all Financial Transactions. In the context of the Capital Market Dynamics, these Risks take on a different meaning, as they have to be monitored in a Real-time or Near-real-time environment.

The SECP may be conspicuous by their absence from this conference, but I feel that we would not be honest if we do not recognize here, the valuable contribution of SECP towards development of Investment Banking in Pakistan.

One major change made, by the SECP, through the NBFC Rules 2003 has been the introduction of the NBFC Structure. This framework entails the permission to provide a number of services under the same corporate structure. The rationale was to consolidate the activities relating to Non-Banking Financial Sector, under one umbrella and promote these

activities by strengthening the capital base and thereby reducing capital costs. A Capital-Based Structure, where minimum paid up capital requirements were identified for each Form of Business Activity.

The multiple-tier business structure brought about a Paradigm Shift and resulted in benefits like:

- Consolidation and Strengthening of NBFC sector through better capitalization
- Economies of scale and cost efficiency to capture synergies across complementary Financial Services.
- Broad Capital Base, reduced Cost of Capital, enhanced Operating leverage and better Capital Utilizations
- Increased shock absorbing capacity, and
- A wider range of products with improved innovation resulting in better solutions to customers.

With the passing of the Regulation of Investment Banking from SBP to SECP, there was a new focus and an understanding of the issues relating to reforms and the development of Capital Markets, in order to make them more efficient, transparent, accessible and acceptable in terms of capping of Systemic Risk and an efficient Settlement Process. These reforms included those pertaining to:

- T+3 Settlements
- Increase in Net Capital Balance requirements
- Imposition of Capital Adequacy Ratio
- Exposure limit margins
- Prohibition of Insider Trading
- Monitoring of variations in scrip-wise price movements, turnover and deliveries
- Restriction on Blank Selling
- And the Establishment of CDC and National Clearing System

Although this reform process is still incomplete and in progress, all these factors have created an atmosphere that enables, inspires and encourages Investment Banks of the country to play their real role of providing high-end services, related to Financial & Capital Markets.

It is against this background that the Investment Banks Association of Pakistan has taken up the Mission to develop and deliver a portfolio of genuine Investment Banking Services related to Advisory, Research, Intermediation in Securities, Underwriting & Asset Management and compliment these services by providing peripheral Financing Products. In doing so, we intend to contribute significantly to our national economy in general and financial markets in particular.

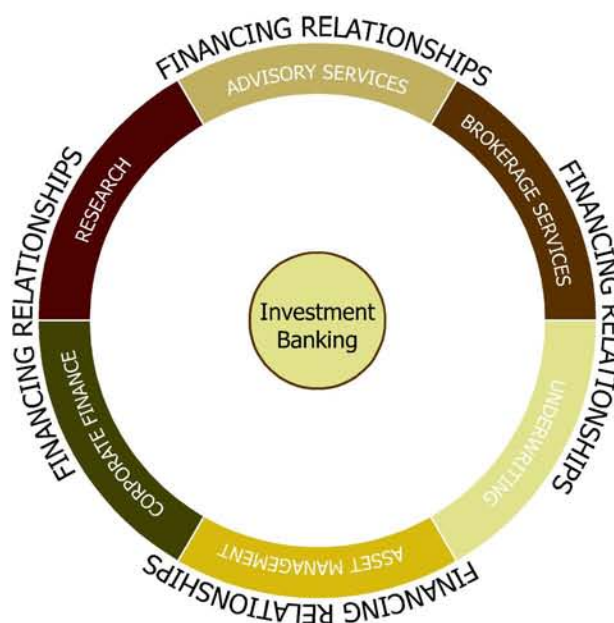
Our Vision is to transform the Pakistan Investment Banking Sector into an Elite Group of Institutions that take the broadest view of their responsibilities, and are geared with a combination

of customer focus, innovative products and quality service, supported by a committed human resource and operating within an accountable framework of social, ethical and corporate responsibility.

Our Objectives are:

- Value creation for shareholders and Customers on a sustainable basis
- Shift from Pseudo Commercial Banking towards genuine, high-end Investment Banking Activities
- Maintaining High Asset Quality
- Good Governance & Best Business Practices and
- High Professional Efficiency and Constant Improvement Policy

Products & Services Model



Our Operational focus is on Enhanced Profitability and Sustainable Growth through a broader range of Products & Services and Capacity Building in terms of Human Resource, Infrastructure, Systems Support and Risk Management Capabilities.

The Investment Banks Association feels that there is no substitute for competent and responsible management.



JCR-VIS Credit Rating Company Limited
Affiliate of Japan Credit Rating Agency, Ltd.

Press Release

JCR-VIS upgrades short-term rating of Escorts Investment Bank Ltd.

Karachi, December 29, 2005: JCR-VIS Credit Rating Company Ltd. has maintained the medium to long-term entity rating of Escorts Investment Bank Limited (EIBL) at 'A' (Single A) with a 'Stable' outlook and upgraded short-term rating of the bank from 'A-2' (A Two) to 'A-1' (A One).

EIBL has broadened the base of business activities over the last couple of years and earnings have improved considerably over this period. A 40% rights issue has also improved capitalization with equity increasing by about 60% from June 2004 to September 2005. Improving diversification in the institution's earning base would further support assigned ratings. Short-term ratings reflect the bank's currently strong liquidity profile. JCR-VIS believes that reducing reliance on short-term money markets for funding and cultivating presence in the primary funds market can also provide increased financial flexibility to non-banking finance companies. In this regard, EIBL plans to launch fresh schemes for mobilizing retail funds this year and also diversify its business portfolio further, which would support current ratings.

For further information on this rating announcement, please contact Mr. Safdar Kazi (Ext: 221) or Ms. Sabeen Saleem (Ext: 222) at 5671822/5671833/5680996 or fax to 5681105/5671600.

Faheem Ahmad
President & CEO

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ESCORTS INVESTMENT BANK LIMITED

Financial Statements

30 June 2006

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 11th Annual General Meeting of the Members of ESCORTS INVESTMENT BANK LIMITED will be held on Tuesday, October 31, 2006 at 11:00 a.m. at Escorts House, 26 Davis Road, Lahore, the registered office of the Company, to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the First Extraordinary General Meeting held on December 30, 2005.
2. To receive, consider and adopt the Annual Audited Financial Statements for the year ended June 30, 2006, together with the Directors' and Auditors' report thereon.
3. To consider and approve cash dividend at the rate of Rs.2 per share (20%) to the shareholders for the year ended June 30, 2006 as recommended by the Board of Directors.
4. To appoint auditors of the Company for the next financial year, ending June 30, 2007, and to fix their remuneration.

SPECIAL BUSINESS

5. To consider, and if thought fit, to approve alterations in the provisions of the Memorandum of Association of the Company in order to (a) change the Company's objects as proposed by certain substitutions in and additions/insertions into Clause III of the Memorandum of Association, and (b) renumber and restate the existing sub-clause 7 of the said Clause III.

For this purpose, to consider and, if thought fit, to pass, with or without modification, the following special resolution:

"RESOLVED that the Company is authorized, subject to the approval of the Securities and Exchange Commission of Pakistan, to alter its Memorandum of Association as recommended by the Board of Directors as follows:-

The opening line of Clause III (Objects) of the Memorandum of Association of the Company shall stand substituted as follows:

III. The objects for which the Company has been established are all or any of the following (and in construing the following sub-clauses the scope of no such sub-clause shall be deemed to limit or effect the scope of any other such sub-clause):

Sub-clause 1 of Clause III (Objects) of the Memorandum of Association of the Company shall stand substituted by the following new sub-clause 1:

To carry on business as a Non-Banking Finance Company ("NBFC") as prescribed under Part VIII-A of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, and any rules made by the Federal Government for the establishment and regulation of NBFCs or any class thereof pursuant to Section 282B of the Companies Ordinance, 1984, and to engage in one or more forms of businesses provided

for therein, including investment finance services, leasing, housing finance services, venture capital investment, discounting services, investment advisory services, asset management services and any other form of business which the Federal Government may, by notification in the Official Gazette specify from time to time pursuant to Section 282A(b) of the Companies Ordinance, 1984.

Sub-clause 6 d x) c) of Clause III (Objects) of the Memorandum of Association of the Company shall stand substituted by the following new sub-clause 6 d x) c):

- c) Issuance of redeemable capital (participation term certificates or term finance certificates, etc.);

Sub-clause 6 e of Clause III (Objects) of the Memorandum of Association of the Company shall stand substituted by the following new sub-clause 6 e, and the following sub-clauses 7 to 22 shall be added/inserted after sub-clause 6 e, as so substituted:

- 6 e To carry on, either directly or through subsidiaries, any business under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, as the same may be amended, modified or re-promulgated from time to time, that may be specifically allowed, currently or in future, by the Securities and Exchange Commission of Pakistan or any other authority having jurisdiction over the Company, with the exception of banking business and insurance business as defined in the Banking Companies Ordinance, 1962 (LVII of 1962), and the Insurance Ordinance, 2000 (XXXIX of 2000), respectively.
7. Subject to the consent of the Securities and Exchange Commission of Pakistan or any other authority having jurisdiction over the Company, to carry on any or all of the following businesses:
 - 7.1 To develop, acquire and purchase, take on lease or tenancy, hire or otherwise acquire, any estate or interest in, and to take options over, any property, immovable or movable, or rights of any kind, which may appear to be necessary or convenient for any business of the Company, in any part of the world, and to develop, turn to account and deal with the same as may be deemed expedient; and
 - 7.2 To constitute any trusts with a view to the issuing of preferred and deferred or any other documents based on or representing any shares, stocks, or other assets appropriated for the purposes of any such trust, and to settle and regulate, and if thought fit, to undertake and execute any such trusts and to issue, hold or dispose of any such preferred, deferred, or other special stocks, securities, certificates or documents.

8. To borrow or raise money by any means including loans or other legal arrangements from banks, or other financial institutions or the directors of the Company in such manner as the Company may think fit, including by way of overdraft, pledge, hypothecation of stock, mortgage, or by the issue of debentures, debenture-stock, bonds, obligations and securities of all kinds and to secure the payment/repayment of such money, as and when it may seem expedient to the Company, with full powers to make the same transferable by delivery or by instrument of transfer or otherwise either perpetual or terminable and either redeemable or otherwise and to make the same by trust deed or otherwise on the undertaking by the Company or upon any specific property and rights, present and future, of the Company (including its uncalled capital) or otherwise howsoever, collaterally or further to secure and securities of the Company by a trust deed or any other assurance.
9. To enter into financing contracts and to mobilize resources in local and foreign currencies consistent with the objects of the Company.
10. To procure the registration or recognition of the Company in or under the laws of Pakistan, and/or those of any jurisdiction outside Pakistan.
11. To take such steps as may be necessary to give the Company the same rights and privileges in any part of the world as are possessed by local companies or partnerships of a similar nature.
12. To remunerate the Directors, officials and servants of the Company and others out of or in proportion to the returns or profits of the Company or otherwise, and to formulate and carry into effect any scheme for sharing the profits of the Company with employees of the Company or any of them.
13. To subscribe or guarantee money for any conference, exhibition or seminar.
14. To support and subscribe to any national, charitable, benevolent, or public object and any institution, society or club, which may be for the benefit of the Company or its employees, or may be connected with any town or place where the Company carries on business, to give pensions, gratuities or charitable aid to any person or persons who may have served the Company, or to the wives, children, or other relatives of such persons, and to form and contribute to provident and benefit funds for the benefit of any persons employed by the Company.
15. To carry on any other related business or activity and do anything of any nature whatsoever which the Company considers is, or may be, capable of being conveniently or advantageously carried on or done in connection or conjunction with any business of the Company authorized in this Memorandum of Association or may be likely, directly or indirectly, to enhance the value of or render profitable or more profitable or turn to account or exploit any of the Company's assets or utilize its skills, know-how or expertise.
16. To purchase, take over or otherwise acquire all or any of the business, assets, property and liabilities of any person carrying on a business including all or any part of the purposes within the objects of the Company or a business which in the opinion of the Company may be conveniently or advantageously carried on by the Company, or a business having rights in assets the acquisition of which is in the opinion of the Company likely to be in its interest, and to conduct, carry on and expand or dispose of or liquidate and wind up any such business.
17. To issue, allot and grant options over shares of the Company pursuant to an employees stock option scheme.
18. To establish subsidiaries, branch offices, liaison offices, representations, in or outside Pakistan, and to procure the Company, or a subsidiary, branch office, liaison office, representation thereof, to be registered or recognized in any part of the world.
19. To take over or merge or amalgamate with any person or company whether by sale or purchase (for fully or partly paid shares or otherwise) of the undertaking subject to the liabilities of the Company or any such other company as aforesaid with or without winding up or by purchase (for fully or partly paid shares or otherwise) of all the shares of stock of any such other company, or in any other manner.
20. To sell or dispose off the undertaking of the Company or any part thereof in such manner and for such consideration as the Company may think fit, including, without limitation, for shares (fully or partly paid up) debentures, debenture-stock, or securities of any other company, whether promoted by the Company for the purpose or not, and to improve, manage, develop, exchange, lease, dispose of, turn to account or otherwise, deal with all or any part of the property and rights of the Company.
21. To do all or any of the above things and all such other things, as are incidental or as may be thought conducive to the attainment of the above objects or any of them in Pakistan or any other part of the world either as principals, agents, trustees, contractors or otherwise and either alone or in conjunction with others and either by or through agents, contractors, trustees or otherwise and to do all such things as are incidental or conducive to the attainment of the above objects, and each of the above objects shall be construed as an independent object.
22. Notwithstanding any thing contained in the above objects and Articles of Association of the Company, it is hereby declared that the Company shall be obliged not to carry on any business in all circumstances and dealings which may amount to receiving or giving of usury and any regulations, rules or instructions contrary to this obligation, whether favoring or against the interest of the Company, its shareholders, employees or customers, shall have no legal effect in relation to the Company.

Sub-clause 7 of Clause III (Objects) of the Memorandum of Association of the Company shall stand renumbered and restated as follows:

Investment Policy

IV. (a) The Investment Policy of the Company shall be in accordance with the concerned law of the land as stated in the Articles of Association of the Company.

(b) It is further declared that notwithstanding anything contained in Clause III of Memorandum of Association, nothing herein shall be construed as empowering the Company to undertake the business of banking and insurance, as defined in the Banking Companies Ordinance, 1962 (LVII of 1962), and the Insurance Ordinance, 2000 (XXXIX of 2000), respectively, directly or indirectly, as restricted under the law, or any other unlawful operations.

(c) It is further undertaken that the Company shall follow and abide by all the conditions and restrictions imposed or to be imposed by the Government of Pakistan vide letter of permission issued by the Finance Division bearing number F-9 (2)-CRO (INV)/95-212 dated March 16, 1995, and any subsequent conditions or restrictions imposed by the Government of Pakistan.

RESOLVED FURTHER that each of the Chief Executive Officer and the Company Secretary of the Company be and is hereby singly authorized and empowered to act on behalf of the Company in doing and performing all acts, matters, things and deeds to implement and/or give effect to the foregoing alterations to the Company's Memorandum of Association, including, but not limited to, obtaining requisite approvals of the same by the Securities and Exchange Commission of Pakistan and the stock exchanges concerned, and procuring registration thereof with the Registrar of Companies".

OTHER BUSINESS

6. To transact any other business with the permission of the Chair.

BY ORDER OF THE BOARD

AHMED HASAN KHAN
Company Secretary

Dated: 7 October 2006

Notes:

1. The share transfer books shall remain closed from October 20, 2006 to October 31, 2006 (both days inclusive). Transfers received at Hameed Majeed Associates (Pvt.) Limited, H.M. House, 7-Bank Square, Lahore, by the close of the business hours on October 19, 2006 will be treated in time for the purpose of casting of votes at the Annual General Meeting.

2. A member entitled to attend and vote at the meeting may appoint another person as his/her proxy to attend the meeting, speak and vote on his/her behalf. Form of Proxy is enclosed.

3. The Form of Proxy must be signed across a rupees

five revenue stamp and should be received by the Company at its Registered Office at least 48 hours before the meeting.

4. Shareholders are requested to promptly notify the Company of any change in their addresses at the Registered Office of the Company.

5. CDC Account Holders will have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

5.1 For attending the meeting:

5.1.1 In case of individual, the account holder or sub-account holder shall authenticate his identity by showing his original National Identity Card (NIC) or original passport at the time of attending the meeting.

5.1.2 In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signatures of the nominee shall have to be produced at the time of the meeting.

5.2 For appointing proxies:

5.2.1 In case of individual, the account holder or sub-account holder shall submit the proxy form as per the requirements of para 3 above.

5.2.2 The proxy form shall be witnessed by two persons whose names and NIC numbers should be mentioned on the Proxy Form.

5.2.3 Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the Proxy Form.

5.2.4 The proxy shall produce his/her original NIC or original passport at the time of the meeting.

5.2.5 In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signatures shall have to be submitted along with Proxy Form to the Company.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

This statement is annexed to the Notice of the Annual General Meeting of Escorts Investment Bank Limited to be held on 31 October 2006, at which certain special business is to be transacted, and the purpose of this statement is to set out all material facts concerning such special business.

The Company was incorporated and commenced business in 1995, and the objects clause of its Memorandum of Association, as then formulated, did not sufficiently provide for or contemplate the diverse range of business that a non-banking finance company is presently permitted to carry out under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, as the said Rules were not in the field at that time. In the ensuing ten years, the legal and sectoral landscape relating to non-banking finance companies has undergone significant change, and the Company has also recently obtained licences from the Securities and Exchange Commission of Pakistan to carry out the businesses of leasing and housing finance services in addition to the original licence granted to it to carry out investment finance services.

In this period, however, while the objects clause of the Company's Memorandum of Association has undergone some alterations, they have fallen short of bringing it in line with the objects clauses customarily contained in the Memoranda of Association of non-banking finance companies currently doing business in Pakistan. Accordingly, this objects clause is now believed by the directors of the Company to be in need of an update by way of the introduction of certain core and enabling provisions. Furthermore, the existing objects clause also contains certain typographical errors that need to be corrected.

In view of the foregoing situation, the directors of the Company have deemed it to be in the best interests of the Company and its shareholders that Clause III (Objects) of the Memorandum of Association of the Company be altered by substitution and addition as proposed hereinabove. The purpose of the proposed alterations is to enable the Company, while keeping its core business activity of being a non banking finance company intact, to carry out its business more efficiently, and to facilitate the attainment of the Company's main purpose by improved means.

The directors of the Company have no direct or indirect interest in the special business to be transacted at the Annual General Meeting that would need further disclosure, save to the extent of their shareholdings and remuneration in the Company.

A copy of the Memorandum and Articles of Association of the Company as of the date hereof and also indicating the proposed alterations to its provisions is available for inspection at the Company's registered office from 9:00 am to 1:00 pm on every working day except Saturday.

Directors' Report

The Board of Directors of Escorts Investment Bank Limited takes pleasure to present before you, the annual report 2006 together with the audited financial statements for the year ended 30 June 2006.

The Board hereby confirms that:

- 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;
- proper books of accounts of the company have been maintained;
- appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of these financial statements;
- the system of internal controls is sound in design and has been effectively implemented and efficiently monitored;
- there are no significant doubts upon the company's ability to continue as a going concern; and
- 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:

	2006 (Rupees)	2005 (Rupees)
Profit before provisions and taxation	208,726,716	180,415,525
Provision for doubtful finances & receivables	10,771,822	26,344,908
Impairment – Held to maturity investments	-	20,000,000
Profit before taxation	197,954,834	134,070,620
Less: Taxation	11,903,959	4,669,463
Profit after taxation	186,050,875	129,401,157

Key financial data and ratios for the last six years are given on page 52.

Your Bank witnessed an all-round progress both in quantitative as well as in qualitative terms. The Bank during the year registered 44% growth in net after tax profits, which increased from Rs. 129 million for the previous year, to Rs. 186 million for the year under review.

Gross revenue during the year amounted to Rs. 716 million as compared to Rs. 489 million for the previous year. Borrowing cost increased from Rs. 158 million to Rs. 307 million, which is well justified and in line with the general increase in the interest rates and the increased business volumes handled by Escorts Bank. Operating expenses during the year amounted to Rs. 198 million due to enhanced business activity. Additional provision of Rs. 11 million against doubtful finances and receivables was booked during the year. The operating (pre-tax) profit increased to Rs. 198 million from Rs. 134 million last year, posting a growth of 48%.

Total assets as at 30 June 2006 stood at Rs. 4,876 million as against Rs. 4,178 million at the last year end, reflecting an improvement in the balance sheet size by 17% over 30 June 2005.

Earnings Per Share

Earnings per share of your Bank have risen from Rs. 3.77 to Rs. 4.44 during the year under review, showing an increase of 18%.

Dividend

The Board of Directors has proposed Cash Dividend at the rate of 20% i.e. Rs.2 for every Rs.10 ordinary share held.

Credit Rating

As a witness of confidence to your Company's performance, JCR-VIS Credit Rating Agency has upgraded the Short Term Credit Rating of the Bank to "A-1" (Single A one) from "A-2" (Single A two), while Medium to Long Term Credit Rating has been maintained at "A" (Single A), 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. No casual vacancy occurred during the year. During the year, four meetings of the Board of Directors were held and following is the detail of attendance by the Directors:

Directors	Held during Tenure	Attended
Bashir Ahmed	4	2
Rashid Mansur	4	4
Abdul Latif Uqaili	4	3
Shazia Bashir	4	3
Tajamul Hussain Bokhari	4	-
Asad Ali Shah	4	4
Bairam Qureshy	4	3
Mutahir Ahmed	4	1

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

Changes in Shareholding

During the year ended 30 June 2006, the Board resolved to offer unsubscribed portion (i.e. 1,030,375 shares) of the 40% Right Issue to the staff of the Bank. In exercise of the offer, certain Executives of the Bank have acquired shares of Escorts Investment Bank Limited. The details of purchase and sale of shares of Escorts Investment Bank Limited by the Directors, CEO and CFO, as required by the Code of Corporate Governance, are given below:

Name	Designation	No. of Shares			
		Right Shares Purchased Against		Bonus Shares	Sold
		Entitlement	Acquired		
Bashir Ahmed	Chairman	1,345,699	-	160,202	-
Rashid Mansur	President & CEO	-	100,000	5,000	105,000
Shazia Bashir	Executive Director	980,600	-	171,605	220,240
Bairam Qureshy	Director	315	-	37	-
Mutahir Ahmed	Director	3,000	-	7,500	-
Sayed Asad Ali Shah	Director	210	-	25	-
Farooq Hameed Kh.	Chief Financial Officer	130	9,545	500	10,000

Pattern of Shareholding

There were 431 shareholders of the Bank as at 30 June 2006. 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 employees, to the fund @ 10% of basic salary. Based on latest audited financial statements of the fund the value of its investments as at 30 June 2005 works out to Rs. 8.85 million.



CEO's Review

The Board endorses the CEO's review for the year ended 30 June 2006.

Internal Audit Function

The Board during the year, on the recommendations of the Audit Committee, outsourced the Internal Audit Function to M/s A.F. Ferguson & Co. Chartered Accountants, to further strengthen the Internal Audit Function.

Auditors

Our auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants retire and being eligible, offer themselves for reappointment. The Board and the Audit Committee recommend their reappointment.

Future Outlook

The 5 Year Business Plan "Escorts Beyond 2001" launched in January 2002 has entered its last six months. During the four and a half years of the plan, the Bank's phenomenal growth seemed to be a daunting task when compared to the state of the affairs of the Bank at the launch of the plan. At this important juncture where the split with Escorts Beyond 2001 would be inevitable in about six months, we need to embrace ourselves to finish what was started in January 2002. While we prepare for the last stride, we place our commitment to not loose sight of the finesse brought about by our enviable Business Plan that would lay a solid foundation for the next Five Year Plan taking Escorts Bank further.

Moving forward, the focus would remain on our core Investment Banking Activities while we intend to explore other opportunities as well. In this context, the Bank during the year under review obtained licenses to under take Leasing Business and Housing Finance Services as allowed under NBFC Rules 2003, further widening the scope of products and services that can be offered to its customers.

In our quest, to not leave any stone unturned as we progress, the Board has already approved the set-up of **Model Branch** in Lahore. This would give your Bank an all new look and dimension which we believe is necessary to take your bank a step further. This would be extended to setting up similar model branches in all major cities along with deep network of '**Investment Services Centers**' offering wide range of products to the retail clientele.

Acknowledgement

The Board would like to take this opportunity to express its admiration 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

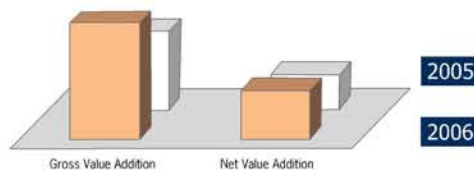
Lahore: 15 September 2006

Statement of Value Addition

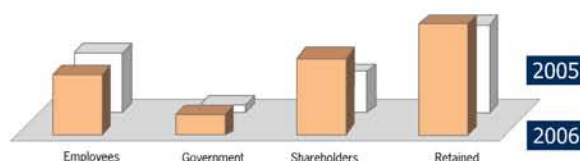
For the Year Ended 30 June 2006

	2006		2005	
	Rs. (000)	%	Rs. (000)	%
Gross Revenue	716,284		488,658	
Less: Financial Charges	306,870		158,418	
Operating & Other Expenses (excluding staff cost)	108,692		67,134	
Provisions & Impairment	10,772		64,345	
Deferred Tax	(10,669)		(5,379)	
	300,619	100.00	222,140	100.00
Distribution to				
Employees as remuneration	67,125	22.33	68,169	30.69
Government as taxes	22,573	7.51	10,049	4.52
Shareholders as dividend	88,200	29.34	45,000	20.26
Retained within the business				
Depreciation & Amortization	24,870	8.27	14,522	6.54
Statutory Reserve	37,210	12.38	25,880	11.65
Retained Profit & Bonus Sares	60,641	20.17	58,520	26.34
	122,721	40.82	98,922	44.53
	300,619	100.00	222,140	100.00

Value Addition



Distribution



Financial Highlights

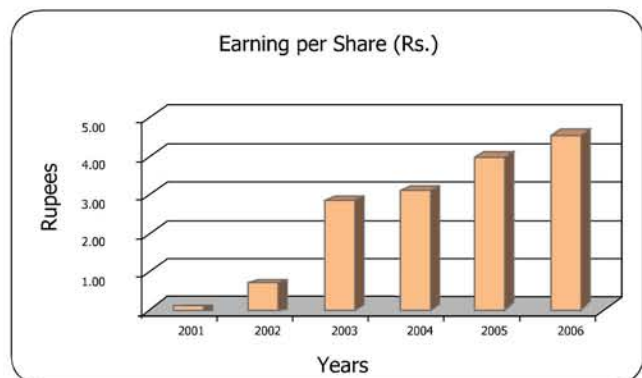
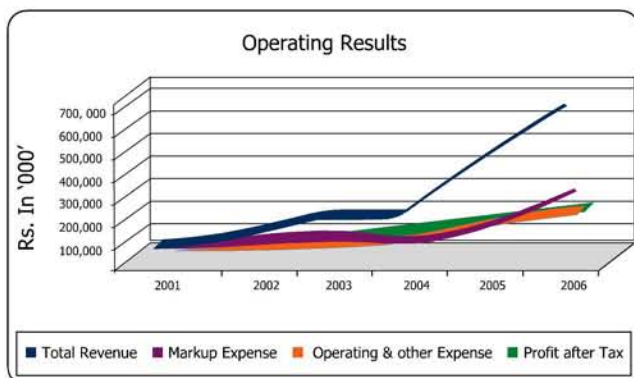
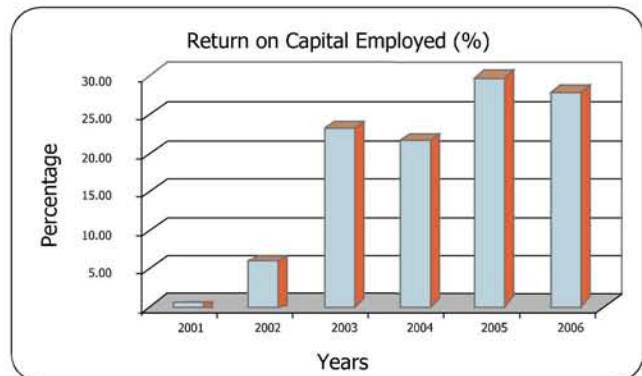
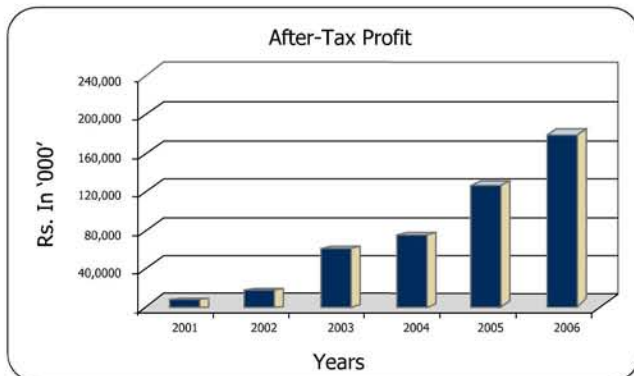
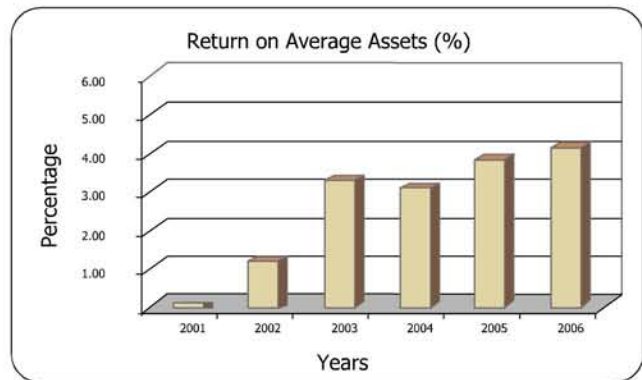
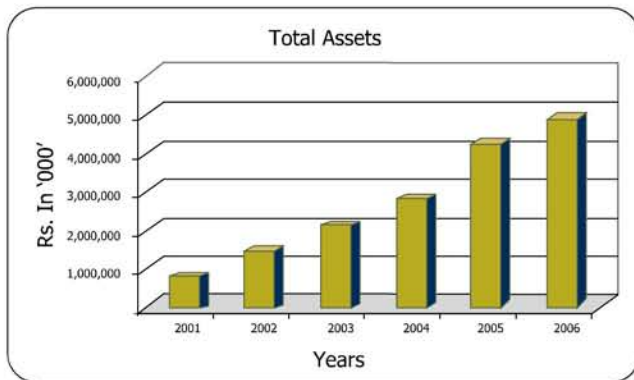
Last Six Years of Escorts Bank At A Glance

(Rupees in '000')

	2006	2005	2004	2003	2002	2001
FINANCIAL DATA						
Share Capital	441,000	300,000	300,000	200,000	200,000	200,000
Share Deposit Money	-	85,795	-	-	-	-
Reserves	319,269	154,218	114,816	71,195	25,632	13,350
Shareholders' Equity	760,269	540,013	414,816	271,195	225,632	213,350
Deposits	1,480,153	1,099,510	1,129,757	692,668	731,582	316,200
Borrowings from Financial Institutions	2,206,358	2,307,443	1,060,029	777,900	310,000	175,000
Total Liabilities	4,115,488	3,661,020	2,368,842	1,692,905	1,179,613	521,206
Tangible Fixed Assets	136,311	123,898	23,220	13,208	13,398	7,464
Intangible Fixed Assets	45,405	44,105	42,420	7,170	-	-
Financing - Net of Provision	342,733	746,860	481,396	375,654	207,014	123,551
Net Investment in Finance Lease	30,948	-	-	-	-	-
Investments & Placements	3,710,283	2,266,564	1,899,916	1,427,863	938,660	498,876
Total Assets	4,875,757	4,177,687	2,742,118	2,026,831	1,412,104	735,256
OPERATING RESULTS						
Total Revenue	716,284	488,658	239,434	233,895	147,793	97,803
Markup Expense	306,870	158,418	85,142	115,310	88,004	63,406
Operating & Other Expenses	200,688	149,825	71,678	45,215	32,438	24,924
Provision against Non-Performing Loans	10,772	26,345	6,159	1,306	8,068	3,650
Impairment - Held to Maturity Investments	-	20,000	-	-	-	-
Profit before Tax	197,955	134,071	76,456	72,064	19,283	5,823
Profit after Tax	186,051	129,401	73,622	57,562	12,283	688
Dividends (%)	20.00	20.00	15.00	15.00	6.00	-
FINANCIAL RATIOS						
Earnings per Share (Rs.)	4.44	3.77	3.05	2.69	0.61	0.03
Net Asset Value per Share (Rs.)	17.24	15.14	13.83	13.56	11.28	10.67
Market Value per Share (Rs.)	16.00	10.60	14.90	9.40	7.75	5.00
High	21.55	21.50	17.20	10.00	7.95	5.00
Low	9.85	9.80	9.45	7.70	4.00	5.00
Price Earning Ratio	3.60	2.81	4.89	3.50	12.62	147.06
Dividend per Share (Rs.)	2.00	2.00	1.50	1.50	0.60	-
Dividend Yield (%)	12.50	18.87	10.07	15.96	7.74	-
Dividend Payout Ratio (%)	45.00	53.05	49.26	55.85	97.72	-
Profit Before Tax Ratio (%)	27.64	27.44	31.93	30.81	13.05	5.95
Revenue to Expenses (Times)	1.38	1.38	1.47	1.45	1.15	1.06
Return on Average Assets (%)	4.11	3.74	3.09	3.35	1.14	0.09
Return on Capital Employed (%)	28.62	29.78	21.46	23.17	5.60	0.32
Total Assets Turnover Ratio (Times)	0.16	0.14	0.10	0.14	0.14	0.13
Advances to Deposits (Times)	0.23	0.68	0.43	0.54	0.28	0.39
Borrowings to Equity (Times)	4.85	6.31	5.28	5.42	4.62	2.30
Total Liabilities to Equity (Times)	5.41	6.78	5.71	6.24	5.23	2.44

Graphical Depiction

Last Six Years of Escorts Bank At A Glance



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 30 June 2006 no casual vacancy occurred.
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 meetings 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 that has been outsourced to M/s A. F. Ferguson & Co. Chartered Accountants. A team of suitably qualified and experienced personnel who are conversant with the polices and procedures of the Company have been deployed 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, 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.



Rashid Mansur
Chief Executive Officer



Shazia Bashir
Director

Lahore: 15 September 2006

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 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 system 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 30 June 2006.

KPMG Taseer Hadi & Co
Chartered Accountants

Lahore: 15 September 2006

Statement of Ethics and Business Practices

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

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.



ESCORTS INVESTMENT BANK LIMITED

Statement of Compliance with Best Practices on Transfer Pricing for the Year Ended 30 June 2006

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

A handwritten signature in black ink, appearing to read "Rashid Mansur", with a stylized flourish at the end.

Rashid Mansur
Chief Executive Officer

Lahore: 15 September 2006

Auditors' Report to the Members

We have audited the annexed balance sheet of **ESCORTS INVESTMENT BANK LIMITED** ("the Company") as at 30 June 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of 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;
 - 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 30 June 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

KPMG Taseer Hadi & Co.
Chartered Accountants

Lahore: 15 September 2006

Balance Sheet

As at 30 June 2006

ASSETS

	Note	2006 Rupees	2005 Rupees
Non-current Assets			
Fixed capital expenditure	3	136,310,773	123,898,000
Cards and rooms	4	45,405,000	44,105,000
Long term investments	5	581,131,615	596,546,284
Long term finances	6	35,294,935	119,500,425
Net investment in lease finance	7	26,561,233	-
Long term loans, deposits and prepayments	8	9,194,808	7,466,205
Deferred tax asset	9	15,715,126	5,045,842
Current Assets			
Current maturities of non-current assets	10	104,516,841	81,605,345
Short term investments	11	848,362,705	917,255,694
Short term finances	12	223,895,088	563,239,877
Short term placements	13	2,270,121,900	742,095,424
Advances, deposits, prepayments and other receivables	14	409,526,938	305,724,464
Cash and bank balances	15	169,720,022	671,204,063
		4,026,143,494	3,281,124,867
		4,875,756,984	4,177,686,623

EQUITY AND LIABILITIES

Share Capital and Reserves			
Share capital	16	441,000,000	300,000,000
Share deposit money		-	85,794,990
Reserves	17	319,269,018	154,218,143
		760,269,018	540,013,133
Deficit on Revaluation of Investments	18	(15,402,330)	(23,346,354)
Non-Current Liabilities			
Term finance certificates		228,983,342	274,835,000
Obligation under finance lease	19	7,529,374	-
Long term certificates of deposit	20	397,315,618	305,463,946
Long term security deposit	21	9,138,301	-
Current Liabilities			
Current maturities of non-current liabilities		86,202,070	28,236,515
Short term borrowings	22	1,145,000,000	1,660,000,000
Running finance under mark up arrangements	23	778,338,739	372,498,355
Short term certificates of deposit	24	1,043,141,883	765,919,222
Trade and other payables	25	406,525,439	241,518,195
Provision for taxation	26	28,715,530	12,548,611
	27	3,487,923,662	3,080,720,898
Contingencies and Commitments	28	4,875,756,984	4,177,686,623

The annexed notes 1 to 46 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

Profit and Loss Account

For the year ended 30 June 2006

INCOME

	Note	2006 Rupees	2005 Rupees
Profit on financing	29	70,985,959	47,779,930
Mark-up on lease finance		1,190,760	-
Return on placements with financial institutions	30	30,662,330	27,913,738
Return on investments	31	536,417,636	332,028,040
Fees and commission	32	69,716,818	75,366,182
Other income		7,310,870	5,570,581
		716,284,373	488,658,471

EXPENSES

Return on certificates of deposit		136,779,784	75,603,652
Return on term finance certificates		27,005,525	16,161,982
Mark-up on short term running finance		31,388,647	6,508,679
Mark-up on borrowings from financial institutions		111,695,679	60,143,878
Amortization of premium on held to maturity investments		9,081,386	8,358,449
Administrative and other operating expenses	33	190,467,250	141,142,791
Other financial charges		1,139,386	323,512
		507,557,657	308,242,943
Operating profit before provisions and taxation		208,726,716	180,415,528
Provision for doubtful finances		13,718,397	3,844,908
Provision for doubtful receivables		(2,946,515)	22,500,000
Impairment loss - Held to maturity investments		-	20,000,000
		10,771,882	46,344,908
Profit before taxation		197,954,834	134,070,620
Taxation	34	11,903,959	4,669,463
Profit after taxation		186,050,875	129,401,157
Earnings per share-basic and diluted	35	4.44	3.77

The annexed notes 1 to 46 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

Cash flow statement

For the year ended 30 June 2006

	2006 Rupees	2005 Rupees
Cash flow from operating activities		
Profit before taxation	197,954,834	134,070,620
Adjustment for non cash expenses and other items:		
Depreciation on tangible assets	15,456,175	6,164,224
Amortization on intangible assets	333,300	-
Provision for doubtful debts	13,718,397	3,844,908
Provision for doubtful receivables	(2,946,515)	22,500,000
Impairment loss - Held to maturity investments	-	20,000,000
Amortization of premium on held to maturity investments	9,081,386	8,358,449
Loss on sale of fixed assets	96,673	50,968
Fixed assets written off	40,457	1,238,205
Mark-up/return income	(171,421,698)	(78,396,223)
Dividend income	(74,953,630)	(26,896,883)
Return on deposits and borrowings	306,869,635	158,418,191
	96,274,180	115,281,839
	294,229,014	249,352,459
(Increase)/decrease in operating assets		
Repayment / (Disbursements) of finances - net	393,355,541	(268,005,458)
Net investment in lease finance	(21,809,360)	-
Investment in placements - net	(1,528,026,476)	(254,821,173)
Investments - net	83,170,296	(171,639,731)
Loans, advances, deposits and prepayments	(49,369,346)	(112,112,082)
	(1,122,679,346)	(806,578,444)
Increase/(decrease) in operating liabilities		
Borrowings from financial institutions	(515,000,000)	599,970,681
Receipts from/(Repayments of) certificates of deposit	380,643,138	(30,247,799)
Running finance facilities	405,840,384	372,498,355
Trade and other payables	147,156,744	147,741,705
	418,640,266	1,089,962,942
Net changes in operating assets and liabilities	(704,039,079)	283,384,498
Mark-up/return received	172,232,787	79,972,231
Return on deposits and borrowings paid	(288,708,666)	(141,673,321)
Dividend received	62,432,255	24,702,958
Net cash (used)/generated from operating activities before taxes	(463,853,689)	495,738,825
Taxes paid	(49,959,980)	(45,639,832)
Net cash (used)/generated from operating activities	(513,813,670)	450,098,993

Cash flow statement (contd.)

For the year ended 30 June 2006

	2006 Rupees	2005 Rupees
Cash flow from investing activities		
Fixed capital expenditure incurred	(21,196,624)	(110,813,598)
Proceeds from sale of fixed assets	1,476,546	2,682,558
Investment in cards and rooms	(1,300,000)	(1,685,000)
Net cash used in investing activities	(21,020,078)	(109,816,040)
Cash flow from financing activities		
Proceeds against Right issue	34,205,010	85,794,990
Dividend paid	(310,469)	(89,290,642)
Term Finance Certificates - net	(110,000)	274,945,000
Repayment of lease obligation	(434,834)	(1,032,002)
Net cash generated from financing activities	33,349,707	270,417,346
Net (decrease)/increase in cash and cash equivalents	(501,484,041)	610,700,299
Cash and cash equivalents at the beginning of the year	671,204,063	60,503,764
Cash and cash equivalents at the end of the year	169,720,022	671,204,063

The annexed notes 1 to 46 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

Statement of Changes in Equity

For the year ended 30 June 2006

	Share capit Rupees	Share deposit money Rupees	Statutory reserve Rupees	Un- appropriated profit Rupees	Total Rupees
Balance as at June 30 2004	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
Received against 40% right issue	-	34,205,010	-	-	34,205,010
Right share issued (40%)	120,000,000	(120,000,000)	-	-	-
Bonus shares @ 5% issued	21,000,000	-	-	(21,000,000)	-
Net profit for the year	-	-	-	186,050,875	186,050,875
Transfer to statutory reserve	-	-	37,210,175	(37,210,175)	-
Balance as at 30 June 2006	441,000,000	-	100,453,803	218,815,215	760,269,018

The annexed notes 1 to 46 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

Notes to the Financial Statements

For the year ended 30 June 2006

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 was incorporated in Pakistan on 15 May 1995 and started its commercial operation on 16 October 1996. The Company is listed on the Karachi and Lahore stock exchanges. Escort Investment Bank Limited is licensed to carry out investment finance services, leasing business and housing 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 Short Term Credit Rating of the Bank to "A-1" (Single A one) from "A-2" (Single A two), while Long Term Credit Rating has been maintained at "A" (Single A), with stable outlook.

The Company is a member of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited. The Company has undertaken to contribute to the assets of the Karachi and Lahore Stock Exchanges, an amount not exceeding one thousand rupees each, in the event of their winding up, in accordance with their Memorandums of Association.

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.

2.3 Fixed capital expenditure

Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, 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.

Intangible assets

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

	Rate in %
Computer Software	33

2.4 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.

2.5 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.

2.6 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.

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 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.

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 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.

2.7 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.

2.8 Net investment in lease finance

Leases where all the risks and rewards incidental to ownership of the assets are substantially transferred to the lessee are classified as finance leases. Net investment in lease finance is recognised at an amount equal to the aggregate of minimum lease payments including any guaranteed residual value and excluding unearned finance income, write-offs and provision for doubtful lease finances, if any.

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 set-off 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.

Mark-up on lease finance is recognized using the finance method. Under this method, the unearned lease income i.e. the excess of aggregate lease rentals and the residual value over the cost of the leased asset, is deferred and taken to income so as to produce a constant periodic rate of return on the outstanding net investment in lease finance. Processing fee, documentation charges and other lease related income are taken to income currently.

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 assets 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.

3. FIXED CAPITAL EXPENDITURE

	Note	2006 Rupees	2005 Rupees
Property, plant and equipment	3.1	133,644,073	122,998,000
Intangible assets	3.2	2,666,700	-
		136,310,773	122,998,000
Capital work in progress - Software		-	900,000
		136,310,773	123,898,000

3.1 Property, plant and equipment

	Cost				Depreciation				Net book Value
	As at 01 July 2005 Rupees	Additions (disposals) Rupees	Transfers Rupees	As at 30 June 2006 Rupees	As at 01 July 2005 Rupees	For the year Rupees	(Disposals)/ transfers Rupees	As at 30 June 2006 Rupees	As at 30 June 2006 Rupees
Owned									
Office premises	89,685,600	7,000	-	89,692,600	373,690	4,484,659	-	4,858,349	84,834,251
Leasehold improvements	9,461,791	27,020	-	9,488,811	2,292,712	1,637,579	-	3,930,291	5,558,520
Office furniture and fixtures	4,470,259	606,315 (197,660)	-	4,878,914	705,279	428,368	-	1,066,739	3,812,175
Computer equipments	7,973,421	5,507,520	-	13,480,941	3,159,434	2,777,027	-	5,936,461	7,544,480
Office equipments	5,691,553	2,722,326 (121,505)	-	8,292,374	1,308,464	638,731	-	1,922,829	6,369,545
Vehicles	23,151,353	9,853,443 (3,527,640)	-	29,477,156	9,596,398	4,140,966	-	11,595,509	17,881,647
	140,433,977	18,723,624 (3,846,805)	-	155,310,796	17,435,977	14,107,330	-	29,310,178	126,000,618
Leased									
Vehicles	-	8,992,300	-	8,992,300	-	1,348,845	-	1,348,845	7,643,455
2006	140,433,977	23,869,119	-	164,303,096	17,435,977	15,456,175	(2,233,129)	30,659,023	133,644,073
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

3.2 Intangible assets

	Cost				Amortization				Net book Value
	As at 01 July 2005 Rupees	Additions (disposals) Rupees	Transfers Rupees	As at 30 June 2006 Rupees	As at 01 July 2005 Rupees	For the year Rupees	(Disposals)/ transfers Rupees	As at 30 June 2006 Rupees	As at 30 June 2006 Rupees
Computer software	-	3,000,000	-	3,000,000	-	333,300	-	333,300	2,666,700
2006	-	3,000,000	-	3,000,000	-	333,300	-	333,300	2,666,700
2005	-	-	-	-	-	-	-	-	-

3.3 Following assets were disposed off during the year

	Cost Rupees	Accumulated depreciation Rupees	Written down value Rupees	Sale proceeds Rupees	Gain/(loss) Rupees	Mode of Disposal	Particulars
Vehicles	609,000	(297,192)	311,808	311,808	-	Negotiations	Arsalan Baig, Ex employee
	1,366,825	(858,416)	508,409	508,409	-	Company Policy	Rashid Mansur, President & CEO
	555,000	(380,716)	174,284	174,284	-	Company Policy	Hasan Abid Zaidi, Head of Investments
	996,815	(605,531)	391,284	391,284	-	Company Policy	Arshad I. Khan, EVP
	3,527,640	(2,141,855)	1,385,785	1,385,785	-		
Office furniture and fixtures	136,500	(46,205)	90,295	34,761	(55,534)	Insurance Claim	EFU Insurance
Office equipments	121,505	(24,366)	97,139	56,000	(41,139)	Negotiations	Miscellaneous Vendors
Assets written-off							
Office furniture and fixtures	61,160	(20,703)	40,457	-	-		
Total	3,846,805	(2,233,129)	1,613,676	1,476,546	(96,673)		

4. CARDS AND ROOMS

	2006 Rupees	2005 Rupees
Corporate membership of Karachi and Lahore stock exchanges	42,420,000	42,420,000
Rooms	2,985,000	1,685,000
	45,405,000	44,105,000

5. LONG TERM INVESTMENTS

	Note	2006 Rupees	2005 Rupees
Held to maturity			
Pakistan Investment Bonds	5.1	568,781,465	577,862,851
Term Finance Certificates - Unlisted	5.2	23,016,750	29,350,033
		591,798,215	607,212,884
Less: Current maturity of Term Finance Certificates	10	10,666,600	10,666,600
		581,131,615	596,546,284

5.1 Pakistan Investment Bonds

	2006 Rupees	2005 Rupees
Cost	606,221,300	606,221,300
Less: Amortization - Opening	8,358,449	-
Charge for the year	9,081,386	8,358,449
	588,781,465	597,862,851
Less: Impairment loss	20,000,000	20,000,000
	568,781,465	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 five and a half years to 18 years and carry mark-up at rates (coupon rate) ranging from 10% to 12% per annum (2005: 10% to 12% per annum). These investments are held by other financial institutions as security under Repurchase Transaction.

5.2 Term finance certificates-Unlisted

Name	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.	16,350,000
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.	6,666,750
			23,016,750

6. LONG TERM FINANCES

	Note	2006 Rupees	2005 Rupees
Related parties-Secured and considered good			
Associated companies	6.1	3,162,451	4,136,111
Executives	6.2	15,437,622	15,481,246
		18,600,073	19,617,357
Others - Secured and considered good	6.3	85,984,706	133,033,485
		104,584,779	152,650,842
Considered doubtful			
Others	6.4	38,395,049	42,678,623
Less: Provision for doubtful finances	6.5	24,142,402	11,709,405
		14,252,647	30,969,218
		118,837,426	183,620,060
Less: Current maturity	10	83,542,491	64,119,635
		35,294,935	119,500,425

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 @ 14% per annum. (2005: 9% to 11% per annum).

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

	2006 Rupees	2005 Rupees
Escorts Pakistan Limited	3,222,715	3,675,082
Essem Hotel Limited	913,396	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 years to 15 years and carry mark-up ranging from 6% to 13.17% (2005: 6% to 12% per annum).

	CEO Rupees	Executives Rupees	2006 Rupees	2005 Rupees
Opening Balance	9,964,742	5,957,441	15,922,183	4,207,193
Add: Disbursements	-	1,160,877	1,160,877	11,347,900
	9,964,742	7,118,318	17,083,060	15,555,093
Less: Repayments	167,650	1,477,788	1,645,438	73,847
	9,797,092	5,640,530	15,437,622	15,481,246

The finance provided to the CEO includes house finance of Rs. 9,797,092 (2005: Rs. 9,964,742) against mortgage of property with 20% margin. This facility carries mark-up at the rate of 6% per annum, payable on monthly basis. One fourth (25%) of the principal amount is payable at maturity while the remaining balance is payable in unequal monthly installments. The remaining period of this facility is six years and five months.

	2006 Rupees	2005 Rupees
The maximum balance outstanding at the end of any month during the year.	15,922,183	15,481,246

The difference in the opening balance represents amount of financing executives included this year in accordance with the 4th schedule of the Companies Ordinance, 1984.

- 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 5.5 years. The expected rate of return range from 9% to 18% per annum (2005: 8% to 18% per annum).
- 6.4** These finance facilities include Rs. 38.395 million (2005: Rs. 42.679 million) which have been classified under non-performing status detailed below:

	2006 Rupees	2005 Rupees
Other assets especially mentioned.	6,505,552	10,745,195
Substandard	-	15,821,694
Doubtful	15,587,763	15,133,334
Loss	16,301,734	978,400
	38,395,049	42,678,623

6.5 Particulars of provision for doubtful finances

	2006 Rupees	2005 Rupees
Opening balance	11,709,405	11,045,946
Charge for the year	12,432,997	663,459
Closing balance	24,142,402	11,709,405

7 NET INVESTMENT IN LEASE FINANCE

	Note	2006 Rupees	2005 Rupees
Net investment in lease finance		30,947,661	-
Less: Current maturity	10	4,386,428	-
		26,561,233	-

7.1 Particulars of net investment in lease finance

	2006			2005
	Not later than one year	Later than one year but not later than five years	Total	Total
Leased rentals receivable	7,354,906	22,447,721	29,802,627	-
Add: Residual value	-	9,138,301	9,138,301	-
Gross investment in lease finance	7,354,906	31,586,022	38,940,928	-
Less: Unearned finance income	2,968,478	5,024,789	7,993,267	-
Net investment in lease finance	4,386,428	26,561,233	30,947,661	-

7.2 The leases made by the Company are for a period ranging from three years to five years. Security deposits obtained at the time of disbursement of lease facility range from 10% to 61.53% (2005: Nil) of the lease amount. Leased assets are insured in favour of the Company. The rate of return range from 10.69% to 17% per annum (2005:Nil). Penalty is charged in case of delayed payment.

8 LONG TERM LOANS, DEPOSITS AND PREPAYMENTS

	Note	2006 Rupees	2005 Rupees
Loan to staff - Unsecured, considered good	8.1		
Executives - Related parties		2,915,297	1,093,155
Other employees		2,041,973	1,729,776
		4,957,270	2,822,931
Security deposits		6,562,250	2,477,150
Prepayments	10	3,596,610	8,985,234
		15,116,130	14,285,315
Less: Current maturity		5,921,322	6,819,110
		9,194,808	7,466,205

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

	2006 Rupees	2005 Rupees
Opening Balance	2,135,613	1,747,945
Add: Disbursements during the year	2,686,773	453,679
	4,822,386	2,201,624
Less: Repayments during the year	1,907,089	1,108,469
	2,915,297	1,093,155
The maximum balance outstanding from executives at the end any month during the year was:	3,356,233	1,741,280

8.2 The difference in the opening balance represents amount of loan to staff included in the executive category this year in accordance with the 4th schedule of the Companies Ordinance, 1984.

9 DEFERRED TAX ASSET

	2006 Rupees	2005 Rupees
Taxable temporary differences on fixed assets	(20,558,958)	(20,688,579)
Deductible temporary differences on investments	16,837,252	9,925,457
Deductible temporary differences on finances and receivables	21,020,507	16,792,034
Taxable temporary differences on trade and other payables	(1,463,025)	(983,070)
Deductible temporary differences on leasing finance	(120,650)	-
	15,715,126	5,045,842

9.1 Movement in deferred tax asset

	2006 Rupees	2005 Rupees
Opening balance	5,045,842	(333,226)
Provision during the year	10,669,284	5,379,068
Closing balance	15,715,126	5,045,842

10 CURRENT MATURITIES OF NON-CURRENT ASSETS

	2006 Rupees	2005 Rupees
Long term investments	10,666,600	10,666,600
Long term finances	83,542,491	64,119,635
Net investment in lease finance	4,386,428	-
Long term loans, deposits and prepayments	5,921,322	6,819,110
	104,516,841	81,605,345

11 SHORT TERM INVESTMENTS

	Note	2006				2005			
		Held by Bank Rupees	Repo Rupees	Reserve repo Rupees	Total Rupees	Held by Bank Rupees	Repo Rupees	Reserve repo Rupees	Total Rupees
Available for sale									
Pakistan Investment Bonds		-	-	-	-	-	215,096,630	215,096,630	-
Listed Term Finance Certificates	11.1	79,944,972	-	-	79,944,972	117,720,354	131,560,000	131,560,000	117,720,354
Listed shares/units	11.2	54,014,038	-	-	54,014,038	114,153,444	668,823,048	686,778,248	96,198,244
		133,959,010	-	-	133,959,010	231,873,798	1,015,479,678	1,033,434,878	213,918,598
Held for trading									
Listed shares	11.3	714,403,695	-	-	714,403,695	703,337,096	-	-	703,337,096
		848,362,705	-	-	848,362,705	935,210,894	1,015,479,678	1,033,434,878	917,255,694

11.1 Particulars of listed Term Finance Certificates

No. of Certificates 2006 2005		Name	2006		2005	
			Cost Rupees	Market Value Rupees	Cost Rupees	Market Value Rupees
		Sugar and Allied				
-	1,000	Al-Noor Sugar Mills Limited	-	-	624,750	618,503
-	2,000	Shahmurad Sugar Mills Limited	-	-	3,332,000	3,365,986
		Chemical and Pharmaceutical				
2,000	2,000	Ittehad Chemicals Limited	6,661,360	6,661,360	9,992,000	10,091,920
8,543	8,543	Pharmagen Limited	30,510,714	31,120,928	42,715,000	42,715,000
		Oil and Gas Exploration Companies				
4,000	4,000	First Oil and Gas Securitization Company Ltd.	3,421,200	3,421,200	10,264,560	10,264,560
2,000	2,000	Naimat Basal Oil and Gas Securitization Company	8,263,040	8,345,670	9,900,000	9,801,000
		Cement				
4,000	4,000	Maple Leaf Cement Factory Limited	3,332,000	3,365,320	9,996,000	10,145,940
		Investment Companies and Banks				
-	1,000	Atlas Investment Bank Limited	-	-	832,667	857,645
1,316	1,316	Prime Commercial Bank Limited	6,577,368	6,511,594	6,580,000	6,580,000
		Leasing				
2,000	2,000	AlZamin Leasing Modaraba - I	10,000,000	9,200,000	10,000,000	9,600,000
951	951	AlZamin Leasing Modaraba - II	4,755,000	4,469,700	4,755,000	4,564,800
1,000	1,000	Orix Leasing Pakistan Limited	5,000,000	4,850,000	5,000,000	4,950,000
1,000	1,000	Crescent Standard Investment Bank Limited	2,499,000	1,999,200	4,165,000	4,165,000
			81,019,682	79,944,972	118,156,977	117,720,354

Other particulars of listed TFCs are as follows:

Particulars	Certificate denomination	Profit rate per annum	Profit payments	Maturity date
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 2008
Oil and Gas Exploration Companies				
First Oil and Gas Securitization Company Limited	5,000	2.50% over SBP discount rate with 10.50% as floor and 14.50% as ceiling.	Monthly	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				
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

11.2 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).

				2006		2005	
No. of Certificates 2006	No. of Certificates 2005	Name	Cost Rupees	Market Value Rupees	Cost Rupees	Market Value Rupees	
Mutual Fund - Open End							
-	20,000	Atlas Income Fund	-	-	10,000,000	10,000,000	
65,515	50,000	Faysal Balanced Growth Fund	5,000,000	6,857,455	5,000,000	5,000,000	
Mutual Fund - Close End							
1,277,000	2,500,000	Abamco Composite Fund	12,724,280	10,854,500	25,000,000	17,250,000	
800,000	1,994,000	Pakistan Strategic Allocation Fund	8,000,000	8,520,000	19,940,000	19,242,100	
26,400	-	Dawood Capital Management Fund	204,300	396,000	-	-	
21,500	-	PICIC Growth Fund	752,500	679,400	-	-	
Venture Capital							
-	24,000	Dawood Venture Capital	-	-	204,300	168,000	
Textile Spinning							
1,591,326	1,737,826	Dewan Farooq Spinning Mills Limited	15,913,260	10,661,883	17,378,260	15,292,869	
Power Generation and Distribution							
592,000	925,000	Hub Power Company Limited	19,882,083	13,616,000	31,065,727	24,420,000	
-	24,000	Kohinoor Energy Limited	-	-	823,127	624,000	
368,000	604,500	Southern Electric Power Company Ltd.	5,865,235	2,428,800	9,696,563	4,201,275	
			68,341,658	54,014,038	119,107,977	96,198,244	

11.3 Particulars of listed shares - Held for trading investments

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

No. of Certificates 2006 2005		Name	2006		2005	
			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
25,000	125	MCB Bank Limited	4,129,253	5,257,500	1,946	9,912
40,300	60,000	National Bank of Pakistan	7,171,660	8,684,650	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
48,070	-	Nishat (Chunian) Ltd	5,053,790	2,139,115	-	-
		Cement				
-	266,750	Maple Leaf Cement Factory Limited	-	-	7,838,274	5,815,150
3,500	-	Fauji Cement Company Limited	67,200	67,200	-	-
		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				
45,000	85,000	Oil and Gas Development Company Limited	5,797,693	6,153,750	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
489,117	-	Eye Television Network Limited	4,891,170	3,423,819	-	-
		Fertilizer				
-	8,500	Fauji Fertilizer Bin Qasim Limited	-	-	248,305	228,650
		Chemicals				
-	180,000	Pakistan PTA Limited	-	-	2,349,085	1,440,000
		Value of shares sold in futures market (Note 11.3.1)	27,110,766	25,726,034	61,069,388	53,386,162
			685,484,526	688,677,661	646,288,943	649,950,934
			712,595,292	714,403,695	707,358,331	703,337,096

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

12 SHORT TERM FINANCES

	Note	2006 Rupees	2005 Rupees
Secured and considered good	12.1		
Associated companies		10,000,000	10,000,000
Executives		600,000	-
Others		193,231,488	553,239,877
Considered doubtful	12.2		
Others		35,116,834	13,767,834
Less: Provision for doubtful finances	12.3	15,053,234	13,767,834
		20,063,600	-
		223,895,088	563,239,877

12.1 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 9% to 18% per annum (2005: 8% to 18% per annum). These include finances against pledge of listed shares and Bank's own Certificates of Deposit amounting to Rs. 5.114 million (2005: Rs. 87.297 million), while Rs.130.124 million (2005: Rs. 303.270) were disbursed as Margin Finance in accordance with Margin Trading Rules, 2004 issued by Securities and Exchange Commission of Pakistan.

12.2 These finance facilities include Rs. 35.117 million (2005: Rs. 13.768 million) which have been placed under non-performing status detailed below:

	2006 Rupees	2005 Rupees
Doubtful	21,349,000	-
Loss	13,767,834	13,767,834
	35,116,834	13,767,834

12.3 Particulars of provision for doubtful finances:

	2006 Rupees	2005 Rupees
Opening balance	13,767,834	10,586,385
Charge for the year	1,285,400	3,181,449
	15,053,234	13,767,834

13 SHORT TERM PLACEMENTS

	Note	2006 Rupees	2005 Rupees
Considered good			
Unsecured	13.1	36,250,000	88,073,425
Secured under reverse repurchase agreements	13.2	2,233,871,900	654,021,999
		2,270,121,900	742,095,424

13.1 These represent clean placements with financial institutions and carry mark-up @ 11% per annum (2005: 6% to 15% per annum).

13.2 Securities held as collateral - Market value

	2006 Rupees	2005 Rupees
Pakistan Investment Bonds	-	215,096,630
Term Finance Certificates	-	131,560,000
Quoted shares	2,285,086,376	446,978,248
	2,285,086,376	793,634,878

These represent secured placements for a maximum period of upto 30 days and carry mark-up ranging from 12.99% to 27.32% per annum (2005: 8% to 19% per annum).

14 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2006 Rupees	2005 Rupees
Advances - Considered good			
Staff		-	795,681
Others		10,000	518,613
		10,000	1,314,294
Advance income tax		143,367,032	99,813,375
Accrued mark-up		14,752,731	17,756,754
Deposits against exposure limits		203,640,035	127,066,852
Prepayments		2,837,334	955,679
Dividend receivable		14,765,300	2,243,925
Receivable from clients	14.1	23,718,825	49,150,982
Income tax refundable		5,808,854	5,808,854
Fair value adjustment - derivative financial instrument		-	634,647
Other receivables		626,827	979,102
		409,526,938	305,724,464

14.1 Receivable from clients

	Note	2006 Rupees	2005 Rupees
Considered good	14.2	22,409,356	49,150,982
Considered doubtful		20,862,954	22,500,000
Less: Provision for doubtful receivables		(19,553,485)	(22,500,000)
		1,309,469	-
		23,718,825	49,150,982

14.2 Particulars of provision for doubtful receivables

	2006 Rupees	2005 Rupees
Opening balance	22,500,000	
Charge for the year	-	22,500,000
Less: Reversals	(2,946,515)	-
	(2,946,515)	22,500,000
	19,553,485	22,500,000

15 CASH AND BANK BALANCES

	Note	2006 Rupees	2005 Rupees
Cash with banks	15.1		
Current accounts with:			
State Bank of Pakistan		680,163	382,194
Others		21,984,438	116,483,219
		22,664,601	116,865,413
Deposit accounts		147,055,421	554,338,650
		169,720,022	671,204,063

15.1 Rate of return on these accounts range from 1.5% to 4% per annum (2005: 0.5% to 2% per annum).

16 SHARE CAPITAL

	2006 Rupees	2005 Rupees
Authorized share capital 50,000,000 (2005: 50,000,000) ordinary shares of Rs. 10 each	500,000,000	500,000,000
Issued, subscribed and paid-up capital 42,000,000 (2005: 30,000,000) ordinary shares of Rs. 10 each issued as fully paid in cash	420,000,000	300,000,000
2,100,000 (2005: Nil) ordinary shares of Rs. 10 each issued as fully paid bonus shares	21,000,000	-
	441,000,000	300,000,000

17. RESERVES

	Note	2006 Rupees	2005 Rupees
Capital reserve			
Statutory reserve	17.1	100,453,803	63,243,628
Revenue reserve			
Unappropriated profits		218,815,215	90,974,515
		319,269,018	154,218,143

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.

18. DEFICIT ON REVALUATION OF INVESTMENTS

	2006 Rupees	2005 Rupees
Available for sale		
Listed term finance certificates	(1,074,710)	(436,623)
listed shares / units	(14,327,620)	(22,909,731)
	(15,402,330)	(23,346,354)

19. TERM FINANCE CERTIFICATES

	2006 Rupees	2005 Rupees
Face value	275,000,000	275,000,000
Less: Redeemed - Opening balance	55,000	-
Redeemed during the year	110,000	55,000
	165,000	55,000
	274,835,000	274,945,000
Less: Current maturity	45,851,658	110,000
	228,983,342	274,835,000

19.1 These represent unlisted Term Finance Certificates (TFCs) issued to institutional investors carrying a profit rate of 6 months KIBOR plus 275 bps, with a floor of 5% per annum and a ceiling of 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.

20. OBLIGATION UNDER FINANCE LEASE

	Note	2006 Rupees	2005 Rupees
Obligation under finance lease	20.1	8,184,466	-
Less: Current maturity	22	655,092	-
		7,529,374	-

20.1 Particulars of obligation under finance lease

	2006			2005
	Not later than one year	Later than one year but not later than five years	Total	Total
Leased rentals payable	1,080,444	3,601,480	4,681,924	-
Add: Residual value	-	4,619,300	4,619,300	-
	1,080,444	8,220,780	9,301,224	-
Less: Future financial charges	425,352	691,406	1,116,758	-
Present value of minimum lease payment	655,092	7,529,374	8,184,466	-

20.2 The obligation represents the unpaid balance of the total minimum lease payments and the residual value payable at the end of the lease period. The facility carries mark-up at the rate of 6 months KIBOR plus 3% with a floor of 13%. Lease rentals are payable monthly. The Company has the option to purchase the asset upon the completion of the lease period and has the intention to exercise this option. There are no financial restrictions imposed by the lessor.

21 LONG TERM CERTIFICATES OF DEPOSIT

	Note	2006 Rupees	2005 Rupees
Long term certificates of deposit	21.1	437,010,938	333,590,461
Less: Current maturity	22	39,695,320	28,126,515
		397,315,618	305,463,946

21.1 These have been issued for term ranging from above 1 year to 5 years and expected return on these certificates ranges from 6.60% to 12.75% per annum (2005: 6.25% to 12.50% per annum) payable monthly, quarterly, semiannually or on maturity.

22 CURRENT MATURITIES OF NON-CURRENT LIABILITIES

	2006 Rupees	2005 Rupees
Liability against assets subject to finance lease	655,092	-
Redeemable capital	45,851,658	110,000
Long term certificates of deposit	39,695,320	28,126,515
	86,202,070	28,236,515

23 SHORT TERM BORROWINGS

	Note	2006 Rupees	2005 Rupees
Financial institutions			
Unsecured	23.1	645,000,000	715,000,000
Secured	23.2	500,000,000	945,000,000
		1,145,000,000	1,660,000,000

23.1 These carry mark-up ranging from 9% to 11% per annum (2005: 4.50% to 12% per annum) and are for a period from 3 days to 3 months (2005: 2 days to 3 months).

23.2 These represent borrowings under repurchase agreements and carry mark-up ranging from 8.65% to 8.95% per annum (2005: 6.10% to 11.25% per annum) and are for a period from 3 months to 6 months (2005: 2 days to 3 months). These are secured against pledge of PIBs and shares of quoted companies.

24 RUNNING FINANCE UNDER MARK-UP ARRANGEMENTS

The aggregate running finance facilities under mark-up arrangements from commercial banks amount to Rs. 975 million (2005: 445 million). These facilities carry mark-up at rates based on 3 and 6 months KIBOR plus a spread of 2.00% per annum (2005: 1.50% to 2.00% per annum) with a floor ranging from 7.50% to 10.5% per annum (2005: 5.00% to 10.00% per annum). These facilities are secured by pledge of listed securities.

25 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 6.65% to 13% per annum (2005: 5% to 10% per annum) payable monthly, quarterly, semi-annually or on maturity.

26 TRADE AND OTHER PAYABLES

	2006 Rupees	2005 Rupees
Payable to NCCPL	149,000,581	100,913,630
Customers' credit balances	154,997,534	84,598,974
Accrued return on certificates of deposit	24,573,847	13,761,842
Accrued return on redeemable capital	7,176,253	6,812,899
Accrued mark-up on unsecured borrowings	1,308,548	869,274
Accrued mark-up on secured borrowings	24,356,419	11,922,081
Accrued expenses and other payables	13,357,438	16,191,985
Fair value adjustment - derivative financial instrument	26,040,030	-
Provision for compensated absences	4,180,071	2,808,772
Unearned income	1,076,050	2,869,601
Unclaimed dividend	458,668	769,137
	406,525,439	241,518,195

27 PROVISION FOR TAXATION

27.1 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 has been accepted.

27.2 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.

27.3 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.

27.4 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.

28 CONTINGENCIES AND COMMITMENTS

28.1 Contingencies

a) Guarantees

Outstanding guarantees as on balance sheet date were Rs. 198.422 million (2005: Rs. 92.422 million).

b) Taxation

In event of unfavorable decisions pending detailed in Note 27, the Company would be faced with maximum tax liability of Rs. 8.619 million (2005: Rs. 8.619 million) and maximum charge of 27.01 million (2005: Rs. 27.01 million).

28.2 Commitments

	2006 Rupees	2005 Rupees
Future sale contract - Shares	825,636,590	658,917,261
Forward purchase contract - Shares	84,651,900	-
Forward sale contract - PIBs	-	50,000,000
Forward purchase contract - PIBs	-	50,000,000
Underwriting	-	5,000,000
Capital expenditure	-	2,100,000

29 PROFIT ON FINANCING

	2006 Rupees	2005 Rupees
Long term finances	16,753,270	17,663,205
Short term finance	54,232,689	30,116,725
	70,985,959	47,779,930

30 RETURN ON PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2006 Rupees	2005 Rupees
Clean placements	8,955,445	10,690,862
Placements under reverse repurchase agreements	21,706,885	17,222,876
	30,662,330	27,913,738

31 RETURN ON INVESTMENTS

	2006 Rupees	2005 Rupees
Mark-up / return on investments		
Held to maturity investments		
Government securities	55,999,999	62,417,121
Term Finance Certificates	1,181,836	2,224,391
Available for sale investments		
Term Finance Certificates	11,400,814	13,754,711
Dividend income		
Available for sale investments		
Listed shares/certificates/units	11,678,550	11,088,550
Held for trading investments		
Listed shares/certificates/units	63,275,080	15,808,333
Capital gain/(loss) on investments/ reverse repurchase transactions		
Held to maturity investments	10,000	(3,235,850)
Available for sale investments	(388,611)	(3,192,579)
Held for trading investments	393,259,968	233,163,363
	536,417,636	332,028,040

32 FEES AND COMMISSION

	2006 Rupees	2005 Rupees
Brokerage commission	65,587,954	73,150,826
Guarantee commission	1,778,364	1,791,607
Consultancy and corporate advisory	2,000,000	266,858
Underwriting commission	350,500	156,891
	69,716,818	75,366,182

33 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Note	2006 Rupees	2005 Rupees
Salaries, wages, other benefits & allowances	33.1	67,125,575	67,085,264
Staff Training and Welfare		296,367	207,330
Advertisement and business promotion		2,888,258	913,507
Rent, rates and taxes		11,106,036	10,088,666
Utilities		2,721,569	2,078,372
Communication charges		7,256,385	5,036,824
Traveling and vehicle maintenance		7,623,703	4,587,423
Repair and maintenance		2,395,716	1,839,669
Entertainment		2,761,420	2,040,049
Fee and subscriptions		2,980,275	4,480,174
Legal and professional charges	33.2	3,875,227	3,317,737
Printing and stationery		3,452,091	1,816,302
Fee, brokerage and commission		23,209,955	2,040,718
CDC and clearing charges		33,275,570	25,930,342
Insurance		2,268,265	1,424,565
Depreciation	3.1	15,456,175	6,164,224
Amortization of Intangible assets	3.2	333,300	-
Loss on sale of fixed assets		96,673	50,968
Fixed assets written off		40,457	1,238,205
Donation	33.3	1,075,000	-
Penalty		30,000	-
Staff Motor Vehicle Contribution & Insurance		148,774	-
Miscellaneous expenses		50,459	802,452
		190,467,250	141,142,791

33.1 This includes contribution to provident fund amounting to Rs. 2.74 million (2005: Rs. 1.8 million) made by the Company.

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

	2006 Rupees	2005 Rupees
Audit fee	154,000	140,000
Audit fee of Provident Fund accounts for years 2001 - 2005	85,000	-
Review of half yearly accounts	76,500	69,500
Certification and consultancy charges	84,500	90,000
Out of pocket expenses	38,049	46,091
	438,049	345,591

33.3 The directors and their spouses do not have any interest in the donee institution.

34 TAXATION

	2006 Rupees	2005 Rupees
Current taxation - Current year	22,573,243	10,048,531
Deferred taxation	(10,669,284)	(5,379,068)
	11,903,959	4,669,463

34.1 Relationship between tax expense and accounting profit

	2006 Rupees	2005 Rupees
Profit before tax	197,954,834	134,070,620
Applicable tax rate	% 35.00	
Tax effect of:		
- Inadmissible expenses	2.77	
- Income chargeable at lower rate	(13.59)	
- Income exempt from tax	(12.78)	
Effective tax rate	11.40	

In view of the available tax losses, provision for previous year taxation represented minimum tax payable, hence no reconciliation between the tax expense and the accounting profit has been given for 2005.

35 EARNINGS PER SHARE - BASIC AND DILUTED

	Note	2006	2005
Profit for the year after taxation (Rupees)		186,050,875	129,401,157
Weighted average number of ordinary shares	35.1	41,861,956	34,361,074
Earnings per share (Rupees)		4.44	3.77

35.1 The comparative figure for weighted average number of ordinary shares has been adjusted for bonus shares issued and the bonus element of 40% right shares issued at Rs. 10 per share.

35.2 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.

36 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:

	2006 Rupees	2005 Rupees
Associated companies:		
Transactions during the year		
Return on finances received	1,800,411	594,359
Guarantee commission earned	789,400	726,900
Profit paid on certificates of deposit	5,069,496	2,363,307
Chairman's secretariat expenses	3,600,000	3,600,000
Balance at year end		
Advances outstanding	13,162,451	14,136,111
Letter of guarantee outstanding	78,940,000	78,940,000
Certificates of deposit outstanding	49,036,189	50,940,720
Directors:		
Transactions during the year		
Guarantee commission earned	-	225,000
Profit paid on certificates of deposit	13,281,723	6,853,953
Office rent	-	7,063,662
Purchase of fixed assets	-	86,190,000
Balance at year end		
Certificates of deposit outstanding	122,000,000	120,500,000
Rent and other receivables	2,366,568	-
Executives:		
Transactions during the year		
Return on finances received	1,071,836	550,389
Profit paid on certificates of deposit	1,169,135	758,621
Fixed assets sold	1,073,977	817,562
Balance at year end		
Advances outstanding	17,549,592	16,272,632
Certificates of deposit outstanding	16,985,504	15,512,750
Others:		
Transactions during the year		
Contribution to staff retirement benefits plan	2,741,864	1,813,378

37 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	Chief Executive		Directors		Executives	
	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees	2006 Rupees	2005 Rupees
Managerial remuneration	5,546,664	4,388,242	1,351,212	1,085,100	9,971,261	5,740,170
House rent allowance	270,000	270,000	270,000	270,000	2,547,946	1,360,922
Utilities	554,664	438,822	135,126	108,516	997,096	574,011
Bonus/commission	-	-	-	-	2,269,857	284,394
Leave encashment	786,584	-	-	-	563,764	109,918
Retirement benefits	554,664	436,380	-	-	994,442	521,306
Leave fare assistance	301,639	-	-	-	-	-
Special allowance	1,594,004	900,000	631,880	184,800	631,880	500,820
	9,608,219	6,433,444	2,388,218	1,648,416	17,976,246	9,091,541
Number of persons	1	1	1	1	10	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 of Rs. 12,000 (2005: 13,000) was paid to one Director for attending the board meetings.
- iii) Chairman secretariat expenses have been reimbursed.

38 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	2006			
	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees
ASSETS				
Fixed capital expenditure	136,310,773	667,421	40,627,381	95,015,971
Cards and rooms	45,405,000	-	-	45,405,000
Deferred tax asset	15,715,126	-	15,715,126	-
Net investment in lease finance	30,947,661	4,386,428	26,561,233	-
Investments	1,440,160,920	859,029,305	12,350,150	568,781,465
Finances	342,732,514	307,437,579	35,294,935	-
Loan, advances, deposits, prepayments and other receivables	424,643,068	415,448,260	7,251,858	1,942,950
Placements	2,270,121,900	2,270,121,900	-	-
Cash and bank balances	169,720,022	169,720,022	-	-
	4,875,756,984	4,026,810,915	137,800,683	711,145,386

Description	2006			
	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees
LIABILITIES				
Term finance certificates	274,835,000	45,851,658	228,983,342	-
Obligation under finance lease	8,184,466	655,092	7,529,374	-
Short term borrowings	1,145,000,000	1,145,000,000	-	-
Running finance under mark up arrangements	778,338,739	778,338,739	-	-
Certificates of deposit	1,480,152,821	1,082,837,203	397,315,618	-
Long term security deposit	9,138,301	-	9,138,301	-
Trade and other payables	406,525,439	406,525,439	-	-
Provision for taxation	28,715,531	28,715,531	-	-
	4,130,890,297	3,487,923,662	642,966,635	-
NET ASSETS	744,866,688	538,887,253	(505,165,952)	711,145,386
Represented by:				
SHARE CAPITAL AND RESERVES	760,269,018			
DEFICIT ON REVALUATION OF INVESTMENTS	(15,402,330)			
	744,866,688			

Description	2005			
	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees
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	3,286,812,875	177,116,837	713,756,911
LIABILITIES				
Term finance certificates	274,945,000	110,000	274,835,000	-
Short term borrowings	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	206,091,977	(403,182,109)	713,756,911
Represented by:				
SHARE CAPITAL AND RESERVES	540,013,133			
DEFICIT ON REVALUATION OF INVESTMENTS	(23,346,354)			
	516,666,779			

39 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.

39.1 SEGMENT INFORMATION

Class of business	Morabaha financing		Certificates of deposits		Letter of guarantee	
	2006 Percentage	2005 Percentage	2006 Percentage	2005 Percentage	2006 Percentage	2005 Percentage
Chemical and Pharmaceuticals	3.00	2.35	-	-	-	-
Agribusiness	-	-	-	-	-	-
Textile	6.41	9.62	-	-	-	-
Sugar	-	8.53	-	0.45	25.20	-
Financial	-	1.21	36.94	33.65	-	-
Insurance	-	-	0.18	0.27	-	-
Electronics and electrical appliances	5.18	2.82	2.42	3.64	39.78	85.41
Production and transmission of energy	13.32	7.59	1.21	17.70	-	-
Steel and allied products	-	-	-	-	-	-
Individuals	44.00	43.72	32.32	26.52	13.35	11.34
Engineering and Construction	9.78	15.64	0.03	-	20.16	-
Sports	-	-	2.20	5.58	-	-
Communications	-	-	-	-	-	-
Non-Government Organizations	-	0.27	2.72	-	-	-
Others	18.31	8.25	21.98	12.19	1.51	3.25
	100.00	100.00	100.00	100.00	100.00	100.00

39.2 Geographical Segment

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

40 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 reprice 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:

	2006				
	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees	No exposed to interest rate risk Rupees
FINANCIAL ASSETS					
Investments	1,440,160,920	90,611,572	12,350,150	568,781,465	768,417,733
Net investment in lease finance	21,809,360	4,386,428	17,422,932	-	-
Finances	342,732,514	307,437,579	35,294,935	-	-
Loan, advances, deposits, prepayments and other receivables	264,403,938	14,752,731	-	-	249,651,207
Placements	2,270,121,900	2,270,121,900	-	-	-
Cash and bank balances	169,720,022	147,055,421	-	-	22,664,601
	4,508,948,654	2,834,365,631	65,068,017	568,781,465	1,040,733,541
FINANCIAL LIABILITIES					
Term finance certificates	274,835,000	45,851,658	228,983,342	-	-
Obligation under finance lease	3,565,166	655,092	2,910,074	-	-
Short term borrowings	1,145,000,000	1,145,000,000	-	-	-
Running finance under mark up arrangements	778,338,739	778,338,739	-	-	-
Certificates of deposit	1,480,152,821	1,082,837,203	397,315,618	-	-
Trade and other payables	405,449,389	57,415,067	-	-	348,034,322
	4,087,341,115	3,110,097,759	629,209,034	-	348,034,322
Total Interest rate sensitivity gap		(275,732,128)	(564,141,017)	568,781,465	
Cumulative interest rate sensitivity gap		(275,732,128)	(839,873,145)	(271,091,680)	

	2005				
	Total Rupees	Within one year Rupees	More than one year and upto five years Rupees	Above five years Rupees	No exposed to interest rate risk Rupees
FINANCIAL ASSETS					
Investments	1,524,468,578	128,386,954	18,683,433	577,862,851	799,535,340
Finances	746,859,937	627,359,512	119,500,425	-	-
Loan, advances, deposits, prepayments and other receivables	203,132,343	17,756,754	-	-	185,375,589
Placements	742,095,424	742,095,424	-	-	-
Cash and bank balances	671,204,063	554,338,650	-	-	116,865,413
	3,887,760,345	2,069,937,294	138,183,858	577,862,851	1,101,776,342
FINANCIAL LIABILITIES					
Term finance certificates	274,945,000	110,000	274,835,000	-	-
Short term borrowings	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	238,648,594	33,366,096	-	-	205,282,498
	3,645,601,632	2,860,020,188	580,298,946	-	205,282,498
Total Interest rate sensitivity gap		(790,082,894)	(442,115,088)	577,862,851	
Cumulative interest rate sensitivity gap		(790,082,894)	(1,232,197,982)	(654,335,131)	

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

41 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.

42 NUMBER OF EMPLOYEES

The total number of employees at year end was 135 (2005: 98).

43 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".

44 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 15 September 2006 by the Board of Directors of the Company.

45 DIVIDEND

The Board of Directors at their meeting held on 15 September 2006 has proposed cash dividend @ 20% i.e. Rs.2 per ordinary share for the year ended 30 June 2006 for approval of the members at the Annual General Meeting to be held on 31 October 2006. The financial statements do not reflect this proposed dividend.

46 GENERAL

Figures have been rounded off to the nearest rupee.



DIRECTOR



CHIEF EXECUTIVE OFFICER

Pattern of Share Holding As on 30 June 2006

Number of Shareholders	Shareholdings		Total Shares Held	Percentage of Total Capital
	From	To		
57	1	100	2,599	0.01
65	101	500	22,353	0.05
67	501	1000	55,213	0.13
131	1001	5000	357,568	0.81
32	5001	10000	250,770	0.57
14	10001	15000	179,492	0.41
10	15001	20000	174,850	0.40
4	20001	25000	93,825	0.21
1	25001	30000	28,875	0.07
6	30001	35000	193,992	0.44
2	35001	40000	76,875	0.17
2	45001	50000	98,300	0.22
5	55001	60000	300,000	0.68
2	65001	70000	138,300	0.31
1	85001	90000	90,000	0.20
1	90001	95000	94,550	0.21
3	95001	100000	294,011	0.67
1	105001	110000	109,515	0.25
2	145001	125000	297,000	0.67
1	155001	160000	157,025	0.36
1	160001	165000	160,500	0.36
2	175001	180000	353,250	0.80
2	190001	195000	382,000	0.87
1	195001	200000	196,575	0.45
1	205001	210000	210,000	0.48
1	245001	250000	250,000	0.57
1	265001	270000	266,000	0.60
1	300001	305000	300,200	0.68
1	345001	350000	350,000	0.79
1	465001	470000	467,775	1.06
1	520001	525000	525,000	1.19
1	670001	675000	673,828	1.53
1	790001	795000	792,350	1.80
1	805001	810000	808,400	1.83
1	980001	985000	985,300	2.23
1	1045001	1050000	1,050,000	2.38
1	2195001	2200000	2,200,000	4.99
1	2515001	2520000	2,518,110	5.71
1	3295001	3300000	3,299,145	7.48
1	3380001	3385000	3,383,467	7.67
1	4705001	4710000	4,709,947	10.68
1	17200001	17205000	17,203,340	39.01
431			44,100,000	100.00

There are no shareholdings in the slabs not included above.

Categories of Shareholders	Number of Share holders	Share held	Percentage
Individuals	404	20,042,315	45.45
Joint Stock Companies	18	18,517,660	41.99
Financial Institutions	7	4,378,525	9.93
Insurance Companies	1	176,500	0.40
Modarbas and Mutual Funds	1	985,000	2.23
	431	44,100,000	100.00

Pattern of Share Holding (contd.)

AS ON 30 JUNE 2006

INFORMATION AS REQUIRED BY CODE OF CORPORATE GOVERNANCE

Categories of Shareholders	Number of Shareholders	Share held	Percent
Directors, Chief Executive Officer, and their spouse and minor childre			
Mr. Bashir Ahmad	1	4,709,947	10.6802
Ms. Shazia Bashir	1	3,383,467	7.6723
Mrs. Darakshan Bashir	1	2,518,110	5.7100
Mr. Mutahir Ahmed	1	160,500	0.3639
Mr. Bairam Qureshi	1	1,102	0.0025
Mr. Asad Ali Shah	1	735	0.0017
Associated Companies, Undertakings and Related Parties			
M/S ESSEM Power (Pvt) Ltd.	1	17,203,340	39.0098
Executive	3	1,086	0.0024
ICP	1	673,828	1.5280
Banks Deelopment Financial Institutions			
Non Banking Financial Institutions			
	7	4,378,525	9.9286
Insurance Companies			
	1	176,500	0.4002
Modarabas and Mutual Funds			
	2	985,000	2.2336
General Public			
Local	395	9,267,368	21.0144
Others	16	640,492	1.4524
Total	431	44,100,000	100.0000

SHARE HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST

Categories of Shareholders	Number of Shareholders	Share held	Percent
Mr. Bashir Ahmad	1	4,709,947	10.68
M/S ESSEM Power (Pvt) Ltd.	1	17,203,340	39.01

Form of Proxy

I/We, _____

of _____

Escorts Investment Bank Limited 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 31st day of October 2006 at 11:00 a.m. and at any adjournment thereof.

As witnessed under my/our hand this _____ day of _____ 2006. _____

Signed by _____ in presence of _____

Signature and address of the witness

Signature and address of the witness

Signature of member

Please affix
revenue
stamp

Affix
correct
postage

The Company Secretary
ESCORTS INVESTMENT BANK LIMITED
Escorts House, 26-Davis Road,
Lahore.



www.escortsbank.net



ESCORTS INVESTMENT BANK LIMITED

Escorts House, 26-Davis Road, Lahore.