

**FIRST INTERNATIONAL INVESTMENT BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE-MONTH ENDED MARCH 31, 2006**

1. LEGAL STATUS AND OPERATIONS

First International Investment Bank Limited (Interbank) is a public limited company incorporated in Pakistan on February 7, 1990 under the Companies Ordinance, 1984. Its shares are quoted on the Karachi and Lahore Stock Exchanges. The registered office of Interbank is situated at 5 F.C.C., Gulberg, Lahore. The principal place of business is situated at 7th Floor, Shaheen Commercial Complex, Dr. Ziauddin Ahmed Road, Karachi.

Interbank is licensed to carry out all investment finance activities and leasing operations as a Non-Banking Finance Company under Section 282C of the Companies Ordinance, 1984 and Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. Interbank also offers brokerage services to retail and institutional clients through its seat at the Lahore Stock Exchange.

Based on the financial results for the year ended June 30, 2005, the Pakistan Credit Rating Agency (PACRA) maintained the long-term credit rating of Interbank at 'A' and the short-term rating at 'A1'.

During the period, Interbank has acquired 100% shareholding in Finex Securities Limited, a corporate member of the Karachi Stock Exchange (Gurantee) Limited.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, interpretations issued by the Standards Interpretations Committee of the IASC and the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Prudential Regulations for the Non-Banking Finance Companies (Prudential Regulations). 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, NBFC Rules, Prudential Regulations and directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, NBFC Rules, Prudential Regulations and the said Directives take precedence. The disclosures made in these financial statements have, however, been limited based on the requirements of the International Accounting Standard 34, "Interim Financial Reporting".

The SECP has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) to Non-Banking Finance Companies (NBFCs) providing Investment Finance Services, Discounting Services and Housing Finance Services vide their Circular No.19 dated August 13,2003.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the preceding annual published financial statements of the Interbank.

4. FIXED ASSETS

The cost of additions and disposals to fixed assets during the period were as follows:

	March 31, 2006		June 30, 2005	
	Additions	Disposals	Additions	Disposals
	-----Rupees in '000-----			
Property, plant and equipment	9,000	2,436	18,295	1,716
Intangibles	31,407		23,819	-

5. LONG-TERM INVESTMENTS

Investment in Subsidiary

Finex Securities Limited (100% Share Holding)	150,000	-
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March 31, 2006	June 30, 2005
-----Rupees in '000-----	

6. CURRENT MATURITY OF NON-CURRENT ASSETS

Long-term loans and advances	167,310	153,050
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Net investment in finance lease	580,535	514,395
	<u>747,845</u>	<u>667,445</u>
	March 31,	June 30,
	2006	2005
	-----Rupees in '000-----	
7. FUND PLACEMENTS - considered good		
Fund placements with financial institutions	450,149	400,147
Securities purchased under resale agreements with financial institutions	708,155	349,279
	<u>1 158 304</u>	<u>749 426</u>
8. SHORT-TERM INVESTMENTS		
Held-for-trading		
Federal Investment Bonds	2,410	2,432
Pakistan Investment Bonds	1,508	52,624
Listed shares/ certificates and modaraba certificates	305	191,150
T-Bills	94,691	-
	98,914	246,206
Available-for-sale		
Pakistan Investment Bonds	-	214,539
Registered Special US dollar Bonds	-	71,697
Term finance certificates	224,051	170,933
Units of mutual funds	121,488	28,127
Shares/ certificates and modaraba certificates	225,220	224,980
	570,759	710,276
	<u>669,673</u>	<u>956,482</u>
9. CURRENT MATURITY OF NON-CURRENT LIABILITIES		
Long-term borrowings	525,000	325,000
Long-term certificates of deposit	51,673	193,547
	<u>576,673</u>	<u>518,547</u>
10. CONTINGENCIES AND COMMITMENTS		
10.1 Contingencies		

The provision for taxation has been computed by Interbank 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 1991-1992 to 2000-2001 and 2002-2003 applied in computing the tax liability was that applicable to a banking company. However, in the appeals filed against the original assessments upto the assessment year 1997-1998, the Commissioner of Income Tax (Appeals) [CIT(A)] directed the DCIT to apply the rate applicable to a public company. The Income Tax Department then filed appeals before the Income Tax Appellate Tribunal (ITAT) against these directions. The ITAT, in its decision on the issue of application of banking company tax rate in respect of assessment years 1991-1992 to 1997-1998 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 against the ITAT orders in the Lahore High Court.

In the original assessments made by the DCIT for the assessment years 1995-96 to 2000-2001, dividend income was taxed by applying the rate applicable to the business income of a banking company instead of applying the reduced rate of 5% as prescribed by law. The CIT(A) and the ITAT have confirmed that such income is taxable at the reduced rate of 5% in respect of assessment years 1995-96 to 1997-98. However the tax authorities have filed appeals against the ITAT orders in the Lahore High Court for assessment years 1995-96 and 1996-97. The ITAT has declined to refer the question of law proposed by the tax authorities for assessment year 1997-98, regarding the taxation of dividend income, on the basis that Lahore High Court has already decided the matter against the taxation authorities.

Based on the previous decisions, Interbank is confident that the above matters would be decided in its favour and the possibility of any liability arising thereagainst is considered remote.

If the provision for taxation were to be made at the rate applicable to a banking company and disallowance of expenses is decided against Interbank, the additional provision for all assessment years up to the tax year 2004 would approximately be Rs. 146 million (2004: Rs. 134 million).

Income tax return for tax year 2003 was filed and deemed to be assessed under section 120 of the Income Tax Ordinance, 2001. However, by resorting to the powers given under section 177 of the said Ordinance, the CIT has selected the case for audit. Against the said selection, Interbank has filed a writ in the Lahore High Court and the court has held the selection to be defective on the basis that while making this selection, the essentials required by the law were not followed. It has also been mentioned in the order that the CIT can initiate fresh proceedings strictly in accordance with law. The Income Tax Department has filed an appeal against the decision of the Lahore High Court before the Supreme Court of Pakistan.

	March 31, 2006	June 30, 2005
	-----Rupees in '000-----	
10.2 Commitments		
Underwriting commitments	40,000	65,000
Forward Purchase of Shares	97,664	-
Forward Sale of Shares	152,648	194,328

	Note	Nine-month Ended		Quarter Ended	
		March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
		-----Rupees in '000-----			
11. INCOME FROM INVESTMENTS					
Interest / mark-up / profit on investments		20,201	34,673	5,877	10,701
Gain/ (loss) on disposal of investments		10,394	25,904	18,194	18,300
Dividend income		8,936	6,973	1,548	873
		<u>39,531</u>	<u>67,550</u>	<u>25,619</u>	<u>29,874</u>

12. TAXATION				
For the period				
- Current		4,051	1,750	324
- Deferred	11.1	(17,490)	18,247	-
Prior periods		-	(8,483)	-
		<u>(13,439)</u>	<u>11,514</u>	<u>324</u>
				<u>10,248</u>

- 12.1 As at December 31, 2005, Interbank had unabsorbed tax losses of Rs. 262,681 thousand (June 30, 2005: Rs. 192,693 thousand) against which deferred tax asset of Rs. 91,938 thousand (June 30, 2005: Rs. 67,442 thousand) has been recorded at the tax rates applicable to the periods in which these losses are expected to be realised based on Interbank's projection of future taxable profits which would offset these losses before their expiry.

13. YIELD / MARKET RATE RISK

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Market rate risk arises from the possibility that changes in market rates of return will affect the value of the financial instruments. A company is exposed to yield / market rate risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. Interbank manages this risk by matching the repricing of its financial assets and financial liabilities.

14. LIQUIDITY RISK

Liquidity risk is the risk that a company will be unable to meet its funding requirements. To guard against this risk, Interbank has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained. Interbank has the ability to mitigate any short term liquidity gaps by disposal of short term investments and the availability of liquid funds at short notice.

15. **RELATED PARTY TRANSACTIONS**

The company has related party relationship with its associated undertakings, employee benefit plans and its key management personnel (including their associates). The transactions with related parties carried out during the nine-months ended March 31, 2006 are as follows:

	Nine-month Ended			March
	March 31, 2006			31, 2005
	-----Rupees in '000-----			
Other Related Parties	Key Management Personnel	Total	Total	
Certificates of deposit issued	1,186,664	75,000	1,261,664	776,610
Return on deposits	24,336	449	24,785	8,169
Income from finance	-	47	47	51
Income from lease finance	-	25	25	236
Brokerage commission and fee income	2,461	65	2,526	456
Insurance premium	1,163	-	1,163	1,001
Expense charged in respect of staff retirement benefit plan	3,033	-	3,033	3,516
Acquisition of intangible assets	-	-	-	21,000
Salaries and employee benefits of key management personnel	-	14,467	14,467	10,886

16. **SEGMENTAL ANALYSIS**

Interbank's activities may be broadly categorised into three primary business segments namely financing activities, investment activities, and brokerage activities. Financing activities include providing long-term and short-term financing facilities to corporate and individual customers including lease financing. Investment activities include money market activities, investment in government securities, advisory services, capital market activities and the management of Interbank's liquidity. Brokerage activities include brokerage services offered to retail and institutional clients through Interbank's seat at Lahore Stock Exchange.

	Financing activities	Investment activities	Brokerage activities	Total
	-----Rupees in '000-----			
Segmental information for the nine-months ended March 31, 2006				
Segment revenue (including other operating income)	178,833	149,406	15,442	343,681
Segment profit / (loss) before taxation	(19,784)	12,288	8,972	1,476
Taxation				13,439
Profit for the nine-months from ordinary activities after taxation				14,915
Segment assets	2,648,484	1,982,756	7,987	4,639,227
Unallocated assets				625,508
Unallocated liabilities				4,638,123

	Financing activities	Investment activities	Brokerage activities	Total
	-----Rupees in '000-----			
Comparative segmental information				
For the nine-months ended March 31, 2005				
Segment revenue	<u>126,341</u>	<u>133,246</u>	<u>-</u>	<u>259,587</u>
Segment result / profit before taxation	29,489	34,424	-	63,913
Taxation				11,514
Profit for the half-year from ordinary activities after taxation				<u>52,399</u>
As at June 30, 2005				
Segment assets	<u>2,256,701</u>	<u>1,755,633</u>	<u>36,237</u>	<u>4,048,571</u>
Unallocated assets				<u>319,874</u>
Unallocated liabilities				<u>3,734,778</u>

17. **DATE OF AUTHORISATION OF ISSUE**

These financial statements were authorised for issue by the Board of Directors on April 27, 2006.

18. **GENERAL**

Figures have been rounded off to the nearest thousand rupees.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director and Chief Executive