

ESCORT INVESTMENT BANK LIMITED

ANNUAL REPORT 2003

VISION

"Value addition for our stakeholders through enhanced business activity and a shift from Risk Avoidance to Better Risk Identification and Management"

MISSION

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

CONTENTS

Corporate Information

Notice of Annual General Meeting

On the Road to Progress

(Six years at a Glance in Tabular form).

Chief Executive's Review

Directors' Report

Statement of Compliance with Code of Corporate Governance

Auditors' Review Report on Compliance with the Code of Corporate Governance

Statement at Ethics & Business Practices

Auditors' Report to the Members

Financial Statements

• Balance Sheet

• Profit & Loss Statement

• Cash flow Statement

• Statement of Changes in Equity

• Notes to the Accounts

Pattern of Shareholding

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman	Bashir Ahmed
President & Chief Executive	Rashid Mansur
Executive Director	Shazia Bashir
Directors	Abdul Latif Uqaili (nominee Investment Corporation of Pakistan) Bairam Qureshy Darakhshan Bashir Farrukh Ahmad Kamran Maryam Bashir Mutahir Ahmed Qaim Mehdi Tajamul Hussain Bokhari (nominee National Bank of Pakistan)
Company Secretary	Shauzab Ali

AUDIT COMMITTEE

Chairman	Bashir Ahmed
Members	Abdul Latif Uqaili Bairam Qureshy
Secretary	Arsalan Baig

EXECUTIVE MANAGEMENT

President & Chief Executive	Rashid Mansur
-----------------------------	---------------

Chief Operating Officer	Muhammad Naeem Khan
Executive Director	Shazia Bashir
Chief Financial Officer	Shauzab Ali
Head of Capital Market Division	Rehmat Ali Hasnie
Head of Treasury Division	Arshad 1. Khan
Head of Marketing & Credits Division	Saqib Ahmed Khan
Head of Structured Finance Division	Shauzab Ali
Head of Internal Audit Division	Arsalan Baig
Auditors	Ebrahim & Co. Chartered Accountants
Legal Advisors	Mandviwalla & Zafar Advocates and Legal Consultants
Tax Consultants	KPMG Taseer Hadi Khalid & Co. Chartered Accountants *
Share Registrars	Hameed Majeed Associates (Pvt) Ltd
Bankers	PICIC Commercial Bank Limited Muslim Commercial Bank Limited The Bank of Khyber Limited Union Bank Limited
Head Office & Lahore Branch	Escorts House 26 - Davis Road, Lahore Tel: (042)637 1931-34 Fax: (042) 637 5950 Email: mailmanager@escortsbank.net Web site: www.escortsbank.net
Branch Offices	Karachi Office Ground Floor, Bharia Complex I Moulvi Tamizzudin Khan Road Tel: (021)561 0448, 561 t221 Fax: (021)561 0538 Email: karachi@escortsbank.net Islamabad Office 15 - E, Mezzanine Floor Rehmat Center, Blue Area Tel: (051)2874601-03 Fax:(051)2874604 Email: islamabad@escortsbank.net
Brokerage Houses	Room No. M-6, Lahore Stock Exchange Building, 19-Khayaeban-e-Iqbal, Lahore Tel: (042) 630 71 63-68 Fax: (042)6307168 Ground Floor State Life Building Davis Road, Lahore Tel: (042) 920 0390, 920 0396

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT The 8th Annual General Meeting of the shareholders of ESCORTS INVESTMENT BANK LIMITED will be held on Wednesday, October 29, 2003 at 11:30 A.M. at the registered office of the Company at Escorts House, 26-Davis Road, Lahore to transact the following business :

ORDINARY BUSINESS

1. To confirm the minutes of 7th Annual General Meeting held on December 12, 2002.
2. To receive and adopt the Directors' and Auditors' Report and Audited Accounts for the year ended June 30, 2003.
3. To approve the payment of dividend @ Rs. 1.5 per share (15%) for the year ended June 30, 2003

4. To appoint the Auditors and to fix their remuneration. The present Auditors M/s Ebrahim & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS

- 5 To increase the number of directors from eleven to twelve.

OTHER BUSINESS

- 6 To transact any other business of the Company with the permission of the chair.

By order of the Board

Lahore Shauzab AM

September 22, 2003 Company Secretary

NOTES

- i. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. Form of Proxy is enclosed with the annual report. Proxies

in order to be effective, must be received at the registered office of the Company, at least 48 hours before the time of holding the meeting.

- ii. The members are requested to immediately notify the change in address, if any.

iii. Account holders and sub-account holders book entry securities of the Company in Central Depository System of Central Depository Company of Pakistan Limited are requested to bring original I.D. Card or attested copy of I.D. Card for identification purposes.

iv. The Members Register will remain closed from October 22, 2003 to October 28, 2003 (both days inclusive). Transfer received in order at the Registered Office by the close of business hours on October 21, 2003 will be treated in time.

ON THE ROAD TO PROGRESS SIX YEARS OF ESCORTS BANK AT A GLANCE

SUMMARY	2003	2002	2001	2000	1999	1998
OPERATING RESULTS						
Gross Income	233,916	147,793	97,803	94,585	89,385	69,833
Interest Expense	115,310	88,004	63,406	58,870	48,227	25,258
Operating Expenses	44,536	31,731	24,491	20,900	18,896	18,634
Provision against Non-Performing Loans	1,306	8,068	3,650	2,450	-	-
Pre-Tax Profit	72,064	19,283	5,823	12,050	21,330	20,336
After-Tax Profit	57,562	12,283	688	8,150	14,330	13,442
Dividends (%)	15	6	-	5	10	-
BALANCE SHEET						
Shareholder's Fruity	241,195	213,632	213,350	212,662	214,512	220,183
Deposits	692,668	731,582	316,199	423,969	513,352	309,527
Borrowings from Financial Institutions	777,900	310,000	175,000	58,000	-	-
Total Liabilities	1,692,905	1,179,613	21,206	523,308	559,942	323,131
Fixed Assets ¹	13,208	13,398	7,464	6,328	6,184	8,022
Financing - Net of Provision	375,654	207,014	123,551	99,348	104,198	137,228
Investments & Placements	1,427,863	938,660	498,876	523,619	490,611	356,248
Total Assets	2,026,831	1,412,104	735,256	735,970	774,454	543,314
FINANCIAL RATIOS						
Revenue to Expenses (Times)	1.46	1.23	1.11	1.18	1.31	1.41
Advances to Deposits (Times)	0.54	0.28	0.39	0.23	0.2	0.44-
Return on Average Equity (%)	25.31	5.75	0.32	3.82	6.59	6.3
Return on Average Assets (%)	3.35	1.14	0:09	1.08	2.17	2.27
Cost to income Ratio (%)	68.63	81.5	90.31	84.67	76.14	70.88
Borrowings to Equity (Times)	3.23	1.45	0.82	0.27	-	-
Total Liabilities to Equity (Times)	7.02	5.52	2.44	2.46	2.61	1.47
Price Earning Ratio	3.27	12.62	147.06	13.51	16.06	4.99
Earning per Share (Rs.)	2.878	0.614	0.034	0.407	0.716	0.672
Net Asset Value per Share (Rs.)	16.7	11.62	10.7	10.63	10.73	11.01
Market Value per Share (Rs.)	9.4	7.75	5	5.5	11.5	3.35

CHIEF EXECUTIVE'S REVIEW

An Eye On The Future!

It's a very exciting and satisfying moment for me as I brief you on the performance of Escorts Investment Bank. Exciting because the period under review is my first full Financial Year as the President and CEO of the bank. (This is also true for most of the key members of my team). Satisfying because the New Strategy that we designed and implemented, for the required Repositioning for Growth has completely transformed the bank, into a vibrant, proactive, progressive and a very profitable institution, with an Earning Per Share (EPS) and Return on Equity (ROE) well above most of our peers. The bank has also built an enviable asset quality and a reputation for good corporate conduct. The significantly higher Brand Visibility in the financial and corporate circles also cannot go unnoticed. All in all, every business activity made progress, either in financial terms or toward a Broader Strategic Goal.

The following Financial Highlights bear ample testimony to the success of the New Strategy:
Financial Highlights (As at June 30, 2003)

Sr.#	Description	Rupees in Million		Growth 2002	Growth %
		June 2003	June		
1	Profit Before Tax	72	27	45	167
2	Profit after Tax	58	12	46	383
3	Surplus on Revaluation of Securities	143	19	124	653
4	Share Holder's Equity, Subordinated Debt & Revaluation Surplus	469	317	152	48
5	Certificates of Investments (Deposits)	693	732	-39	-5
6	Morabaha Financing	376	207	169	82
7	investment in Government Securities	814	382	432	113
8	Total Assets	2,027	1,412	615	44
9	Earning Per Share	Rs. 2.88	0.61	2.26	369
10	Dividend Per Share (Recommended by BOD).	Rs. 1.5	0.6	0.9	150
11	Right Per Share	Rs. 45-	-	-	-

Key Success Factors

The Human Capital

All our successes this year stem from a common root. We were successful because of the people who work at Escorts Bank. We have been able to put together a talented team, who I believe, will continue to bring our shareholders the greatest value. In the process, we will be a stronger, more reliable institution for our shareholders to own, a more exciting and fulfilling company to work in, and for our peers, a competitor worth reckoning.

Management by Objectives

As mentioned in my earlier Reviews covering this Financial Year, we based our Business Plan on a redefinition of the Statement of Objectives of our Bank as:

"Value addition for our Shareholders through enhanced business activity and a shift from risk avoidance to proactive Risk Identification and improved Risk Management."

Business Diversity

A well-planned program towards Business Diversity has enhanced our profitability and increased our stability. A number of new business activities were identified to Diversify and augment the Product Mix and Revenue Streams of the bank. Acquisition of a Corporate Seat at the Lahore Stock Exchange and setting up of a Capital Markets and Brokerage Division, a Car Finance Counter, a Structured Finance and Advisory Division were all steps in this direction. The diversity of our products and services will allow us to generate earnings that are less volatile.

Proactive Resource Mobilization and Marketing

/

A proactive Resource Mobilization and Marketing Campaign was launched at Lahore, Karachi and

Islamabad with substantial successes.

Treasury as Driver of Profitability

Improved Treasury Management, fresh and favorable credit lines, innovative products and vigorous participation in Money Market Operations resulted in a very significant decrease in the Bank's Weighted Average Cost of Funds (WACOF).

Reengineered Work Processes

Work Processes were continuously reengineered throughout the year under review, which improved the Time Efficiency and Customer Satisfaction levels.

Good Corporate Governance and Effective Internal Controls

Strong prudential risk management has been a key to the Bank's success. We have a systematic approach to managing risk with a special emphasis on the main risks, including market risk, credit risk, liquidity risk, operational risk, and legal compliance and documentation risk. This will remain a key area of management focus.

We find ourselves in complete sync with the rationale and practical exigencies of the set of reforms initiated by the Securities and Exchange Commission of Pakistan (SECP). Escorts Bank has a strong Board of Directors actively involved with the Policy Making Function. The Bank also has an independent and professional Executive Management vested with the necessary Operational Autonomy and a disciplined focus on what is in the shareholder's interest. Furthermore, an Audit Committee of the Board has a Head of Internal Audit reporting directly to the Committee.

Profitability, Productivity & Efficiency Ratios

The Return on Equity (Percentage Return on Average Equity) has very substantially improved from 5.75 % as at the end of last Financial Year to 25.31 % this year depicting an increase of 19.56 %. Similarly Return on Total Assets Increased by 2.21 % to 3.35 %. On the other hand, continued cost management initiatives across the Bank meant that the Cost/Income Ratio improved and fell by 12.87 % and Revenue/Expense improved by 0.23 times. Total Income/Total Assets improved by 1.07 % and Operating Profit / Total Assets improved by 1.68 %.

Future Outlook

The outlook for Escorts Investment Bank remains very encouraging and positive.

We have undergone meaningful strategic changes and I look forward to building on these in FY 2003 - 2004 and beyond. We remain firmly committed to our existing, well-defined and focused strategy. Our action plan going forward consists of building on our recent successes, increasing the coverage of our activities, and further strengthening of our balance sheet. Our task is to consolidate our gains, leverage our accomplishments and sustain our growth momentum. Our lean model has enabled us to react quickly, creating opportunities from changing market conditions. We shall continue to rely heavily on the quality of our Management Team and their commitment to deliver consistently better results. We shall continue to recruit and attract talent from across the financial services industry to add to our skilled management.

The improved bottom line shall enable us to continue to invest in human capital, product development and systems and will result in much improved efficiency across our operations. The provision of excellent, time efficient and consistent service has been the driver of our success and our team is committed to ensuring that this will remain paramount. Our new mix of skills, combined with our streamlined structure, shall enable us to act with greater time and cost efficiency. We realize that cost efficiency is particularly relevant in our business, which is becoming ever more competitive, adding pressure on cost margins.

Investment Banking - Our Preferred Profession

We have made a conscientious choice to remain an Investment Bank within the new Non Banking Financial Company (NBFC) structure designed and regulated by the Securities and Exchange Commission of Pakistan (SECP). Our thinking stems from the internationally held perception that,

"Within the Financial Services Sector, Investment Banking stands out as the essence of high-end, superior, state-of-the-art service provision, catering to, and creating value for, a sophisticated clientele. In doing so the Investment Banks contribute significantly to the development of their national economies in general, and their financial markets in particular. Investment Banks are also known to attract, employ, develop and enrich top-of-the line human capital."

Our team is proud to be known as investment bankers and we are determined to play our precise role as such. We wish and hope that in our efforts to develop and introduce sophisticated investment

banking products in our country, we shall not be alone, and that institutions like Escorts Investment Bank shall continue to receive the full support of the SECP and the State Bank of Pakistan (SBP).

Before I conclude let me once again reassure you that the foregoing strategies will continue to enhance shareholder's value, with returns significantly above market.

Thank you,
Sincerely,

Rashid Mansur
President & CEO

Lahore : September 22, 2003

DIRECTORS' REPORT

The Directors have pleasure in submitting their 7th Annual Report for the year ended 30 June 2003. The Annual Report and Accounts are presented in accordance with International Accounting Standards.

Performance

Gross revenue during the year amounted to Rs. 233.916 million, compared to Rs. 147.793 million of the previous year, up 58%. Administrative expenses increased, up 40%, to Rs. 44.536 million from Rs. 31.731 million last year, primarily due to induction of highly qualified and competent professional managerial staff. The operating (pre-tax) profit increased to Rs. 72.064 M from Rs. 19.283M last year, an increase of 274%. After providing for tax liability of Rs. 14.500M, the profit after tax for the year amounted to Rs. 57.562M as compared to previous year's 12.283M.

Appropriations

During the year, Bank earned an after-tax profit of Rs. 57.562 million. Allocations proposed out of the profit available for appropriations are as follows:

Operating Results	Rs in '000'
Profit before Tax	72,064
Provision for taxation	14,502
Profit after Tax	57,562
Unappropriated profit B/F	2,506
Profit available for appropriations	60,068
Appropriated as follows:	
Transferred to statutory reserve	11,512
Cash Dividend @ 15%	30,000
Unappropriated profit C/F	18,556

Earnings Per Share

In line with profitability, earnings per share of the Bank have risen from Rs. 0.614 during 2001-2002 to Rs. 2.878 during 2002-2003 showing an unprecedented increase of 369%.

Corporate Governance

During the first half of 2002, the Securities and Exchange Commission of Pakistan introduced the Code of Corporate Governance that now forms part of the listing regulations of stock exchanges of Pakistan. Accordingly, the companies have taken measures to comply with these regulations, details of which are contained in the annexure to this report.

The directors also confirm compliance with the corporate and financial reporting framework of the SECP's Code of Corporate Governance for the following:

- 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 accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied in 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 any departure there from has been adequately disclosed.

e) The system of internal control is sound in design and has been effectively implemented and

monitored.

f) There are no significant doubts upon the companies ability to continue as a going concern.

g) There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

h) During the year, following traders were made by the following directors of the Bank.

Mr. Bashir Ahmed, transferred 1 million shares each to Darakshan Bashir and Shazia Bashir and 300,000 shares to Maryam Bashir. Apart from above, there were no trades in the share of Escorts Bank during the year carried out by its CEO, CFO, Company Secretary and their spouses and minor children.

i) Statements regarding the following are annexed:

1. Key financial data for the last six years.

2. Pattern of share holding.

Credit Rating

As a witness to our performance, JCR-VIS has updated our long term rating to BBB+, while the short term is maintained at A-2. These ratings denote adequate credit quality, sound liquidity factors and company fundamentals, reasonable and sufficient protection factors and good certainty of timely payment. The management is striving to further improve the above ratings.

Board of Directors

The Board comprises of two executive and eight non-executive directors. Subsequent to the year-end, Mr. Khalid Sherwani, nominee director of Pak-Libya Holding Company (Private) Limited retired. The Board records its appreciation of the valuable services rendered by Mr. Sherwani during his tenure of office as Director of the Bank. During the year, five meetings of the Board of Directors were held and the following is the detail of attendance by the directors:

Directors	Attended
Mr. Bashir Ahmed	5
Mr. Rashid Mansur	5
Ms. Shazia Bashir	5
Mrs. Darakhshan Bashir	-
Mr. Bairam Qureshy	4
Ms. Maryam Bashir	-
Mr. Qaim Mehdi	4
Mr. Mutahir Ahmed	1
Mr. Khalid Sherwani (Retired)	2
Mr. Abdul Latif Uqaili	5
Mr. Farrukh Ahmad Kamran	1

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

Value of Provident Fund Investment

The Bank operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by the Bank and the employee to the fund @ 10% of basic salary. The audit of the accounts of Provident Fund Trust is under process, however the value of its investments as at 30 June 2003 works out to Rs. 4.493 Million.

Pattern of Shareholding

There were 290 shareholders of the Bank as of 30 June 2003. The pattern of shareholding, disclosing the aggregate number of shares held by various categories of shareholders, appears at the end of this annual report.

Auditors

The present auditors, Messers Ebrahim & Co., Chartered Accountants, retire and being eligible offers themselves for reappointment. The directors endorse recommendation of the Audit Committee for the reappointment of Messrs Ebrahim & Co., Chartered Accountants, as the auditors for the financial year 2003-2004.

For and on behalf of the Board

Bashir Ahmed
Chairman

Lahore: September 22, 2003.

STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No 37,13 of listing regulations of Karachi Stock Exchange and Lahore Stock Exchange 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 and directors representing minority interests on its Board of Directors. At present the Board includes at least eight independent non-executive director and one director represents minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including Escorts Bank.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. There was no Casual Vacancy in the Board during the year ended June 30,2003.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a Vision/Mission statement, Overall Corporate Strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and condition of employment of the CEO and other Executive Directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this Purpose and the Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation courses for its directors during the year to apprise them of their duties and responsibilities.
10. The Board has approved appointment of Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient meters 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, CEO 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, of whom all are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least 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.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme 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.

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

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of ESCORTS INVESTMENT BANK LIMITED to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Company is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2003.

Karachi

EBRAHIM & COMPANY

September 22, 2003.

CHARTERED ACCOUNTANTS

STATEMENT OF ETHICS AND BUSINESS PRACTICES

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

Business Practices

Escorts Bank recognizes responsibility in the following areas:

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

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

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

Society: To conduct business as a good corporate citizen of the society, while respecting and

complying with the prevalent laws as a financial entity.

Business Integrity

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

Personal Responsibility

Integrity

Honesty

Teamwork

Diversity

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

Reliability and Reporting

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

Economic Principles

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

Political Activities

Escorts Bank believes in staying detached from all political activities.

Health and Safety

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

AUDITORS'REPORT TO THE MEMBERS

We have audited the annexed balance sheet of ESCORTS INVESTMENT BANK LIMITED as at June 30, 2003 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion :

i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for change as explained in Note: 2.6 in the accounts with which we concur;

ii) the expenditure incurred during the year was for the purpose of the Company's business; and

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards As applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984,

in the manner so required and respectively give a true and fair view of the state of the Company's

affairs as at June 30, 2003 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

EBRAHIM & COMPANY

September 22, 2003.

CHARTERED ACCOUNTANTS

BALANCE SHEET
AS AT JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
ASSETS			
Cash and bank balance	3	68,446,192	143,297,475
Placements	4	323,093,425	337,223,425
Investments	5	1,104,770,424	601,437,050
Morabaha financing	6	375,653,895	207,013,553
Advances, deposits, prepayments and other receivable	7	134,489,582	109,734,428
Membership card	8	7,170,000	-
Operating fixed assets	9	13,207,575	13,398,054
		2,026,831,093	1,412,103,985
LIABILITIES			
Borrowings from financial institutions	10	777,900,000	310,000,000
Certificates of investments	11	692,667,583	731,581,496
Subordinated loans	12	84,030,171	84,030,171
Liabilities against assets subject to finance leases	13	3,235,381	5,122,719
Creditors, accrued and other liabilities	14	18,831,898	15,073,121
Provision for taxation	15	36,262,083	21,762,083
Proposed dividend	16	30,045,002	12,043,368
Deferred tax liability	17	49,932,547	
		1,692,904,665	1,179,612,958
Net assets		333,926,428	232,491,027
Represented by :			
Share Capital	18	200,000,000	200,000,000
Reserves	19	22,638,911	11,126,490
Unappropriated profits		18,555,643	2,505,957
		241,194,554	213,632,447
Surplus on revaluation of securities	20	92,731,874	18,858,580
		333,926,428	232,491,027
Contingencies and commitments	21		

The annexed notes form an integral part of these accounts.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003 Rupees	2002 Rupees
INCOME			
Profit on morabaha financing		41,378,249	26,535,001
Profit on placements		40,338,196	43,816,246
Return on investments		70,909,596	42,377,239
Gain on repurchase transactions		12,690,735	5,219,267
Profit on sale of investments		59,195,907	19,905,374
Profit on bank deposits		6,985,408	8,715,622
Fees and commission	22	2,077,839	1,150,035

Other income		340,225	74,005
		233,916,155	147,792,789
EXPENDITURE			
Cost/return on deposits, borrowings etc.		115,310,205	88,004,259
Administrative and other operating eApenses	23	44,535,824	31,730,620
Financial charges	24	699,830	707,575
		160,545,859	120,442,454
		73,370,296	27,350,335
OPERATING PROFIT			
Provision against non-performing morabaha financing	6.3	1,305,879	8,067,665
OPERATING PROFIT BEFORE TAXATION		72,064,417	19,282,670
PROVISION FOR TAXATION	25		
Current year		14,500,000	7,000,000
Prior year		2,310	-
		14,502,310	7,000,000
PROFIT AFTER TAXATION		57,562,107	12,282,670
UNAPPROPRIATED BROUGHT FORWARD		2,505,957	4,679,821
PROFIT AVAILABLE FOR APPROPRIATIONS		60,068,064	16,962,491
Transferred to statutory reserve	19	11,512,421	2,456,534
Proposed dividend 15% (2002: 6%)		30,000,000	12,000,000
		41,512,421	14,456,534
UNAPPROPRIATED PROFIT CARRIED FORWARD		18,555,643	2,505,957
EARNINGS PER SHARE	26	Rs. 2.878	Rs. 0.614

The annexed notes form an integral part of these accounts.

\

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2003

	2003 Rupees	2002 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	72,064,417	19,282,670
Adjustments for non cash charges		
Depreciation	3,151,232	2,361,345
Provision against non performing financing	1,305,879	8,067,665
Loss/(gain) on sale of fixed assets	9,550	-191,765
	4,466,661	10,237,245
Decrease/increase) in operating assets		
Advances, deposits, prepayments and other Receivable	2,956,798	-41,487,528
Morabaha financing	-169,946,221	-91,529,921
Placements (net)	14,130,000	-20,000,000
	-152,859,423	-153,017,449
(Decrease)/Increase in operating liabilities		
Certificates of investment	-38,913,913	415,381,791
Borrowings	467,900,000	-170,000,000
Creditors, accrued and other liabilities	4,824,827	2,359,441
	433,810,914	247,741,232
	357,482,569	124,243,698
Income tax paid	-28,780,312	-17,281,259
Net cash flow from operating activities	328,702,257	106,962,439
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to fixed assets	-3,281,697	-4,770,475
Proceeds from sale of fixed assets	311,394	500,000
Investments (net)	-379,527,533	-96,624,919
Purchase of membership card	-7,170,000	-
Net cash outflow from investing activities	-389,667,836	-100,895,394
CASH FLOW FROM FINANCING ACTIVITIES		
Subordinated loans	-	84,030,171
Payment of lease obligation under finance lease	-1,887,338	-1,197,220
Dividend paid	-11,998,366	-156
Net cash inflow from financing activities	-13,885,704	82,832,795
Net (decrease)/increase in cash and cash equivalents	-74,851,283	88,899,840
Cash and cash equivalents at the beginning of the year	143,297,475	54,397,635
Cash and cash equivalents at the end of the year	68,446,192	143,297,475

The annexed notes form an integral part of these accounts.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

	Share capital Rupees	Statutory reserve	Unappropriated profit	Total
Balance as at June 30, 2001	200,000,000	8,669,956	4,679,821	213,349,777
Net profit for the year ended June 30, 2002	-	-	12,282,670	12,282,670
Dividend	-	-	-12,000,000	-12,000,000
Transfer to statutory reserve	-	2,456,534	-2,456,534	-
Balance as at June 30, 2002	200,000,000	11,126,490	2,505,957	213,632,447
Net profit for the year ended June 30, 2003	-	-	57,562,107	57,562,107
Proposed dividend	-	-	-30,000,000	-30,000,000
Transfer to statutory reserve	-	11,512,421	-11,512,421	-
Balance as at June 30, 2003	200,000,000	22,638,911	18,555,643	241,194,554

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Escorts Investment Bank Limited is a public limited company and its shares are quoted on the Karachi and Lahore Stock Exchanges. The Company was incorporated in Pakistan on May 15, 1995 and started its commercial operations on October 16, 1996, working as an investment bank within the purview of activities as described in SRO 585(1)87 dated July 13, 1987 issued by Federal Government. During the year under review the Company has become a member of Lahore Stock Exchange (Guarantee) Limited. The registered office of the Company is situated at Escorts House, 26 Davis Road, Lahore.

1.2 The Company will meet the minimum capital required under Rule 7(3) of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 of Rs. 300.00 million by December 31, 2003 by issue of right shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

Securities and Exchange Commission of Pakistan has deferred the implementation of IAS 39 and 40 on Non Banking Finance Companies vide their circular letter number SECP/ICAP/EM/34/2003 dated August 13, 2003.

2.2 Assets subject to finance leases

The Company accounts for assets acquired under financial leases by recording the assets and related liabilities. The amounts are determined on the basis of discounted value of total minimum lease payments. Financial charges are allocated to accounting periods in a manner so as to provide constant periodic rate of charge on the outstanding liability. Depreciation is charged using reducing balance method at the rates specified in the related note.

2.3 Landings/borrowings from financial institutions

The Company also enters into transactions of sale and repurchase/purchase and resale at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligations

Where the securities are sold subject to a commitment to repurchase them at predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. The charges arising from the differential in sale

and repurchase value are accrued on a pro-rata basis and recorded as expense.

Purchase under resale obligations

Securities purchased under a commitment to resale are not recognized on the balance sheet and the consideration paid is recorded as an asset. The differential of the contracted price and resale price is amortised over the period of their contract and recorded as income.

2.4 Staff retirement benefits

A recognised provident fund scheme is in operation which covers all permanent employees. The Company and the employees make equal contributions.

2.5 Compensated absences

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

2.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax.

Deferred

Provision for deferred taxation is made on all major timing differences, using the liability method. Debit balances on account of deferred taxation is recognized only if there is reasonable certainty for realization.

The revised International Accounting Standard 12: Income Taxes became applicable during the current year on financial statements covering periods beginning on or after 1 January, 2002. As a result, the Company has recognised deferred tax liability on surplus on

revaluation of securities. The effect of change in accounting policy has been recognised in the current year and all prior periods presented.

2.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged using reducing balance method. Gains or losses on deletion of fixed assets are included in income currently. Full year's depreciation is charged on additions during the year, while no depreciation is charged on the assets disposed off during the year. Normal repairs and maintenance is charged to revenue as and when incurred, whereas major renewals and replacements are capitalized.

2.8 Investments

The Company classifies its investments as follows :

Held for trading

These are securities which are either acquired for generating a profit from short term fluctuation in prices or dealers margin or are securities included in a portfolio in which pattern of short term profit making exists.

Held for maturity

These are securities with fixed or determinable payments and fixed maturity that Company has the positive intent and ability to hold to maturity.

Available for sale

These are investments that do not fall under the trading or held to maturity categories.

In accordance with requirements of BSD Circular No. 20 dated August 04, 2000 issued by the State Bank of Pakistan, securities for which ready quotes are available on Reuters page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus/deficit is kept in a separate account and is shown below the shareholder's equity in the balance sheet.

2.9 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalent consists of cash in hand and balances with banks net of borrowings not considered to be in the nature of financing activities.

2.10 Financial Instruments

Financial assets

Financial assets are cash and bank balances, placements, investments, morabaha financing, advances, deposits and other receivables. Morabaha financing are stated at their nominal value as reduced by provision for doubtful financing, while other financial assets are stated at cost except for investments and foreign currency balances, which have been revalued as per accounting policy

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include loans, borrowings, creditors, accrued expenses and other payables. Interest bearing loans and borrowings are recorded at gross proceeds received. Other liabilities are stated at their nominal value. Financial charges are accounted for on accrual basis.

Any gain or loss on the de-recognition of the financial assets and liabilities is included in the net profit and loss for the period in which it arises.

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

2.11 Currency translation

Transactions in foreign currencies are translated into rupees at the rates of exchange approximating those prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at exchange rate prevailing on the balance sheet date except those covered by forward exchange contracts. Exchange differences on translations during the year are taken to profit and loss account.

2.12 Revenue recognition

Return on finance provided and placements with banks and financial institutions is recognized on a time proportion basis over the related period of finance/placements.

Dividend income is recognised if declared on or before the balance sheet date. Fee and commission income is recorded on actual receipt basis except guarantee commission received in advance which is deferred over the guarantee period.

Consultancy and corporate advisory fee income is recognised using percentage of completion method.

Income on debt securities is recognised according to repayment schedule.

2.13 Provision for doubtful financing

The Company provides for doubtful financing in accordance with rules of business issued by the State Bank of Pakistan as applicable to Non-Banking Financial Institutions (NBFIs).

	2003 Rupees	2002 Rupees
CASH AND BANK BALANCES		
Cash with banks		
Current accounts (Note: 3.1)	8,761,029	6,689,241
Profit and loss sharing accounts (Note: 3.2)	59,685,163	136,608,234
	68,446,192	143,297,475

3.1 These include Rs. 8.171 million (2002: Rs. 5.867 million) deposited with State Bank of Pakistan.

3.2 The rates of return on these accounts range from 3.00% to 4.50% per annum.

	2003 Rupees	2002 Rupees
4. PLACEMENTS		
Unsecured		
Due within one year	255,870,000	270,000,000
Due after one year	67,223,425	67,223,425
	323,093,425	337,223,425

These represent unsecured placements with a non-banking financial institutions, maturing upto March 29, 2005 and carry rates of return ranging from 5.10% to 12.50% per annum.

	2003 Rupees	2002 Rupees
5. INVESTMENTS		
Available for sale		
Federal Investment Bonds	-	50,000,000
Term Finance Certificates (Note: 5.1, 5.2 & 5.3)	123,244,881	92,315,243
Surplus on revaluation of securities (Note: 20)	11,282,027	2,977,435
	134,526,908	95,292,678
Pakistan Investment Bonds (Note: 5.5 & 5.6)	632,446,900	365,228,740
Surplus on revaluation of securities (Note: 20)	129,252,100	16,496,260
	761,699,000	381,725,000
WAPDA Bonds (Note: 5.7)	50,000,000	-
Surplus on revaluation of securities (Note: 20)	2,250,000	-
	52,250,000	-
Investment in listed shares (Note 5.8)	135,414,222	29,034,487
(Deficit) on revaluation of shares (Note: 20)	-119,706	-615,115
	135,294,516	28,419,372
	1,083,770,424	255,437,050
Held to maturity		
Musharika investment (Note: 5.9)	21,000,000	31,000,000
Certificates of Investment	-	15,000,000
	21,000,000	46,000,000
		"
i	1,104,770,424	601,437,050

5.1 These certificates carry expected profit rates ranging from 10% to 19% per annum. The aggregate market value as at June 30, 2003 was Rs. 134.527 million (2002: 95.293 million).

5.2 The amount under this head includes Rs. b4.704 million (2002: Rs. 20.000 million) given as collateral-against borrowings.

5.3 Particulars of investments in Term Finance Certificates-(TFC's) of listed companies are as follows:

Name of company	Number of certificates		Rupees	
	2003	2002	2003	2002
Dewan Salman Fibre Limited	212,225	374,570	21,600,748	37,835,248
Pakistan Industrial Leasing Corporation Limited	5,244	6,994	538,506	713,436
Sigma Leasing Corporation Ltd.	-	14,000	-	1,421,309
Atlas Investment Bank Limited	41,633	49,970	4,163,333	4,997,000
Al-Noon Sugar Mills Limited	31,238	43,733	3,123,750	4,373,250
Paramount Leasing Limited	50,000	88,000	5,000,000	8,800,000
Crescent Leasing Corporation Ltd.	49,980	50,000	4,998,000	5,000,000
Union Leasing Limited	99,960	100,000	9,996,000	10,000,000
Saudi Pak Leasing Limited	41,733	41,750	4,173,330	4,175,000
Orix Leasing Company Limited	50,000	50,000	5,000,000	5,000,000
Shahmurad Sugar Mills Limited	99,960	100,000	9,996,000	10,000,000
Maple Leaf Cement Company Limited	199,960	-	19,996,000	-
Security Leasing Corporation Limited	49,985	-	5,260,974	-
Engro Chemicals Limited	43,982	-	4,398,240	-
KASB Leasing Limited	100,000	-	10,000,000	-
Iteehad Chemicals Limited (Note: 5.4)	100,000	-	10,000,000	-
Pacific Leasing Company Limited (Note: 5.4)	50,000	-	5,000,000	-
			123,244,881	92,315,243
Add: Surplus on revaluation of securities			11,282,027	2,977,435
			134,526,908	95,292,678

5.4 These TFC's were received subsequent to the balance sheet date.

5.5 Pakistan Investment Bonds have been issued by the Government of Pakistan and carry profit at rates ranging from 9% to 13% per annum.

5.6 The amount under this head includes Rs. 530,000 million (2002: Rs. 220,000 million) given as collateral against borrowings.

5.7 The coupon rate of these bonds carry expected rate of profit at 7.25% per annum.

5.8 Particulars of investments in ordinary shares of listed companies are as follows:

Name of company	Number of certificates		Rupees	
	2003	2002	2003	2002
Pakistan State Oil Company Ltd.	90,000	20,400	20,539,363	2,851,971
Hub Power Company Limited	625,000	57,000	23,655,515	1,325,250
Adamjee Insurance Company Ltd.	86,000	28,750	5,129,900	1,176,200
Ibrahim Fibers Limited	-	125,000	-	2,032,910
Dewan Salman Fiber Limited	200,000	100,000	3,510,000	1,385,000
Pakistan Telecommunication Company Limited	300,000	385,000	8,550,000	6,619,146
ICI Pakistan Limited	25,000	35,000	1,343,750	1,403,500
Fauji Fertilizers Company Limited	20,000	24,900	1,719,612	1,140,420
Engro Chemicals (Pakistan) Ltd.	47,000	7,500	4,077,250	450,750
Sui Northern Gas Pipelines Company Limited	400,000	200,000	13,200,000	2,896,740
Njshat Mills Limited	200,000	87,000	7,020,000	1,357,200
D. G. Khan Cement Company Ltd.	400,000	150,000	12,360,000	1,417,500
Bank of Punjab	100,500	100,000	1,934,625	1,140,000
Fauji Jordan Fertilizer Company Limited	600,000	160,500	8,130,000	1,019,175
National Bank of Pakistan	325,000	136,500	8,965,000	2,818,725
Fauji Cement Limited	50,000	-	423,552	-
PICIC Commercial Bank Limited	350	-	5,431	-
Pak Premier Fund	35,000	-	528,000	-
Pakistan International Airlines	275,000	-	3,465,000	-
Attack Refinery Limited	500	-	47,775	-
Karachi Electricity Supply Corporation Limited	500,000	-	3,300,000	-
Lucky Cement Limited	30,000	-	541,500	-
Muslim Commercial Bank Limited	51,000	-	1,915,050	-
Maple Leaf Cemeat	75,000	-	1,218,750	-
Southern Electric Company	135,000	-	2,315,250	-
Sui Southern Gas Pipelines Limited	18,000	-	378,900	-
World Call Limited	75,000	-	1,140,000	-
			135,414,221	29,034,487
Less: Deficit on revaluation of securities at market value			-119,706	-615,115
			135,294,515	28,419,372

5.9 This is unsecured and represents investment with non-banking financial institution. The expected rate of return is 11 % per annum.

	2003 Rupees	2002 Rupees
6. MORABAHA FINANCING		
Secured		
Considered good and performing		
Associated company (Note: 6.1)	20,000,000	20,000,000
Executive (Note: 6.1)	925,110	467,216
Others	320,459,494	145,153,848
	341,384,604	165,621,064
Considered doubtful and non performing		
Others	49,742,835	55,560,154
Less: Provisions for doubtful morabaha financing (Note: 6.3)	15,473,544	14,167,665
	34,269,291	41,392,489
	375,653,895	207,013,553

6.1 The maximum balances outstanding at the end of any month during the year were as follows :

	2003 (Rupees in million)	2002
Associated company		
Escorts Pakistan Limited	20	20
Executive	1.641	0.467

6.2 Morabaha financing facilities are secured by hypothecation of or charge on assets, mortgage of property, lien over bank deposits and pledge of stocks. The expected rates of return range from 5.25% to 18% per annum.

-----	2003 Rupees	2002 Rupees
6.3 Particulars of provision against non-performing advances		
Opening balance	14,167,665	6,100,000
Charge for the year	1,305,879	8,067,665
Closing balance	15,473,544	14,167,665

9. TANGIBLE FIXED ASSETS

PARTICULARS	COST		ADJUSTMENT (DISPOSAL)	RATE		DEPRECIATION		(Amount in Rupees) WRITTEN		DOWN VALUE AS AT 30-06-2003
	AS AT 01-07-2002	ADDITIONS		AS AT 30-06-2003	%	AS AT 01-07-2002	(ADJUSTMENT)	For the Year	AS AT 30-06-2003	
Owned										
Improvements on lease hold premises	3,073,737	1,406,725	-		2,041,562	-	487,780	2,529,342	1,951,120	
Office furnitures	2,056,717	749,350	-	20	2,806,067	-	237,677	666,973	2,139,094	
Computer equipments	1,642,447	749,797	-	10	2,392,244	-	637,271	1,117,512	1,274,732	
Office equipments	1,995,961	71,625	-14,500	33.33	2,053,086	10	677,313	137,722	1,239,501	
Vehicles	6,227,012	2,649,500	-939,620	10	7,936,892	-1,450	734,684	4,998,158	2,938,734	
	14,995,874	5,626,997	-954,120	20	19,668,751	-302,326	2,235,134	10,125,570	9,543,181	
Leased										
Vehicles	6,873,815	-	-675,000	20	6,198,815	-329,400	916,098	2,534,421	3,664.39	
Capital work in progress										
Improvements on lease hold premises	1,670,300	473,275	-2,148,575	-	-	-	-	-	-	
Total Rupees - 2003	23,539,989	6,105,272	-3,777,695		25,867,566	-633,176	3,151,232	12,659,991	13,207,575	
Total Rupees - 2002	15,877,359	8,603,290	-940,660		23,539,989	-632,425	2,361,345	10,141,935	13,398,054	

Depreciation on computer equipment has been revised during the year from 10% to 33.33% per annum. If there has been no change in rate the profit for the year and unappropriated profits have been higher by Rs. 0.446 million.

9.1 The following assets were disposed off during the year :

PARTICULARS	COST	ACCUMULATED DEPRECIATION	WRITTEN DOWN VALUE	SALE PROCEEDS	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
	(Rupees)	(Rupees)	(Rupees)	(Rupees)		
Owned asset						
Vehicle - Honda Civic	939,620	631,726	307,894	307,894	By negotiation	Mr. Muhammad Naeem Khan chief operating officer
Telephone set	14,500	1,450	13,050	3,500	By negotiation	Abdul Samad Munir, Authorised Dealer

10. BORROWINGS FROM FINANCIAL INSTITUTIONS

	2003 Rupees	2002 Rupees
Unsecured		
From Banks and Non Banking Financial Institutions (Note: 10.1)	150,000,000	20,000,000
Secured		
From Banks and Non Banking Financial Institutions (Note: 10.2)	627,900,000 7,779,000,000	290,000,000 310,000,000

10.1 These borrowings carry markup at rates ranging from approximately 3.75% to 11.00% per annum.

10.2 These represent borrowings against repurchase transactions and carry markup at rates ranging from 2.10% to 3.25% per annum. The borrowings are secured against related investments (See note 5).

11. CERTIFICATES OF INVESTMENTS

Due within one year	528,638,305	599,453,740
Due after one year	164,029,278	132,127,756

1 i.) Certificates of Investment are issued for periods ranging from one month to five and half years. The expected rate of return payable on these Certificates of Investments (COIs) range from approximately 3.90% to 15.00% per annum for Pak rupee COIs.

12 SUBORDINATED LOANS

This represents unsecured loans from sponsor directors and shareholders. The balances carry markup at the rate of 14.00% per annum and are repayable after the Company has met the minimum capital requirements.

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

Due within one year	##### 1,884,281
Due after one year	##### 3,238,438 -
	##### 5,122,719

The above liability represents the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease period discounted at rates ranging from 16.00% to 22.50% per annum.

Remaining aggregate rentals of Rs. 3.578million inclusive of mark-up are payable in 20 equal monthly installments latest by February 2005.

Future lease payments are as follows :

	Within one year	2003 Rupees More than one year and upto five years	Total	Within one year	2002 Rupees More than One year and upto Five years	Total
Minimum lease payments	1,574,332	2,004,622	3,578,954	2,397,452	3,692,307	6,089,759
Less: Financial charges allocated to future periods	288,584	54,989	343,573	513,171	453,869	967,040
Present value of minimum lease payments	1,285,748	1,949,633	3,235,381	1,884,281	3,238,438	5,122,719

At the end of lease period, the ownership of assets shall be transferred to the Company on payment of residual value.

The cost of operating and maintaining the leased assets is borne by the Company.

This liability represents the unpaid balance of the total of minimum lease payments and the residual value payable at the end of lease period discounted at rates ranging from 16.00% to 21.34% per annum.

	2003 Rupees	2002 Rupees
14. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Customer credit balances	3,918,179	-
Accrued return on certificates of investment	9,104,203	9,238,527
Accrued mark-up on subordinated loans	966,922	966,922
Accrued mark-up on unsecured borrowings	609,589	972,192
Accrued return on repurchase transactions	1,274,500	2,298,534
Accrued expenses	2,175,073	1,547,071
Unearned fee income	783,432	49,875
	18,831,898	15,073,121

15. PROVISION FOR TAXATION

15.1 Tax rate

The Company has used income tax rates applicable to listed companies (other than banking years upto-2003-2004, '-

in the initial assessments made by Deputy Commissioner of Income Tax (DCIT), the rate applicable to banking companies had been used for the assessment years 1997-98 to 2000-2001, for which Company had filed appeals with the Commissioner of Income Tax (Appeals).

Commissioner of Income Tax (Appeals) directed the DCIT to apply the rates applicable to listed companies for assessment years 1997-98 and 1998-99 against which the department preferred appeals before Income Tax Appellate Tribunal (ITAT). ITAT has rejected these appeals against which Commissioner of Income Tax has filed a reference application before the ITAT, who have referred the case to the Honourable Lahore High Court for their authoritative resolution. The management is confident that the outcome of the case will be in their favour.

15.2 Withholding tax

In the assessments for the assessment years 1999-2000 and 2000-2001 no disallowances were made by the DCIT on the issue for non-deduction of tax on return on deposits from financial institutions, on the grounds that Company has been assigned the status of a banking company. This treatment, however, is subject to the decision of an appeal filed by the department in the Honourable Lahore High Court against the decision of ITAT on the same issue for previous assessment years (see 15.1 above). The management is of the opinion that these amounts are clean borrowings from the banks/NBFI's and not deposits and, therefore, withholding tax provisions do not apply.

15.3 Pending appeals

Appeals for the assessment years 1999-2000 and 2000-2001 are pending before the Commissioner of Income Tax (Appeals).

	2003 Rupees	2002 Rupees
16. DIVIDEND		
Unclaimed	45,002	43,368
Proposed	30,000,000	12,000,000
	30,045,002	12,043,368
17. DEFERRED TAX LIABILITY		
Taxable temporary differences on surplus on revaluation of securities (Note: 20)	49,932,547	-
18. SHARE CAPITAL		
20,000,000 ordinary shares of Rs. 10 each fully paid in Cash	200,000,000	200,000,000
19. RESERVES		
Balance brought forward	11,126,490	8,669,956
Transferred from profit and loss account	11,512,421	2,456,534
Balance carried forward	22,638,911	11,126,490
This represents statutory reserves created in compliance with Rules of Business for NBFI's Circular No. 1 dated December 05, 1991		
20. SURPLUS ON REVALUATION OF SECURITIES		
Government securities (Note: 5)	131,502,100	16,496,260
Other securities (Note: 5)	11,282,027	2,977,435
Shares of listed companies (Note: 5)	-119,706	-615,115
	142,664,421	18,858,580
Less: Related deferred tax liability		
Prior year	6,600,503	-
Current year	43,332,044	-
	49,932,547	-
	92,731,874	18,858,580

21. CONTINGENCIES AND COMMITMENTS

21.1 Contingencies

a. Guarantees

Outstanding guarantees as on balance sheet date were Rs. 75.561 million (2002: Rs. 22.946 million).

b. Taxation

In the event of unfavourable decisions in pending tax matters detailed in Note: 15, the Company would be faced with maximum tax liability of Rs. 8.619 (2002: Rs. 10.192 million) and maximum charge against profits in respect of provisions not made amounting to Rs. 27.071 million (2002: Rs. 27.071 million).

	2003 Rupees	2002 Rupees
21.2 Commitments		
Forward sale contracts	50,000,000	250,000,000

Forward purchase contracts	-	400,000,000
Capita) expenditure	-	339,585
22. FEES AND COMMISSION		
Guarantee commission	1,137,894	347,665
Processing fee	218,065	485,605
Consultancy and corporate advisory fee	300,000	-
Brokerage commission	309,380	-
Underwriting commission	112,500	125,000
Gain on sale of fixed assets	-	191,765
	2,077,839	1,150,035
23 ADMINISTRATIVE AND OTHER OPERATING EXPENSES	/	
Salaries, wages, other benefits and allowances	20,504,782	16,038,987
Advertisement and business promotion	1,019,381	982,484
Rent, rates and taxes	3,874,375	2,951,311
Travelling and subsistence	1,316,404	1,324,801
Utilities	1,593,660	1,423,914
Auditors remuneration		
Audit fee	125,000	75,000
Review of half yearly accounts	35,000	-
Audit fee of Provident Fund Trust	8,000	-
Certification and consultancy charges	170,000	-
Out of pocket expenses	16,362	32,830
	354,362	107,830
	2003	2002
	Rupees	Rupees
Telephone charges	1,255,723	1,273,692
Vehicle running and maintenance	1,436,590	937,713
Entertainment	761,286	465,789
Printing and stationery	599,870	439,775
Brokerage and commission	3,040,856	517,859
Insurance premium	688,156	430,750
Repair and maintenance - office	1,435,366	617,376
Repair and maintenance - equipment	93,627	133,429
Fee and subscription	1,128,564	305,300
Legal and professional charges	1,371,635	1,171,714
Books and periodicals	58,639	50,976
Postage and courier service	139,022	111,850
Terminal activation and services charges	115,287	-
Depreciation (Note: 9)	3,151,233	2,361,345
Penalty paid to State Bank of Pakistan	486,500	-
Loss on sale of fixed assets	9,550	-
Amortization of premium on TFCs	21,309	-
Miscellaneous expenses	79,647	83,725
	44,535,824	31,730,620
This includes Company's contribution to provident fund amounting to Rs. 0.911 million (2002: Rs. 0.623 million).		
24. FINANCIAL CHARGES		
Mark-up on finance leases	600,544	472,084
Exchange loss	-	21,829
Bank and other charges	99,286	213,662
	699,830	707,575
	2003	2002
	Rupees	Rupees
25. NUMERICAL RECONCILIATION BETWEEN THE AVERAGE EFFECTIVE TAX RATE AND THE APPLICABLE TAX RATE		
	(Percentage)	
Applicable tax rate	35	35
Tax effect of amounts that are:		
(Taxable)/not deduction for tax purposes	-0.53	13.24
Chargeable to tax at lower rates	-0.31	-0.24
Effect of exempt income	-14.04	-11.7
	-14.88	1.3
Average effective tax rate charged to		
Profit and loss account	20.12	36.3
26. EARNINGS PER SHARE - BASIC AND DIALUTED		
Profit for the year after taxation	57,562,107	12,282,670

Average issued ordinary shares	Number of 20,000,000	shares 20,000,000
Earnings per share	Rupee 2.878	es 0.614

27. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

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

Advances outstanding at year end	23,306,406	22,877,862
Return on morabaha financing received	3,926,982	2,995,536
Letter of guarantees outstanding at year end	25,024,000	21,024,000
Guarantee commission earned	500,480	336,384
Certificates of Investment outstanding at year end	70,469,631	22,378,016
Profit paid on Certificates of Investment during the year	5,225,351	396,765
Subordinated debt outstanding at year end	84,030,171	84,030,171
Markup on subordinated debt	11,764,220	5,723,312
Fixed assets sold	307,894	-
Contribution to staff retirement benefits plan	910,801	623,359

28. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	Chief Executives		Directors		Executives	
	2003	2002	2003	2002	2003	2002
	Rupees					
Managerial remuneration	2,540,748	1,811,554	847,200	615,996	5,924,633	5,108,660
House rent allowance	-	142,807	-	246,408	1,859,766	1,856,922
Utilities	254,076	181,156	84,720	61,596	1,056,636	794,269
Bonus	251,707	-	77,000	-	644,384	-
Leave encashment	302,048	206,617	-	-	165,858	262,917
Retirement Benefits	254,076	621,938	-	-	565,359	411,642
Other Benefits	527,706	413,656	84,480	-	142,656	-
	4,130,361	3,377,728	1,093,400	924,000	10,359,292	8,434,410
	1	1	1	1	18	19

i) In addition to above the Chief Executive and ten Executives were provided with use of the

Company maintained cars and reimbursement of medical expenses.

ii) No fee was paid to the Directors for attending the board meetings.

iii) Chairman secretariat expenses have been reimbursed.

29. FINANCIAL INSTRUMENTS RELATED DISCLOSURES

29.1 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Company believes that it is not exposed to any significant level of liquidity risk.

29.2 Credit risk

• The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits Company's exposure to credit risk through monitoring of clients' credit exposure, review and conservative estimates of provisions for doubtful receivables and through the prudent use of collateral for large amounts of credit. The management is of the view that it is not exposed to significant credit risk as its financial assets are adequately diversified in different avenues.

29.3 Breakdown of credit risk exposure by class of business as at June 30, 2003 is as follows:

Class of business	Morabaha financing %	Certificates of Investment %	Letters of guarantee %
-------------------	----------------------	------------------------------	------------------------

Chemicals and Pharmaceuticals	2.56	-	-
Agribusiness	3.83	-	-
Textile spinning	3.87	-	-
Sugar	20.45	-	-
Financial	13.78	8.27	-
Insurance	-	0.43	-
Electronics and electrical appliances	5.11	-	33.12
Production and transmission of energy	5.02	0.46	-
Steel and allied products	-	-	1.39
Individuals	17.03	59.89	-
Construction	5.06	-	36.12
Sports	-	11.02	-
Defence	-	0.26	-
Non Government Organisation	-	0.43	-
Others	23.29	19.24	29.37
Total	100	100	100

29.4 Interest rate risk

(Amounts in Rupees)

Interest rate risk and sensitivity of the Company's financial liabilities and financial assets as at June 30, 2003 can be evaluated from the following:

Description	Note	Total	Exposed to interest rate risk			Not exposed to interest rate risk
			Within one year	More than one year and upto five years	Above five year	
LIABILITIES						
Borrowings from financial institutions	10	777,900,000	777,900,000	-	-	-
Certificates of Investments	11	692,667,583	528,638,305	164,029,278	-	-
Subordinated loans	12	84,030,171	84,030,171	-	-	-
Liabilities against asset?, subject to Finance lease	13	3,235,381	1,949,633	1,285,748	-	-
Creditors, accrued and other liabilities	14	18,831,898	-	-	-	18,831,898
Provision for taxation	15	36,262,083	-	-	-	36,262,083
Dividend	16	30,045,002	-	-	-	30,045,002
		1,642,972,118	1,392,518,109	165,315,026		85,138,983
ASSETS						
Cash and bank balances	3	68,446,192	59,685,163	-	-	8,761,029
Placements	4	323,093,425	255,870,000	67,223,425	-	-
Investments	5	1,104,770,424	1,104,770,424	-	-	-
Morabaha financing	6	375,653,895	289,756,381	85,897,514	-	-
Advances, deposits prepayments and other receivables	7	53,093,516	63,032	388,188	903,178	51,739,118
Membership Card	8	7,170,000	-	-	-	7,170,000
Tangible fixed assets	9	13,207,575	-	-	-	13,207,575
		1,945,435,027	1,710,145,000	153,509,127	903,178	80,877,722
Total interest rate sensitivity gap		302,462,909	317,626,891	-11,805,899	903,178	-4,261,261
Cumulative interest rate sensitivity gap		-	317,626,891	305,820,992	306,724,170	302,462,909
Off balance sheet financial assets and financial liabilities						
Forward sale commitments	21	50,000,000	50,000,000	-	-	-
Guarantees issued	21	75,561,319	75,561,319	-	-	-

Effective interest rates are mentioned in the respective notes to the accounts.

29.5. Fair value of the financial instruments

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

30. NUMBER OF EMPLOYEES

Total number of employees at the end of year was 40 (2002 : 36).

31. FINANCIAL RELIEF AND PROVISION AGAINST NON-PERFORMING ADVANCES

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

"Nil".

32. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 22nd September 2003 by the Board of Directors of the Company.

33. GENERAL

i) Figures have been rounded off to the nearest rupee.

ii) Corresponding figures have been rearranged wherever necessary for the purpose of comparison.

Rashid Mansur Shazia Bashir
Chief Executive Director

PATTERN OF SHARE HOLDING
AS ON JUNE 30, 2003

	Number	Shares held	Percentage
Associated Companies, Undertakings and Related Parties			
Essem Power (Pvt) Ltd.	1	7,801,969	39.01
NIT&ICP investment Corporation of Pakistan	1	627,734	3.14
Directors, CEO & their spouse and Minor Children			
Mr. Bashir Ahmed	1	2,136,031	10.68
Mrs. Oarakhshan Bashir	1	1,142,000	5.71
Ms. Shazia Bashir	1	1,563,969	7.82
Ms. Marvam Bashir	2	1,424,500	7.12
Mr. Mutahir Ahmed	1	100,000	0.5
Mr. Farrukh Ahmed Kamran	1	50,000	0.25
Mr. Bairam Qureshy	1	500	0
Mr. Qaim Mehdi Executive	1	500	0
Public Sector Companies and Corporation Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	4	3,460,719	17.3
Shareholders ho'ding ten percent or more voting interest in the Company	-	-	-
Individuals	264	1,559,078	7.8
Others	11	133,000	0.67
	290	20,000,000	100