



## 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

(As of March 20, 2004)

### PRESIDENT & CHIEF EXECUTIVE

### AUDIT COMMITTEE

### COMPANY SECRETARY

### AUDITORS

### TAX ADVISORS

### LEGAL ADVISORS

### BANKERS

### REGISTERED OFFICE

### KARACHI OFFICE

Mr. Khursheed K. Marker (Chairman)  
Haji Jan Muhammad  
Mr. Muhammad Younus Abdul Aziz Tabba  
Mr. Muhammad Sohail Younus Tabba  
Mr. Muhammad Ali Tabba  
Mr. Muhammad Rafiq Abdul Ghaffar Tumbi  
Ms. Iffat Zehra Mankani

Mr. Muhammad Saleem Rathod

Mr. Khursheed K. Marker  
Haji Jan Muhammad  
Mr. Muhammad Rafiq Abdul Ghaffar Tumbi

Farhan Ahmed

Muniff Ziauddin & Co.  
Chartered Accountants

Anjum Asim Shahid Rahman  
Chartered Accountants

Bawaney & Partners  
Muhammad Tariq Qureshi

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.

15-E, Rehmat Centre, Jinnah Avenue,  
Blue Area, Islamabad.  
Tel : (051) 2822504, 2822505 & 2277494  
Fax: (051) 2826488 Telex : 54649 SIBL PK

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



## NOTICE OF THE THIRTEENTH ANNUAL GENERAL MEETING

Notice is hereby given that the Thirteenth Annual General Meeting of Security Investment Bank Limited will be held at the Registered Office of the company located at 15, Rehmat Centre, Jinnah Avenue, Blue Area, Islamabad, on April 28, 2004 at 10.30 a.m. to transact the following business:

### **ORDINARY BUSINESS**

- 1) To confirm the minutes of Twelfth Annual General Meeting held on April 30, 2003.
- 2) To receive and adopt the audited accounts of the company for the year ended December 31, 2003 together with the Directors' and Auditors' report thereon.
- 3) To approve the payment of interim dividend (i.e. 15% bonus and 10% cash) as final dividend for the year ended December 31, 2003.
- 4) To appoint Auditors and fix their remuneration.

### **SPECIAL BUSINESS**

- 5) To consider and pass, with or without amendment(s), resolutions as special resolutions relating to the proposed amendments to various clauses of the Memorandum of Association and various articles of the Articles of Association of the Company, so as to bring the Memorandum and Articles in line with new regulatory requirements subject to the approval of Securities & Exchange Commission of Pakistan. (See text of Special Resolution).

### **ANY OTHER BUSINESS**

- 6) 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 22nd April, 2004 to 28th April, 2004 (both days inclusive). Transfer received at our shares department, 606, 6<sup>th</sup> Floor, Unitowers, I.I. Chundrigar Road, Karachi at the close of business on 21st April, 2004 will be treated in time.

By order of the Board

**Farhan Ahmed**  
Company Secretary

Islamabad.

Date: April 5, 2004

### **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 Registered Office 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.
- 4) A statement under section 160 (1) (B) of the Companies Ordinance, 1984 pertaining to the special business along with the special resolutions to be passed at the Annual General Meeting is being sent to the members along with this Notice. The existing Memorandum and Articles of Association of the Company and the special resolutions are available at the Registered Office of the Company for perusal and inspection of the members during office hours.



## DIRECTOR'S REPORT TO THE SHAREHOLDERS

The Directors of Security Investment Bank Limited are pleased to present the 12th annual report of Security Investment Bank Limited for the year ended December 31, 2003.

### ECONOMIC OUTLOOK

There is no doubt that Pakistan's macro-economic picture looks better than it has in more than a decade. Almost every macro indicator is showing improvement and progress. One can easily feel that there are changes in political, economical, and geo-political environment and these changes are providing impetus for growth for which we have been carving for years.

The virtuous cycle of declining inflation, lower interest rate, and stronger currency is in full swing. The economic growth has resumed, fiscal discipline is enforced, debt trap is loosening, foreign exchange reserves has surpassed all its previous levels, exports are increasing, sovereign credit rating has improved.

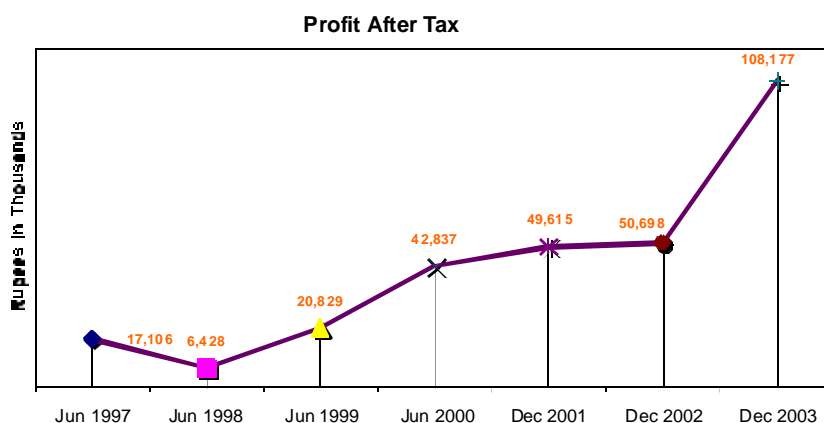
The thoughtful economic management team is rightly addressing the debt profile and as a result, the debt trap we were engulfed in for years is now loosening. The profit rates on NSS are being continuously rationalized and the tax burden on national exchequer is expected to reduce considerably. The uncompleted agenda of privatization is being pursued by the present government with full zeal and major privatization deals are in pipeline.

### REGULATORY ENVIRONMENT

Government is bringing more and more liberty into the financial and corporate sector. Securities and Exchange Commission of Pakistan (SECP) with effect from April 2003, has promulgated the rules of business for the NBFCs, which have broadened the scope of investment banks. The investment banks can now venture into many other areas, provided they meet the capital requirement, which was not possible before. Keeping in view the possibilities of entering into other business arenas, we have brought appropriate changes in our Memorandum and Articles of Association, which would enable us to offer new products to our valued clients at an appropriate time. The positive and consultative approaches SECP is following would surely enable us to tap new business propositions.

### OPERATIONAL PERFORMANCE

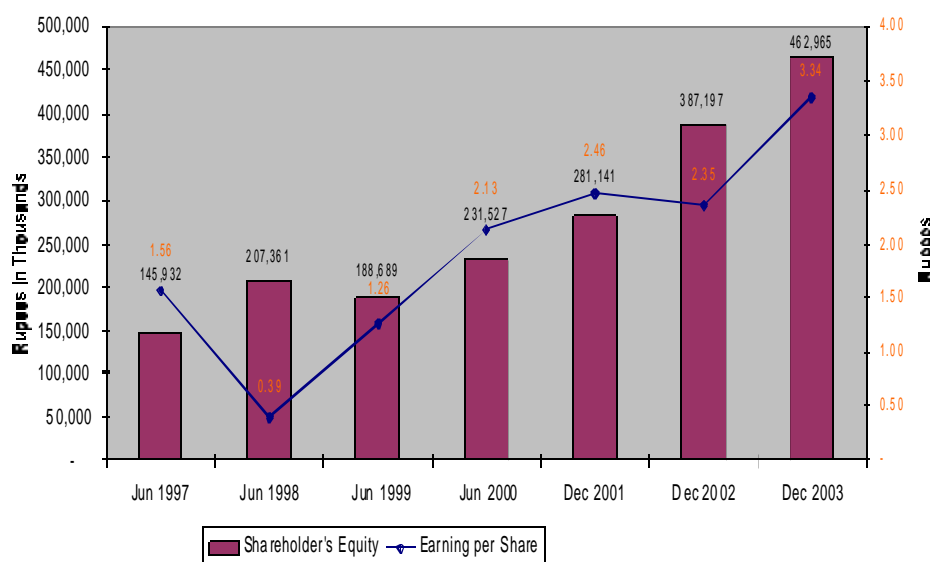
The year 2003 has been a remarkable year for Security Investment Bank Ltd. in which we surpassed all our previous profit records by posting a huge after-tax profit of Rs. 108.177 million.





The major contributor towards this outstanding performance was our in time positional adjustment to capture the business opportunities in both the capital and money market. Collectively these two sources have shown an increase in our total earnings of 116% i.e. Rs. 67,331 ('000) in the year 2002 to Rs. 145,787 ('000) in the year 2003. This clearly reflects the success of adjustment in our business policy of actively involving us in the capital and money market. The increase of revenue in this segment does not entail any increase in our interest expense, which in fact decreased by around 8%. The interest expense during the current year totals to Rs. 32,969 ('000), while the corresponding figure of last year was Rs. 35,674('000). Because of the shift in our business strategy the incomes from financing and placement have reduced to Rs. 37,492 ('000) from Rs. 50,900 ('000) last year.

### Shareholders Equity and Earning per Share



This excellent performance during the year under review translated into an Earning per Share of Rs. 3.34, which was Rs. 1.96 last year. We achieved these results without adding any risky assets to our portfolio, and our portfolio still reflects our cautious approach towards our business.

## CORPORATE GOVERNANCE

The Board regularly reviews the company's strategic decision, 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 the 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.
- The Board of Directors has established an Audit Committee, to assist it in discharging its responsibilities for corporate governance, financial reporting and corporate control. The committee consists of three members including the Chairman of the committee who are non-executive directors.
- Communication with the shareholders is given a high priority. Annual, half yearly and quarterly reports are distributed to them regularly. There is also an opportunity for individual shareholder to attend and ask questions at the Annual General Meeting.
- Key operating and financial data of last six years of Security Investment Bank Limited are as follows:

Rupees in million

Year ended	December 2003	December 2002	December 2001 (18 months)	June 2000	June 1999	June 1998
Share Capital	324	282	201	165	165	165
Shareholder's equity	463	387	356	232	189	207
Deposits	478	270	254	499	1,043	1,414
Borrowings	703	728	948	285	50	60
Advances	288	240	286	311	928	1,244
Investments	1,273	1,125	724	219	132	162
Operating Profit	132	68	65	55	32	16
Provisions against non-performing advances	–	–	–	–	–	4
Net Profit after provisions	132	68	65	55	32	12
Total Assets	1,740	1,544	1,572	1,046	1,345	1,725
Cash Dividend	10% (i)	12.5% (i)	–	–	10%	–
Bonus	15% (i)	–	–	22%	–	–

- As on December 31, 2003 based on the unaudited accounts, the value of investment of Provident Fund is Rs. 2.145 million.
- The pattern of shareholding as at December 31, 2003 along with the disclosure required under the Code of Corporate Governance is annexed to the report.



- During the year ended December 31, 2003, the Board of Directors held four meetings. Attendance of each director is as follows:

<b>Name</b>	<b>No. of Meetings Attended</b>
Mr. Khursheed K. Marker (Chairman)	4
Mr. Minocher K. A. Marker (Resigned on Aug. 16, 2003)	2
Haji Jan Muhammad (Appointed on Aug. 16, 2003)	1
Mr. Muhammad Younus Abdul Aziz Tabba	3
Mr. Muhammad Sohail Younus Tabba	4
Mr. Muhammad Ali Tabba	2
Mr. Muhammad Rafiq Abdul Ghaffar Tumbi	1
Mr. Ather Husain Medina (Resigned on Jan. 14, 2004)	1
Mr. Mohammad Saleem Rathod	4

### **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).

These rating reaffirmations are based on strong asset quality, high level of liquidity, and adequate returns on equity.

### **FUTURE OUTLOOK**

The fundamentals of Pakistan's economy are improving with greater pace now and all the key indicators are showing consolidation. The financial sector would surely be a beneficiary of economic strength and renewed activities. The capital market is continuously showing strength and providing investors an earning proposition which no other segment is offering. The country's first commodity exchange would hopefully be operational very soon, and we are aiming to operate in this market and offer services to our valued customers, and add to our product mix. We are expecting to generate handsome revenue from this business.

### **AUDITORS**

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

### **ACKNOWLEDGEMENTS**

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

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

Karachi:

Date: March 20, 2004





## 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 seven non-executive directors.
2. The directors have confirmed that none of them is serving as a director in ten or more listed companies, including this company.
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 DFI or NBFC or, being a member of a stock exchange(s), has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring in the Board on August 16, 2003 was filled up by the director on the same day.
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. Furthermore, the CEO also attended a course on the Code of Corporate Governance arranged by the Securities and Exchange Commission of Pakistan.
10. Officers having positions of CFO, and Head of Internal Audit were appointed prior to the implementation of the Code of Corporate Governance. Terms of appointment, including remuneration in case of future appointments on these positions will be approved by the Board. However, subsequent to year end the appointment of new Company Secretary has been duly approved by Board.



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, 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 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 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.
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.

**Khursheed K. Marker**  
Chairman

**Muhammad Saleem Rathod**  
Chief Executive



## ***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, 2003, 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, 2003.

**MUNIFF ZIAUDDIN & CO.**  
Chartered Accountants

Place: Karachi

Date: March 20, 2004



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

We have audited the annexed balance sheet of SECURITY INVESTMENT BANK LIMITED as at December 31, 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 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;
  - (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, 2003 and of the profit, its cash flows and statement of 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.

**MUNIFF ZIAUDDIN & CO.**  
Chartered Accountants

Place: Karachi  
Date: March 20, 2004



## BALANCE SHEET

AS AT DECEMBER 31, 2003

	Note	2003 Rupees	2002 Rupees
<b>ASSETS</b>			
Tangible fixed assets	5	1,675,611	2,383,234
Membership card - Intangible	6	36,000,000	36,000,000
Deferred cost	7	334,430	297,924
<b>CURRENT ASSETS</b>			
Short term financing	8	288,317,851	239,945,855
Placements	9	–	10,000,000
Short term investments	10	1,273,216,717	1,124,646,430
Advances, deposits, prepayments and other receivables	11	43,700,335	94,708,355
Cash and bank balances	12	96,473,094	36,012,604
		<b>1,701,707,997</b>	<b>1,505,313,244</b>
		<b>1,739,718,038</b>	<b>1,543,994,402</b>
<b>SHARE CAPITAL AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
<b>Authorized</b>			
50,000,000 ordinary shares of Rs. 10/- each		500,000,000	500,000,000
Issued, subscribed and paid up capital	13	324,093,000	281,820,000
Statutory reserve	14	71,503,263	49,867,944
Unappropriated profit		67,368,254	55,509,276
		<b>462,964,517</b>	<b>387,197,220</b>
Surplus/(deficit) on revaluation of investments-net	15	53,844,704	94,643,398
<b>LIABILITIES</b>			
Deferred liabilities	16	22,102,117	51,648,582
<b>CURRENT LIABILITIES</b>			
Borrowings	17	702,500,000	727,500,000
Short term deposits	18	478,187,472	270,151,475
Accrued and other liabilities	19	20,119,228	12,853,727
		<b>1,200,806,700</b>	<b>1,010,505,202</b>
Contingencies and commitments	20		
		<b>1,739,718,038</b>	<b>1,543,994,402</b>

The annexed notes form an integral part of these accounts.

(KHURSHEED K. MARKER)  
Chairman

(MUHAMMAD SALEEM RATHOD)  
Chief Executive



**PROFIT & LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Note	2003 Rupees	2002 Rupees
<b>INCOME</b>			
Return on financing and placements	21	37,492,353	50,899,804
Return on Securities	22	90,690,680	54,533,870
Gain on sale of investments (shares)		55,096,076	12,797,642
Profit on deposit with banks		701,677	1,143,246
Other income	23	2,326,787	4,670,326
		<b>186,307,573</b>	<b>124,044,888</b>
<b>EXPENDITURE</b>			
Return on deposits and borrowings including forward cover fee	24	32,969,466	35,674,211
Operating expenses	25	21,302,539	19,925,093
		<b>54,272,005</b>	<b>55,599,304</b>
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>			
		<b>132,035,568</b>	<b>68,445,584</b>
Provision for taxation	26	23,858,971	17,747,410
<b>PROFIT AFTER TAXATION</b>			
		<b>108,176,597</b>	<b>50,698,174</b>
Unappropriated profit brought forward		55,509,276	40,113,237
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>			
		<b>163,685,873</b>	<b>90,811,411</b>
<b>Appropriations</b>			
Transferred to statutory reserve		21,635,319	10,139,635
Interim Dividend			
Bonus shares 15%		42,273,000	–
Cash 10% (2002: 12.50%)		32,409,300	25,162,500
		<b>96,317,619</b>	<b>35,302,135</b>
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD TO BALANCE SHEET</b>			
		<b>67,368,254</b>	<b>55,509,276</b>
<b>Earnings per share-Basic</b>	27	<b>3.34</b>	<b>1.96</b>

The annexed notes form an integral part of these accounts.

(KHURSHED K. MARKER)  
Chairman

(MUHAMMAD SALEEM RATHOD)  
Chief Executive



## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 Rupees	2002 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit before tax	132,035,568	68,445,584
Less: Dividend Income	(639,676)	(935,212)
	<u>131,395,892</u>	<u>67,510,372</u>
<b>Adjustment for non-cash and other items</b>		
Depreciation	961,781	1,874,266
Amortization of deferred cost	117,578	86,759
(Gain)/Loss on disposal of shares	(55,096,076)	(12,797,642)
(Gain)/Loss on disposal of fixed assets	-	(3,139)
(Gain)/Loss on sale of securities	(39,312,708)	(21,849,922)
Provision for gratuity	678,000	758,000
	<u>(92,651,425)</u>	<u>(31,931,678)</u>
	<b>38,744,467</b>	<b>35,578,694</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES</b>		
(Increase)/decrease in financing and placements	(38,371,996)	282,632,373
(Increase)/decrease in advances, deposits, prepayments and other receivables	51,694,739	(29,656,411)
Increase/(decrease) in deposits	208,035,997	176,764,018
Increase/(decrease) in borrowings	(25,000,000)	(220,500,000)
Increase/(decrease) in accrued and other liabilities	5,744,923	(9,901,865)
	<u>202,103,663</u>	<u>199,338,115</u>
Income tax paid	(24,483,916)	(3,499,466)
Gratuity paid	(105,280)	(142,000)
Dividend paid	(30,888,721)	(24,084,310)
	<u>(55,477,917)</u>	<u>(27,725,776)</u>
	<b>185,370,213</b>	<b>207,191,033</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase)/Sale of fixed assets	(254,159)	(692,774)
Long term financing	-	125,284,339
Long term deposits	-	(160,155,925)
(Purchase)/Sale of investments (shares)	38,913,683	(348,224,908)
(Purchase)/Sale of securities	(164,054,839)	135,199,298
Dividend income	639,676	935,212
Deferred cost incurred during the year	(154,084)	(270,080)
	<u>(124,909,723)</u>	<u>(247,924,838)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Sub-Ordinated debt	-	(75,000,000)
Issue of right shares	-	80,520,000
	<u>-</u>	<u>5,520,000</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase/(decrease) in cash and cash equivalents	60,460,490	(35,213,805)
Cash and cash equivalents at the beginning of the year	36,012,604	71,226,409
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><u>96,473,094</u></u>	<u><u>36,012,604</u></u>

The annexed notes form an integral part of these accounts.

**(KHURSHEED K. MARKER)**  
Chairman

**(MUHAMMAD SALEEM RATHOD)**  
Chief Executive



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2003

	Share Capital (Note 13)	Statutory Reserve (Note 14)	Reserve for Bonus Shares	Subordinated Debt	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at Jan. 01, 2002	201,300,000	39,728,309	–	75,000,000	40,113,237	356,141,546
Net profit for the year	–	–	–	–	50,698,174	50,698,174
Amount received against right issue	80,520,000	–	–	–	–	80,520,000
Amount transferred to deposits	–	–	–	(75,000,000)	–	(75,000,000)
Appropriations:						
Statutory Reserve	–	10,139,635	–	–	(10,139,635)	–
Interim dividend	–	–	–	–	(25,162,500)	(25,162,500)
<b>Balance as at December 31, 2002</b>	<b>281,820,000</b>	<b>49,867,944</b>	<b>–</b>	<b>–</b>	<b>55,509,276</b>	<b>387,197,220</b>
Net profit for the year	–	–	–	–	108,176,597	108,176,597
Reserve for issuance of bonus shares	–	–	42,273,000	–	(42,273,000)	–
Bonus shares issued during the year	42,273,000	–	(42,273,000)	–	–	–
Appropriations:						
Statutory Reserve	–	21,635,319	–	–	(21,635,319)	–
Interim dividend	–	–	–	–	(32,409,300)	(32,409,300)
<b>Balance as at December 31, 2003</b>	<b>324,093,000</b>	<b>71,503,263</b>	<b>–</b>	<b>–</b>	<b>67,368,254</b>	<b>462,964,517</b>

The annexed notes form an integral part of these accounts.

**(KHURSHEED K. MARKER)**  
Chairman

**(MUHAMMAD SALEEM RATHOD)**  
Chief Executive





## **NOTES TO THE ACCOUNTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2003**

#### **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 15-E, Rehmat Centre, Jinnah Avenue, Blue Area, Islamabad.

SIBL is licensed to carry out business of investment finance services as a Non-Banking Finance Company (NBFC) under 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).

Based on financial results for the year ended December 31, 2002, the JCR - VIS Credit Rating Company Limited reaffirmed the medium to long-term rating of SIBL at 'A' (Single A) and the short-term rating at 'A-1' (A one).

#### **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 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 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, as modified for certain investments, which are stated on mark to market basis.

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

##### **4.1 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 year's depreciation is charged on additions, while no depreciation is charged on assets disposed off during the year.

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.

##### **4.2 Intangible**

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

##### **4.3 Deferred Cost**

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



## **NOTES TO THE ACCOUNTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2003**

#### **4.4 Investments**

The management of Security Investment Bank Limited 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-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.

##### **Held-to-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 needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

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

Subsequent to initial recognition, investments are marked to market in accordance with the guidelines contained in the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000, using stock exchange rates and brokers average rates. 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.

#### **4.5 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.

The 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.

The 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.

#### **4.6 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 Security Investment Bank Limited. 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.

#### **4.7 Staff retirement benefits**

##### **4.7.1 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 employee, to the fund @ 10% of basic salary.



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2003

### **4.7.2 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 29. Actuarial gains / losses in excess of 10% of the actuarial liabilities or plan assets are recognized over the average lives of the employees.

### **4.8 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.

### **4.9 Financial instruments**

All financial assets and financial liabilities are recognized at the time when Security Investment Bank Limited 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.

### **4.10 Borrowing costs**

Borrowing costs incurred on finances obtained are currently taken to profit and loss account on time proportion basis.

### **4.11 Classification of deposits and financing**

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

### **4.12 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.

Return on Government Securities and TFC's is recognised on accrual basis.

### **4.13 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.



## **NOTES TO THE ACCOUNTS**

FOR THE YEAR ENDED DECEMBER 31, 2003

### **Deferred**

Deferred tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

Deferred tax assets/liabilities on unrealized losses/gains on revaluation of investments are recorded as an adjustment to the same account. Where the unrealized losses/gains are recognized.

#### **4.14 Foreign currency transactions**

Assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing on the balance sheet date. However, liabilities representing deposits in foreign currencies and the return on these deposits are converted at the rate prevailing on the date of deposits, where the option of exchange risk cover has been exercised.

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.

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

Provision is made against doubtful receivables in pursuance of State Bank of Pakistan's Non Banking Financial Institutions (SBP's NBFIs) Regulations.



## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2003

#### 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, 2003
	As at Jan. 01, 2003	Additions	Deletions	As at Dec. 31, 2003		As at Jan. 01, 2003	Charge for the year	Adjustment	As at Dec. 31, 2003	
Furniture & fixtures	2,928,400	6,400	–	2,934,800	10	2,676,891	153,471	121,280	2,709,082	225,718
Computers and equipments	2,677,776	199,413	–	2,877,189	20	1,995,529	575,438	–	2,570,967	306,222
Telephone system	177,150	48,346	–	225,496	10	160,786	8,650	13,901	155,535	69,961
Vehicles	4,817,707	–	–	4,817,707	20	3,521,704	651,283	356,493	3,816,494	1,001,213
Generator	497,148	–	–	497,148	10	397,287	49,714	–	447,001	50,147
Sign board	149,000	–	–	149,000	10	111,750	14,900	–	126,650	22,350
<b>Rupees 2003</b>	<b>11,247,181</b>	<b>254,159</b>	<b>–</b>	<b>11,501,340</b>		<b>8,863,947</b>	<b>1,453,456</b>	<b>491,674</b>	<b>9,825,729</b>	<b>1,675,611</b>
Rupees 2002	10,796,352	1,267,774	816,945	11,247,181		7,234,765	1,874,266	245,084	8,863,947	2,383,234

5.1 Cost and accumulated depreciation as at the end of the year include Rs. 3,100,377/- (2002: 1,561,290/-) in respect of fully depreciated assets still in use.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	Note	2003 Rupees	2002 Rupees
<b>6. MEMBERSHIP CARD - Intangible</b>			
Karachi Stock Exchange		<u>36,000,000</u>	<u>36,000,000</u>
<b>7. DEFERRED COST</b>			
Opening balance		297,924	114,603
Incurred during the year	7.1	<u>154,084</u>	<u>270,080</u>
		452,008	384,683
Amortized during the year		<u>(117,578)</u>	<u>(86,759)</u>
		<u>334,430</u>	<u>297,924</u>
7.1 Deferred cost represents expenses incurred on issue of bonus shares.			
<b>8. SHORT TERM FINANCING - secured (considered good)</b>			
Demand finance	8.1	291,898,449	218,526,453
Provision for non-performing loans	8.2	<u>(3,580,598)</u>	<u>(3,580,598)</u>
		288,317,851	214,945,855
Musharika finance		<u>-</u>	<u>25,000,000</u>
		<u>288,317,851</u>	<u>239,945,855</u>
8.1 This represents short term financing secured by demand promissory notes, hypothecation or a charge on assets of customers and certificates of deposits. The mark-up rates range from 10% to 16% per annum (2002: 11% to 20% per annum). It includes loans to associated undertakings amounting to Rs. 77.500 million (2002: Nil) on a secured basis carrying mark-up of 11% per annum.			
<b>8.2 Particulars of provision against non-performing loans</b>			
Opening balance		3,580,598	3,580,598
(Reversal) or Write-off during the year		<u>-</u>	<u>-</u>
Closing balance		<u>3,580,598</u>	<u>3,580,598</u>
<b>9. PLACEMENTS</b>			
	9.1	<u>-</u>	<u>10,000,000</u>

9.1 This represented placements with Non-Banking Finance Companies on short term basis.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

### 10. SHORT TERM INVESTMENTS

Available-for-sale	Note	2003			2002		
		Held by SIBL	Repo	Total	Held by SIBL	Repo	Total
		-----Rupees-----			-----Rupees-----		
Pakistan Investment Bonds	10.1	58,903,100	620,304,300	679,207,400	70,712,975	544,027,425	614,740,400
Wapda Bonds - 10th issue	10.2	53,500,000	-	53,500,000	-	-	-
Term Finance Certificates	10.3	72,811,179	65,055,982	137,867,161	104,510,754	21,990,000	126,500,754
Quoted shares	10.4	402,642,156	-	402,642,156	383,405,276	-	383,405,276
		<u>587,856,435</u>	<u>685,360,282</u>	<u>1,273,216,717</u>	<u>558,629,005</u>	<u>566,017,425</u>	<u>1,124,646,430</u>

10.1 Pakistan Investment Bonds (PIBs) have face value of Rs. 550,000,000 (2002: Rs. 450,000,000) with income receivable semi-annually at 8% to 12% (2002 9% - 12%) per annum and having maturity period from 5 to 10 years.

10.2 These represent 10,000 certificates of unlisted bonds having face value of Rs. 5,000/- each with income receivable semi-annually at 7.25% per annum, having 5 years maturity period.

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

Issuer of TFC	No. of Certificates		2003		2002	
	2003	2002	Cost	Market value	Cost	Market value
			-----Rupees-----			
National Development Leasing Corp. Limited	100	100	3,330,680	3,750,679	6,661,340	7,494,008
Trust Investment Bank Limited	3,187	3,187	7,957,939	8,319,229	15,919,065	17,590,567
Paramount Leasing Corporation Limited	4,010	4,010	5,012,500	5,232,047	14,636,500	15,825,716
Atlas Investment Bank Limited	3,300	3,300	10,991,189	12,191,427	16,486,800	18,428,120
Al-Noor Sugar Mills Limited	4,000	4,000	9,996,000	10,978,607	14,997,000	16,196,760
Orix Leasing Pakistan Limited	1,000	1,000	4,846,000	5,403,775	4,997,000	5,682,338
Engro Chemicals Limited	670	670	3,347,320	3,685,065	3,348,660	3,792,357
Shakarganj Sugar Mills Limited	2,022	2,022	10,105,956	10,815,395	10,110,000	10,880,888
Bank Al-Falah Limited	1,588	1,588	7,936,824	9,409,899	7,940,000	7,940,000
Union Bank Limited	4,534	4,534	22,660,932	26,846,406	22,670,000	22,670,000
Pakistan International Airlines	7,000	-	34,999,650	36,749,632	-	-
Pakistan Services Limited	897	-	4,485,000	4,485,000	-	-
			<u>125,669,990</u>	<u>137,867,161</u>	<u>117,766,365</u>	<u>126,500,754</u>



## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2003

#### 10.3.1 Terms of redemption of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption Terms
National Development Leasing Corp. Limited	100,000	17.00%	Semi-annually	Five years from December 01, 1999
Trust Investment Bank Limited	5,000	18.00%	Semi-annually	Five years from December 21, 1999
Paramount Leasing Corporation Limited	5,000	16.25%	Semi-annually	Four years from June 28, 2000
Atlas Investment Bank Ltd.	5,000	15.00%	Semi-annually	Five years from September 27, 2000
Al-Noor Sugar Mills Ltd.	5,000	2.5% over SBP discount rate with 16.5% per annum as floor and 18.5% per annum as ceiling.	Semi-annually	Five years from November 01, 2000
Orix Leasing Pakistan Ltd.	5,000	14.00%	Semi-annually	Four years from March 22, 2001
Engro Chemicals Limited	5,000	1.15% over the weighted average rate of the last three cut-off yields of five years Pakistan Investment Bonds with 13.00% as floor and 17.00% as ceiling	Semi-annually	Five years from November 27, 2001 with embedded call option exercisable at par 3 years from issue date with a 3 months notice period
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





## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2003

10.4 Quoted shares	2003		2002	
	Cost	Market Value	Cost	Market Value
<b><i>Pakistan Premier Fund Limited</i></b> <b><i>(formerly KASB premium fund)</i></b> 56,250 (2002: 483,000) ordinary shares of Rs. 10/- each	513,130	866,250	5,858,790	4,298,700
<b><i>Saudi Pak Leasing Company Limited</i></b> 31,900 (2002: 31,900) ordinary shares of Rs. 10/- each	1,450,590	299,860	1,450,590	178,640
<b><i>Bankers Equity Limited</i></b> 1,438 (2002: 1,438) ordinary shares of Rs. 10/- each	37,500	–	37,500	–
<b><i>National Bank of Pakistan</i></b> 182,555 (2002: 402,550) ordinary shares of Rs. 10/- each	9,773,376	9,894,481	11,417,840	11,372,038
<b><i>Pakistan Synthetics Limited</i></b> 18,750 (2002: 18,750) ordinary shares of Rs. 10/- each	688,500	301,875	688,500	243,750
<b><i>D.G.Khan Cement Company Limited</i></b> 308,265 (2002: 17,765) ordinary shares of Rs. 10/- each	14,341,132	14,087,710	1,095,132	248,710
<b><i>Fauji Cement Company Limited</i></b> 484,000 (2002: 100) ordinary shares of Rs. 10/- each	5,521,950	5,324,000	1,000	365
<b><i>23rd ICP Mutual Fund</i></b> 88,000 (2002: 190,000) ordinary shares of Rs. 10/- each	880,000	651,200	1,900,000	1,092,500
<b><i>Cherat Cement Company Limited</i></b> 49,500 (2002: 49,500) ordinary shares of Rs. 10/- each	4,024,900	2,526,975	4,024,900	1,237,500
<b><i>Fauji Fertilizer Company Limited</i></b> 75,300 (2002: 214,900) ordinary shares of Rs. 10/- each	6,935,850	7,191,150	15,890,405	15,709,190
<b><i>Maple Leaf Cement Factory Limited</i></b> 54,000 (2002: 36,000) ordinary shares of Rs. 10/- each	1,704,600	1,690,200	1,120,000	315,000
<b><i>Sui Northern Gas Pipeline Limited</i></b> 326,000 (2002: 1,039,523) ordinary shares of Rs. 10/- each	13,251,300	13,431,200	25,253,821	25,676,218
<b><i>Pakistan Telecommunication Company Limited</i></b> 541,500 (2002: 584,500) ordinary shares of Rs. 10/- each	19,585,100	19,845,975	14,333,850	15,197,000
<b><i>Pakistan State Oil Company Limited</i></b> 85,100 (2002: 315,100) ordinary shares of Rs. 10/- each	23,832,515	24,555,605	61,744,437	66,643,650
<b><i>Engro Chemicals Pakistan Limited</i></b> 234,200 (2002: 249,700) ordinary shares of Rs. 10/- each	20,472,145	21,733,760	23,634,545	22,984,885
<b><i>The Hub Power Company Limited</i></b> 1,270,000 (2002: 1,697,500) ordinary shares of Rs. 10/- each	49,754,950	48,831,500	61,955,750	68,069,750
<b><i>ICI Pakistan Limited</i></b> 50,000 (2002: 263,000) ordinary shares of Rs. 10/- each	4,122,500	4,250,000	13,745,600	14,188,850



## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2003

	2003		2002	
	Cost	Market Value	Cost	Market Value
<b><i>Fauji Fertilizer Bin Qasim Limited</i></b> <b><i>(formerly FFC Jordan)</i></b> 439,500 (2002: 2,030,000) ordinary shares of Rs. 10/- each	7,712,475	7,735,200	19,377,610	19,386,500
<b><i>Dewan Salman Fiber Limited</i></b> 65,000 (2002: 435,000) ordinary shares of Rs. 10/- each	1,209,000	1,261,000	6,558,750	6,438,000
<b><i>Nishat Mills Limited</i></b> 150,200 (2002: 747,000) ordinary shares of Rs. 10/- each	4,830,000	4,843,950	14,336,250	13,595,400
<b><i>Adamjee Insurance Company Limited</i></b> 100,150 (2002: 567,150) ordinary shares of Rs. 10/- each	6,602,500	6,680,005	34,966,012	34,766,295
<b><i>Lucky Cement Limited</i></b> 200,000 (2002: 508,500) ordinary shares of Rs. 10/- each	4,950,000	4,930,000	5,590,525	5,695,200
<b><i>Telecard Limited</i></b> 515,000 (2002: 827,700) ordinary shares of Rs. 10/- each	12,129,500	12,308,500	13,418,890	13,077,660
<b><i>The Bank of Punjab</i></b> Nil (2002: 762,000) ordinary shares of Rs. 10/- each	–	–	12,284,400	12,039,600
<b><i>Southern Electric Power Company Limited</i></b> 256,000 (2002: 215,500) ordinary shares of Rs. 10/- each	4,269,800	4,249,600	3,185,000	3,232,500
<b><i>Muslim Commercial Bank Limited</i></b> 475,650 (2002: 340,500) ordinary shares of Rs. 10/- each	24,168,150	24,448,410	11,504,300	11,355,675
<b><i>ICP S.E.M.F.</i></b> 388,500 (2002: 203,000) ordinary shares of Rs. 10/- each	17,466,150	18,609,150	6,992,475	7,206,500
<b><i>Pakistan PTA Limited</i></b> Nil (2002: 1,124,000) ordinary shares of Rs. 10/- each	–	–	7,754,958	7,924,200
<b><i>Karachi Electric Supply Corporation</i></b> 712,500 (2002: 5,000) ordinary shares of Rs. 10/- each	4,742,700	4,809,375	25,000	24,500
<b><i>Ibrahim Fibres Limited</i></b> Nil (2002: 63,500) ordinary shares of Rs. 10/- each	–	–	1,194,175	1,206,500
<b><i>Bosicor Pakistan limited</i></b> 230,000 (2002: Nil) ordinary shares of Rs. 10/- each	5,451,000	5,508,500	–	–
<b><i>Chakwal Cement Company Limited</i></b> 501,000 (2002: Nil) ordinary shares of Rs. 10/- each	2,756,450	2,680,350	–	–
<b><i>Dewan Farooque Motors Limited</i></b> 321,500 (2002: Nil) ordinary shares of Rs. 10/- each	10,505,900	10,738,100	–	–
<b><i>Japan Power Company Limited</i></b> 600,000 (2002: Nil) ordinary shares of Rs. 10/- each	2,940,000	2,940,000	–	–



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003		2002	
	Cost	Market Value	Cost	Market Value
<b>Pak oil Fields</b>				
408,800 (2002: Nil) ordinary shares of Rs. 10/- each	94,807,070	96,395,040	-	-
<b>Pakistan International Airlines</b>				
279,500 (2002: Nil) ordinary shares of Rs. 10/- each	5,792,550	5,743,725	-	-
<b>Sui Southern Gas Company Limited</b>				
104,000 (2002: Nil) ordinary shares of Rs. 10/- each	3,061,450	2,958,800	-	-
<b>TRG Pakistan Limited</b>				
120,500 (2002: Nil) ordinary shares of Rs. 10/- each	1,824,825	1,891,850	-	-
<b>World Call Communications</b>				
40,000 (2002: Nil) ordinary shares of Rs. 10/- each	568,000	570,000	-	-
<b>OGDCL *</b>				
151,229 (2002: Nil) ordinary shares of Rs. 10/- each	4,840,840	7,848,785	-	-
<b>Pakistan International Container Limited</b>				
500 (2002: Nil) ordinary shares of Rs. 10/- each	5,000	10,075	-	-
	<b>397,523,398</b>	<b>402,642,156</b>	<b>381,341,005</b>	<b>383,405,276</b>

\* These shares were allotted on December 13, 2003 and received on January 10, 2004.

		2003	2002
		Rupees	Rupees
11.	<b>ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>		
	<b>Advances</b>		
	For expenses	29,883	49,519
	Suppliers & Others	1,654,000	185,000
	Advance income tax less payments and provision for taxation	13,250,524	12,563,805
		<b>14,934,407</b>	<b>12,798,324</b>
	<b>Deposits</b>		
	Security	1,811,088	1,911,088
	High Court	2,566,112	2,566,112
		<b>4,377,200</b>	<b>4,477,200</b>
	<b>Prepayments</b>		
	Others	1,311,706	1,356,160
	<b>Other receivables</b>		
	Income receivable	22,841,276	21,249,721
	Other receivables	235,746	54,826,950
		<b>23,077,022</b>	<b>76,076,671</b>
		<b>43,700,335</b>	<b>94,708,355</b>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

- 11.1 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.

	Note	2003 Rupees	2002 Rupees
11.2 <b>Income receivable</b>			
Not due	11.2.1	23,249,470	21,657,915
Provision for doubtful debts		(408,194)	(408,194)
		<u>22,841,276</u>	<u>21,249,721</u>

- 11.2.1 This represents income on financing, placements and Government Securities not matured/due on December 31, 2003.

## 12. CASH AND BANK BALANCES

With State Bank of Pakistan in:			
Reserve account	12.1	5,725,000	4,725,000
Current account		3,944,569	610,065
		<u>9,669,569</u>	<u>5,335,065</u>
With other banks in:			
Current accounts		33,250,377	6,472,534
Deposit accounts		53,545,431	24,193,154
		<u>96,465,377</u>	<u>36,000,753</u>
Cash in hand		7,717	11,851
		<u>96,473,094</u>	<u>36,012,604</u>

- 12.1 This represents statutory reserve account maintained with the State Bank of Pakistan in accordance with rule 6(3) of Rules of Business for NBFIs.

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

<u>Number of shares</u>				
<u>2003</u>	<u>2002</u>			
23,552,000	23,552,000	Ordinary shares of Rs. 10/- each fully paid in cash	235,520,000	235,520,000
8,857,300	4,630,000	Ordinary shares of Rs. 10/- each issued as fully paid bonus shares	88,573,000	46,300,000
<u>32,409,300</u>	<u>28,182,000</u>		<u>324,093,000</u>	<u>281,820,000</u>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

		2003 Rupees	2002 Rupees
<b>14. STATUTORY RESERVE</b>			
This reserve has been created in compliance with the SBP's NBFICircular No. 1 dated December 5, 1991 and represents 20% of the after tax profit for the year.			
<b>15. SURPLUS/(DEFICIT) ON REVALUATION OF INVESTMENTS - Net</b>			
Government Securities		52,698,115	133,695,037
Term Finance Certificates		15,697,171	8,734,389
		<u>68,395,286</u>	<u>142,429,426</u>
Related deferred tax liability	26.2	(19,669,340)	(49,850,299)
		<u>48,725,946</u>	<u>92,579,127</u>
Quoted shares		5,118,758	2,064,271
		<u>53,844,704</u>	<u>94,643,398</u>
<b>16. DEFERRED LIABILITIES</b>			
Gratuity-unfunded		3,376,608	2,803,888
Deferred tax liability - net	26.2	18,725,509	48,844,694
		<u>22,102,117</u>	<u>51,648,582</u>
<b>17. BORROWINGS - Unsecured</b>			
From			
Commercial Banks	17.1	615,000,000	520,000,000
Cash Management Accounts	17.2	87,500,000	207,500,000
		<u>702,500,000</u>	<u>727,500,000</u>
17.1	This represents borrowings from commercial banks and carries mark-up at rates ranging from 1.80% to 6.10% per annum (2002: 3% to 9%) per annum.		
17.2	This represents borrowings from cash management account holders and carries mark-up rate of 11% per annum (2002: 11%) per annum.		



**NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2003

		<b>2003</b> Rupees	<b>2002</b> Rupees
<b>18. SHORT TERM DEPOSITS</b>			
Local currency	18.1	<u><u>478,187,472</u></u>	<u><u>270,151,475</u></u>
<p>18.1 These represents deposits with maturity ranging from one month to twelve months. The rate of return on these deposits range from 2% to 10% (2002: 5.5% to 13%) per annum. It includes deposits amounting to Rs. 49.798 million (2002: Nil) kept under lien against loans provided to associated undertakings.</p>			
<b>19. ACCRUED AND OTHER LIABILITIES</b>			
Accrued expenses:			
Return on borrowings - unsecured		3,450,677	3,410,545
Return on deposits		9,891,997	4,135,410
Profit accrued on special US\$ bonds		405,755	414,317
Mark-up on Repo against FIBs/TFCs/PIBs		1,410,236	1,251,541
Others		535,464	586,448
		<b>15,694,129</b>	<b>9,798,261</b>
Other liabilities:			
Unclaimed dividend		4,249,640	2,729,061
Unearned guarantee commission		-	24,699
Others		175,459	301,706
		<b>4,425,099</b>	<b>3,055,466</b>
		<u><u>20,119,228</u></u>	<u><u>12,853,727</u></u>
<b>20. CONTINGENCIES AND COMMITMENTS</b>			
<b>20.1 Contingencies</b>			
Guarantees issued		-	<u><u>17,455,125</u></u>



**NOTES TO THE ACCOUNTS**  
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 Rupees	2002 Rupees
<b>21. RETURN ON FINANCING AND PLACEMENTS</b>		
<b>Financing</b>		
Demand finance	33,175,340	38,585,906
Musharika finance	1,990,753	5,000,000
	<b>35,166,093</b>	43,585,906
 Placements	 2,326,260	 7,313,898
	<b>37,492,353</b>	50,899,804
<b>22. RETURN ON SECURITIES</b>		
Return on Government Securities	44,662,109	44,771,384
Return on TFCs	20,362,869	14,459,115
Mark up on Government Securities and TFCs - repo	(13,647,006)	(26,973,361)
	<b>51,377,972</b>	32,257,138
 <b>Gain / (loss) on sale of Government Securities and TFCs</b>		
Federal Investment Bonds	-	10,187,436
Pakistan Investment Bonds	39,312,708	11,662,486
Treasury Bills	-	426,810
	<b>39,312,708</b>	22,276,732
	<b>90,690,680</b>	54,533,870
<b>23. OTHER INCOME</b>		
Dividend	639,676	935,212
Gain on sale of fixed assets	-	3,139
Miscellaneous	1,687,111	3,731,975
	<b>2,326,787</b>	4,670,326
<b>24. RETURN ON DEPOSITS AND BORROWINGS</b>		
Return on deposits	16,270,584	15,167,665
Return on borrowings	16,698,882	16,412,570
Forward cover fee	-	4,093,976
	<b>32,969,466</b>	35,674,211



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	Note	2003 Rupees	2002 Rupees
<b>25. OPERATING EXPENSES</b>			
Salaries, wages and other benefits	25.1	10,357,014	9,542,437
Gratuity		678,000	758,000
Office stationery		476,653	358,418
Communication		820,662	607,049
Utilities		698,842	621,809
Advertising		247,730	241,022
Travelling and conveyance		83,483	35,228
Insurance		366,694	368,286
Office repairs		240,253	161,625
Legal and professional		194,400	188,900
Auditors' remuneration	25.2	315,939	388,722
Rent, rates and taxes		1,640,028	1,650,330
Bank charges		123,785	113,317
Books and periodicals		22,458	24,349
Office expenses		83,933	45,500
Fees and membership		2,840,958	1,827,731
Miscellaneous		466,140	315,135
Amortization of deferred cost (refer note 7)		117,578	86,759
Depreciation (refer note 5)		961,781	1,874,266
Old age benefit		54,450	52,350
Vehicle running and maintenance		506,684	655,301
Generator expenses		5,074	8,559
		<b>21,302,539</b>	<b>19,925,093</b>
25.1 These include retirement benefits of Rs. 518,512/- (2002: Rs.507,830/-) in respect of provident fund of the employees.			
<b>25.2 Auditor's remuneration</b>			
Statutory audit fee		125,000	125,000
Taxation and other services		170,370	259,630
Out of pocket expenses		20,569	4,092
		<b>315,939</b>	<b>388,722</b>
<b>26. PROVISION FOR TAXATION</b>			
Current:			
- for the year	26.1	23,797,197	18,753,015
Deferred:			
- opening balance		1,005,605	-
- for the year		(943,831)	(1,005,605)
		<b>61,774</b>	<b>(1,005,605)</b>
		<b>23,858,971</b>	<b>17,747,410</b>





## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 Rupees	2002 Rupees
<b>26.1 Relationship between tax expense and accounting profit</b>		
Profit for the year from ordinary activities before taxation	<b>132,035,568</b>	68,445,584
Tax at the applicable rate of 35% (December 31, 2002: 35%)	<b>46,212,449</b>	23,955,954
Tax effect of expenses that are not allowable in determining taxable income	<b>221,033</b>	476,793
Tax effect of dividend income taxed at a lower rate	<b>(191,903)</b>	(280,564)
Tax effect of capital gains exempt from tax	<b>(19,283,627)</b>	(4,479,175)
Tax effect on gain / (loss) on sale of assets	-	(28,593)
Tax relief on gain on sale of FIBs/PIBs held for one year or more	<b>(3,160,755)</b>	(891,401)
Tax charge	<b>23,797,197</b>	18,753,015

The provision for taxation has been computed at the rate applicable to a public company.

Income tax assessment of the company has been finalized upto the assessment year 2000-2001.

The provision for taxation has been computed at the rate applicable to a public company. In the original assessments made by the 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 have filed appeals before the Honourable High Court regarding determination of status of investment banks.

During the year 2003, the Tax Officer has issued revised assessment orders for assessment years 1995-96, 1996-97, 1998-99 to 2001-2002 after amending the original assessment orders u/s. 122 of the Income Tax Ordinance, 2001. Appeals are pending with the Commissioner Income Tax 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.

### 26.2 Deferred

Deferred tax comprises of:

Deferred tax assets arising in respect of

Accelerated depreciation

Provision for gratuity

<b>(784,531)</b>	(818,656)
<b>(200,452)</b>	(215,600)
<b>(984,983)</b>	(1,034,256)

Deferred tax liabilities arising due to:

Surplus / (deficit) on revaluation of securities

Deferred cost

<b>19,669,340</b>	49,850,299
<b>41,152</b>	28,651
<b>19,710,492</b>	49,878,950
<b>18,725,509</b>	48,844,694



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 Rupees	2002 Rupees
<b>27. EARNINGS PER SHARE- BASIC AND DILUTED</b>		
<b>27.1 Basic</b>		
Profit after Tax	108,176,597	50,698,174
Weighted average number of ordinary shares	32,409,300	25,833,590
Earnings per share	3.34	1.96
<b>27.2 Diluted</b>		
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.		
<b>28. STAFF STRENGTH</b>		
Number of employees at end of the year	30	30
<b>29. DEFINED BENEFIT PLAN</b>		
<b>29.1 General description</b>		
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.		
Annual provision is based on actuarial valuation, which was carried out as at December 31, 2002 using the Projected Unit Credit Method.		
<b>29.2 Principal actuarial assumptions</b>		
Following principal actuarial assumptions were used for the valuation.		
Estimated rate of increase in salary of the employees	6.00%	6.00%
Discount rate	8.00%	8.00%
<b>29.3 Reconciliation of provision for gratuity scheme</b>		
Present value of defined benefit obligation	(3,376,608)	(2,803,888)
Unrecognized transitional liability	-	-
	(3,376,608)	(2,803,888)
<b>29.4 Gratuity Asset/(Liability)</b>		
Provision at beginning of year	(2,803,888)	(2,187,888)
Expense	(678,000)	(758,000)
Contributions	105,280	142,000
	(3,376,608)	(2,803,888)
<b>29.4.1 Gratuity scheme expense</b>		
Current service cost	458,000	432,000
Interest Cost	220,000	181,000
Transitional surplus	-	145,000
	678,000	758,000

The company accounted for the scheme using full termination basis previously, hence no comparatives have been disclosed.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

### 30. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executive		Total	
	2003	2002	2003	2002	2003	2002
	-----Rupees-----					
Managerial remuneration	2,364,000	2,388,360	990,000	1,296,000	3,354,000	3,684,360
Housing	–	–	399,000	520,800	399,000	520,800
Bonus	220,000	210,000	124,000	162,200	344,000	372,200
Utilities	236,000	235,640	99,000	129,600	335,000	365,240
Other benefits	42,500	100,000	–	59,535	42,500	159,535
Reimbursable expenses	694,236	125,583	136,830	171,215	831,066	296,798
	<u>3,556,736</u>	<u>3,059,583</u>	<u>1,748,830</u>	<u>2,339,350</u>	<u>5,305,566</u>	<u>5,398,933</u>
Number of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>7</u>

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

### 31. MATURITIES OF ASSETS AND LIABILITIES

Assets	2003	2003			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	-----Rupees-----				
Tangible fixed assets	1,675,611	–	–	–	1,675,611
Membership card - Intangible	36,000,000	–	–	–	36,000,000
Deferred cost	334,430	–	–	334,430	–
Short term financing	288,317,851	269,017,851	19,300,000	–	–
Short term investments	1,273,216,717	402,642,156	870,574,561	–	–
Advances and other receivables	43,700,335	1,683,883	28,765,928	13,250,524	–
Cash and bank balances	96,473,094	96,473,094	–	–	–
	<u>1,739,718,038</u>	<u>769,816,984</u>	<u>918,640,489</u>	<u>13,584,954</u>	<u>37,675,611</u>
<b>Liabilities</b>					
Deferred liabilities	22,102,117	–	–	–	22,102,117
Borrowings	702,500,000	685,000,000	17,500,000	–	–
Short term deposits	478,187,472	348,906,036	129,281,436	–	–
Accrued expenses and other liabilities	20,119,228	–	20,119,228	–	–
	<u>1,222,908,817</u>	<u>1,033,906,036</u>	<u>166,900,664</u>	<u>–</u>	<u>22,102,117</u>
<b>Net assets</b>	<u>516,809,221</u>				
<b>Represented by:</b>					
Share capital and reserves	462,964,517				
Surplus on revaluation of investments - net	<u>53,844,704</u>				
	<u>516,809,221</u>				



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

Assets	2002	2002			
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
	-----Rupees-----				
Tangible fixed assets	2,383,234	–	–	–	2,383,234
Membership card - Intangible	36,000,000	–	–	–	36,000,000
Deferred cost	297,924	–	–	297,924	–
Short term financing	239,945,855	104,844,599	135,101,256	–	–
Placements	10,000,000	10,000,000	–	–	–
Short term investments	1,124,646,430	383,405,276	741,241,154	–	–
Advances and other receivables	94,708,355	234,519	81,910,031	12,563,805	–
Cash and bank balances	36,012,604	36,012,604	–	–	–
	1,543,994,402	534,496,998	958,252,441	12,861,729	38,383,234
<b>Liabilities</b>					
Deferred liabilities	51,648,582	–	–	–	51,648,582
Borrowings	727,500,000	520,000,000	207,500,000	–	–
Short term deposits	270,151,475	260,430,752	9,720,723	–	–
Accrued expenses and other liabilities	12,853,727	–	12,853,727	–	–
	1,062,153,784	780,430,752	230,074,450	–	51,648,582
<b>Net assets</b>	<u>481,840,618</u>				
<b>Represented by:</b>					
Share capital and reserves	387,197,220				
Surplus on revaluation of investments-net	94,643,398				
	<u>481,840,618</u>				



## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED DECEMBER 31, 2003

#### 32. INTEREST RATE RISK

Interest rate risk and sensitivity of Company's financial liabilities and financial assets as at December 31, 2003 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	1,675,611	–	–	–	1,675,611
Membership card - Intangible	36,000,000	–	–	–	36,000,000
Deferred cost	334,430	–	–	–	334,430
Short term financing Placements	288,317,851	288,317,851	–	–	–
Short term investments in government securities	679,207,400	679,207,400	–	–	–
Investment in Wapda Bonds	53,500,000	53,500,000	–	–	–
Short term investments in TFCs - quoted	137,867,161	137,867,161	–	–	–
Short term investments in shares - quoted	402,642,156	–	–	–	402,642,156
Advances, deposits and other receivable	6,296,829	–	–	–	6,296,829
Prepayments	1,311,706	–	–	–	1,311,706
Income tax recoverable	13,250,524	–	–	–	13,250,524
Income receivable	22,841,276	–	–	–	22,841,276
Balance with banks & Cash in hand	96,473,094	53,545,431	–	–	42,927,663
<b>Total</b>	<b>1,739,718,038</b>	<b>1,212,437,843</b>	<b>–</b>	<b>–</b>	<b>527,280,195</b>
<b>SHARE CAPITAL AND RESERVES</b>					
Surplus on revaluation of investments-net	462,964,517	–	–	–	462,964,517
	53,844,704	–	–	–	53,844,704
<b>LIABILITIES</b>					
Deposits	478,187,472	478,187,472	–	–	–
Deferred liabilities	22,102,117	–	–	–	22,102,117
Borrowings	702,500,000	702,500,000	–	–	–
Profit accrued on deposits & borrowings	15,288,374	–	–	–	15,288,374
Accrued and other liabilities	4,830,854	–	–	–	4,830,854
<b>Total</b>	<b>1,739,718,038</b>	<b>1,180,687,472</b>	<b>–</b>	<b>–</b>	<b>559,030,566</b>
<b>Total interest rate sensitivity gap</b>		<b>31,750,371</b>	<b>–</b>	<b>–</b>	<b>(31,750,371)</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>31,750,371</b>	<b>31,750,371</b>	<b>31,750,371</b>	<b>–</b>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

Interest rate risk and sensitivity of company's financial liabilities and financial assets as at December 31, 2002 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	2,383,234	–	–	–	2,383,234
Membership card - Intangible	36,000,000	–	–	–	36,000,000
Deferred costs	297,924	–	–	–	297,924
Short term financing	239,945,855	239,945,855	–	–	–
Placements	10,000,000	10,000,000	–	–	–
Short term investments in government securities	614,740,400	614,740,400	–	–	–
Short term investments in TFCs - quoted	126,500,754	126,500,754	–	–	–
Short term investments in shares - quoted	383,405,276	–	–	–	383,405,276
Advances, deposits and other receivable	59,538,669	–	–	–	59,538,669
Prepayments	1,356,160	–	–	–	1,356,160
Income tax recoverable	12,563,805	–	–	–	12,563,805
Income receivable	21,249,721	–	–	–	21,249,721
Balances with banks & Cash in hand	36,012,604	24,193,154	–	–	11,819,450
<b>Total</b>	<b>1,543,994,402</b>	<b>1,015,380,163</b>	<b>–</b>	<b>–</b>	<b>528,614,239</b>
<b>SHARE CAPITAL AND RESERVES</b>					
Surplus on revaluation of Investments - Net	387,197,220	–	–	–	387,197,220
	94,643,398	–	–	–	94,643,398
<b>LIABILITIES</b>					
Deposits	270,151,475	270,151,475	–	–	–
Deferred liabilities	51,648,582	–	–	–	51,648,582
Borrowings	727,500,000	727,500,000	–	–	–
Profit accrued on deposits & borrowings	9,383,944	–	–	–	9,383,944
Accrued and other liabilities	3,469,783	–	–	–	3,469,783
<b>Total</b>	<b>1,543,994,402</b>	<b>997,651,475</b>	<b>–</b>	<b>–</b>	<b>546,342,927</b>
<b>Total interest rate sensitivity gap</b>		<b>17,728,688</b>	<b>–</b>	<b>–</b>	<b>(17,728,688)</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>17,728,688</b>	<b>17,728,688</b>	<b>17,728,688</b>	<b>–</b>



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

### 33. 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 State Bank of Pakistan. 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	2003		2002	
	Rupees	%	Rupees	%
Sugar	100,000,000	34.26	100,000,000	41.06
Textile spinning	6,400,000	2.19	6,400,000	2.63
Textile composite	–	–	10,000,000	4.11
Cables and electric goods	159,703,457	54.71	84,831,461	34.83
Leasing	–	–	25,000,000	10.27
Individuals	3,148,298	1.08	3,148,298	1.29
Others	22,646,694	7.76	14,146,694	5.81
	<u>291,898,449</u>	<u>100</u>	<u>243,526,453</u>	<u>100</u>

### 34. 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.



## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

FINANCIAL ASSETS	2003		2002	
	Book value	Fair value	Book value	Fair value
	-----Rupees-----			
Financing	288,317,851	288,317,851	239,945,855	239,945,855
Placements	–	–	10,000,000	10,000,000
Short term investments	1,273,216,717	1,273,216,717	1,124,646,430	1,124,646,430
Advances and other receivables	30,449,811	30,449,811	82,144,550	82,144,550
Cash and bank balances	96,473,094	96,473,094	36,012,604	36,012,604
	<u>1,688,457,473</u>	<u>1,688,457,473</u>	<u>1,492,749,439</u>	<u>1,492,749,439</u>
<b>FINANCIAL LIABILITIES</b>				
Deferred liabilities	3,376,608	3,376,608	2,803,888	2,803,888
Borrowings	702,500,000	702,500,000	727,500,000	727,500,000
Short term deposits	478,187,472	478,187,472	270,151,475	270,151,475
Accrued expenses and other liabilities	20,119,228	20,119,228	12,853,727	12,853,727
	<u>1,204,183,308</u>	<u>1,204,183,308</u>	<u>1,013,309,090</u>	<u>1,013,309,090</u>

As at December 31, 2003, 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.

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.

### 35. CASH MANAGEMENT SCHEME

The company has an amount of Rs. 87.5 million (2002: Rs.207.5 million) as at December 31, 2003, 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.





## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2003

	2003 Rupees	2002 Rupees
<b>36. TRANSACTIONS WITH RELATED PARTIES</b>		
Financing		
- Associated undertakings	77,499,924	-
- Others	104,850,227	76,987,852
Return on financing		
- Associated undertakings	5,680,193	-
- Others	9,448,199	9,344,127
Deposits	161,786,940	52,572,066
Return on deposits	7,350,940	5,763,578

Transactions with associated undertakings / related parties i.e. shareholder, 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.

### 37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on March 20, 2004.

### 38. FIGURES

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

(KHURSHEED K. MARKER)  
Chairman

(MUHAMMAD SALEEM RATHOD)  
Chief Executive



## ***PATTERN OF SHAREHOLDING*** **HELD BY THE SHAREHOLDERS AS AT DECEMBER 31, 2002**

Number of Shareholders	Shareholding From	Shareholding To	Total number of shares held	Percentage %
614	1	100	29,256	0.09
563	101	500	135,445	0.42
687	501	1,000	514,680	1.59
356	1,001	5,000	759,662	2.34
40	5,001	10,000	290,131	0.90
17	10,001	15,000	217,393	0.67
4	15,001	20,000	63,257	0.20
7	20,001	25,000	153,918	0.47
1	25,001	30,000	25,772	0.08
6	30,001	35,000	189,736	0.59
3	35,001	40,000	110,556	0.34
4	40,001	45,000	174,547	0.54
1	60,001	65,000	60,175	0.19
2	65,001	70,000	138,858	0.43
1	75,001	80,000	77,165	0.24
1	85,001	90,000	87,196	0.27
1	105,001	110,000	106,950	0.33
1	125,001	130,000	127,307	0.39
1	155,001	160,000	159,275	0.49
1	165,001	170,000	169,625	0.52
5	210,001	225,000	1,108,370	3.42
1	235,001	240,000	236,587	0.73
1	275,001	280,000	275,689	0.85
1	470,001	475,000	472,050	1.46
1	575,001	580,000	578,351	1.78
1	625,001	630,000	629,533	1.94
1	685,001	690,000	686,768	2.12
2	700,001	705,000	1,404,402	4.33
1	740,001	745,000	742,648	2.29
1	1,145,001	1,150,000	1,150,000	3.55
3	1,405,001	1,410,000	4,213,601	13.00
1	1,635,001	1,640,000	1,637,220	5.05
1	1,760,001	1,765,000	1,761,887	5.44
1	2,295,001	2,300,000	2,300,000	7.10
1	2,910,001	2,915,000	2,913,623	8.99
1	4,105,001	4,110,000	4,107,667	12.67
1	4,595,001	4,600,000	4,600,000	14.19
<b>2,335</b>			<b>32,409,300</b>	<b>100</b>

Categories of Shareholders	Number	Shares Held	Percentage
INDIVIDUALS	2,263	26,309,780	81.18%
INVESTMENT COMPANIES	4	1,433	0.004%
INSURANCE COMPANIES	5	262,190	0.81%
JOINT STOCK COMPANIES	47	2,854,064	8.81%
FINANCIAL INSTITUTIONS	7	2,923,209	9.02%
MODARABA COMPANIES	4	41,393	0.13%
OTHERS	5	17,231	0.05%
	<b>2,335</b>	<b>32,409,300</b>	<b>100.00%</b>



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

Categories of Shareholders	Shares Held
<b>Individuals</b>	16,772,103
<b>Investment Companies except ICP</b>	1,433
<b>Public/Private Sector Companies and Corporations</b>	–
<b>Directors, Chief Executive Officer and their spouse and minor children</b>	
1) Khursheed K. Marker	1,473
2) Haji Jan Muhammad	702,201
3) Muhammad Younus Abdul Aziz Tabba	771
4) Muhammad Sohail Tabba	32,409
5) Muhammad Ali Tabba	106,950
6) Muhammad Rafiq Abdul Ghaffar Tumbi	1,964
7) Muhammad Saleem Rathod	1,473
8) Ather Hussain Medina (NIT) National Bank of Pakistan, Trustee Deptt.	2,913,777
<b>Investment Corporation of Pakistan</b>	5,428
<b>Associated Companies, Undertakings and Related Parties</b>	–
<b>Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds except National Bank of Pakistan, Trustee Deptt.</b>	3,161,651
<b>Shareholders holding ten percent or more voting interest</b>	
H.A.R	4,107,667
Amina Bano	4,600,000



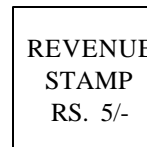
**FORM OF PROXY**

**THIRTEENTH 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 Twelfth Annual General Meeting of the Company to be held on April 28, 2004 and at any adjournment thereof.

As Witness my/our hand this ..... day of .....2004

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 Twelfth 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 Registered Office of the Company not less than 48 hours before the time of the meeting.

