



## VISION

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

## MISSION

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



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Khursheed K. Marker (Chairman)  
Haji Jan Muhammad  
Haji Abdul Rauf  
Mr. Muhammad Younus Abdul Aziz Tabba  
Mr. Maqbool H. H. Rahimtoola  
Mr. Muhammad Iqbal Kasbati  
Mr. Muhammad Saleem Rathod

### PRESIDENT & CHIEF EXECUTIVE

Mr. Muhammad Saleem Rathod

### AUDIT COMMITTEE

Mr. Khursheed K. Marker  
Haji Jan Muhammad  
Mr. Muhammad Iqbal Kasbati

### COMPANY SECRETARY

Mr. Muhammad Amin Khatri

### AUDITORS

Muniff Ziauddin & Co.  
Chartered Accountants

### TAX ADVISORS

Anjum Asim Shahid Rahman  
Chartered Accountants

### LEGAL ADVISORS

Bawaney & Partners  
Muhammad Tariq Qureshi

### BANKERS

Metropolitan Bank Limited.  
Al-Baraka Islamic Bank B.S.C. (E.C.)  
Habib Bank AG Zurich.  
Muslim Commercial Bank Limited.  
The Bank of Khyber.  
Habib American Bank, New York.

### REGISTERED OFFICE

Flat No. 4, 3rd Floor, Al-Baber Centre,  
Main Markaz, F-8, Islamabad.  
Tel : (051) 2856978-80  
Fax: (051) 2856987  
Website : [www.sibl.com.pk](http://www.sibl.com.pk)

### KARACHI OFFICE

606, 6th Floor, Unitowers,  
I.I. Chundrigar Road, Karachi.  
Tel : 2418410 - 13 Fax : 2418414  
E-mail : [sibl@cyber.net.pk](mailto:sibl@cyber.net.pk)



## **NOTICE OF THE FIFTEENTH ANNUAL GENERAL MEETING**

Notice is hereby given that the Fifteenth Annual General Meeting of Security Investment Bank Limited will be held at the Registered Office of the company located at Flat No. 4, 3rd Floor, Al-Baber Centre, Main Markaz, F-8, Islamabad, on Monday, April 24, 2006 at 11.00 a.m. to transact the following business:

### **ORDINARY BUSINESS**

- 1) To confirm the minutes of Fourteenth Annual General Meeting held on April 25, 2005.
- 2) To receive and adopt the audited accounts of the company for the year ended December 31, 2005 together with the Directors' and Auditors' report thereon.
- 3) To approve the payment of cash dividend @ 10% i.e. Rs. 1/- per share and issuance of bonus shares @ 15% i.e. 1.5 shares for every ten existing shares held, as recommended by the Board of Directors, for the year ended December 31, 2005.
- 4) To appoint auditors and fix their remuneration for the year ending December 31, 2006. The present auditors M/s. Muniff Ziauddin & Co. Chartered Accountants retire and being eligible, offer themselves for re-appointment.

### **ANY OTHER BUSINESS**

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

### **BOOK CLOSURE**

The share transfer books of the company will remain closed from 17th day of April 2006 to 24th day of April 2006 (Both days inclusive). Transfer received in order at the office of the share registrar of the company by the close of business on 15th day of April 2006 will be treated in time.

By order of the Board

**Muhammad Amin Khatri**  
Company Secretary

Islamabad.

Date: April 03, 2006

### **NOTES:**

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



## DIRECTOR'S REPORT TO THE SHAREHOLDERS

The Directors of Security Investment Bank Limited are pleased to present the 14th annual report of your Bank for the year ended December 31, 2005.

### ECONOMIC OUTLOOK

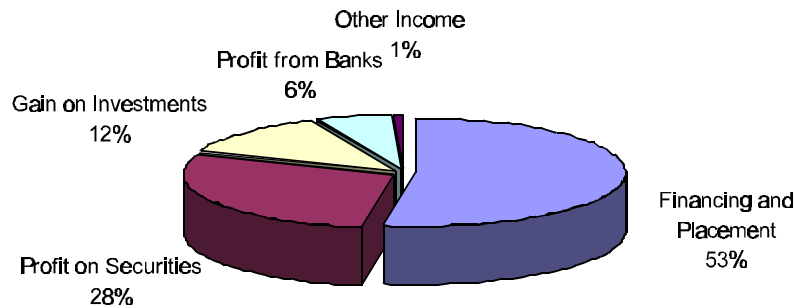
Pakistan's economic growth has accelerated to more than 6 percent over the last few years with real GDP rising to 8.4 percent. This growth is broad based with all major sectors performing well and this momentum can be seen in the local bourses where strong corporate performances have enabled the KSE - 100 Index to break all previous records. The impressive growth momentum has caught attention of the International World, where the total foreign investment for the first half of fiscal year 2005-06 was US\$ 1.462 billion, showing a rise of 190% over the same period last year. High oil prices and the enormous cost of rebuilding and rehabilitation of earthquake victims reasons to high inflation figure which has resulted in tight monetary control and increased lending rates. Most business environment indicators in Pakistan are consistent. Financial sector indicators are comparable to or better than the benchmark standards, but further improvements would stimulate private sector investment. External performance is generally good, though the current account surplus has eroded as growth has accelerated. The ratio of trade to GDP is low, and exports are disproportionately concentrated in cotton, clothing and textiles. FDI inflows are low; FDI is needed to help upgrade manufacturing and Infrastructure. Infrastructure indicators are average for low-income, but need substantial improvement if transformational development is to be sustained. Special focus is needed on roads and electricity.

### OPERATIONAL PERFORMANCE

During the year 2005, SIBL maintained its revenue growth by making Rs. 91.845 million operating profit, an increase of around 10% over the profit earned during the year 2004. Considering the fact that the tight monetary policy stance of the Central Bank continued during the whole year 2005 in order to curb the rising inflationary pressure, which resulted in 87% increase in cost of deposits and borrowings from the last financial year. The stock market crises which started in March 2005 was stretched over major portion of the above financial year. Despite these factors due to the collective efforts of the management under the supervision of the board we managed to earn gross income of Rs. 189.282 million as compared to Rs. 150.479 million for the year 2004, thereby showing an increase of around 25%. Major sources contributing towards this profitability were income on financing and placements which covered more than 50% of the income earned.

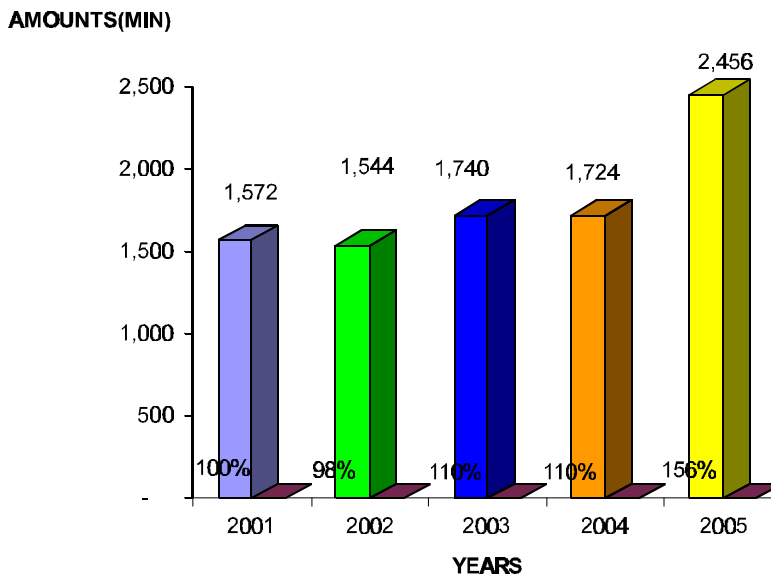


### SIBL INCOME DISTRIBUTION



The total assets amount increased to Rs. 2,456.265 million as compared to last year's amount of Rs. 1,723.517 million, hence showing an increase of 43%.

### SIBL- TOTAL ASSETS



### DIVIDEND

As per our policy we would like to share earnings of SIBL with our shareholders and for the fiscal year ended December 31, 2005, the Board is pleased to announce cash Dividend of 10% (i.e. Rs. 1 per share) alongwith issuance of Bonus Shares @ 15% (i.e. 1.5 shares for every ten shares held).



## CORPORATE GOVERNANCE

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

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

Year ended	December 2005	December 2004	December 2003	December 2002	December 2001 (18 months)	June 2000	June 1999
Share Capital	373	373	324	282	201	165	165
Shareholder's Equity	602	530	463	387	356	232	189
Deposits	565	448	478	270	254	499	1,043
Borrowings	1,253	726	703	728	948	285	50
Advances	171	230	288	240	286	311	928
Investments	289	556	1,273	1,125	724	219	132
Operating Profit	92	83	132	68	65	55	32
Provisions against non-performing advances	–	–	–	–	–	–	–
Net Profit after provisions	71	68	108	51	50	43	21
Total Assets	2,456	1,724	1,740	1,544	1,572	1,046	1,345
Dividend	10%	–	10%	12.5%	–	–	10%
Bonus	15%	15%	15%	–	–	22%	–



- As on December 31, 2005 based on the unaudited accounts, the value of investment of Provident Fund is Rs. 1.446 million.
- The pattern of shareholding as at December 31, 2005 along with the disclosure required under the Code of Corporate Governance is annexed to the report.
- During the year ended December 31, 2005, the Board of Directors held four meetings. Attendance of each Director is as follows:

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

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

#### **CREDIT RATING**

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

#### **EXCHANGE COMPANY**

SIBL Exchange Company (Pvt) Limited, a wholly owned subsidiary of Security Investment Bank Ltd. has commenced its operation from February 28, 2006. We plan to enhance the activities of the exchange company in a couple of months.

#### **FUTURE OUTLOOK**

Despite the impact of the earthquake and constraints imposed by rising energy prices, Pakistan's economy is expected to remain on a high growth trajectory during FY06. The real GDP growth could be modestly below-target due to a slowdown in agriculture and a relatively weak performance by large-scale manufacturing (primarily owing to capacity constraints and a high base effect). The services sector, however, is likely to continue performing better than anticipated due to expansion in the Telecommunications and Financial Industries. SIBL will also get the benefit of favorable economic environment in the country. The Capital market of the Country is also expected to perform better which will increase our earnings potential. We expect National Commodity Exchange Limited to start its operation during the current financial year which will enhance earnings opportunities.





## **AUDITORS**

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

## **ACKNOWLEDGEMENT**

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

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

Karachi:  
March 28, 2006



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board comprises of six non-executive directors.
2. The directors have confirmed that none of them is serving as a director in ten or more listed companies.
3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFC. No director in the board is a member of any of the stock exchanges in Pakistan.
4. No casual vacancy occurred during the year under review.
5. The Company has prepared and adopted a 'Statement of Ethics and Business Practices', which has been reviewed and signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The CEO conducted orientation course for the directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises three members, all of whom are non-executive Directors including the Chairman of the Committee.
16. The meetings of the Audit Committee were held once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the company and are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

**Muhammad Saleem Rathod**  
Chief Executive

**Khursheed K. Marker**  
Chairman



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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2005, prepared by the Board of Directors of Security Investment Bank Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited, Listing Regulation No. 40 Chapter XIII of the Lahore Stock Exchange (Guarantee) Limited and Listing Regulation No. 36 of the Islamabad Stock Exchange (Guarantee) Limited, where the Company is listed.

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

As part of the audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2005.

Karachi;  
March 28, 2006

**MUNIFF ZIAUDDIN & CO.**  
Chartered Accountants



**SECURITY INVESTMENT BANK LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**



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## **AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of SECURITY INVESTMENT BANK LIMITED as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 4.1 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2005 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi;  
March 28, 2006

**MUNIFF ZIAUDDIN & CO.**  
Chartered Accountants

**BALANCE SHEET**

AS AT DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>NON - CURRENT ASSETS</b>			
Tangible fixed assets	5	2,744,507	768,547
Stock exchange membership card - intangible	6	36,000,000	36,000,000
Long term investments	7	476,244,904	-
Deferred tax asset	8	487,443	3,564,858
Deferred cost	9	115,648	216,853
<b>CURRENT ASSETS</b>			
Short term financing	10	170,634,198	230,480,892
Short term placements	11	1,154,645,225	776,105,645
Short term investments	12	289,403,485	555,803,027
Advances, deposits, prepayments and other receivables	13	68,290,371	55,507,174
Cash and bank balances	14	257,698,952	65,069,926
		<b>1,940,672,231</b>	<b>1,682,966,664</b>
		<b>2,456,264,733</b>	<b>1,723,516,922</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Authorised Capital</b>			
50,000,000 ordinary shares of Rs. 10/- each		<b>500,000,000</b>	<b>500,000,000</b>
Issued, subscribed and paid up capital	15	<b>372,706,950</b>	<b>372,706,950</b>
Statutory reserve	16	<b>99,236,880</b>	<b>85,109,274</b>
Unappropriated profit		<b>129,688,766</b>	<b>73,178,344</b>
		<b>601,632,596</b>	<b>530,994,568</b>
Surplus on revaluation of investments-net	17	<b>10,711,063</b>	<b>465,522</b>
<b>NON - CURRENT LIABILITIES</b>			
Deferred liabilities	18	<b>4,001,955</b>	<b>3,718,775</b>
<b>CURRENT LIABILITIES</b>			
Borrowings	19	<b>1,252,500,000</b>	<b>726,242,575</b>
Short term deposits	20	<b>564,883,949</b>	<b>447,525,796</b>
Accrued and other liabilities	21	<b>22,535,170</b>	<b>14,569,686</b>
		<b>1,839,919,119</b>	<b>1,188,338,057</b>
<b>Contingencies and Commitments</b>	22		
		<b>2,456,264,733</b>	<b>1,723,516,922</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHED K. MARKER**  
Chairman





**PROFIT & LOSS ACCOUNT**  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>INCOME</b>			
Return on financing and placements	23	99,255,963	54,037,807
Return on Securities	24	53,642,499	59,424,515
Gain on sale of investments		23,622,172	34,844,173
Profit on deposit with banks		11,175,532	537,085
Other income	25	1,585,571	1,634,990
		<b>189,281,737</b>	<b>150,478,570</b>
<b>EXPENDITURE</b>			
Return on deposits and borrowings	26	75,814,414	40,609,213
Operating expenses	27	21,622,357	26,546,759
		<b>97,436,771</b>	<b>67,155,972</b>
<b>PROFIT BEFORE TAXATION</b>		<b>91,844,966</b>	<b>83,322,598</b>
Provision for taxation	28	21,206,938	15,292,547
<b>PROFIT AFTER TAXATION</b>		<b>70,638,028</b>	<b>68,030,051</b>
<b>EARNINGS PER SHARE</b>		<b>1.90</b>	<b>1.83</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman



## CASH FLOW STATEMENT

### FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit before taxation	91,844,966	83,322,598
<b>Adjustment for non-cash and other items</b>		
Depreciation	85,360	944,233
Amortization of deferred cost	101,205	117,577
Gain on disposal of shares	(23,622,172)	(34,844,173)
Gain on disposal of fixed assets	-	(182,933)
(Gain)/loss on sale of securities	(83,260)	3,685,881
Provision for gratuity	768,000	690,500
	<u>(22,750,867)</u>	<u>(29,588,915)</u>
<b>Cash Flows From Operating Activities Before Working Capital Changes</b>	<b>69,094,099</b>	<b>53,733,683</b>
Increase in financing and placements (Increase)/decrease in advances, deposits, prepayments and other receivables	<u>(318,692,886)</u>  <u>(17,170,245)</u>	<u>(335,401,381)</u>  <u>9,306,982</u>
Increase/(decrease) in deposits	<u>117,358,153</u>	<u>(30,661,676)</u>
Increase/(decrease) in borrowings	<u>526,257,425</u>	<u>23,742,575</u>
Increase/(decrease) in accrued and other liabilities	<u>9,272,295</u>	<u>(4,841,298)</u>
	<u>317,024,742</u>	<u>(337,854,798)</u>
Income tax paid	<u>(16,407,702)</u>	<u>(36,362,168)</u>
Gratuity paid	<u>(484,820)</u>	<u>(348,333)</u>
Dividend paid	<u>(1,306,811)</u>	<u>(708,244)</u>
	<u>(18,199,333)</u>	<u>(37,418,745)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>367,919,508</b>	<b>(321,539,860)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<u>(2,061,320)</u>	<u>(104,236)</u>
(Purchase)/sale of investments (shares)	<u>(70,181,750)</u>	<u>12,187,221</u>
(Purchase)/Sale of securities	<u>(3,047,412)</u>	<u>277,803,707</u>
Investment in Subsidiary	<u>(100,000,000)</u>	<u>-</u>
Sale proceeds from disposal of fixed assets	<u>-</u>	<u>250,000</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(175,290,482)</b>	<b>290,136,692</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents	<u>192,629,026</u>	<u>(31,403,168)</u>
Cash and cash equivalents at the beginning of the year	<u>65,069,926</u>	<u>96,473,094</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>257,698,952</b>	<b>65,069,926</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman



**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Share Capital (Note 15)	Statutory Reserve (Note 16)	Reserve for Bonus Shares	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at January 01, 2004	324,093,000	71,503,263	–	67,368,254	462,964,517
Net profit for the year	–	–	–	68,030,051	68,030,051
Reserve for issuance of bonus shares	–	–	48,613,950	(48,613,950)	–
Bonus shares issued during the year	48,613,950	–	(48,613,950)	–	–
Transfer to Statutory Reserve	–	13,606,011	–	(13,606,011)	–
<b>Balance as at December 31, 2004</b>	<b>372,706,950</b>	<b>85,109,274</b>	<b>–</b>	<b>73,178,344</b>	<b>530,994,568</b>
Net profit for the year	–	–	–	70,638,028	70,638,028
Transfer to Statutory Reserve	–	14,127,606	–	(14,127,606)	–
<b>Balance as at December 31, 2005</b>	<b>372,706,950</b>	<b>99,236,880</b>	<b>–</b>	<b>129,688,766</b>	<b>601,632,596</b>

**MUHAMMAD SALEEM RATHOD**  
 Chief Executive

**KHURSHEED K. MARKER**  
 Chairman



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 1. LEGAL STATUS AND OPERATION

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

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

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

### 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved International Accounting Standards as applicable in Pakistan and the requirements of the 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 (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### 3. BASIS OF MEASUREMENT

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### 4.1 Change in Accounting Policy

Consequent to the substitution of the fourth schedule of the Companies Ordinance, 1984 made by Securities and Exchange Commission of Pakistan. SIBL has changed its accounting policy pertaining to recognition of dividends declared subsequent to the year end. As per new policy these are not recognized in the financial statements as liability if declared after year end. Previously, dividends declared subsequent to year end was treated as adjusting event and recognized in the financial statements as liability. The change in accounting policy has been applied retrospectively, in accordance with the benchmark treatment specified in IAS 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting policies).

During the current year, the company has also changed its accounting policy in respect of valuation of investments classified as held to maturity. According to the new policy, these investments are carried at amortized cost. Previously, these investments were marked to market as per the requirements of SBP's BSD Circular No. 20 dated August 04, 2000 and the related surplus / deficit was shown in the balance sheet below equity. This change has been made to comply with the requirements laid down in the SBP's BSD Circular No. 14 dated September 24, 2004. The change in accounting policy did not have any impact on the profit and loss account for the current and the prior periods. Had the accounting policy not been changed, the deficit on revaluation of investments as at December 31, 2005 would have been reduced by Rs. 21,999,578/- net off deferred tax.



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

### **Change in Accounting Estimates**

During the current year, the company has changed its accounting estimate for charging depreciation on fixed assets. Previously full year depreciation was being charged in the year of addition and no depreciation was being charged in the year of disposal. From the current year full month depreciation is charged in the month of addition while no depreciation is charged in the month of disposal. Had this change in accounting estimate not been made the depreciation charge for the year would have been higher by Rs. 929,044/-.

### **4.2 Fixed Assets and Depreciation**

Operating fixed assets are stated at cost less accumulated depreciation.

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

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

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

### **4.3 Intangible**

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

### **4.4 Investments in Subsidiary**

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

### **4.5 Deferred Cost**

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

### **4.6 Investments**

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

#### **Held-for-maturity**

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

#### **Available-for-sale**

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



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

### **Held-for-trading**

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

In accordance with the BSD Circular No. 10 of 2004 dated 13th July 2004 issued by State Bank of Pakistan, as clarified and amended vide Circulars 11 and 14 of 2004, the Company reclassified its investment in Government Securities from available for sale to held to maturity and deficit on revaluation relating to these investments amounting to Rs. 15,349,237/- net off deferred tax, as at the date of reclassification, was reversed.

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

Subsequent to initial recognition, investments available for sale and investments held for trading for which active market exists, are measured at market value, in accordance with the guidelines contained in the above referred circulars issued by State Bank of Pakistan, using rates quoted on Reuters, stock exchange quotation and brokers' quotations. Any difference between the carrying value and the revalued amount is taken to surplus/(deficit) on revaluation of investments account and shown separately in the balance sheet below shareholders' equity, until realised on disposal. At the time of disposal the respective surplus or deficit is transferred to income currently.

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

#### **4.7 Securities under repurchase / resale agreement**

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

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

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

#### **4.8 Trade and Settlement date accounting**

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

#### **4.9 Staff retirement benefits**

##### **4.9.1 Defined contribution plan**

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



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

### **4.9.2 Defined benefit plan**

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

### **4.10 Offsetting of financial assets and financial liabilities**

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

### **4.11 Financial instruments**

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

### **4.12 Classification of deposits and financing**

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

### **4.13 Revenue**

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

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

Income from capital gains is recognized on earned basis.

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

### **4.14 Taxation**

#### **Current**

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

#### **Deferred**

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



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

### **4.15 Foreign currencies**

Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the balance sheet date.

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

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

### **4.16 Provision for doubtful debts - on financing**

Provision is made against doubtful receivables in pursuance of Securities and Exchange Commission of Pakistan's prudential regulations for Non Banking Finance Companies.





## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2005

#### 5. TANGIBLE FIXED ASSETS

(In Rupees)

PARTICULARS	C O S T				RATE %	D E P R E C I A T I O N				Written down Value as at Dec. 31, 2005
	As at Jan. 01, 2005	Additions	Deletions	As at Dec. 31, 2005		As at Jan. 01, 2005	Charge for the year	Adjustment	As at Dec. 31, 2005	
Furniture & fixtures	2,934,800	-	-	2,934,800	10	2,862,553	74,823	(48,479)	2,888,897	45,903
Computers and equipments	2,981,425	60,670	-	3,042,095	20	2,785,113	211,886	(295,307)	2,701,692	340,403
Telephone system	225,496	-	-	225,496	10	164,185	8,470	(4,012)	168,643	56,853
Vehicles	4,147,045	2,000,650	-	6,147,695	20	3,716,251	696,610	(527,385)	3,885,476	2,262,219
Generator	497,148	-	-	497,148	10	496,715	7,715	(43,928)	460,502	36,646
Sign board	149,000	-	-	149,000	10	141,550	14,900	(9,933)	146,517	2,483
<b>Rupees 2005</b>	<b>10,934,914</b>	<b>2,061,320</b>	<b>-</b>	<b>12,996,234</b>		<b>10,166,367</b>	<b>1,014,404</b>	<b>(929,044)</b>	<b>10,251,727</b>	<b>2,744,507</b>
Rupees 2004	11,501,340	104,236	670,662	10,934,914		9,825,729	944,233	603,595	10,166,367	768,547

5.1 Cost and accumulated depreciation at the end of the year include Rs. 6,403,517/- (2004: 6,308,323/-) in respect of fully depreciated assets still in use.



**NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>6. STOCK EXCHANGE MEMBERSHIP CARD-Intangible</b>			
Corporate membership of Karachi Stock Exchange		<u>36,000,000</u>	<u>36,000,000</u>
<b>7. LONG TERM INVESTMENTS</b>			
SIBL Exchange Company (Pvt) Ltd. 10,000,000 ordinary shares of Rs. 10 each Wholly Owned Subsidiary - un-quoted		100,000,000	—
Pakistan Investment Bonds - Held to Maturity	7.1	<u>376,244,904</u>	<u>—</u>
		<u>476,244,904</u>	<u>—</u>
<b>7.1 Pakistan Investment Bonds</b>			
Cost		380,009,784	—
Less: Amortization		(3,764,880)	—
		<u>376,244,904</u>	<u>—</u>
<p>These represent investment in 10 and 20 year bonds issued by the Government of Pakistan carrying markup rates (coupon rate) of 9% to 11% per annum (2004: 9% to 11%). Their period to maturity range from six to eighteen and a half years. These are held by other financial institutions as security under Repurchase Transactions.</p>			
<b>8. DEFERRED TAX ASSET</b>			
Deferred tax assets arising in respect of			
Surplus/(deficit) on revaluation of securities		—	2,665,227
Accelerated depreciation		353,178	821,025
Provision for gratuity		169,687	119,758
		<u>522,865</u>	<u>3,606,010</u>
Deferred tax liabilities arising due to			
Deferred cost		(35,422)	(41,152)
		<u>487,443</u>	<u>3,564,858</u>
<b>9. DEFERRED COST</b>			
Opening balance		216,853	334,430
Amortized during the year		(101,205)	(117,577)
		<u>115,648</u>	<u>216,853</u>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 10. SHORT TERM FINANCING-secured (considered good)

Demand finance	10.1	<b>174,214,796</b>	234,061,490
Provision for non-performing loans	10.2	<b>(3,580,598)</b>	(3,580,598)
		<b>170,634,198</b>	230,480,892

10.1 These are secured by demand promissory notes, hypothecation or charge on assets of customers and certificates of deposits. The mark-up rates range from 7% to 16% per annum (2004: 6% to 16% per annum).

### 10.2 Particulars of provision against non-performing loans

Opening balance		<b>3,580,598</b>	3,580,598
(Reversal) or Write-off during the year		—	—
		<b>3,580,598</b>	3,580,598

### 11. SHORT TERM PLACEMENTS - considered good

Placements with financial institutions - unsecured	11.1	<b>765,000,000</b>	100,000,000
Under reverse repurchase agreements of government securities - secured		—	100,000,000
Under reverse repurchase agreements of quoted shares - secured	11.2	<b>389,645,225</b>	576,105,645
		<b>1,154,645,225</b>	776,105,645

11.1 These represent placements with Financial Institution on short term basis upto 3 months carrying mark-up ranging from 10.25% to 12% (2004: 7.50% and 8.50%) per annum.

11.2 This represents secured placements against shares carrying mark-up ranging from 12% to 18% (2004: 14% to 18%) per annum.

### 12. SHORT TERM INVESTMENTS

#### Available for Sale

Pakistan Investment Bonds	12.1	—	372,394,850
Wapda Bonds - 10th issue	12.1	<b>50,000,000</b>	50,000,000
Term Finance - Certificates	12.1	<b>91,840,420</b>	94,385,167
Quoted shares	12.2	<b>139,075,467</b>	39,023,010
		<b>280,915,887</b>	555,803,027

#### Held for Trading

Quoted shares	12.3	<b>8,487,598</b>	—
		<b>289,403,485</b>	555,803,027



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 12.1 Securities given as collateral under repurchase agreement.

Particulars of investments by type	Note	2005			2004		
		Held by SIBL	Given as collateral	Total	Held by SIBL	Given as collateral	Total
		-----Rupees-----			-----Rupees-----		
Pakistan Investment Bonds		–	–	–	53,952,950	318,441,900	372,394,850
Wapda Bonds - 10th issue	12.1.1	<b>50,000,000</b>	–	<b>50,000,000</b>	10,000,000	40,000,000	50,000,000
Term Finance Certificates	12.1.2	<b>91,840,420</b>	–	<b>91,840,420</b>	47,898,667	46,486,500	94,385,167

12.1.1 These include 10,000 certificates of unlisted bonds having face value of Rs. 5,000/- each with income receivable semi-annually at 8.75% (2004: 7.25%) per annum, having 5 years maturity period.

#### 12.1.2 Particulars of listed Term Finance Certificates (TFC):

No. of Certificates		Issuer of TFC	2005		2004		
2005	2004		Cost	Market value	Cost	Market value	
		-----Rupees-----					
2,022	2,022	Shakarganj Sugar Mills Limited	4,041,573	3,839,496	8,083,147	8,286,842	
1,588	1,588	Bank Al-Falah Limited	7,930,472	7,970,123	7,933,648	8,638,158	
4,534	4,534	Union Bank Limited	22,642,796	22,756,009	22,651,864	24,896,648	
7,000	7,000	Pakistan International Airlines	34,123,635	29,687,562	34,998,950	34,998,950	
897	897	Pakistan Services Limited	3,841,979	3,841,980	4,483,206	4,483,206	
5,000	–	TeleCard Limited	24,995,000	23,745,250	–	–	
–	3,300	Atlas Investment Bank Limited	–	–	5,495,589	5,862,694	
–	4,000	Al-Noor Sugar Mills Limited	–	–	4,998,000	5,135,945	
–	1,000	Orix Leasing Pakistan Limited	–	–	2,035,500	2,082,724	
			<b>97,575,455</b>	<b>91,840,420</b>	<b>90,679,904</b>	<b>94,385,167</b>	



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

Terms of redemption of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption Terms
Shakarganj Sugar Mills Ltd.	5,000	2.00% over SBP discount rate with 12.25% per annum as floor and 15.75% per annum as ceiling	Semi-annually	Four years from September 27, 2002
Bank Al-Falah Limited	5,000	1.35% over last auction of five years Pakistan Investment Bonds yield with 10.00% per annum as floor and 15% as ceiling	Semi-annually	Six years from December 19, 2002
Union Bank Limited	5,000	2.25% over last auction of five years Pakistan Investment Bonds yield with 11.00% per annum as floor and 15.50% per annum as ceiling	Semi-annually	Five and half year from December 22, 2002
Pakistan International Airlines	5,000	0.50% over SBP discount rate with 8.00% per annum as floor and 12.50% per annum as ceiling	Semi-annually	Eight years from February 20, 2003
Pakistan Services Limited	5,000	2.25% over SBP discount rate with 9.75% per annum as floor and 13.75% per annum as ceiling	Semi-annually	Five years from November 12, 2003
TeleCard Limited	5,000	3.75% over 6 months KIBOR	Semi-annually	Six years from May 27, 2005



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 12.2 Quoted shares

No. of ordinary shares certificates/units			2005		2004	
			Cost	Market Value	Cost	Market Value
2005	2004		-----Rupees-----			
<b>Modarabas/Mutual funds</b>						
1,389,697	1,389,697	ABAMCO Composite Fund	13,896,970	13,271,606	13,896,970	11,812,425
71,764	71,764	ABAMCO Stock Market Fund	1,085,040	1,151,812	1,085,040	846,815
3,000	–	PICIC Growth Fund	132,513	148,800	–	–
13,046	98,437	Pakistan Premium Fund	90,189	201,561	850,630	1,348,585
500	500	Long Term Venture Modaraba	800	225	800	750
<b>Leasing</b>						
40,353	36,685	Saudi Pak Leasing	1,450,590	550,818	1,450,590	498,916
<b>Investment Banks / Cos. / Banks</b>						
156,479	66	National Bank of Pakistan	19,558,672	31,209,737	501	5,303
41,200	–	Bank of Punjab	3,011,940	4,220,940	–	–
13,750	125	Bank Alfalah Limited	617,991	1,014,063	–	4,819
12,650	–	Faysal Bank Limited	524,430	937,365	–	–
–	1,500	Jahangir Siddiqui & Company Ltd.	–	–	140,850	131,925
–	1,437	Banker's Equity Limited	–	–	37,500	–
<b>Insurance</b>						
–	10,504	Adamjee Insurance Company Ltd.	–	–	731,100	689,062
<b>Synthetic and Rayon</b>						
5,750	10,750	Dewan Salman Fibre Limited	144,953	92,000	271,000	200,488
18,750	18,750	Pakistan Synthetics Limited	688,500	173,438	688,500	331,875
<b>Cement</b>						
26,541	19,541	D.G. Khan Cement	1,741,441	2,829,270	1,095,132	1,069,870
768	56,875	Cherat Cement	38,463	67,776	3,699,656	4,222,969
57,200	36,000	Maple Leaf Cement	1,188,226	1,934,040	1,120,000	1,112,400
2,875	375	Lucky Cement	214,117	241,212	13,727	15,244



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

No. of ordinary shares certificates/units			2005		2004	
			Cost	Market Value	Cost	Market Value
2005	2004		-----Rupees-----			
		<b>Fuel and Energy</b>				
334,829	151,229	Oil and Gas Development Co. Ltd.	35,212,977	39,509,822	4,840,840	11,334,614
15,200	–	Pakistan Oilfields Limited	4,373,060	6,505,600	–	–
75,000	40,000	Hub Power Company Limited	2,489,106	1,800,000	1,439,750	1,284,000
6,000	–	Japan Power Generation	32,704	40,500	–	–
45,000	–	Karachi Electric Supply Corporation	363,411	346,500	–	–
97,000	92,000	Sui Southern Gas Company Limited	2,971,554	2,594,750	3,282,446	2,382,800
3,500	–	Sui Northern Gas Pipelines Limited	226,210	238,000	–	–
–	1,500	Pakistan State Oil Company Ltd.	–	–	407,021	430,125
		<b>Automobiles and Transport</b>				
5,250	5,250	Dewan Farooque Motors Limited	197,000	175,350	197,000	131,775
45,000	80,000	Pakistan International Airlines Corporation	900,481	553,500	1,967,242	1,096,000
		<b>Technology and Communication</b>				
330,000	–	Pakistan Telecommunication Co. Limited	24,725,017	21,582,000	–	–
55,000	5,000	TRG Pakistan Limited	755,171	728,750	88,750	64,250
		<b>Fertilizer</b>				
40,586	–	Fauji Fertilizer Company Limited	4,070,652	5,560,282	–	–
10,000	–	Fauji Fertilizer Bin Qasim	386,539	381,500	–	–
		<b>Chemical</b>				
125,000	–	Pakistan PTA	1,532,653	1,006,250	–	–
		<b>Sugar &amp; Allied Industries</b>				
100	100	Hamza Sugar	8,000	8,000	8,000	8,000
			<b>122,629,370</b>	<b>139,075,467</b>	<b>37,313,045</b>	<b>39,023,010</b>

- 12.3 These represents shares purchased and simultaneously sold in futures market with settlement date subsequent to year end, with a view to generate a spread on the transaction.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

		2005 Rupees	2004 Rupees
13.	<b>ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>		
	<b>Advances</b>		
	For expenses	347,408	190,253
	For office premises	2,500,000	2,100,000
	Advance income tax less payments and provision for tax	29,977,297	34,364,345
		<b>32,824,705</b>	<b>36,654,598</b>
	<b>Deposits</b>		
	Security	2,645,288	2,086,789
	KSE exposure limits	6,000,000	-
	High Court 13.1	2,566,112	2,566,112
		<b>11,211,400</b>	<b>4,652,901</b>
	<b>Prepayments</b>	<b>356,310</b>	<b>393,241</b>
	<b>Other receivables</b>		
	Income receivable 13.2	23,353,606	12,682,355
	Other receivables	544,350	1,124,079
		<b>23,897,956</b>	<b>13,806,434</b>
		<b>68,290,371</b>	<b>55,507,174</b>

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

### 13.2 Income receivable

Not due	13.2.1	23,761,800	13,090,549
Provision for doubtful debts		(408,194)	(408,194)
		<b>23,353,606</b>	<b>12,682,355</b>

13.2.1 This represents income on financing, placements and government securities not matured/due on December 31, 2005.





## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>14. CASH AND BANK BALANCES</b>			
With State Bank of Pakistan in:			
Reserve account	14.1	6,725,000	5,725,000
Current account		3,670,423	3,382,108
		<b>10,395,423</b>	9,107,108
With other banks in:			
Current accounts		16,807,907	4,860,956
Deposit accounts		230,486,771	51,089,175
		<b>247,294,678</b>	55,950,131
Cash in hand		8,851	12,687
		<b>257,698,952</b>	65,069,926

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

14.2 Rate of return on these deposits accounts range from 3.5% to 11.25% per annum (2004: 3.00% to 3.5% per annum).

## 15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of shares				
2005	2004			
23,552,000	23,552,000	Ordinary shares of Rs. 10/- each fully paid in cash	235,520,000	235,520,000
13,718,695	13,718,695	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	137,186,950	137,186,950
<b>37,270,695</b>	<b>37,270,695</b>		<b>372,706,950</b>	<b>372,706,950</b>

## 16. STATUTORY RESERVE

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



**NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2005

		2005 Rupees	2004 Rupees
<b>17. SURPLUS ON REVALUATION OF INVESTMENTS - Net</b>			
Government Securities		–	(7,614,934)
Term Finance Certificates		<u>(5,735,035)</u>	<u>3,705,264</u>
		<b>(5,735,035)</b>	<b>(3,909,670)</b>
Related deferred tax asset / (liability)		–	<u>2,665,227</u>
		<b>(5,735,035)</b>	<b>(1,244,443)</b>
Quoted shares		<b>16,446,098</b>	1,709,965
		<b>10,711,063</b>	<u>465,522</u>
<b>18. DEFERRED LIABILITY</b>			
Gratuity-unfunded		<b>4,001,955</b>	3,718,775
		<b>4,001,955</b>	<u>3,718,775</u>
<b>19. BORROWINGS</b>			
Secured under repurchase agreements against			
Government Securities	19.1	<b>300,000,000</b>	400,000,000
Term Finance Certificates		–	63,742,575
		<b>300,000,000</b>	463,742,575
Unsecured from			
Financial Institutions	19.2	<b>865,000,000</b>	175,000,000
Cash Management Accounts	19.3	<b>87,500,000</b>	87,500,000
		<b>952,500,000</b>	262,500,000
		<b>1,252,500,000</b>	<u>726,242,575</u>

19.1 This represents amount borrowed from financial institutions at mark-up rates ranging from 8.40% to 8.75% per annum (2004: 3.50% to 4.50% per annum) and having maturity period upto 3 months. These are secured against Pakistan Investment Bonds sold under repurchase agreements.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

19.2 These carry mark-up ranging from 9.7% to 10.5% per annum (2004: 5.00% to 6.25% per annum) and having maturity period of upto 3 months.

19.3 These have been obtained from cash management account holders and carries mark-up rate of 6.00% per annum (2004: 6.00% per annum).

		2005 Rupees	2004 Rupees
<b>20. SHORT TERM DEPOSITS</b>			
Local currency	20.1	<u>564,883,949</u>	<u>447,525,796</u>

20.1 These include deposits with maturity ranging from one month to twelve months. The rate of return on these deposits range from 5% to 10.1% per annum (2004: 2% to 10%).

## 21. ACCRUED AND OTHER LIABILITIES

Accrued expenses			
Return on borrowings - unsecured		10,734,809	2,152,928
Return on deposits		5,263,434	5,681,620
Profit accrued on special US\$ bonds		3,278	3,278
Mark-up on Repo against TFCs/PIBs		3,347,000	2,562,485
Others		700,059	454,767
		<b>20,048,580</b>	10,855,078
Other liabilities			
Unclaimed dividend		2,234,585	3,541,396
Others		252,005	173,212
		<b>2,486,590</b>	3,714,608
		<u><b>22,535,170</b></u>	<u>14,569,686</u>

## 22. CONTINGENCIES AND COMMITMENTS

Contingencies			
Guarantees issued on behalf of customer		<u>17,100,000</u>	<u>—</u>
Commitments			
Future sale contract - Shares		<u>8,628,950</u>	<u>—</u>



**NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>23. RETURN ON FINANCING AND PLACEMENTS</b>		
<b>Financing</b>		
Demand finance	16,589,627	19,093,422
<b>Placements</b>		
Unsecured	8,903,004	3,220,786
Secured against reverse repurchase agreements of:		
Government securities	3,339,623	685,627
Quoted shares	70,423,709	31,037,972
	<u>99,255,963</u>	<u>54,037,807</u>
<b>24. RETURN ON SECURITIES</b>		
Return on Government Securities	33,343,243	44,333,207
Return on TFCs	15,497,361	16,733,003
	48,840,604	61,066,210
Gain/(loss) on sale of government securities	83,260	(3,685,881)
Dividend Income	4,718,635	2,044,186
	<u>53,642,499</u>	<u>59,424,515</u>
<b>25. OTHER INCOME</b>		
Gain on sale of fixed assets	-	182,933
Commission	95,403	223,522
Miscellaneous	1,490,168	1,228,535
	<u>1,585,571</u>	<u>1,634,990</u>
<b>26. RETURN ON DEPOSITS AND BORROWINGS</b>		
Return on deposits	21,545,768	14,657,024
Return on borrowings	29,604,608	12,793,680
Return on repurchase agreement borrowings (repo)	24,664,038	13,158,509
	<u>75,814,414</u>	<u>40,609,213</u>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>27. OPERATING EXPENSES</b>			
Salaries, wages and other benefits		9,309,819	9,596,223
Contribution to provident fund		520,470	546,671
Gratuity scheme expenses		768,000	690,500
Rent, rates and taxes		1,857,908	1,758,876
Telephone, telex and fax		780,218	1,096,132
Electricity, water and gas		576,467	661,876
Printing, postage and stationery		481,007	471,262
Insurance		375,424	413,659
Fees and membership		667,266	811,357
Brokerage and Commission		3,036,910	3,880,663
Central Depository Company charges		796,020	2,351,134
Auditors' remuneration	27.1	273,850	231,500
Legal and professional fees		280,933	1,164,400
Vehicle running and maintenance		760,301	541,553
Repairs and maintenance		207,302	215,003
Advertisement		225,287	365,179
Travelling and conveyance		156,261	154,371
Depreciation (refer note 5)		85,360	944,233
Amortization of deferred cost (refer note 9)		101,205	117,577
Bank charges		124,466	113,560
Old age benefit		42,750	47,250
Books periodicals & newspapers		24,802	37,536
Other Expenses		170,331	336,244
		<b>21,622,357</b>	<b>26,546,759</b>
<b>27.1 Auditor's remuneration</b>			
Statutory audit fee		165,000	150,000
Half yearly review and other certificates		105,000	60,000
Out of pocket expenses		3,850	21,500
		<b>273,850</b>	<b>231,500</b>
<b>28. PROVISION FOR TAXATION</b>			
<b>Current</b>			
for the year	28.1	20,794,750	15,248,347
<b>Deferred</b>			
- opening balance		899,631	943,831
- for the year		(487,443)	(899,631)
		412,188	44,200
		<b>21,206,938</b>	<b>15,292,547</b>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>28.1 Relationship between tax expense and accounting profit</b>		
Profit for the year from ordinary activities before taxation	<u>91,844,967</u>	<u>83,322,598</u>
Tax at the applicable rate of 35% (December 31, 2004: 35%)	32,145,738	29,162,909
Tax effect of expenses that are not allowable in determining taxable income	(1,667,638)	(1,105,845)
Tax effect of dividend income taxed at a lower rate	(1,415,590)	(613,256)
Tax effect of capital gains exempt from tax	(8,267,760)	(12,195,461)
Tax charge	<u>20,794,750</u>	<u>15,248,347</u>

The provision for taxation has been computed at the rate applicable to a public company. In the original assessments made by the Taxation Officer formerly Deputy Commissioner of Income Tax (DCIT), the rate for the assessment years 1992-1993, 1995-1996 & 1997-1998 applied in computing the tax liability was that applicable to a banking company. However, in the appeals filed against the original assessments, the full bench of ITAT, in its decision on the issue of application of banking company tax rate held that investment banks are not banking companies and therefore the rate of tax applicable to a public company should be applied. However, the tax authorities has filed appeals before the Honourable High Court regarding determination of status of the investment banks.

During the year 2004, the CIT (A) set aside the amendments made in the assessment orders issued by Taxation officer u/s 122 of the Income Tax Ordinance, 2001, for assessment years 1995-96, 1996-97, 1998-99 to 2001-2002. Appeals are pending with the Income Tax Appellate Tribunal in respect of the said orders against the issue of allocation of expenses between exempt income and taxable income. SIBL is confident that these matters would be decided in its favour and the possibility of any liability arising there against is considered remote. The fiscal year 2005 had no major charge in the tax statutory and the above mentioned appeals are still pending with the authorities.

## 29. EARNINGS PER SHARE-BASIC AND DILUTED

### 29.1 Basic

Profit after Tax	<u>70,638,028</u>	<u>68,030,051</u>
Weighted average number of ordinary shares	<u>37,270,695</u>	<u>37,270,695</u>
Earnings per share	<u>1.90</u>	<u>1.83</u>

### 29.2 Diluted

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

## 30. STAFF STRENGTH

Number of employees at end of the year	<u>30</u>	<u>30</u>
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## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>31. DEFINED BENEFIT PLAN</b>		
<b>31.1 General description</b>		
<p>The scheme provides for terminal benefits for all permanent employees who complete qualifying period of service with Security Investment Bank Limited at varying percentages of last drawn salary. The percentage depends on the number of service years with SIBL.</p> <p>Annual provision is based on actuarial valuation, which was carried out as at December 31, 2004 using the Projected Unit Credit Method.</p>		
<b>31.2 Principal actuarial assumptions</b>		
<p>Following principal actuarial assumptions were used for the valuation.</p>		
Estimated rate of increase in salary of the employees	7.40%	7.40%
Discount rate	9.50%	9.50%
<b>31.3 Reconciliation of provision for gratuity scheme</b>		
Present value of defined benefit obligation	(4,019,955)	(3,737,775)
Unrecognized transitional liability	18,000	19,000
	(4,001,955)	(3,718,775)
<b>31.4 Gratuity Asset/(Liability)</b>		
Provision at beginning of year	(3,718,775)	(3,376,608)
Expense	(768,000)	(690,500)
Benefits paid	484,820	348,333
	(4,001,955)	(3,718,775)
<b>31.4.1 Gratuity scheme expense</b>		
Current service cost	436,000	432,000
Interest Cost	331,000	257,000
Recognition of loss	1,000	1,500
	768,000	690,500

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



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 32. REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	Chief Executive		Directors	
	2005	2004	2005	2004
	-----Rupees-----			
Director's fee	-	-	150,000	-
Managerial remuneration	2,520,000	2,480,000	-	-
Housing	-	-	-	-
Bonus	230,000	230,000	-	-
Utilities	240,000	240,000	-	-
Other benefits	100,000	87,120	-	-
Reimbursable expenses	234,339	111,170	-	-
	<u>3,324,339</u>	<u>3,148,290</u>	<u>150,000</u>	<u>-</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>-</u>

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

### 33. MATURITIES OF ASSETS AND LIABILITIES

DESCRIPTION	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	-----Rupees-----				
<b>Assets</b>					
Tangible fixed assets	2,744,507	-	-	-	2,744,507
Membership card	36,000,000	-	-	-	36,000,000
Long term investment	476,244,904	-	-	-	476,244,904
Deferred tax asset	487,443	-	-	-	487,443
Deferred cost	115,648	-	-	115,648	-
Short term financing	170,634,198	136,066,498	34,567,700	-	-
Short term placements	1,154,645,225	1,154,645,225	-	-	-
Short term investments	289,403,485	147,563,065	3,839,496	84,607,764	53,432,812
Advances and other receivables	68,290,371	2,847,408	35,465,666	29,977,297	-
Cash and bank balances	257,698,952	257,698,952	-	-	-
	<u>2,456,264,733</u>	<u>1,698,821,148</u>	<u>73,872,862</u>	<u>114,700,709</u>	<u>568,909,666</u>
<b>Liabilities</b>					
Deferred liabilities	4,001,955	-	-	-	4,001,955
Borrowings	1,252,500,000	1,150,000,000	102,500,000	-	-
Short term deposits	564,883,949	495,224,725	69,659,224	-	-
Accrued expenses and other liabilities	22,535,170	-	22,535,170	-	-
	<u>1,843,921,074</u>	<u>1,645,224,725</u>	<u>194,694,394</u>	<u>-</u>	<u>4,001,955</u>
<b>Net assets</b>	<u>612,343,659</u>				
<b>Represented by:</b>					
Share capital and reserves	601,632,596				
Surplus on revaluation of investments - net	10,711,063				
	<u>612,343,659</u>				



**NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

DESCRIPTION	2004				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	-----Rupees-----				
<b>Assets</b>					
Tangible fixed assets	768,547	—	—	—	768,547
Membership card	36,000,000	—	—	—	36,000,000
Deferred tax asset	3,564,858	—	—	3,564,858	—
Deferred cost	216,853	—	—	216,853	—
Short term financing	230,480,892	230,480,892	—	—	—
Short term placements	776,105,645	776,105,645	—	—	—
Short term investments	555,803,027	41,105,734	10,999,130	96,304,363	407,393,800
Advances and other receivables	55,507,174	55,507,174	—	—	—
Cash and bank balances	65,069,926	65,069,926	—	—	—
	1,723,516,922	1,168,269,371	10,999,130	100,086,074	444,162,347
<b>Liabilities</b>					
Deferred liabilities	3,718,775	—	—	—	3,718,775
Borrowings	726,242,575	588,742,575	137,500,000	—	—
Short term deposits	447,525,796	362,857,018	84,668,778	—	—
Accrued expenses and other liabilities	14,569,686	14,569,686	—	—	—
	1,192,056,832	966,169,279	222,168,778	—	3,718,775
<b>Net assets</b>	<b>531,460,090</b>				
<b>Represented by:</b>					
Share capital and reserves	530,994,568				
Surplus on revaluation of investments - net	465,522				
	<u>531,460,090</u>				



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 34. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

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

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

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

FINANCE	2005		2004	
	Rupees	%	Rupees	%
Sugar	25,000,000	14.35	25,000,000	10.68
Textile spinning	6,400,000	3.67	6,400,000	2.73
Cables and electric goods	129,666,498	74.43	175,366,498	74.92
Individuals	3,148,298	1.81	3,148,298	1.35
Others	10,000,000	5.74	24,146,694	10.32
	174,214,796	100	234,061,490	100



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 35. INTEREST RATE RISK

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

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



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2004 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
-----Rupees-----					
<b>ASSETS</b>					
Tangible fixed assets	768,547	–	–	–	768,547
Membership card	36,000,000	–	–	–	36,000,000
Deferred tax asset	3,564,858	–	–	–	3,564,858
Deferred costs	216,853	–	–	–	216,853
Short term financing	230,480,892	230,480,892	–	–	–
Short term placements	776,105,645	776,105,645	–	–	–
Investments in government securities	372,394,850	–	–	372,394,850	–
Investment in Wapda Bonds	50,000,000	50,000,000	–	–	–
Investments in TFCs - quoted	94,385,167	13,081,854	46,304,363	34,998,950	–
Investments in shares - quoted	39,023,010	–	–	–	39,023,010
Advances, deposits and other receivable	8,067,233	–	–	–	8,067,233
Prepayments	393,241	–	–	–	393,241
Income tax recoverable	34,364,315	–	–	–	34,364,315
Income receivable	12,682,385	–	–	–	12,682,385
Cash & bank balances	65,069,926	51,089,175	–	–	13,980,751
<b>Total</b>	<b>1,723,516,922</b>	<b>1,120,757,566</b>	<b>46,304,363</b>	<b>407,393,800</b>	<b>149,061,193</b>
<b>SHARE CAPITAL AND RESERVES</b>					
Surplus on revaluation of investments - net	530,994,568	–	–	–	530,994,568
	465,522	–	–	–	465,522
<b>LIABILITIES</b>					
Deposits	447,525,796	447,525,796	–	–	–
Deferred liabilities	3,718,775	–	–	–	3,718,775
Borrowings	726,242,575	726,242,575	–	–	–
Profit accrued on deposits & borrowings	10,851,800	–	–	–	10,851,800
Accrued and other liabilities	3,717,886	–	–	–	3,717,886
<b>Total</b>	<b>1,723,516,922</b>	<b>1,173,768,371</b>	<b>–</b>	<b>–</b>	<b>549,748,551</b>
<b>Total interest rate sensitivity gap</b>		<b>(53,010,805)</b>	<b>46,304,363</b>	<b>407,393,800</b>	<b>(400,687,358)</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>(53,010,805)</b>	<b>(6,706,442)</b>	<b>400,687,358</b>	<b>–</b>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

FINANCIAL ASSETS	2005		2004	
	Book value	Fair value	Book value	Fair value
	-----Rupees-----			
Financing	170,634,198	170,634,198	230,480,892	230,480,892
Placements	1,154,645,225	1,154,645,225	776,105,645	776,105,645
Short term investments	289,403,485	289,403,485	555,803,027	555,803,027
Advances and other receivables	38,313,074	38,313,074	21,142,829	21,142,829
Cash and bank balances	257,698,952	257,698,952	65,069,926	65,069,926
	<u>1,910,694,934</u>	<u>1,910,694,934</u>	<u>1,648,602,319</u>	<u>1,648,602,319</u>
<b>FINANCIAL LIABILITIES</b>				
Deferred liabilities	4,001,955	4,001,955	3,718,775	3,718,775
Borrowings	1,252,500,000	1,252,500,000	726,242,575	726,242,575
Short term deposits	564,883,949	564,883,949	447,525,796	447,525,796
Accrued expenses and other liabilities	22,535,170	22,535,170	14,569,686	14,569,686
	<u>1,843,921,074</u>	<u>1,843,921,074</u>	<u>1,192,056,832</u>	<u>1,192,056,832</u>

As at December 31, 2005, the fair value of all financial instruments is based on the valuation methodology outlined below:

a) **Finances and certificate of deposits**

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

b) **Investments**

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



## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2005

#### c) Other financial instruments

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

#### 37. CASH MANAGEMENT SCHEME

The company has an amount of Rs. 87.5 million (2004: Rs. 87.5 million) as at December 31, 2005, under its Cash Management Scheme, offered to its customers. These funds are invested in various alternatives depending on customer's authority and without any liability on the part of the company.

	2005 Rupees	2004 Rupees
<b>38. TRANSACTIONS WITH RELATED PARTIES</b>		
Financing		
- Associated undertakings	<b>94,195,857</b>	94,195,857
- Others	<b>45,470,641</b>	91,170,641
Return on		
- Associated undertakings	<b>1,945,815</b>	7,133,527
- Others	<b>979,227</b>	6,300,525
Deposits	<b>114,713,922</b>	156,040,004
Return on deposits	<b>3,879,360</b>	5,313,972

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

#### 39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on March 28, 2006.

#### 40. FIGURES

- have been re-arranged for purposes of comparison wherever necessary.
- have been rounded off to the nearest rupee.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman



**SECURITY INVESTMENT BANK LIMITED  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**



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## ***AUDITORS' REPORT TO THE MEMBERS***

We have examined the annexed consolidated financial statements comprising the consolidated balance sheet of Security Investment Bank Limited and its subsidiary company as at December 31, 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, (here-in after referred to as the 'financial statements') for the year then ended. We have also expressed a separate opinion on the financial statements of Security Investment Bank Limited. While the financial statements of the subsidiary company for the half year ended December 31, 2005 have also been reviewed by us in accordance with the International Standard on Review Engagements 2400.

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

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

In our opinion, the consolidated financial statements examined by us, present fairly the financial position of Security Investment Bank Limited and its subsidiary company as at December 31, 2005 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Karachi;  
March 28, 2006

**MUNIFF ZIAUDDIN & CO.**  
Chartered Accountants

**CONSOLIDATED BALANCE SHEET**

AS AT DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>NON - CURRENT ASSETS</b>			
Tangible fixed assets	5	3,153,963	768,547
Stock exchange membership card - intangible	6	36,000,000	36,000,000
Long term investments	7	376,244,904	–
Deferred tax asset	8	487,443	3,564,858
Deferred cost	9	509,083	216,853
<b>CURRENT ASSETS</b>			
Short term financing	10	170,634,198	230,480,892
Short term placements	11	1,154,645,225	776,105,645
Short term investments	12	289,403,485	555,803,027
Advances, deposits, prepayments and other receivables	13	66,349,224	55,507,174
Cash and bank balances	14	259,708,952	65,069,926
		<b>1,940,741,084</b>	<b>1,682,966,664</b>
		<b>2,357,136,477</b>	<b>1,723,516,922</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Authorised Capital</b>			
50,000,000 ordinary shares of Rs. 10/- each		<b>500,000,000</b>	500,000,000
Issued, subscribed and paid up capital	15	<b>372,706,950</b>	372,706,950
Statutory reserve	16	<b>99,460,611</b>	85,109,274
Unappropriated profit		<b>130,583,692</b>	73,178,344
		<b>602,751,253</b>	530,994,568
Surplus on revaluation of investments-net	17	<b>10,711,063</b>	465,522
<b>NON - CURRENT LIABILITIES</b>			
Deferred liabilities	18	<b>4,001,955</b>	3,718,775
<b>CURRENT LIABILITIES</b>			
Borrowings	19	<b>1,252,500,000</b>	726,242,575
Short term deposits	20	<b>464,824,344</b>	447,525,796
Accrued and other liabilities	21	<b>22,347,862</b>	14,569,686
		<b>1,739,672,206</b>	1,188,338,057
<b>Contingencies and Commitments</b>	22		
		<b>2,357,136,477</b>	<b>1,723,516,922</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman



**CONSOLIDATED PROFIT & LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Note	2005 Rupees	2004 Rupees
<b>INCOME</b>			
Return on financing and placements	23	99,255,963	54,037,807
Return on Securities	24	53,642,499	59,424,515
Gain on sale of investments		23,622,172	34,844,173
Profit on deposit with banks		11,175,532	537,085
Other income	25	1,585,571	1,634,990
		<b>189,281,737</b>	<b>150,478,570</b>
<b>EXPENDITURE</b>			
Return on deposits and borrowings	26	73,306,656	40,609,213
Operating expenses	27	23,011,458	26,546,759
		<b>96,318,114</b>	<b>67,155,972</b>
<b>PROFIT BEFORE TAXATION</b>		<b>92,963,623</b>	<b>83,322,598</b>
Provision for taxation	28	21,206,938	15,292,547
<b>PROFIT AFTER TAXATION</b>		<b>71,756,685</b>	<b>68,030,051</b>
<b>EARNINGS PER SHARE</b>		<b>1.93</b>	<b>1.83</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
 Chief Executive

**KHURSHEED K. MARKER**  
 Chairman



## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit before taxation	92,963,623	83,322,598
<b>Adjustment for non-cash and other items</b>		
Depreciation	117,715	944,233
Amortization of deferred cost	269,820	117,577
Gain on disposal of shares	(23,622,172)	(34,844,173)
Gain on disposal of fixed assets	-	(182,933)
(Gain)/loss on sale of securities	(83,260)	3,685,881
Provision for gratuity	768,000	690,500
	<u>(22,549,897)</u>	<u>(29,588,915)</u>
<b>Cash Flows From Operating Activities Before Working Capital Changes</b>	<b>70,413,726</b>	<b>53,733,683</b>
Increase in financing and placements (Increase)/decrease in advances, deposits, prepayments and other receivables	<u>(318,692,886)</u> <u>(14,999,729)</u>	<u>(335,401,381)</u> <u>9,306,982</u>
Increase/(decrease) in deposits	17,298,548	(30,661,676)
Increase/(decrease) in borrowings	526,257,425	23,742,575
Increase/(decrease) in accrued and other liabilities	9,084,987	(4,841,298)
	<u>218,948,345</u>	<u>(337,854,798)</u>
Income tax paid	(16,637,070)	(36,362,168)
Gratuity paid	(484,820)	(348,333)
Dividend paid	(1,306,811)	(708,244)
	<u>(18,428,701)</u>	<u>(37,418,745)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>270,933,370</b>	<b>(321,539,860)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,503,132)	(104,236)
(Purchase)/sale of investments (shares)	(70,181,750)	12,187,221
(Purchase)/Sale of securities	(3,047,412)	277,803,707
Investment in Subsidiary	(562,050)	-
Sale proceeds from disposal of fixed assets	-	250,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(76,294,344)</b>	<b>290,136,692</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	-
Net increase/(decrease) in cash and cash equivalents	<u>194,639,026</u>	<u>(31,403,168)</u>
Cash and cash equivalents at the beginning of the year	65,069,926	96,473,094
<b>Cash and cash equivalents at the end of the year</b>	<b>259,708,952</b>	<b>65,069,926</b>

The annexed notes form an integral part of these accounts.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Share Capital (Note 15)	Statutory Reserve (Note 16)	Reserve for Bonus Shares	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at January 01, 2004	324,093,000	71,503,263	–	67,368,254	462,964,517
Net profit for the year	–	–	–	68,030,051	68,030,051
Reserve for issuance of bonus shares	–	–	48,613,950	(48,613,950)	–
Bonus shares issued during the year	48,613,950	–	(48,613,950)	–	–
Appropriations: Statutory Reserve	–	13,606,011	–	(13,606,011)	–
<b>Balance as at December 31, 2004</b>	<b>372,706,950</b>	<b>85,109,274</b>	<b>–</b>	<b>73,178,344</b>	<b>530,994,568</b>
Net profit for the year	–	–	–	71,756,685	71,756,685
Appropriations: Statutory Reserve	–	14,351,337	–	(14,351,337)	–
<b>Balance as at December 31, 2005</b>	<b>372,706,950</b>	<b>99,460,611</b>	<b>–</b>	<b>130,583,692</b>	<b>602,751,253</b>

**MUHAMMAD SALEEM RATHOD**  
 Chief Executive

**KHURSHEED K. MARKER**  
 Chairman



## **CONSOLIDATED NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

### **1. LEGAL STATUS AND OPERATION**

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

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

The parent has a wholly owned subsidiary named SIBL Exchange Company (Private) Limited ("the subsidiary company"). The subsidiary company was incorporated on December 16, 2004 as a private limited company under the Companies Ordinance 1984.

The registered office of the subsidiary company is located at 6th Floor, Madina City Mall, Abdullah Haroon Road, Karachi, where as it has a branch at Ground Floor, Al-Rahim Tower, I.I. Chundrigar Road, Karachi.

### **1.1 BASIS OF CONSOLIDATION**

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

### **2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved International Accounting Standards as applicable in Pakistan and the requirements of the 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 (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

### **3. BASIS OF MEASUREMENT**

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

### **4. SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Change in Accounting Policy**

Consequent to the substitution of the fourth schedule of the Companies Ordinance, 1984 made by Securities and Exchange Commission of Pakistan. SIBL has changed its accounting policy pertaining to recognition of dividends declared subsequent to the year end. As per new policy these are not recognized in the financial statements as liability if declared after year end. Previously, dividends declared subsequent to year end was treated as adjusting event and recognized in the financial



## **CONSOLIDATED NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

statements as liability. The change in accounting policy has been applied retrospectively, in accordance with the benchmark treatment specified in IAS 8 (Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting policies).

During the current year, the company has also changed its accounting policy in respect of valuation of investments classified as held to maturity. According to the new policy, these investments are carried at amortized cost. Previously, these investments were marked to market as per the requirements of SBP's BSD Circular No. 20 dated August 04, 2000 and the related surplus / deficit was shown in the balance sheet below equity. This change has been made to comply with the requirements laid down in the SBP's BSD Circular No. 14 dated September 24, 2004. The change in accounting policy did not have any impact on the profit and loss account for the current and the prior periods. Had the accounting policy not been changed, the deficit on revaluation of investments as at December 31, 2005 would have been reduced by Rs. 21,999,578/- net off deferred tax.

### **Change in Accounting Estimates**

During the current year, the company has changed its accounting estimate for charging depreciation on fixed assets. Previously full year depreciation was being charged in the year of addition and no depreciation was being charged in the year of disposal. From the current year full month depreciation is charged in the month of addition while no depreciation is charged in the month of disposal. Had this change in accounting estimate not been made the depreciation charge for the year would have been higher by Rs. 929,044/-.

#### **4.2 Fixed Assets and Depreciation**

Operating fixed assets are stated at cost less accumulated depreciation.

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

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

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

#### **4.3 Intangible**

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

#### **4.4 Investments in Subsidiary**

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

#### **4.5 Deferred Cost**

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



## **CONSOLIDATED NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

### **4.6 Investments**

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

#### **Held-for-maturity**

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

#### **Available-for-sale**

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

#### **Held-for-trading**

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

In accordance with the BSD Circular No. 10 of 2004 dated 13th July 2004 issued by State Bank of Pakistan, as clarified and amended vide Circulars 11 and 14 of 2004, the Company reclassified its investment in Government Securities from available for sale to held to maturity and deficit on revaluation relating to these investments amounting to Rs. 15,349,237/- net off deferred tax, as at the date of reclassification, was reversed.

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

Subsequent to initial recognition, investments available for sale and investments held for trading for which active market exists, are measured at market value, in accordance with the guidelines contained in the above referred circulars issued by State Bank of Pakistan, using rates quoted on Reuters, stock exchange quotation and brokers' quotations. Any difference between the carrying value and the revalued amount is taken to surplus/(deficit) on revaluation of investments account and shown separately in the balance sheet below shareholders' equity, until realised on disposal. At the time of disposal the respective surplus or deficit is transferred to income currently.

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

### **4.7 Securities under repurchase / resale agreement**

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

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





## **CONSOLIDATED NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

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

### **4.8 Trade and Settlement date accounting**

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

### **4.9 Staff retirement benefits**

#### **4.9.1 Defined contribution plan**

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

#### **4.9.2 Defined benefit plan**

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

### **4.10 Offsetting of financial assets and financial liabilities**

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

### **4.11 Financial instruments**

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

### **4.12 Classification of deposits and financing**

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

### **4.13 Revenue**

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



## **CONSOLIDATED NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2005

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

Income from capital gains is recognized on earned basis.

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

### **4.14 Taxation**

#### **Current**

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

#### **Deferred**

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

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

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

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

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

### **4.15 Foreign currencies**

Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing on the balance sheet date.

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

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

### **4.16 Provision for doubtful debts - on financing**

Provision is made against doubtful receivables in pursuance of Securities and Exchange Commission of Pakistan's prudential regulations for Non Banking Finance Companies.



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 5. TANGIBLE FIXED ASSETS

(In Rupees)

PARTICULARS	C O S T				RATE %	D E P R E C I A T I O N				Written down Value as at Dec. 31, 2005
	As at Jan. 01, 2005	Additions	Deletions	As at Dec. 31, 2005		As at Jan. 01, 2005	Charge for the year	Adjustment	As at Dec. 31, 2005	
Furniture & fixtures	2,934,800	-	-	2,934,800	10	2,862,553	74,823	(48,479)	2,888,897	45,903
Computers and equipments	2,981,425	292,470	-	3,273,895	20	2,785,113	239,158	(295,307)	2,728,964	544,931
Telephone system	225,496	65,000	-	290,496	10	164,185	10,637	(4,012)	170,810	119,686
Vehicles	4,147,045	2,000,650	-	6,147,695	20	3,716,251	696,610	(527,385)	3,885,476	2,262,219
Generator	497,148	-	-	497,148	10	496,715	7,715	(43,928)	460,502	36,646
Sign board	149,000	145,012	-	294,012	10	141,550	17,817	(9,933)	149,434	144,578
<b>Rupees 2005</b>	<b>10,934,914</b>	<b>2,503,132</b>	<b>-</b>	<b>13,438,046</b>		<b>10,166,367</b>	<b>1,046,760</b>	<b>(929,044)</b>	<b>10,284,083</b>	<b>3,153,963</b>
Rupees 2004	11,501,340	104,236	670,662	10,934,914		9,825,729	944,233	603,595	10,166,367	768,547

5.1 Cost and accumulated depreciation as at the end of the year include Rs. 6,403,517/- (2004: 6,308,323/-) in respect of fully depreciated assets still in use.



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>6. STOCK EXCHANGE MEMBERSHIP CARD-Intangible</b>			
Corporate membership of Karachi Stock Exchange		<u>36,000,000</u>	<u>36,000,000</u>
<b>7. LONG TERM INVESTMENTS</b>			
Pakistan Investment Bonds - Held to Maturity	7.1	<u>376,244,904</u>	<u>—</u>
		<u>376,244,904</u>	<u>—</u>
<b>7.1 Pakistan Investment Bonds</b>			
Cost		380,009,784	—
Less: Amortization		<u>3,764,880</u>	<u>—</u>
		<u>376,244,904</u>	<u>—</u>
<p>These represent investment in 10 and 20 year bonds issued by the Government of Pakistan carrying markup rates (coupon rate) of 9% to 11% per annum (2004: 9% to 11%). Their period to maturity range from six to eighteen and a half years. These are held by other financial institutions as security under Repurchase Transactions.</p>			
<b>8. DEFERRED TAX ASSET</b>			
Deferred tax assets arising in respect of			
Surplus/(deficit) on revaluation of securities		—	2,665,227
Accelerated depreciation		353,178	821,025
Provision for gratuity		169,687	119,758
		<u>522,865</u>	<u>3,606,010</u>
Deferred tax liabilities arising due to			
Deferred cost		<u>(35,422)</u>	<u>(41,152)</u>
		<u>487,443</u>	<u>3,564,858</u>
<b>9. DEFERRED COST</b>			
Opening balance		778,903	334,430
Amortized during the year		<u>(269,820)</u>	<u>(117,577)</u>
		<u>509,083</u>	<u>216,853</u>



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 10. SHORT TERM FINANCING-secured (considered good)

Demand finance	10.1	<b>174,214,796</b>	234,061,490
Provision for non-performing loans	10.2	<b>(3,580,598)</b>	(3,580,598)
		<b>170,634,198</b>	230,480,892

10.1 These are secured by demand promissory notes, hypothecation or charge on assets of customers and certificates of deposits. The mark-up rates range from 7% to 16% per annum (2004: 6% to 16% per annum).

#### 10.2 Particulars of provision against non-performing loans

Opening balance		<b>3,580,598</b>	3,580,598
(Reversal) or write-off during the year		—	—
		<b>3,580,598</b>	3,580,598

### 11. SHORT TERM PLACEMENTS - considered good

With financial institutions - unsecured	11.1	<b>765,000,000</b>	100,000,000
Under reverse repurchase agreements of government securities - secured		—	100,000,000
Under reverse repurchase agreements of quoted shares - secured	11.2	<b>389,645,225</b>	576,105,645
		<b>1,154,645,225</b>	776,105,645

11.1 These represent placements with Financial Institution on short term basis upto 3 months carrying mark-up ranging from 10.25% to 12% (2004: 7.50% and 8.50%) per annum.

11.2 This represents secured placements against shares carrying mark-up ranging from 12% to 18% (2004: 14% to 18%) per annum.

### 12. SHORT TERM INVESTMENTS

#### Available for Sale

Pakistan Investment Bonds	12.1	—	372,394,850
Wapda Bonds - 10th issue	12.1	<b>50,000,000</b>	50,000,000
Term Finance - Certificates	12.1	<b>91,840,420</b>	94,385,167
Quoted shares	12.2	<b>139,075,467</b>	39,023,010
		<b>280,915,887</b>	555,803,027

#### Held for Trading

Quoted shares	12.3	<b>8,487,598</b>	—
		<b>289,403,485</b>	555,803,027



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 12.1 Securities given as collateral under repurchase agreement.

Particulars of investments by type	Note	2005			2004		
		Held by SIBL	Given as collateral	Total	Held by SIBL	Given as collateral	Total
		-----Rupees-----			-----Rupees-----		
Pakistan Investment Bonds		–	–	–	53,952,950	318,441,900	372,394,850
Wapda Bonds - 10th issue	12.1.1	<b>50,000,000</b>	–	<b>50,000,000</b>	10,000,000	40,000,000	50,000,000
Term Finance Certificates	12.1.2	<b>91,840,420</b>	–	<b>91,840,420</b>	47,898,667	46,486,500	94,385,167

12.1.1 These include 10,000 certificates of unlisted bonds having face value of Rs. 5,000/- each with income receivable semi-annually at 8.75% (2004: 7.25%) per annum, having 5 years maturity period.

#### 12.1.2 Particulars of listed Term Finance Certificates (TFC):

No. of Certificates	2005	2004	Issuer of TFC	2005		2004	
				Cost	Market value	Cost	Market value
				-----Rupees-----			
2,022	2,022		Shakarganj Sugar Mills Limited	4,041,573	3,839,496	8,083,147	8,286,842
1,588	1,588		Bank Al-Falah Limited	7,930,472	7,970,123	7,933,648	8,638,158
4,534	4,534		Union Bank Limited	22,642,796	22,756,009	22,651,864	24,896,648
7,000	7,000		Pakistan International Airlines	34,123,635	29,687,562	34,998,950	34,998,950
897	897		Pakistan Services Limited	3,841,979	3,841,980	4,483,206	4,483,206
5,000	–		TeleCard Limited	24,995,000	23,745,250	–	–
–	3,300		Atlas Investment Bank Limited	–	–	5,495,589	5,862,694
–	4,000		Al-Noor Sugar Mills Limited	–	–	4,998,000	5,135,945
–	1,000		Orix Leasing Pakistan Limited	–	–	2,035,500	2,082,724
				<b>97,575,455</b>	<b>91,840,420</b>	<b>90,679,904</b>	<b>94,385,167</b>



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

Terms of redemption of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption Terms
Shakarganj Sugar Mills Ltd.	5,000	2.00% over SBP discount rate with 12.25% per annum as floor and 15.75% per annum as ceiling	Semi-annually	Four years from September 27, 2002
Bank Al-Falah Limited	5,000	1.35% over last auction of five years Pakistan Investment Bonds yield with 10.00% per annum as floor and 15% as ceiling	Semi-annually	Six years from December 19, 2002
Union Bank Limited	5,000	2.25% over last auction of five years Pakistan Investment Bonds yield with 11.00% per annum as floor and 15.50% per annum as ceiling	Semi-annually	Five and half year from December 22, 2002
Pakistan International Airlines	5,000	0.50% over SBP discount rate with 8.00% per annum as floor and 12.50% per annum as ceiling	Semi-annually	Eight years from February 20, 2003
Pakistan Services Limited	5,000	2.25% over SBP discount rate with 9.75% per annum as floor and 13.75% per annum as ceiling	Semi-annually	Five years from November 12, 2003
TeleCard Limited	5,000	3.75% over 6 months KIBOR	Semi-annually	Six years from May 27, 2005



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 12.2 Quoted shares

No. of ordinary shares certificates/units			2005		2004	
			Cost	Market Value	Cost	Market Value
2005	2004		-----Rupees-----			
<b>Modarabas/Mutual funds</b>						
1,389,697	1,389,697	ABAMCO Composite Fund	13,896,970	13,271,606	13,896,970	11,812,425
71,764	71,764	ABAMCO Stock Market Fund	1,085,040	1,151,812	1,085,040	846,815
3,000	–	PICIC Growth Fund	132,513	148,800	–	–
13,046	98,437	Pakistan Premium Fund	90,189	201,561	850,630	1,348,585
500	500	Long Term Venture Modaraba	800	225	800	750
<b>Leasing</b>						
40,353	36,685	Saudi Pak Leasing	1,450,590	550,818	1,450,590	498,916
<b>Investment Banks / Cos. / Banks</b>						
156,479	66	National Bank of Pakistan	19,558,672	31,209,737	501	5,303
41,200	–	Bank of Punjab	3,011,940	4,220,940	–	–
13,750	125	Bank Alfalah Limited	617,991	1,014,063	–	4,819
12,650	–	Faysal Bank Limited	524,430	937,365	–	–
–	1,500	Jahangir Siddiqui & Company Ltd.	–	–	140,850	131,925
–	1,437	Banker's Equity Limited	–	–	37,500	–
<b>Insurance</b>						
–	10,504	Adamjee Insurance Company Ltd.	–	–	731,100	689,062
<b>Synthetic and Rayon</b>						
5,750	10,750	Dewan Salman Fibre Limited	144,953	92,000	271,000	200,488
18,750	18,750	Pakistan Synthetics Limited	688,500	173,438	688,500	331,875
<b>Cement</b>						
26,541	19,541	D.G. Khan Cement	1,741,441	2,829,270	1,095,132	1,069,870
768	56,875	Cherat Cement	38,463	67,776	3,699,656	4,222,969
57,200	36,000	Maple Leaf Cement	1,188,226	1,934,040	1,120,000	1,112,400
2,875	375	Lucky Cement	214,117	241,212	13,727	15,244





## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

No. of ordinary shares certificates/units			2005		2004	
			Cost	Market Value	Cost	Market Value
2005	2004		-----Rupees-----			
		<b>Fuel and Energy</b>				
334,829	151,229	Oil and Gas Development Co. Ltd.	35,212,977	39,509,822	4,840,840	11,334,614
15,200	–	Pakistan Oilfields Limited	4,373,060	6,505,600	–	–
75,000	40,000	Hub Power Company Limited	2,489,106	1,800,000	1,439,750	1,284,000
6,000	–	Japan Power Generation	32,704	40,500	–	–
45,000	–	Karachi Electric Supply Corporation	363,411	346,500	–	–
97,000	92,000	Sui Southern Gas Company Limited	2,971,554	2,594,750	3,282,446	2,382,800
3,500	–	Sui Northern Gas Pipelines Limited	226,210	238,000	–	–
–	1,500	Pakistan State Oil Company Ltd.	–	–	407,021	430,125
		<b>Automobiles and Transport</b>				
5,250	5,250	Dewan Farooque Motors Limited	197,000	175,350	197,000	131,775
45,000	80,000	Pakistan International Airlines Corporation	900,481	553,500	1,967,242	1,096,000
		<b>Technology and Communication</b>				
330,000	–	Pakistan Telecommunication Co. Limited	24,725,017	21,582,000	–	–
55,000	5,000	TRG Pakistan Limited	755,171	728,750	88,750	64,250
		<b>Fertilizer</b>				
40,586	–	Fauji Fertilizer Company Limited	4,070,652	5,560,282	–	–
10,000	–	Fauji Fertilizer Bin Qasim	386,539	381,500	–	–
		<b>Chemical</b>				
125,000	–	Pakistan PTA	1,532,653	1,006,250	–	–
		<b>Sugar &amp; Allied Industries</b>				
100	100	Hamza Sugar	8,000	8,000	8,000	8,000
			<b>122,629,370</b>	<b>139,075,467</b>	<b>37,313,045</b>	<b>39,023,010</b>

- 12.3 These represents shares purchased and simultaneously sold in futures market with settlement date subsequent to year end, with a view to generate a spread on the transaction.



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

		2005 Rupees	2004 Rupees
<b>13. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
<b>Advances</b>			
For expenses		522,408	190,253
For office premises		2,500,000	2,100,000
Advance income tax less payments and provision for tax		30,206,666	34,364,345
		<b>33,229,074</b>	36,654,598
<b>Deposits</b>			
Security		2,645,288	2,086,789
KSE exposure limits		6,000,000	-
High Court	13.1	2,566,112	2,566,112
		<b>11,211,400</b>	4,652,901
<b>Prepayments</b>		<b>356,310</b>	393,241
<b>Other receivables</b>			
Income receivable	13.2	21,523,440	12,682,355
Other receivables		29,000	1,124,079
		<b>21,552,440</b>	13,806,434
		<b>66,349,224</b>	55,507,174

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

### 13.2 Income receivable

Not due	13.2.1	21,931,634	13,090,549
Provision for doubtful debts		(408,194)	(408,194)
		<b>21,523,440</b>	12,682,355

13.2.1 This represents income on financing, placements and government securities not matured/due on December 31, 2005.



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>14. CASH AND BANK BALANCES</b>			
With State Bank of Pakistan in:			
Reserve account	14.1	6,725,000	5,725,000
Current account		3,670,423	3,382,108
		<b>10,395,423</b>	9,107,108
With other banks in:			
Current accounts		18,817,907	4,860,956
Deposit accounts		230,486,771	51,089,175
		<b>249,304,678</b>	55,950,131
Cash in hand		8,851	12,687
		<b>259,708,952</b>	65,069,926

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

14.2 Rate of return on these deposits accounts range from 3.5% to 11.25% per annum (2004: 3.00% to 3.5% per annum).

## 15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

Number of shares				
2005	2004			
23,552,000	23,552,000	Ordinary shares of Rs. 10/- each fully paid in cash	235,520,000	235,520,000
13,718,695	13,718,695	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	137,186,950	137,186,950
<b>37,270,695</b>	<b>37,270,695</b>		<b>372,706,950</b>	<b>372,706,950</b>

## 16. STATUTORY RESERVE

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



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

		2005 Rupees	2004 Rupees
<b>17. SURPLUS ON REVALUATION OF INVESTMENTS - Net</b>			
Government Securities		–	(7,614,934)
Term Finance Certificates		<u>(5,735,035)</u>	<u>3,705,264</u>
		<b>(5,735,035)</b>	<b>(3,909,670)</b>
Related deferred tax asset / (liability)		–	<u>2,665,227</u>
		<b>(5,735,035)</b>	<b>(1,244,443)</b>
Quoted shares		<b>16,446,098</b>	1,709,965
		<b>10,711,063</b>	<u>465,522</u>
<b>18. DEFERRED LIABILITY</b>			
Gratuity-unfunded		<b>4,001,955</b>	3,718,775
		<b>4,001,955</b>	<u>3,718,775</u>
<b>19. BORROWINGS</b>			
Secured under repurchase agreements against			
Government Securities	19.1	<b>300,000,000</b>	400,000,000
Term Finance Certificates		–	63,742,575
		<b>300,000,000</b>	463,742,575
Unsecured from			
Financial Institutions	19.2	<b>865,000,000</b>	175,000,000
Cash Management Accounts	19.3	<b>87,500,000</b>	87,500,000
		<b>952,500,000</b>	262,500,000
		<b>1,252,500,000</b>	<u>726,242,575</u>

19.1 This represents amount borrowed from financial institutions at mark-up rates ranging from 8.40% to 8.75% per annum (2004: 3.50% to 4.50% per annum) and having maturity period upto 3 months. These are secured against Pakistan Investment Bonds sold under repurchase agreements.



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

19.2 These carry mark-up ranging from 9.7% to 10.5% per annum (2004: 5.00% to 6.25% per annum) and having maturity period of upto 3 months.

19.3 These have been obtained from cash management account holders and carries mark-up rate of 6.00% per annum (2004: 6.00% per annum).

		2005 Rupees	2004 Rupees
<b>20. SHORT TERM DEPOSITS</b>			
Local currency	20.1	<u>464,824,344</u>	<u>447,525,796</u>

20.1 These include deposits with maturity ranging from one month to twelve months. The rate of return on these deposits range from 5% to 10.1% per annum (2004: 2% to 10%).

## 21. ACCRUED AND OTHER LIABILITIES

Accrued expenses			
Return on borrowings - unsecured		10,734,809	2,152,928
Return on deposits		5,044,126	5,681,620
Profit accrued on special US\$ bonds		3,278	3,278
Mark-up on Repo against TFCs/PIBs		3,347,000	2,562,485
Others		732,059	454,767
		<b>19,861,272</b>	10,855,078
Other liabilities			
Unclaimed dividend		2,234,585	3,541,396
Others		252,005	173,212
		<b>2,486,590</b>	3,714,608
		<u><b>22,347,862</b></u>	<u>14,569,686</u>

## 22. CONTINGENCIES AND COMMITMENTS

Contingencies			
Guarantees issued on behalf of customer		<u>17,100,000</u>	<u>—</u>
Commitments			
Future sale contract - Shares		<u>8,628,950</u>	<u>—</u>



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>23. RETURN ON FINANCING AND PLACEMENTS</b>		
<b>Financing</b>		
Demand finance	16,589,627	19,093,422
<b>Placements</b>		
Unsecured	8,903,004	3,220,786
Secured against reverse repurchase agreements of:		
Government securities	3,339,623	685,627
Quoted shares	70,423,709	31,037,972
	<u>99,255,963</u>	<u>54,037,807</u>
<b>24. RETURN ON SECURITIES</b>		
Return on Government Securities	33,343,243	44,333,207
Return on TFCs	15,497,361	16,733,003
	48,840,604	61,066,210
Gain/(loss) on sale of government securities	83,260	(3,685,881)
Dividend Income	4,718,635	2,044,186
	<u>53,642,499</u>	<u>59,424,515</u>
<b>25. OTHER INCOME</b>		
Gain on sale of fixed assets	-	182,933
Commission	95,403	223,522
Miscellaneous	1,490,168	1,228,535
	<u>1,585,571</u>	<u>1,634,990</u>
<b>26. RETURN ON DEPOSITS AND BORROWINGS</b>		
Return on deposits	19,038,010	14,657,024
Return on borrowings	29,604,608	12,793,680
Return on repurchase agreement borrowings (repo)	24,664,038	13,158,509
	<u>73,306,656</u>	<u>40,609,213</u>



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 Rupees	2004 Rupees
<b>27. OPERATING EXPENSES</b>			
Salaries, wages and other benefits		9,756,645	9,596,223
Contribution to provident fund		520,470	546,671
Gratuity scheme expenses		768,000	690,500
Rent, rates and taxes		1,857,908	1,758,876
Telephone, telex and fax		780,218	1,096,132
Electricity, water and gas		616,477	661,876
Printing, postage and stationery		481,007	471,262
Insurance		375,424	413,659
Fees and membership		671,342	811,357
Brokerage and Commission		3,036,910	3,880,663
Central Depository Company charges		796,020	2,351,134
Auditors' remuneration	27.1	305,850	231,500
Legal and professional fees		535,933	1,164,400
Vehicle running and maintenance		760,301	541,553
Repairs and maintenance		472,302	215,003
Advertisement		299,983	365,179
Travelling and conveyance		156,261	154,371
Depreciation (refer note 5)		117,715	944,233
Amortization of deferred cost (refer note 9)		269,820	117,577
Bank charges		124,466	113,560
Old age benefit		42,750	47,250
Books periodicals & newspapers		24,802	37,536
Other Expenses		240,854	336,244
		23,011,458	26,546,759
<b>27.1 Auditor's remuneration</b>			
Statutory audit fee		181,000	150,000
Half yearly review and other certificates		121,000	60,000
Out of pocket expenses		3,850	21,500
		305,850	231,500
<b>28. PROVISION FOR TAXATION</b>			
<b>Current</b>			
for the year	28.1	20,794,750	15,248,347
<b>Deferred</b>			
- opening balance		899,631	943,831
- for the year		(487,443)	(899,631)
		412,188	44,200
		21,206,938	15,292,547



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>28.1 Relationship between tax expense and accounting profit</b>		
Profit for the year from ordinary activities before taxation	<u>91,844,966</u>	<u>83,322,598</u>
Tax at the applicable rate of 35% (December 31, 2004: 35%)	<u>32,145,738</u>	<u>29,162,909</u>
Tax effect of expenses that are not allowable in determining taxable income	<u>(1,667,638)</u>	<u>(1,105,845)</u>
Tax effect of dividend income taxed at a lower rate	<u>(1,415,590)</u>	<u>(613,256)</u>
Tax effect of capital gains exempt from tax	<u>(8,267,760)</u>	<u>(12,195,461)</u>
Tax charge	<u>20,794,750</u>	<u>15,248,347</u>

The provision for taxation has been computed at the rate applicable to a public company. In the original assessments made by the Taxation Officer formerly Deputy Commissioner of Income Tax (DCIT), the rate for the assessment years 1992-1993, 1995-1996 & 1997-1998 applied in computing the tax liability was that applicable to a banking company. However, in the appeals filed against the original assessments, the full bench of ITAT, in its decision on the issue of application of banking company tax rate held that investment banks are not banking companies and therefore the rate of tax applicable to a public company should be applied. However, the tax authorities has filed appeals before the Honourable High Court regarding determination of status of the investment banks.

During the year 2004, the CIT (A) set aside the amendments made in the assessment orders issued by Taxation officer u/s 122 of the Income Tax Ordinance, 2001, for assessment years 1995-96, 1996-97, 1998-99 to 2001-2002. Appeals are pending with the Income Tax Appellate Tribunal in respect of the said orders against the issue of allocation of expenses between exempt income and taxable income. SIBL is confident that these matters would be decided in its favour and the possibility of any liability arising there against is considered remote. The fiscal year 2005 had no major charge in the tax statutory and the above mentioned appeals are still pending with the authorities.

## 29. EARNINGS PER SHARE-BASIC AND DILUTED

### 29.1 Basic

Profit after Tax	<u>71,756,685</u>	<u>68,030,051</u>
Weighted average number of ordinary shares	<u>37,270,695</u>	<u>37,270,695</u>
Earnings per share	<u>1.93</u>	<u>1.83</u>

### 29.2 Diluted

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

## 30. STAFF STRENGTH

Number of employees at end of the year	<u>30</u>	<u>30</u>
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**CONSOLIDATED NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 Rupees	2004 Rupees
<b>31. DEFINED BENEFIT PLAN</b>		
<b>31.1 General description</b>		
<p>The scheme provides for terminal benefits for all permanent employees who complete qualifying period of service with Security Investment Bank Limited at varying percentages of last drawn salary. The percentage depends on the number of service years with SIBL.</p> <p>Annual provision is based on actuarial valuation, which was carried out as at December 31, 2004 using the Projected Unit Credit Method.</p>		
<b>31.2 Principal actuarial assumptions</b>		
<p>Following principal actuarial assumptions were used for the valuation.</p>		
Estimated rate of increase in salary of the employees	7.40%	7.40%
Discount rate	9.50%	9.50%
<b>31.3 Reconciliation of provision for gratuity scheme</b>		
Present value of defined benefit obligation	(4,019,955)	(3,737,775)
Unrecognized transitional liability	18,000	19,000
	(4,001,955)	(3,718,775)
<b>31.4 Gratuity Asset/(Liability)</b>		
Provision at beginning of year	(3,718,775)	(3,376,608)
Expense	31.4.1 (768,000)	(690,500)
Benefits paid	484,820	348,333
	(4,001,955)	(3,718,775)
<b>31.4.1 Gratuity scheme expense</b>		
Current service cost	436,000	432,000
Interest Cost	331,000	257,000
Recognition of loss	1,000	1,500
	768,000	690,500

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



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 32. REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	Chief Executive		Directors	
	2005	2004	2005	2004
	-----Rupees-----			
Director's fee	-	-	150,000	-
Managerial remuneration	2,520,000	2,480,000	-	-
Housing	-	-	-	-
Bonus	230,000	230,000	-	-
Utilities	240,000	240,000	-	-
Other benefits	100,000	87,120	-	-
Reimbursable expenses	234,339	111,170	-	-
	<u>3,324,339</u>	<u>3,148,290</u>	<u>150,000</u>	<u>-</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>-</u>

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

### 33. MATURITIES OF ASSETS AND LIABILITIES

DESCRIPTION	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	-----Rupees-----				
<b>Assets</b>					
Tangible fixed assets	3,153,963	-	-	-	3,153,963
Membership card	36,000,000	-	-	-	36,000,000
Long term investment	376,244,904	-	-	-	376,244,904
Deferred tax asset	487,443	-	-	-	-
Deferred cost	509,083	-	-	509,083	-
Short term financing	170,634,198	136,066,498	34,567,700	-	-
Short term placements	1,154,645,225	-	-	-	-
Short term investments	289,403,485	147,563,065	3,839,496	84,607,764	53,432,812
Advances and other receivables	66,349,224	3,022,408	33,120,150	30,206,666	-
Cash and bank balances	259,708,952	259,708,952	-	-	-
	<u>2,357,136,477</u>	<u>546,360,923</u>	<u>71,527,346</u>	<u>115,323,513</u>	<u>468,831,679</u>
<b>Liabilities</b>					
Deferred liabilities	4,001,955	-	-	-	4,001,955
Borrowings	1,252,500,000	1,150,000,000	102,500,000	-	-
Short term deposits	464,824,344	495,224,725	69,659,224	-	-
Accrued expenses and other liabilities	22,347,862	-	22,347,862	-	-
	<u>1,743,674,161</u>	<u>1,645,224,725</u>	<u>194,507,086</u>	<u>-</u>	<u>4,001,955</u>
<b>Net assets</b>	<u>613,462,316</u>				
<b>Represented by:</b>					
Share capital and reserves	602,751,253				
Surplus on revaluation of investments - net	10,711,063				
	<u>613,462,316</u>				



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

DESCRIPTION	2004				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
-----Rupees-----					
<b>Assets</b>					
Tangible fixed assets	768,547	—	—	—	768,547
Membership card	36,000,000	—	—	—	36,000,000
Deferred tax asset	3,564,858	—	—	3,564,858	—
Deferred cost	216,853	—	—	216,853	—
Short term financing	230,480,892	230,480,892	—	—	—
Short term placements	776,105,645	776,105,645	—	—	—
Short term investments	555,803,027	41,105,734	10,999,130	96,304,363	407,393,800
Advances and other receivables	55,507,174	55,507,174	—	—	—
Cash and bank balances	65,069,926	65,069,926	—	—	—
	1,723,516,922	1,168,269,371	10,999,130	100,086,074	444,162,347
<b>Liabilities</b>					
Deferred liabilities	3,718,775	—	—	—	3,718,775
Borrowings	726,242,575	588,742,575	137,500,000	—	—
Short term deposits	447,525,796	362,857,018	84,668,778	—	—
Accrued expenses and other liabilities	14,569,686	14,569,686	—	—	—
	1,192,056,832	966,169,279	222,168,778	—	3,718,775
<b>Net assets</b>	<b>531,460,090</b>				
<b>Represented by:</b>					
Share capital and reserves	530,994,568				
Surplus on revaluation of investments - net	465,522				
	<u>531,460,090</u>				



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 34. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

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

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

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

FINANCE	2005		2004	
	Rupees	%	Rupees	%
Sugar	25,000,000	14.35	25,000,000	10.68
Textile spinning	6,400,000	3.67	6,400,000	2.73
Cables and electric goods	129,666,498	74.43	175,366,498	74.92
Individuals	3,148,298	1.81	3,148,298	1.35
Others	10,000,000	5.74	24,146,694	10.32
	174,214,796	100	234,061,490	100



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 35. INTEREST RATE RISK

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

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



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2004 can be evaluated from the following:

Description	Total	Exposed to Interest Rate /Yield Risk			Not Exposed to Interest Rate/Yield Risk
		Within one year	More than one year & upto five years	Above five years	
-----Rupees-----					
<b>ASSETS</b>					
Tangible fixed assets	768,547	–	–	–	768,547
Membership card	36,000,000	–	–	–	36,000,000
Deferred tax asset	3,564,858	–	–	–	3,564,858
Deferred costs	216,853	–	–	–	216,853
Short term financing	230,480,892	230,480,892	–	–	–
Short term placements	776,105,645	776,105,645	–	–	–
Investments in government securities	372,394,850	–	–	372,394,850	–
Investment in Wapda Bonds	50,000,000	50,000,000	–	–	–
Investments in TFCs - quoted	94,385,167	13,081,854	46,304,363	34,998,950	–
Investments in shares - quoted	39,023,010	–	–	–	39,023,010
Advances, deposits and other receivable	8,067,233	–	–	–	8,067,233
Prepayments	393,241	–	–	–	393,241
Income tax recoverable	34,364,315	–	–	–	34,364,315
Income receivable	12,682,385	–	–	–	12,682,385
Cash & bank balances	65,069,926	51,089,175	–	–	13,980,751
<b>Total</b>	<b>1,723,516,922</b>	<b>1,120,757,566</b>	<b>46,304,363</b>	<b>407,393,800</b>	<b>149,061,193</b>
<b>SHARE CAPITAL AND RESERVES</b>					
Surplus on revaluation of investments - net	530,994,568	–	–	–	530,994,568
	465,522	–	–	–	465,522
<b>LIABILITIES</b>					
Deposits	447,525,796	447,525,796	–	–	–
Deferred liabilities	3,718,775	–	–	–	3,718,775
Borrowings	726,242,575	726,242,575	–	–	–
Profit accrued on deposits & borrowings	10,851,800	–	–	–	10,851,800
Accrued and other liabilities	3,717,886	–	–	–	3,717,886
<b>Total</b>	<b>1,723,516,922</b>	<b>1,173,768,371</b>	<b>–</b>	<b>–</b>	<b>549,748,551</b>
<b>Total interest rate sensitivity gap</b>		<b>(53,010,805)</b>	<b>46,304,363</b>	<b>407,393,800</b>	<b>(400,687,358)</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>(53,010,805)</b>	<b>(6,706,442)</b>	<b>400,687,358</b>	<b>–</b>



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

FINANCIAL ASSETS	2005		2004	
	Book value	Fair value	Book value	Fair value
	-----Rupees-----			
Financing	170,634,198	170,634,198	230,480,892	230,480,892
Placements	1,154,645,225	1,154,645,225	776,105,645	776,105,645
Short term investments	289,403,485	289,403,485	555,803,027	555,803,027
Advances and other receivables	36,142,558	36,142,558	21,142,829	21,142,829
Cash and bank balances	259,708,952	259,708,952	65,069,926	65,069,926
	<u>1,910,534,418</u>	<u>1,910,534,418</u>	<u>1,648,602,319</u>	<u>1,648,602,319</u>
<b>FINANCIAL LIABILITIES</b>				
Deferred liabilities	4,001,955	4,001,955	3,718,775	3,718,775
Borrowings	1,252,500,000	1,252,500,000	726,242,575	726,242,575
Short term deposits	464,824,344	464,824,344	447,525,796	447,525,796
Accrued expenses and other liabilities	22,347,862	22,347,862	14,569,686	14,569,686
	<u>1,743,674,161</u>	<u>1,743,674,161</u>	<u>1,192,056,832</u>	<u>1,192,056,832</u>

As at December 31, 2005, the fair value of all financial instruments is based on the valuation methodology outlined below:

a) **Finances and certificate of deposits**

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

b) **Investments**

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



## CONSOLIDATED NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2005

### c) Other financial instruments

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

### 37. CASH MANAGEMENT SCHEME

The company has an amount of Rs. 87.5 million (2004: Rs. 87.5 million) as at December 31, 2005, under its Cash Management Scheme, offered to its customers. These funds are invested in various alternatives depending on customer's authority and without any liability on the part of the company.

	2005 Rupees	2004 Rupees
<b>38. TRANSACTIONS WITH RELATED PARTIES</b>		
Financing		
- Associated undertakings	<b>94,195,857</b>	94,195,857
- Others	<b>45,470,641</b>	91,170,641
Return on		
- Associated undertakings	<b>1,945,815</b>	7,133,527
- Others	<b>979,227</b>	6,300,525
Deposits	<b>114,713,922</b>	156,040,004
Return on deposits	<b>3,879,360</b>	5,313,972

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

### 39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on March 28, 2006.

### 40. FIGURES

- have been re-arranged for purposes of comparison wherever necessary.
- have been rounded off to the nearest rupee.

**MUHAMMAD SALEEM RATHOD**  
Chief Executive

**KHURSHEED K. MARKER**  
Chairman





## ***PATTERN OF SHAREHOLDING***

**AS AT DECEMBER 31, 2005**

Number of Shareholders	Shareholding From	To	Total number of shares held	Percentage %
698	1	100	33,342	0.09
723	101	500	185,450	0.50
608	501	1,000	503,390	1.35
320	1,001	5,000	731,871	1.96
61	5,001	10,000	434,298	1.17
18	10,001	15,000	233,481	0.63
14	15,001	20,000	226,839	0.61
2	20,001	25,000	48,109	0.13
3	25,001	30,000	81,958	0.22
8	35,001	40,000	186,917	0.50
3	40,001	45,000	127,350	0.34
1	45,001	50,000	49,693	0.13
2	50,001	55,000	110,000	0.30
1	55,001	60,000	59,674	0.16
1	70,001	75,000	70,833	0.19
1	75,001	80,000	76,000	0.20
1	85,001	90,000	88,903	0.24
1	100,001	105,000	100,275	0.27
1	120,001	125,000	122,992	0.33
1	135,001	140,000	135,403	0.36
1	245,001	250,000	249,276	0.67
1	250,001	255,000	254,152	0.68
1	255,001	260,000	774,356	2.08
1	270,001	275,000	272,075	0.73
1	315,001	320,000	317,042	0.85
1	665,001	670,000	665,103	1.78
1	785,001	790,000	789,783	2.12
2	805,001	810,000	1,615,062	4.33
1	850,001	855,000	854,045	2.29
1	1,320,001	1,325,000	1,322,500	3.55
2	1,610,001	1,615,000	3,226,900	8.66
1	1,165,001	1,620,000	1,617,741	4.34
1	1,735,001	1,740,000	1,738,803	4.67
1	1,930,001	1,935,000	1,931,233	5.18
1	2,025,001	2,030,000	2,026,170	5.44
1	2,640,001	2,645,000	2,645,000	7.10
1	3,350,001	3,355,000	3,350,666	8.99
1	4,720,001	4,725,000	4,724,010	12.67
1	5,285,001	5,290,000	5,290,000	14.19
<b>2,489</b>			<b>37,270,695</b>	<b>100.00</b>

Categories of Shareholders	Number	Shares Held	Percentage
COOPERATIVE SOCIETIES	1	11,000	0.03%
INDIVIDUALS	2,435	31,316,330	84.02%
INVESTMENT COMPANIES	4	2,388	0.01%
INSURANCE COMPANIES	5	301,516	0.81%
JOINT STOCK COMPANIES	34	2,239,637	6.01%
FINANCIAL INSTITUTIONS	7	3,369,542	9.04%
MODARABA COMPANIES	3	30,282	0.08%
	<b>2,489</b>	<b>37,270,695</b>	<b>100%</b>



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

Categories of Shareholders	Shares Held
<b>Individuals</b>	22,788,369
<b>Investment Companies except ICP</b>	958
<b>Public/Private Sector Companies and Corporations</b>	–
<b>Directors, Chief Executive Officer and their spouse and minor children</b>	
1) Khursheed K. Marker	1,693
2) Haji Jan Muhammad	886
3) Haji Abdul Rauf	2,000
4) Muhammad Younus Abdul Aziz Tabba	807,531
5) Muhammad Iqbal Kasbati	1,000
6) Mr. Maqbool H. Rahimtoola (NIT) National Bank of Pakistan, Trustee Department	3,350,666
7) Mr. Muhammad Saleem Rathod	1,693
<b>Investment Corporation of Pakistan</b>	1,236
<b>Associated Companies, Undertakings and Related Parties</b>	–
<b>Banks, DFIs, NBFCs, Insurance Companies, Modarabas and Mutual Funds except National Bank of Pakistan, Trustee Deptt.</b>	301,539
<b>Shareholders holding ten percent or more voting interest</b>	
H.A.R	4,723,817
Amina Bano	5,290,000



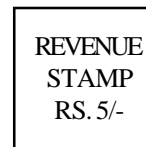
**FORM OF PROXY**

**FIFTEENTH ANNUAL GENERAL MEETING**

I/We .....  
of .....  
a member / members of SECURITY INVESTMENT BANK LIMITED and holding .....  
ordinary shares, as per Register Folio .....  
do hereby appoint .....  
of .....  
to vote for me/us and on my/our behalf at the Fifteenth Annual General Meeting of the Company to be  
held on \_\_\_\_\_ and at any adjournment thereof.

As Witness my/our hand this ..... day of .....2006

Folio No.



SIGNATURE OF MEMBER(S)

**IMPORTANT:**

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

