



Securities & Exchange Commission of Pakistan
Specialized Companies Division

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No. SC/NBFC/D/R/IIBL/2010/34

Islamabad, January 27, 2010

1.	Syed Izaz Jaffery Director / Chairman Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore	2.	Mr. Faqir Syed Jaleel ud Din Bukhari Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore
3.	Mr. Iskandar Muhammad Khan Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore	4.	Mr. Javid Qureshi Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore
5.	Mr. Muhammad Akhtar Bawanay Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore	6.	Mr. Muhammad Hussain Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore
7.	Mr. M. Abdul Muttalib Hashim Director Innovative Investment Bank Limited 4th & 5th Floor, M. M. Tower, 28/A, Block K, Gulberg II, Lahore	8.	Any other Director appointed by the Company but not approved by the Commission

**ORDER UNDER SECTION 282 E AND SECTION 282 F OF THE COMPANIES
ORDINANCE, 1984 (THE "ORDINANCE")**

M/s. Innovative Investment Bank Limited ("IIBL"), a Non- Banking Finance Company ("NBFC") formerly known as Innovative Housing Finance Limited ("IHFL") was incorporated as a public limited company under the Companies Ordinance, 1984 (the "Ordinance") on March 29, 2007 and is licensed by the Securities & Exchange Commission of Pakistan (the "Commission") to undertake the business of investment finance services, leasing and housing finance services.

2. Presently the aforesaid persons formulate the Board of Directors (the "BOD") including Chairman of IIBL;

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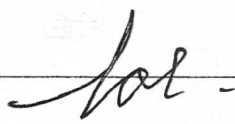
Background:

3. The Commission initiated an on-site inspection into the affairs of Crescent Standard Investment Bank Limited (“CSIBL”) which revealed gross financial irregularities and violations of prevalent regulatory framework. In view of the inspection findings, the Commission superseded the Chief Executive Officer and Board of Directors of CSIBL and appointed an Administrator on August 29, 2006. The mandate of the Administrator was to preserve the assets of CSIBL and to safeguard the interests of all the stakeholders and depositors. The Administrator adopted the strategy to identify parties/groups to acquire CSIBL for its revival so that the depositors may get repaid appropriately. Four parties including Innovative Global Business Group (“IGB Group”) carried out initial due diligence for acquisition and revival of the CSIBL. However, only IGB Group submitted a Revival Plan for the takeover and revival of CSIBL.

4. Salient features of Revival Plan presented by IGB Group were as follows:

- a. Revival of CSIBL by way of its merger with and into IHFL.
- b. Injection of funds amounting to Rs. 1,500 million as equity (Rs. 100 million as equity in IHFL, Rs. 700 million into the merged entity subject to a approval of merger by the Commission, and further injection of funds amounting to Rs. 200 million in 2008 and Rs. 500 million in 2009)
- c. The depositors/ lenders of CSIBL shall be repaid by IHFL i.e. the surviving entity in a manner and on terms/ conditions not less than the agreed and communicated through Revival Plan
- d. The equity of the merged entity was projected to be positive Rs. 59 million by 2008 and Rs. 801 million by 2009. The emerged entity will generate cash inflow of more than Rs. 5000 million in three years (i.e. from 2007 to 2009) through injection of funds by the sponsors and undertaking investment banking, leasing and housing finance business.

5. The Commission after the approval of the Scheme of Amalgamation by majority of all the stakeholders i.e. shareholders, depositors and creditors, sanctioned the Scheme of Amalgamation of CSIBL with and into IHFL under Section 282 L of the Ordinance vide



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its Order dated June 27, 2007 (“**Order**”) subject to certain terms and conditions which inter alia included::

- a. IHFL shall ensure injection of Rs. 200 million and Rs. 500 million through right issues in the year 2008 and 2009, respectively in accordance with Revival Plan submitted to the Commission.
- b. The depositors/ lenders of CSIBL shall be repaid by IHFL i.e. the surviving entity in a manner and on terms and conditions not less than the agreed and communicated through the Revival Plan.

Failure to Adhere to the Terms and Conditions of the Revival Plan and the Merger Order

6. Subsequent to the merger/amalgamation, in order to facilitate IIBL to achieve the projections set in the Revival Plan and to ensure full payment to the depositors and creditors, the Commission granted all the three licenses i.e. Investment Finance Services, Leasing and Housing Finance Services to IIBL in June 2007 as well as the following relaxations from the Rules and Regulations till December 31, 2009.

- a. Exempted IIBL from maintaining the minimum equity requirement as per Rules/Regulations.
- b. Allowed IIBL to raise deposits from local and foreign institutions as a special case despite its ineligibility.
- c. Exempted IIBL from maintaining the mandatory 15% reserve requirement against deposits.
- d. Exempted IIBL from taking the maximum exposure requirement to a single person as against the requirement of Regulation.
- e. Exempted IIBL from the prescribed maximum exposure limit against on-balance sheet liabilities and contingent liabilities in terms of Regulations.

7. Despite all these relaxation, the CEO, Board of Directors (“**BOD**”) of IIBL including the Chairman failed to comply with the main conditions of the Order and to carry out operations of IIBL in accordance with the Revival Plan as explained below:



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- a. The sponsors of IIBL had injected Rs. 800 million into IIBL in 2007. However, no funds have been injected by the sponsors of IIBL in 2008 (Rs. 200 million) and 2009 (Rs. 500 million) in pursuance of the revival plan despite repeated reminders from the Commission.
 - b. IIBL made the initial down payment to the depositors at the time of merger, first installment to the Government/ Semi Government Sector on July 29, 2008 and quarterly payments of profit to the depositors. However, IIBL has failed to repay the first major principal installment of Rs. 750 million due to the depositors on July 29, 2009.
 - c. Despite obtaining the licenses and various relaxations of the rules and regulations from the Commission, IIBL has failed to carry out its operations in accordance with the revival plan. This is evident from the actual achievements of IIBL vis-à-vis the projections contained in the Revival Plan
8. Failure of BOD of IIBL including the Chairman to carry out the business as per the Revival Plan badly affected IIBL operations thereby endangering its financial and commercial viability and ultimately led to the default in repayment of installment of Rs. 750 million to the depositors due on July 29, 2009 as per the repayment plan given in the Revival Plan. It is pertinent to mention here that the next principal installment of Rs. 936 million will be due on 29th July 2010, Rs. 923 million on 29th July, 2011 and Rs. 509 million on July 29, 2012.

Failure to Appoint a Full Time Chief Executive Officer

9. The CEO of IIBL Mr. Zafar Baidar Chishti resigned from IIBL on 6th May 2009. Since then IIBL is being managed on adhoc basis without appointing a full time CEO for the last 7 months in violation of section 199 of the Ordinance which provides appointment of CEO within 14 days from the date the office of Chief Executive falls vacant.

Failure to Initiate Proceedings for Recovery of Caritas Land

10. IIBL, its management and the board of directors on the very next date of the Order sanctioning the scheme of amalgamation of CSIBL with and into IIBL i.e on 29.6.2007 sold of Caritas Town Land owned by Maghrab Development Corporation (a subsidiary of CSIBL) at a throwaway price of Rs. 79 million. This transaction was investigated by the Commission under section 282 I of the Ordinance and also by an independent inspector

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Justice ® Syed Jamshed Ali, appointed under section 265 of the Ordinance. The findings of both the reports corroborated each other in concluding that because of the negligence of the then CEO and the board of directors of IIBL, the bank suffered a loss of approximately Rs. 1400 million due to under value sale of the land. Had the land been disposed off at its true value, IIBL would not have been in the current dire financial position for which all the stakeholders are suffering at the moment.

11. Justice (R) Syed Jamshed Ali in his final report dated July 02, 2009 on the Caritas Land transaction has stated that the title of Maghrib Development Corporation Limited on 55 Kanal Land is legally intact and the disputed land can be recovered by moving an application to the Collector of District i.e. DO (Rev) and filing of a civil suit. The Commission based on the interim report from the inspector advised the Company Secretary of IIBL for filing a case for recovery of land through Collector of Revenue vide its letter dated June 12, 2009 but IIBL, its board including the Chairman has failed to initiate any proceedings to recover the said land. This leads to the impression that IIBL, its sponsors, its Chairman, board of directors and management are not interested in recovery of the land, which was purchased with the money raised from the depositors.

Lack of Interest and Capacity of BOD in Managing the Affairs of IIBL

12. The present board of directors consists of three directors representing the Sponsors of IIBL, one representing Saudi Pak Industrial and Agricultural Company and three representing the depositors of IIBL. Despite the fact that there is an adequate representation of the depositors and sponsors on the board, no board meeting has been held since August 2009 to devise a strategy or business plan to meet the obligations towards depositors and creditors or to discuss future course of action.

13. There appears to be no cohesion between the members of board of directors which is evident from the following instances:

- a. During the meeting of the BOD called by the Commission held at Islamabad on December 7, 2009 some of the members of board of directors complained that they were not being kept in loop about the important financial and operational matters of IIBL and all the decisions were being made by Syed Izaz Jaffery, Chairman of Board single handedly.
- b. In the current scenario where the board of directors needs to work together to sort out the problems faced by IIBL, they are focusing on non-issues such as legal



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status of certain directors. The Chairman of Board of Directors raised issues on the status of directorships of Mr Javid Qureshi and Faqir Syed Jalil ud din Bukhari who were duly approved by the Commission. This issue was clarified by the Commission vide its letter dated November 26, 2009, however, the Chairman again raised the issue in his letter dated December 8, 2009 to make the Board controversial.

- c. Despite the notice served by some members of the Board to the Company Secretary and Chairman requesting for convening the Board meeting, the board meeting is not being called knowingly and intentionally rendering the BOD ineffective. The concerned members of the BOD have sent copies of such notices to the Commission.
- d. The Chairman and company secretary of IIBL have failed to convene the BOD meeting despite verbal instructions conveyed to them by the Commission in the meeting held at the Commission on Dec 07, 2009. Issues and documents requiring BOD approval are being submitted to the Commission without approval of the Board in contravention of the instructions of the Commission.

14. The sponsors of IIBL who holds 99% of the shareholding in IIBL are not taking any interest in the affairs of IIBL. The sponsors of IIBL vide their letter dated June 28, 2007 committed that a member of the sponsoring family would be inducted as a member on the board of IIBL within one month of the date of the letter to represent the sponsors on the Board. Thereafter, IIBL was reminded on a number of occasions to induct a family member of the sponsors on the board. The Commission on June 18, 2009 granted IIBL relaxation from the Listing Regulations of KSE and LSE subject to certain conditions which interalia included appointment of a family member of the sponsors of IIBL on its board. Moreover, the Commission approved the appointment of Syed Izaz Jaffery and Faqir Syed Jaleel ud Din Bukhari as directors on the board of IIBL subject to the conditions which interalia included appointment of one of the family members of the sponsors of IIBL on the board of IIBL. Despite the written commitment of the sponsors of IIBL to appoint one of its family members on the board of IIBL and the repeated reminders of the Commission, they have failed to show any interest in securing the proper management of IIBL to safeguard the interest of depositors and other stake holders.

15. Two Jumbo Share Certificates containing 79,996,500 shares in physical form in the name of Agen Ltd B.V.I (British Virgin Island) beneficially owned by Mr. Haider Ali



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Rawjani were sent to IIBL on March 31, 2009 with the directions to demat the same and deposit them in a blocked CDC Account in compliance with the direction of the Commission dated March 6, 2009 and submit a compliance report to this effect. As of date, IIBL has failed to deposit these shares in a blocked CDC Account and hence contravened the clear directions of the Commission.

16. The sponsors, board of directors and management of IIBL has exhibited its inability and lack of capacity to come up with a long term revival plan whereby payment to all the depositors can be ensured.

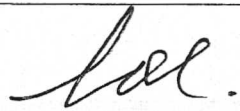
17. The assets of IIBL are being depleted through administrative expenses without carrying out any worthwhile business which is detrimental to the interest of stakeholders especially depositors.

18. In view of the above the Commission *prima facie* is satisfied, subject to such explanation as may be provided later to the contrary, the removal of the Chairman and supersession of the BOD of IIBL is necessary, because:

- i. the continuous association of the Chairman and BOD is detrimental to the interests of IIBL and its stakeholders;
- ii. it is in the public interest;
- iii. to prevent the affairs of IIBL being conducted in a manner detrimental to the interest of depositors of IIBL and other persons whose interest is likely to be affected and in a manner prejudicial to the interest of IIBL; and
- iv. in order to secure a proper management of IIBL.

A show cause notice dated January 27, 2010 calling upon the BOD of IIBL including the Chairman to explain why it should not be removed and/ or superseded has therefore been issued by the Commission. The contents of this order are to be read along with the contents of the said show cause notice.

19. Keeping in view the aforesaid paragraphs, and in particular, the non injection of equity to meet its obligations towards its depositors and creditors and inability of the BOD including the Chairman to perform its functions and discharge its duties, the Commission is of the opinion that any delay in superseding the BOD of IIBL and removal of the Chairman would be detrimental to the public interest and the interest of depositors of



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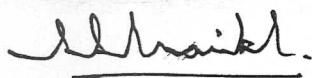
IIBL. Therefore, pending consideration of any representation by the BOD including the Chairman of IIBL in response to the show cause notice, they shall be removed and/ or superseded, with effect from **January 28, 2010** for a period of six months which can be extended by the Commission from time to time.

20. All powers of the Chairman and Board of Directors of IIBL shall be exercised and performed by Mr. Khalid Sherwani with effect from January 28, 2010 for a period of six months which can be extended by the Commission from time to time.

21. This order superseding the BOD and removal of Chairman and appointment of Mr. Khalid Sherwani to exercise all powers and duties of BOD including that of the Chairman with effect from January 28, 2010 for a period of six months is being passed concurrently with and at the time of issuing the show cause notice to the BOD, giving it an opportunity to make a representation and of being heard.

22. Receipt of this order must be duly acknowledged, in writing, including through return fax.

23. This order is being passed without prejudice to any action that may be taken or warranted in respect of any of the above mentioned contraventions or any other default under any other provision of law.



(Salman Ali Shaikh)
Commissioner (SCD)

Announced: 27 January 2010