

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2006**

**1 THE GROUP AND ITS OPERATIONS**

The Group consists of :

**Holding company**

- First International Investment Bank Limited	<b>Percentage holding of First International Investment Bank Limited</b>
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**Subsidiary companies**

- Finex Securities Limited	100%
- IGI Funds Limited (Formerly First International Capital Management Limited)	100%

**First International Investment Bank Limited**

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

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. In addition, Interbank also offers brokerage services to retail and institutional clients.

**Finex Securities Limited**

Finex Securities Limited is a public limited company incorporated in Pakistan on June 28, 1994 under the Companies Ordinance, 1984. The company is a corporate member of the Karachi Stock Exchange (Guarantee) Limited. The principal activities of the company include share brokerage and money market operations. The registered office of the company is situated at 7th Nacon House, MDM Wafai Road, Karachi-74200. Interbank acquired 100% shareholding of Finex Securities Limited on January 28, 2006.

**IGI Funds Limited**

**(Formerly First International Capital Management Limited)**

The company was incorporated in Pakistan on January 18, 2006 under the Companies Ordinance, 1984 with the name of "First International Capital Management Limited" as a public limited company. The company obtained its Certificate of commencement of business on May 12, 2006. The name of the company was subsequently changed to "IGI Funds Limited" on July 11, 2006. The company is licensed to carry out Asset Management Services and Investment Advisory Services under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The principal activities of the company are floating and managing mutual funds and investment advisory services. The registered office of the company is situated at 5 F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg, Lahore.

**2 BASIS OF PRESENTATION**

- a) The consolidated financial statements include the financial statements of First International Investment Bank Limited, Finex Securities Limited and IGI Funds Limited. Comparative data represents holding company's financial statements only as Finex Securities Limited was acquired in the current year (Note 44) and IGI Funds Limited was incorporated in 2006.
- b) Subsidiaries are entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases. The assets and liabilities of subsidiary

Companies have been consolidated on a line by line basis based on the audited financial statements for the year ended June 30,2006 and the carrying value of investments held by Interbank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-Group balances and transactions have been eliminated.

**3 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 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 SECP has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS39) 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.

**Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

The following IAS, which have been published, have been revised and the amendments are applicable to the financial statements of the company covering accounting periods beginning on or after January 1, 2006 or later periods:

IAS 1 Presentation of Financial Statements -	
Capital Disclosures	effective from January 1, 2007
IAS 19 (Amendments) – Employee Benefits	effective from January 1, 2006

Adoption of the above amendments would result in an impact on the extent of disclosures presented in the future financial statements of Interbank.

**4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these financial statement have been applied consistently

**5 FIXED ASSETS**

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

	Additions	Deletions
	-----Rupees in '000-----	
Property, plant and equipment	6,611	1,585
Intangibles	-	-

	September 30, 2006	June 30, 2006
	-----Rupees in '000-----	
<b>6</b>	<b>CURRENT MATURITY OF NON-CURRENT ASSETS</b>	
Long-term loan and advances	124,868	176,729
Net investment in finance lease	623,770	695,624
	<u>748,638</u>	<u>872,353</u>
	September 30, 2006	June 30, 2006
	-----Rupees in '000-----	
<b>7</b>	<b>SHORT-TERM INVESTMENTS</b>	
	<b>Held-for-trading, marked to market</b>	
Federal Investment Bonds	1,671	2,378
Pakistan Investment Bonds	1,333	1,482
Treasury Bills	99,391	97,372
	102,395	101,232
	<b>Available-for-sale, marked to market</b>	
Pakistan Investment Bonds	-	-
Registered Special US Dollar Bond	-	-
United Money Market Fund	5,171	-
NAFA Cash Fund	10,372	-
KASB Liquid Fund	10,383	-
Term finance certificates	229,346	250,345
Units of mutual funds	269,701	121,166
Shares and modaraba certificates	103,903	313,721
	<u>628,875</u>	<u>685,232</u>
	<u>731,270</u>	<u>786,464</u>
<b>8</b>	<b>CURRENT MATURITY OF NON-CURRENT LIABILITIES</b>	
	September 30, 2006	June 30, 2006
	-----Rupees in '000-----	
Long-term borrowings	605,000	615,000
Long-term certificates of deposit	65,668	39,467
	<u>670,668</u>	<u>654,467</u>

## 9 CONTINGENCIES AND COMMITMENTS

### 9.1 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 assessment 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 taxation authorities for assessment years 1997-98, regarding the taxation of dividend income, on the basis that Lahore High Court has already decided the matter against the taxation authorities. In addition, the taxation authorities have also disallowed certain expenses / made addition to taxable income in certain assessment years against which Interbank has filed appeals which are currently pending. 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 is considered remote.

If the provision for taxation were to be made at the rate applicable to a banking company and disallowance of expenses / addbacks to income is decided against Interbank, the additional provision for all assessment years upto the tax year 2005 would approximately be Rs 166 million (2005: Rs 146 million). During the current year Interbank has received a letter in which the Central Board of Revenue (CBR) has given its consent to the proposal of Director General, LTU, Lahore to withdraw the appeals relating to the tax status of investment banks.

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 had selected the case for audit. Against the said selection, Interbank had filed a writ in the Lahore High Court and the court had held the selection to be defective on the basis that while making this selection, the essentials required by the law were not followed. It was also mentioned in the order that the CIT could initiate fresh proceedings strictly in accordance with law. The Income Tax Department had filed an appeal against the decision of the Lahore High Court before the Supreme Court of Pakistan. The Supreme Court in its decision dated March 1, 2006 has directed that the department should issue fresh notices to Interbank in terms of Section 177 of the Ordinance disclosing criteria/reasons for selecting their cases for purpose of audit. Pursuant to this order, the company has received notice for selection of case for Tax Year 2003 for audit under section 177 of the Ordinance.

	September 30, 2006	June 30, 2006
	-----Rupees in '000-----	
<b>9.2 Commitments</b>		
20% / 50% of total commitment of Rs. 2 million in respect of purchase of software	400,000	-
Underwriting commitments	140,000	115,000
Commitment in respect of capital expenditure	-	6,310
Forward sale of Shares	<u>10,511</u>	<u>22,292</u>

	September 30, 2006	Sept 30, 2005
	-----Rupees in '000-----	
<b>10 INCOME FROM INVESTMENTS</b>		
Interest / mark-up / profit on investments	8,058	7,666
Gain on disposal of investments	4,544	(22,650)
Dividend income	3,898	977
	<u>16,500</u>	<u>(14,007)</u>

	September 30, 2006	Sept 30, 2005
	-----Rupees in '000-----	
<b>11 TAXATION</b>		
For the period		
- Current	3,016	1,505
- Deferred	2,765	4,489
- Prior	66	-
	<u>5,847</u>	<u>5,994</u>

## **12 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit after tax for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Basic earnings per share for the comparative reported period have been adjusted for bonus and right shares issued after the comparative reported period.

No figure for diluted earnings per share has been presented as Interbank has not issued any instrument which would have dilutive impact on its earnings per share when exercised.

**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 financial assets and liabilities through risk management strategies. The position for financial instruments is based on earlier of contractual repricing date or maturity.

**14 DATE OF AUTHORISATION OF ISSUE**

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

**15 GENERAL**

Figures have been rounded off to the nearest thousand rupees.

**SYED BABAR ALI**  
Chairman

**SAMIR AHMED**  
Managing Director and Chief Executive