

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. During the current year Interbank has started offering brokerage services to retail and institutional clients through Interbank's seat at the Lahore Stock Exchange.

Based on financial results for the year ended June 30, 2004, the Pakistan Credit Rating Agency (PACRA) maintained the long-term credit rating of Interbank at 'A' and the short-term rating at 'A1'.

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 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 (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 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except held for trading and available-for-sale investments and derivative financial instruments which are stated at fair value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Changes in accounting policies

During the year, the SECP amended the Fourth Schedule to the Companies Ordinance, 1984. This has resulted in the following changes in accounting policies:

- 4.1.1** During the current year, Interbank has changed its accounting policy pertaining to recognition of dividends declared and transfer between reserves made subsequent to the year end. The change has been made consequent to the amendment made in the Fourth Schedule to the Companies Ordinance, 1984 and the new policy is in accordance with the requirements of the IAS 10, Events after the Balance Sheet Date. As per the new policy, dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recognized in the financial statements. Previously, such dividend declarations and transfer between reserves were being treated as adjusting events in the financial statements of Interbank.

Had the accounting policy not been changed, the unappropriated profit as at June 30, 2003 and June 30, 2004 would have been lower by Rs. 35.5 million and Rs. 34 million respectively, general reserve as at June 30, 2003 and June 30, 2004 would have been higher by Rs. 21 million and lower by Rs. 20.675 million respectively, share premium account as at June 30, 2003 would have been lower by Rs. 20 million and reserve for issue of bonus shares as at June 30, 2003 and June 30, 2004 would have been higher by Rs. 34.5 million and Rs. 54.675 million respectively.

The effect of change in accounting policy has been reflected in the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current year.

4.1.2 The Fourth Schedule previously allowed deferred costs to be written off during a period not exceeding five years, commencing from the financial year in which the costs were incurred. Accordingly, expenditure incurred in obtaining long-term borrowings, issuance of term finance certificates and equity shares were being deferred over the term to which the economic benefits would flow to Interbank or five years, whichever was less and amortised accordingly. However, this specific provision has been deleted from the substituted Fourth Schedule and companies are now required to fully charge these costs to the profit and loss account as and when incurred. Interbank has therefore changed its accounting policy and all expenses which were previously being treated as deferred costs and amortised over a period of time are now charged to the profit and loss account as and when incurred.

Had the accounting policy not been changed, the profit before taxation for the period would have been higher by Rs 0.938 million and a corresponding amount would have been carried in the balance sheet as deferred cost.

4.2 Investments

The management of Interbank determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available-for-sale or held-to-maturity.

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.

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 to interest rates, exchange rates or equity prices are classified as available-for-sale.

Held-to-maturity

Investment securities with fixed maturity where management has both the intent and ability to hold to maturity, are classified as held-to-maturity.

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

Subsequent to initial recognition, investments in quoted securities are marked to market, in accordance with the guidelines contained in the State Bank of Pakistan's BSD Circular No. 20 dated August 4, 2000, using rates quoted on Reuters, stock exchange quotes and brokers' quotations. Any difference between the carrying amount (representing cost adjusted for amortisation of premium or discount, if any) and market value is taken to surplus / (deficit) on revaluation of investments account and shown separately in the balance sheet below shareholders' equity. At the time of disposal the respective surplus or deficit is transferred to income currently.

Registered Special US Dollar Bonds are stated at cost translated at the exchange rates prevailing at the balance sheet date. Any exchange difference on translation is taken to income currently.

Unquoted investments are carried at cost in accordance with the requirements of the above mentioned circular. Provision for impairment in value, if any, is taken to income currently.

4.3 Financial instruments

All the financial assets and financial liabilities are recognised at the time when Interbank becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently. (For "regular way" purchase and sale of financial assets refer note 4.4).

4.4 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date on which the asset is delivered to or by Interbank. 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.

4.5 Derivatives

Derivative instruments held by Interbank generally comprise of forward contracts in the capital and money markets. Derivatives are stated at fair value at the balance sheet date, if any. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in the surplus / (deficit) on revaluation of investments account in accordance with BSD Circular No. 20 dated August 4, 2000 issued by the State Bank of Pakistan until the derivatives are settled.

The fair value of unquoted derivatives is determined by discounted cash flows using appropriate interest rates applicable to the underlying asset.

Hedging

For the purposes of hedge accounting, hedges existing at Interbank are classified as fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability.

Where a fair value hedge meets the conditions for special hedge accounting, the hedged instrument is remeasured to fair value and the resultant gain or loss is immediately recognised in the profit and loss account. Similarly, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and is taken to income currently.

4.6 Securities' repurchase / resale agreements

Transactions of repurchase / resale of investment securities are entered into at contracted rates for specified periods of time and are accounted for as follows :

Securities sold under repurchase agreements (repo)

Investments sold with a simultaneous commitment to repurchase at a specified future date continue to be recognised 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 amortised as expense over the life of the repo agreement.

Securities purchased under resale agreements (reverse repo)

Investments purchased with a corresponding commitment to resell at a specified future date are not recognised in the balance sheet. Amounts paid under these obligations are included in fund placements. The difference between purchase and resale price is accrued as income over the life of the reverse repo agreement.

4.7 Revenue recognition

Mark-up / return on investments, finances, term finance certificates (TFCs), bills receivable, demand promissory note, bankers' acceptances and fund placements are recognised on a time proportion basis.

Interbank follows the finance method in accounting for recognition of lease income. Under this method, the unearned lease income, i.e., the excess of aggregate lease rentals and the residual value over the cost of leased asset is deferred and then amortised to income over the term of the lease, applying the annuity method to produce a constant rate of return on the net investment in lease finance. Front-end fees, documentation charges and other lease related income are taken to income currently.

Dividend from equity securities is recognised when the right to receive payment, at the time of book closure of the company declaring the dividend, is established.

Commission and fees are taken to income when the service is provided.

4.8 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, or on 0.5% of turnover, whichever is higher.

Deferred

Deferred tax is calculated using the liability method on all temporary differences at the balance sheet date, between the tax base of the assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, if any, to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

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

Deferred tax assets / liabilities on unrealised losses / gains on revaluation of investments are recorded as an adjustment to the same account, where the unrealised losses / gains are recognised.

4.9 Finances

Finances in the form of long term loans and advances and short term finances include demand finance and instalment finance and are stated at cost less any write-offs and provision for doubtful finance, if any.

4.10 Net investment in lease finance

Leases where Interbank transfers substantially all the risks and rewards incidental to ownership of the assets to the lessee are classified as finance leases. Net investment in lease finance is stated

at an amount equal to the aggregate of the minimum lease payments receivable, including any guaranteed residual value and excluding any unearned income, write-offs and provision for potential lease losses, if any.

4.11 Provision for doubtful finance / potential lease losses

The specific provision for doubtful finance / potential lease losses, if any, is made quarterly in accordance with the Securities and Exchange Commission of Pakistan's Prudential Regulations for Non-Banking Financial Companies (SECP's Regulations for NBFCs).

The general provision for finance / lease losses is maintained at a level which is considered reasonably adequate at the time of execution of the finance / lease to provide for potential losses on Interbank's finance / lease portfolio.

In accordance with the SECP regulations, Interbank does not recognise income on financial assets which have been classified.

4.12 Assets acquired in satisfaction of claims

Interbank occasionally acquires certain vehicles and assets in settlement of non-performing finances / leases provided to its customers. These are stated at lower of the original cost of the related asset, exposure to Interbank and net realisable value. Gains and losses on disposal are taken to income unless recoverable from / payable to the customer.

4.13 Fixed assets

Tangible

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation charge is based on the straight line method whereby the cost of an asset is written-off over its estimated useful life.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are taken to income currently.

Intangible

a) Computer Software

These are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation charge is based on the straight line method whereby the cost of an asset is written-off over its estimated useful life.

b) Rooms and membership card

These are stated at acquisition cost. Provisions are made for permanent diminution in value of these assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account.

4.14 Impairment

The carrying amount of the Interbank's assets are reviewed at each balance sheet date to determine whether there is an indication of impairment loss. Any impairment loss arising is recognised as expense in the profit and loss account.

4.15 Borrowing cost

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalised as part of the cost of the relevant asset.

4.16 Provisions

Provisions are recognised when Interbank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.17 Long term financing - term finance certificates (TFCs)

Term finance certificates issued by Interbank are shown net of own TFCs purchased and held for resale by Interbank, in its role as a market maker for such TFCs. Any premium paid or discount received on TFCs purchased and held for resale is recorded as other receivable or payable and amortised over the remaining life of the TFCs. The differential between the amortised cost and proceeds at the time of resale is amortised over the remaining life of the TFCs.

4.18 Staff retirement benefits

4.18.1 Defined contribution plan

Interbank operates a contributory provident fund for all its permanent employees. Equal monthly contributions are made, both by Interbank and the employee, to the fund at 10% of basic salary.

4.18.2 Defined benefit plan

Interbank also operates an approved funded staff gratuity scheme for its permanent employees who have completed the qualifying period of service. Contributions and provisions in respect of the scheme are made in accordance with actuarial recommendations.

Actuarial gains and losses are amortised over the average expected remaining lives of the employees participating in the plan.

4.19 Employees' compensated absences

Interbank provides for liability in respect of employees' compensated absences in the year in which these are earned.

4.19 Foreign currency transactions

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transactions. Assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates approximating those prevailing on the balance sheet date. Gains and losses on translation are taken to income currently.

4.20 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 Interbank has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses arising from such assets and liabilities are also accordingly offset.

Notes to the Financial Statements

4.21 Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances, net of running finance.

	Note	2005	2004
-----Rs. in '000-----			
5	FIXED ASSETS		
Property, plant and equipment	5.1	27,721	15,208
Intangible	5.2	24,313	943
		<u>52,034</u>	<u>16,151</u>

5.1 Property, plant and equipment

Particulars	COST			DEPRECIATION			Book value at the end of the year	Rate per annum
	At the beginning of the year	Additions/ (disposals)	At the end of the year	Accumulated at the beginning of the year	For the year/ (deleted on disposal)	Accumulated at the end of the year		
-----Rs in '000-----								Percentage
Leasehold improvements	2,189	2,138	4,327	266	486	752	3,575	20
Office equipment	5,459	3,386 (583)	8,262	3,957	721 (485)	4,193	4,069	20
Computer equipment	7,249	4,461 (79)	11,631	4,663	987 (79)	5,571	6,060	20
Furniture and fittings	3,693	1,986 (194)	5,485	2,298	353 (168)	2,483	3,002	10-20
Vehicles	12,481	6,324 (860)	17,945	4,679	2,917 (666)	6,930	11,015	20
2005	31,071	18,295 (1,716)	47,650	15,863	5,464 (1,398)	19,929	27,721	
2004	29,856	7,724 (6,509)	31,071	16,093	4,508 (4,738)	15,863	15,208	

5.1.1 Cost and accumulated depreciation at the end of the year include Rs. 8,375 thousand (2004: Rs. 3,560 thousand) in respect of fully depreciated assets still in use.

Notes to the Financial Statements

5.2 Intangible

Particulars	COST			AMORTISATION			Book value at the end of the year	Rate per annum
	At the beginning of the year	Additions/ (disposals)	At the end of the year	Accumulated at the beginning of the year	For the year/ (deleted on disposal)	Accumulated at the end of the year		
	----- Rs in '000 -----							Percentage
Computer software	1,925	2,819	4,744	982	449	1,431	3,313	20
Lahore Stock Exchange membership (note 5.2.1)	-	21,000	21,000	-	-	-	21,000	-
2005	1,925	23,819	25,744	982	449	1,431	24,313	
2004	1,320	605	1,925	705	277	982	943	

5.2.1 This represents acquisition of membership rights and room in the Lahore Stock Exchange from a related party. The acquisition was made after obtaining the approval of SECP in this regard.

5.2.2 Cost and accumulated amortisation as at the end of the year include Rs.778 thousand (2004: Rs. 80 thousand) in respect of fully depreciated assets still in use.

5.3 Particulars of disposal of fixed assets

Particulars	Original cost	Accumulated depreciation	Book value	Sale proceeds/ insurance claim	Gain on disposal	Mode of disposal	Particulars of purchaser
	----- Rs in '000 -----						
Office equipment	350	264	86	209	123	Negotiation	AMFCO International - Karachi
	233	221	12	47	35	Negotiation	Various
	583	485	98	256	158		
Computer equipment	79	79	-	-	-	Written off	
Furniture and fittings	194	168	26	48	22	Negotiation	Various
Vehicles	399	312	87	275	188	Negotiation	Shazia Shoaib - Karachi
	461	354	107	325	218	Negotiation	Ambreen Munib - Karachi
	860	666	194	600	406		
2005	1,716	1,398	318	904	586		
2004	6,509	4,738	1,771	2,829	1,058		

Notes to the Financial Statements

6 LONG-TERM INVESTMENTS

Particulars of investments - by type and segment

	2005			2004		
	Held by Interbank	Given as Collateral	Total	Held by Interbank	Given as Collateral	Total
	Rs in '000					
Available-for-sale - unquoted, at cost						
Registered Special US Dollar Bonds - Government securities - note 13.1.1	-	-	-	69,780	-	69,780

7 LONG-TERM LOANS AND ADVANCES - secured

	Note	2005	2004
		Rs. in '000	
Loans and advances to staff - considered good	7.1	5,103	8,693
Other loans and advances -			
- Companies / organisations and individuals			
- considered good		404,446	295,937
- considered doubtful		4,763	6,936
	7.2	409,209	302,873
Less: Provision for doubtful loans and advances	7.3	4,763	6,936
		409,549	304,630
Less: Current maturity of long-term loans and advances	10	153,050	102,576
		256,499	202,054
7.1 Loans and advances to staff - considered good			
Executives	7.1.1 & 7.1.2	3,758	6,680
Other employees	7.1.1	1,345	2,013
		5,103	8,693

7.1.1 Reconciliation of carrying amount of loans and advances to executives and other employees is as follows:

	2005	2004	2005	2004
	Rs in '000			
	Executives		Other employees	
Opening balance	6,680	9,735	2,013	3,975
Disbursements during the year	-	-	900	-
Repayments during the year	(2,922)	(3,055)	(1,568)	(1,962)
	3,758	6,680	1,345	2,013

Notes to the Financial Statements

7.1.2 This represents loans and advances provided to executives for purchase of houses and for other purposes. These loans carry mark-up at rates ranging from 2.5% to 5% (2004: 2.5% to 5%) per annum and are extended for a period ranging from 5 to 18 years. Repayment is made on a monthly basis. The maximum aggregate amount due at the end of any month during the year from executives was Rs. 6,638 thousand (2004: Rs. 9,675 thousand). The loans are secured against mortgage of house properties and hypothecation of vehicles.

7.2 These loans carry mark-up at rates ranging from 6.25% to 25% (2004: 4.3% to 25%) per annum and are repayable over a period ranging from over 1 year to 7 years from the date of financing. Repayment terms vary from monthly basis to repayments at maturity.

7.2 These loans carry mark-up at rates ranging from 6.25% to 25% (2004: 4.3% to 25%) per annum and are repayable over a period ranging from over 1 year to 7 years from the date of financing. Repayment terms vary from monthly basis to repayments at maturity.

7.3 Particulars of provision

	2005			2004		
	Specific	General	Total	Specific	General	Total
	-----Rs in '000-----			-----Rs in '000-----		
Opening balance	4,923	2,013	6,936	4,411	639	5,050
Charge for the year	790	1,037	1,827	512	1,374	1,886
Reversal on recovery during the year	(4,000)	-	(4,000)	-	-	-
Closing balance	<u>1,713</u>	<u>3,050</u>	<u>4,763</u>	<u>4,923</u>	<u>2,013</u>	<u>6,936</u>

7.3.1 The classified portfolio of Interbank as at June 30, 2005 aggregated to Rs. 6,852 thousand (2004: Rs. 15,366 thousand). Interbank has not recognised income on this balance.

	Note	2005	2004
		-----Rs. in '000-----	
8 NET INVESTMENT IN LEASE FINANCE			
Net investment in lease finance	8.1	<u>1,670,899</u>	1,148,608
Less: Current maturity	10	<u>514,395</u>	<u>338,986</u>
		<u>1,156,504</u>	<u>809,622</u>

Notes to the Financial Statements

8.1 Particulars of net investment in lease finance

	2005				2004			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total	Not later than one year	Later than one year but not later than five years	Later than five years	Total
----- Rs in '000 -----								
Lease rental receivable	619,540	980,323	1,285	1,601,148	412,692	692,552	1,368	1,106,612
Add: Residual value of leased assets	33,766	305,747	2,056	341,569	26,017	205,976	1,214	233,207
Gross investment in lease finance	653,306	1,286,070	3,341	1,942,717	438,709	898,528	2,582	1,339,819
Less: Unearned finance income	116,077	132,742	165	248,984	86,199	91,320	168	177,687
Net investment in lease finance - note 8.2, 8.3 & 8.4	537,229	1,153,328	3,176	1,693,733	352,510	807,208	2,414	1,162,132
Less: Provision for potential lease losses - note 8.5	22,834	-	-	22,834	13,524	-	-	13,524
Net investment in lease finance - net of provision - note 10	514,395	1,153,328	3,176	1,670,899	338,986	807,208	2,414	1,148,608

8.2 Net investment in lease finance includes Rs. Nil (2004: Rs.1,329 thousand) due from a related party. Maximum amount due from related parties at the end of any month during the year was Rs. 999 thousand (2004: Rs. 2,761 thousand).

8.3 The leases made by Interbank are for a term of 3 to 7 (2004: 3 to 7) years. Security deposits obtained at the time of disbursement of lease generally range from 0% to 79% (2004: 10% to 30%) of the lease amount. In addition, the lessees are also required to insure the leased assets in favour of Interbank and to maintain certain financial ratios. The rate of return implicit in the leases ranges from 1.74% to 20.35% (2004: 1.9% to 18.5%) per annum. Penalty is charged in case of delayed payments.

8.4 Minimum lease payments and net investment in lease finance include Rs. 361,390 thousand and Rs. 342,632 thousand (2004: Rs.85,744 thousand and Rs. 83,572 thousand) respectively in respect of floating rate leases. These leases have been entered into at State Bank of Pakistan's (SBP's) discount rate and KIBOR plus margins, ranging from 0.5% to 5% (2004: 0.5% to 4%) per annum, with floors ranging from 6% to 15% (2004: 6.5% to 9%) per annum and ceilings ranging from 7.5% to 16.5% (2004: 11% to 16.5%) per annum. Mark-up rates are revised periodically (every three to six months) in line with the changes to the SBP's discount rate.

8.5 Particulars of provision

	2005			2004		
	Specific	General	Total	Specific	General	Total
-----Rs in '000-----						
Opening balance	1,902	11,622	13,524	1,674	6,890	8,564
Charge for the year	4,735	5,315	10,050	714	4,732	5,446
Reversal on recoveries during the year	(740)	-	(740)	(486)	-	(486)
Closing balance	5,897	16,937	22,834	1,902	11,622	13,524

Notes to the Financial Statements

8.5.1 The principal amount classified as per SECP's Regulations for NBFCs aggregates to Rs. 22,139 thousand (2004: Rs. 11,690 thousand) on which income has been suspended.

	Note	2005	2004
		-----Rs. in '000-----	
9 LONG-TERM DEPOSITS, PREPAYMENTS AND DEFERRED COSTS			
Security deposits		2,767	1,553
Prepayments		869	-
Deferred costs	9.1	-	209
		<u>3,636</u>	<u>1,762</u>
9.1 Deferred costs			
TFCs floatation expenses		5,973	5,973
Fee for increase in authorised capital		750	750
		<u>6,723</u>	<u>6,723</u>
Less: Accumulated amortisation	9.1.1	<u>6,723</u>	<u>6,514</u>
		<u>-</u>	<u>209</u>
9.1.1 Accumulated amortisation			
Opening balance		6,514	7,951
Charged to finance costs	37	149	1,013
Charged to administration and operating expenses	38	60	359
Less: Amortisation of premium on purchase of FCBCs disposed		-	(2,809)
Closing balance		<u>6,723</u>	<u>6,514</u>
10 CURRENT MATURITY OF NON-CURRENT ASSETS			
Long-term loans and advances	7	153,050	102,576
Net investment in lease finance	8	514,395	338,986
		<u>667,445</u>	<u>441,562</u>
11 SHORT-TERM FINANCE - secured and considered good			
Short-term finance	11.1	<u>168,022</u>	<u>131,107</u>
11.1 These finances carry interest at rates ranging from 6% to 17% (2004: 4.72% to 17%) per annum and have maturities ranging from 2 months to 1 year (2004: 3 months to 1 year). Repayment is made on maturity. The amounts are secured against mortgage of property, hypothecation of vehicles, lien on certificates of deposits, pledge of listed and unlisted securities and personal guarantees.			
	Note	2005	2004
		-----Rs. in '000-----	
12 FUND PLACEMENTS - considered good			
Fund placements with financial institutions	12.1	400,147	200,147
Securities purchased under resale agreements with financial institutions	12.2	349,279	494,431
		<u>749,426</u>	<u>694,578</u>

Notes to the Financial Statements

12.1 These carry rates of return ranging from 5.5% to 23% (2004: 2.5% to 4%) per annum and include certificates of deposit amounting to Rs. 225,000 thousand (2004: Rs. 200,146 thousand).

12.2 These carry effective yields ranging from 8.9% to 25% (2004: 2.8% to 16.66%) per annum. The fair value of these securities amounts to Rs. 437,316 thousand (2004: Rs. 574,658 thousand).

13 SHORT-TERM INVESTMENTS

13.1 Particulars of investments by type

	2005			2004		
	Held by Interbank	Given as Collateral	Total	Held by Interbank	Given as Collateral	Total
	----- Rs in '000 -----					
Held for trading						
Federal Investment Bonds	2,432	-	2,432	34,710	21,548	56,258
Pakistan Investment Bonds	1,551	51,073	52,624	8,172	263,930	272,102
Term finance certificates (TFCs)	-	-	-	1,285	-	1,285
Listed shares / certificates and modaraba certificates	191,150	-	191,150	6,157	-	6,157
	<u>195,133</u>	<u>51,073</u>	<u>246,206</u>	<u>50,324</u>	<u>285,478</u>	<u>335,802</u>
Available-for-sale						
Pakistan Investment Bonds	-	214,539	214,539	-	235,536	235,536
Registered Special US Dollar Bonds - Note 13.1.1	71,697	-	71,697	-	-	-
Listed term finance certificates (TFCs)	163,155	-	163,155	65,395	-	65,395
Unlisted term finance certificates (TFCs)	7,778	-	7,778	-	-	-
Mutual fund units (open ended)	28,127	-	28,127	33,869	-	33,869
Listed shares / certificates and modaraba certificates	172,198	-	172,198	91,820	-	91,820
Unlisted shares / certificates and modaraba certificates	52,782	-	52,782	-	-	-
	<u>495,737</u>	<u>214,539</u>	<u>710,276</u>	<u>191,084</u>	<u>235,536</u>	<u>426,620</u>
	<u>690,870</u>	<u>265,612</u>	<u>956,482</u>	<u>241,408</u>	<u>521,014</u>	<u>762,422</u>

13.1.1 These have a cost and face value of US Dollars 1,200 thousand (2004: US Dollars 1,200 thousand) and will mature in January 2008 with income receivable semi-annually at LIBOR plus 2% per annum (refer note 43 and 47.1(b)). These bonds have been classified as short term investments as at June 30, 2005 as the management intends to encash them at the coupon date in January 2006.

	Note	2005	2004
		-----Rs. in '000-----	
13.2 Particulars of investments by segment			
Investments in:			
Government securities	13.2.1	341,292	563,896
Listed TFCs	13.2.2	163,155	66,680
Unlisted TFCs	13.2.2	7,778	-
Mutual fund units (open ended)	13.2.3	28,127	33,869
Listed shares / certificates and modaraba certificates	13.2.4	363,348	97,977
Unlisted shares / certificates and modaraba certificates	13.2.4	52,782	-
		<u>956,482</u>	<u>762,422</u>

Notes to the Financial Statements

13.2.1 These include:

Federal Investment Bonds (FIBs) having amortised cost of Rs. 2,747 thousand (2004: Rs. 54,627 thousand) and face value of Rs. 2,200 thousand (2004: Rs. 52,350 thousand) with income receivable semi-annually at 15% (2004: 15%) per annum and remaining term of 3 years.

Pakistan Investment Bonds (PIBs) having amortised cost of Rs. 304,228 thousand (2004: Rs. 546,393 thousand) and face value of Rs. 251,400 thousand (2004: Rs. 418,300 thousand) with income receivable semi-annually at 8% to 12% (2004: 8% to 13%) per annum and remaining terms varying between 2 to 8 years.

13.2.2 Particulars of TFCs: *

No. of certificates		Name	2005		2004	
2005	2004		Rs. in '000			
			Amortised cost	Market value	Amortised cost	Market value
LISTED TFCs						
Paper and board						
-	218	Packages Limited - unsecured (a related party)	-	-	1,090	1,151
Sugar and allied						
-	2,000	Shakarganj Mills Limited	-	-	3,332	3,474
Fertilizer						
-	670	Engro Chemical Pakistan Limited	-	-	3,346	3,523
Investment banks and companies						
2,940	2,940	Atlas Investment Bank Limited	2,448	2,546	7,344	7,989
1,000	1,000	First Dawood Investment Bank Limited	5,601	5,062	5,565	5,698
-	3,549	Trust Investment Bank Limited	-	-	4,431	4,560
Commercial banks						
2,000	-	Union Bank Limited I	10,351	10,115	-	-
4,587	-	Union Bank Limited II	22,926	20,748	-	-
6,352	-	United Bank Limited	31,760	31,760	-	-
Leasing						
190	-	Al-Zamin Leasing Modaraba	950	950	-	-
-	6,240	Orix Leasing Pakistan Limited	-	-	26,551	27,248
-	1,671	Saudi Pak Leasing Company Limited	-	-	6,264	6,749
Refinery						
-	600	Pak-Arab Refinery Company Limited	-	-	1,499	1,545
1,448	-	Chanda Oil & Gas Securitization Co. Limited	7,240	7,240	-	-
5,913	-	Naimat Basal Oil & Gas Securitization Company Limited	29,417	29,269	-	-
Miscellaneous						
897	897	Pakistan Services Limited	4,483	4,573	4,484	4,743
8,715	-	TeleCard Limited	43,575	43,575	-	-
2,000	-	WorldCALL Telecom Limited	7,790	7,317	-	-
			<u>166,541</u>	<u>163,155</u>	<u>63,906</u>	<u>66,680</u>
UNLISTED TFCs						
2,000	-	Development Securitisation Trust	7,778	7,778	-	-
			<u>174,319</u>	<u>170,933</u>	<u>63,906</u>	<u>66,680</u>

* Secured, unless specified otherwise.

Notes to the Financial Statements

Other particulars of listed TFCs are as follows:

Particulars	Certificates denomination Rs in '000	Profit rate per annum	Profit payment	Redemption terms
Atlas Investment Bank Limited	5,000	15%	Semi-annually	Five years from March 27, 2001
Union Bank Limited	5,000	Cut off yield of latest auction of 5-years PIB + 2.23% p.a. (floor 11.00%, cap 15.50%)	Semi-annually	Commencing from the 54th month of the issue date.
Union Bank Limited	5,000	Floor 5%, cap 10.75%, cut off yield of 5-years PIB + 0.75%.	Semi-annually	Commencing from the 54th month of the issue date.
United Bank Limited	5,000	1.35% p.a. + Trading yield 8 year PIBs.	Semi-annually	Bullet redemption at the end of 8th year.
First Dawood Investment Bank Limited	5,000	1.75% over SBP's discount rate with a floor of 12.25% and a ceiling of 16.25%.	Semi-annually	Perpetual with an embedded call and put option exercisable with one months' prior notice for the put option and two months' prior notice for the call option from September 16, 2006 and every five years thereafter.
Al-Zamin Leasing Modaraba	100,000	Floor of 9.5% p.a. or profit expected to be around 1.5% p.a.	Profit on half-yearly basis, final profit settled on the basis of annual audited accounts.	3 installments at the end of 3rd, 4th & 5th year.
Chanda Oil & Gas Securitization Co. Limited	5,000	Last 7 days average ask side of 3 months KIBOR + 3.25 bps floor 8.95% cap 13%	Quarterly	27 quarterly installments commencing immediately after grace period of 6 months.
Naimat Basal Oil & Gas Securitization Co. Limited	5,000	Ask side of six-month KIBOR + 2.5%, floor 7.5%, cap 13%	Monthly	60 monthly installments. During 1st six months only 3% of principal redeemed, 97% redeemed in 54 equal monthly installments after 6 months.
Pakistan Services Limited	5,000	2.5% over SBP's discount rate per annum with a floor of 9.75% and a cap of 13.75%.	Semi-annually	Principal redemption will take place in seven equal semi annual installments and will commence from the 24th month of the date of public subscription after a grace period of 18 months.
TeleCard Limited	5,000	Six-month KIBOR + 3.75% p.a.	Semi-annually	Ten equal semi-annual installments commencing 18 months from issue date.
WorldCALL Telecom Limited	5,000	1.75% over SBP's discount rate with a floor of 12.25% and a ceiling of 16.25%.	Semi-annually	Redemption of Re 1 in the first 3 semi annual installments. Rest of the principal will be redeemed in 7 equal semi annual installments.

Notes to the Financial Statements

13.2.3 Particulars of mutual fund units (open ended)

No. of units		Name	2005		2004	
2005	2004		Rs. in '000		Cost	Market value
10,000	10,000	Atlas Income Fund (Face value Rs. 500 each)	5,000	5,459	5,000	5,189
20,000	-	Atlas Stock Market Funds (Face value Rs. 500 each)	10,000	11,268	-	-
100,000	100,000	Faisal Balanced Growth Fund (Face value Rs. 100 each)	10,000	11,400	10,000	9,870
-	570,000	National Investment Trust Units (Face value Rs. 10 each)	-	-	20,008	18,810
			25,000	28,127	35,008	33,869

13.2.4 Particulars of shares / certificates and modaraba certificates

No. of ordinary shares / certificates of Rs. 10/- each		Name	2005		2004	
2005	2004		Cost	Market value	Cost	Market value
LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES						
Mutual fund (closed ended)						
1,052,000	1,000,000	ABAMCO Composite Fund	10,491	7,259	10,000	9,400
112,500	100,000	BSJS Balance Fund	1,321	928	1,321	1,295
-	140,000	ICP SEMF	-	-	6,579	6,615
200,000	165	PICIC Investment Fund	3,260	3,000	3	3
1,000,000	-	Atlas Fund of Funds	10,000	9,900	-	-
1,000,000	-	Meezan Balance Fund	10,000	8,200	-	-
191,250	-	PICIC Growth Fund (Face value Rs. 40.174 each)	7,683	10,270	-	-
3,030,400	-	Dawood Mutual Fund	30,304	30,304	-	-
Modarabas						
11,500	-	B.R.R. International Modaraba	207	91	-	-
-	24,500	First B.R.R. Capital Modaraba	-	-	441	355
Leasing						
68,000	68,000	ORIX Leasing Pakistan Limited	2,715	2,020	2,715	2,465
Commercial banks						
20,000	128,850	Askari Commercial Bank Limited	1,165	1,560	7,983	8,234
175,000	-	Faysal Bank Limited	8,626	9,415	-	-
414	45,045	KASB Bank Limited	4	5	429	653
-	13,000	Muslim Commercial Bank Limited	-	-	603	658
50,000	16,840	National Bank of Pakistan	5,250	5,397	724	1,119
-	2,750	Union Bank Limited	-	-	74	76
Textile spinning						
1,737,826	-	Dewan Farooque Spinning Mills Limited	17,378	15,293	-	-
183,100	-	Kohinoor Textile Mills Limited	10,887	6,958	-	-
2,200	-	Nishat Mills Limited	109	167	-	-
1,000	11,000	Saitex Spinning Mills Limited	5	2	54	31
500,000	-	Zephyr Textile Mills Limited	5,000	5,000	-	-
Textile weaving						
-	2,500	Service Fabrics and Allied Products Limited	-	-	24	9

Notes to the Financial Statements

No. of ordinary shares / certificates of Rs. 10/- each		Name	Rs. in '000			
			2005		2004	
2005	2004		Cost	Market value	Cost	Market value
		Textile composite				
-	102,279	Nishat Mills Limited	-	-	5,240	5,400
		Cement				
-	16,000	Cherat Cement Company Limited	-	-	970	1,148
40,000	25,000	DG Khan Cement Company Limited	2,235	2,230	1,395	1,438
400,000	265,000	Maple Leaf Cement Factory Limited	12,373	8,720	10,374	10,070
		Refinery				
80,000	90,000	Attock Refinery Limited	9,010	12,764	9,383	8,235
		Power generation and distribution				
100,000	260,000	HUB Power Company Limited	4,217	2,640	10,964	8,398
		Oil and gas marketing				
100,000	-	Pakistan State Oil	38,413	38,600	-	-
1,100	8,200	Shell Pakistan Limited	466	609	3,491	2,863
		Oil and gas exploration				
31,229	61,229	Oil and Gas Development Company Limited	2,426	3,288	3,534	3,949
-	35,000	Pakistan Oilfield Limited	-	-	7,585	7,298
305,000	-	Pakistan Petroleum Limited	66,691	65,605	-	-
275,000	-	Sui Southern Gas Co.	7,467	6,366	-	-
		Automobile assemblers				
20,000	35,100	Indus Motor Company Limited	1,988	1,800	3,543	3,201
		Technology and communication				
1,230,000	25,000	Pakistan Telecommunication Corporation Limited (A)	80,728	81,118	1,017	1,054
		Paper & Board				
124,400	-	Packages Limited (a related party)	18,339	17,416	-	-
		Fertilizer				
-	93,840	Engro Chemical Pakistan Limited	-	-	9,509	9,149
51,528	38,500	Fauji Fertilizer Company Limited	4,726	6,253	4,475	4,576
		Vanapati and allied				
9,500	9,500	Wazir Ali Industries Limited (an associated undertaking)	239	170	239	285
			373,723	363,348	102,669	97,977
		UNLISTED SHARES				
		Miscellaneous				
4,000,000	-	DHA Cogen Limited	40,000	40,000	-	-
1,123,318	-	Techlogix Limited	12,782	12,782	-	-
			52,782	52,782	-	-
			426,505	416,130	102,669	97,977

Notes to the Financial Statements

	Note	2005 -----Rs. in '000-----	2004
14 ADVANCES, DEPOSITS AND PREPAYMENTS			
Advance against leases - considered good	14.1	37,422	17,650
Short term deposits	14.2	19,414	-
Prepayments	14.3	13,110	8,160
		<u>69,946</u>	<u>25,810</u>

14.1 These represent advances paid to suppliers against assets to be leased out and carry mark-up at rates ranging from 12.14% to 12.25% (2004: 8% to 12%).

14.2 Short term deposits include a deposit amounting to Rs 15,000 thousand (2004: Nil) placed with a broker for trading in future transactions at the Karachi Stock Exchange.

14.3 Prepayments include Rs. 5,686 thousand (2004: Rs. 4,924 thousand) in respect of advance rent of leased premises.

	Note	2005 -----Rs. in '000-----	2004
15 INTEREST / MARK-UP / PROFIT ACCRUED			
Investments			
- Government securities		6,013	11,206
- Registered Special US Dollar Bonds		1,860	1,244
- Term finance certificates		3,221	1,656
		11,094	14,106
Finance		8,231	4,860
Fund placements		1,208	3,654
Deposits with banks		8	21
		<u>20,541</u>	<u>22,641</u>

16 OTHER RECEIVABLES

Positive fair value of derivative financial instruments		-	5,613
Other receivables - considered good	16.1	9,268	6,325
		<u>9,268</u>	<u>11,938</u>

16.1 This includes an amount of Rs. 4,471 thousand (2004: Rs. 4,471 thousand) relating to excise duty paid on behalf of customers against finances disbursed. The amount is secured against collaterals obtained from the customers.

	Note	2005 -----Rs. in '000-----	2004
17 CASH AND BANK BALANCES			
In hand		5	6
With banks - on current accounts with			
- State Bank of Pakistan		460	13,637
- Others			
local currency		4,610	2,752
foreign currencies		3,658	598
	17.1	8,268	3,350
- on PLS saving accounts			
local currency		33,192	29,170
		<u>41,925</u>	<u>46,163</u>

17.1 This includes book overdraft balance with an associated undertaking of Rs. 196 thousand (2004: Credit balance of Rs. 116 thousand).

Notes to the Financial Statements

18 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2005		2004			
----- No. of shares-----				-----Rs. in '000-----	
25,000,000	15,000,000	Ordinary shares of Rs. 10 each fully paid in cash at the beginning of the year	250,000	150,000	
-	10,000,000	Add: Right shares issued during the year	-	100,000	
25,000,000	25,000,000	Ordinary shares of Rs. 10 each fully paid in cash at the end of the year	250,000	250,000	
11,450,000	8,000,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the beginning of the year	114,500	80,000	
5,467,500	3,450,000	Add: Bonus shares issued during the year	54,675	34,500	
16,917,500	11,450,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the end of the year	169,175	114,500	
<u>41,917,500</u>	<u>36,450,000</u>		<u>419,175</u>	<u>364,500</u>	

Shares of Interbank held by associated undertakings amount to Rs. 146,770 thousand (14,677 thousand shares of Rs. 10 each) [2004: 89,393 thousand (8,939 thousand shares of Rs. 10 each)].

	Note	2005	2004
		-----Rs. in '000-----	
19 RESERVES			
Capital reserves			
Special reserve	19.1	89,636	74,697
Revenue reserves			
General reserve		97,325	118,000
Unappropriated profit		59,806	34,050
		157,131	152,050
		<u>246,767</u>	<u>226,747</u>

19.1 This represents statutory reserve created at 20% of the profit from ordinary activities after taxation in compliance with Regulation No. 2 of Part III of SECP's Regulations for NBFCS.

	Note	2005	2004
		-----Rs. in '000-----	
20 (DEFICIT) / SURPLUS ON REVALUATION OF INVESTMENTS - NET			
(Deficit) / surplus on revaluation of:			
- government securities - net		(37,380)	(37,122)
- forward sale of government securities		-	5,613
- term finance certificates - net		(3,035)	2,774
- mutual funds units (open ended) - net		3,127	(1,139)
- quoted shares and certificates - net		(10,376)	(4,693)
- forward sale of quoted shares and certificates - net		(1,121)	-
	20.1	<u>(48,785)</u>	<u>(34,567)</u>
Deferred tax asset on revaluation of investments	40.4	16,510	14,750
		<u>(32,275)</u>	<u>(19,817)</u>

Notes to the Financial Statements

	Note	2005 -----Rs. in '000-----	2004
20.1 Particulars of (deficit) / surplus on revaluation of investments - net			
Opening balance		(34,567)	54,974
Surplus / (Deficit) arising on revaluation of investments - current year		8,184	(55,165)
Transferred to the profit and loss account on realisation		<u>(22,402)</u>	<u>(34,376)</u>
Closing balance		<u>(48,785)</u>	<u>(34,567)</u>

	Note	2005 -----Rs. in '000-----	2004
21 LONG-TERM BORROWINGS - secured			
Foreign currency - International Finance Corporation		-	33,509
Local currency - banking companies	21.1	<u>1,033,333</u>	<u>641,667</u>
		1,033,333	675,176
Less: Current portion of long-term borrowings	24	<u>325,000</u>	<u>130,673</u>
		<u>708,333</u>	<u>544,503</u>

21.1 This includes:

- Financing facility obtained from a banking company for investment finance activities. The finance is repayable in six equal semi-annual instalments which commenced from September 15, 2002 and carries a floating mark-up rate calculated every six months on the basis of the last six months Market Treasury Bill auction cut-off yield plus 3% per annum, with a floor of 4.75% (2004: 4.75%) per annum and a ceiling of 16.5% (2004: 16.5%) per annum. This facility is capped at Rs. 100,000 thousand and is secured by a hypothecation charge on Interbank's present and future assets, with a 25% margin.
- Financing facility of Rs. 300,000 thousand obtained from a banking company in three tranches of Rs. 100,000 thousand each. The finance is repayable in four equal semi-annual instalments commencing eighteen months after disbursement of each tranche and carries floating mark-up rate calculated every six months on the basis of the last six months Market Treasury Bills auction cut-of yield plus 3% per annum, with a floor of 5% per annum and a ceiling of 8% per annum. This facility is secured by a first pari passu registered charge on Interbank's present and future assets, with a 25% margin.
- Financing facility of Rs. 300,000 thousand obtained from a banking company in three tranches of Rs. 100,000 thousand each, with tenors ranging from 2 years to 3 years. The finance is repayable on maturity and carries fixed mark-up ranging from 5.10% per annum to 5.45% per annum, which is payable in semi-annual instalments commencing six months after disbursement of each tranche. This facility is secured by a first pari passu charge on Interbank's present and future assets amounting to Rs. 600,000 thousand.
- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years, repayable in four equal semi-annual instalments commencing eighteen months from disbursement. The finance carries mark-up calculated every quarter on the basis of 6-month KIBOR ask side (average) plus 1.25% p.a. payable semi-annually. This facility is secured by a first pari passu charge on Interbank's present and future assets, with a margin of 25%.
- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years, repayable in six equal semi-annual instalments with mark-up. The finance carries a floating mark-up rate calculated every quarter on the basis of 6-months KIBOR (ask side) average + 1.50%. The facility is secured by first pari passu charge on leased assets, book debts, receivables and securities amounting to Rs 271 million.

Notes to the Financial Statements

- Financing facility of Rs. 100,000 thousand obtained from a banking company with a tenor of three years, repayable in four equal semi-annual instalments of Rs. 25,000 thousand starting 18 months from the date of disbursement. The finance carries mark-up at a floating rate of 6-month KIBOR (ask side) + 1.75% p.a. payable semi-annually. The facility is secured by a first pari passu charge on leased assets amounting to Rs. 135 million.

	Note	2005	2004
-----Rs. in '000-----			
22 LONG-TERM CERTIFICATES OF DEPOSIT - unsecured			
Local currency			
- Financial institutions		25,000	-
- Individuals	22.1	235,852	278,181
- Others		55,766	92,716
	22.2	316,618	370,897
Less: Current portion of long-term certificates of deposit	24	193,547	51,231
		<u>123,071</u>	<u>319,666</u>

22.1 This includes certificates of deposit amounting to Rs. 1,134 thousand (2004: Rs. 1,400 thousand) issued to employees at mark-up rates ranging from 14% to 17.75% (2004: 6.25% to 15%).

22.2 The certificates of deposit have contractual maturities ranging from over 1 to 5 years (2004: over 1 to 5 years) of the contract date. Expected rates of return payable on long-term deposits are 4% to 17.75% (2004: 4.75% to 17.75%) per annum.

	Note	2005	2004
-----Rs. in '000-----			
23 DEPOSITS ON LEASE CONTRACTS			
Deposits on lease contracts	23.1	339,937	232,382
Less: Current portion of deposits on lease contracts	25	33,790	25,233
		<u>306,147</u>	<u>207,149</u>

23.1 These represent deposits against lease contracts repayable on the expiry of the respective leases.

	Note	2005	2004
-----Rs. in '000-----			
24 CURRENT MATURITY OF LONG TERM BORROWINGS			
Term finance certificates		-	178,550
Long-term borrowings	21	325,000	130,673
Long-term certificates of deposit	22	193,547	51,231
		<u>518,547</u>	<u>360,454</u>

25 CURRENT MATURITY OF DEPOSITS ON LEASE CONTRACTS

Deposits on lease contracts	23	<u>33,790</u>	<u>25,233</u>
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26 SHORT-TERM FINANCE - secured

Running finance	26.1	<u>145,254</u>	<u>27,284</u>
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Notes to the Financial Statements

26.1 This represents amount borrowed against a running finance facility amounting to Rs. 150,000 thousand (2004: Rs. 150,000 thousand). The amount is secured by a first pari passu hypothecation on Interbank's present and future receivables and book debts. Return is payable monthly at 1-month KIBOR rate plus 1.5% per annum (2004: last 6-month Market Treasury Bill cut off yield plus 1.75% per annum).

Note	2005	2004
	-----Rs. in '000-----	

27 SHORT-TERM CERTIFICATES OF DEPOSIT - unsecured

Local currency		
- Financial institutions	915,000	375,000
- Individuals	54,904	73,104
- Others	200,166	126,398
27.1	1,170,070	574,502

27.1 Expected rates of return payable on short-term deposits range from 3% to 14% (2004: 2.5% to 5.25%) per annum for local currency deposits.

Note	2005	2004
	-----Rs. in '000-----	

28 BORROWINGS FROM FINANCIAL INSTITUTIONS

Securities sold under repurchase agreement	324,618	635,000
Unsecured borrowings	275,000	20,000
28.1	599,618	655,000

28.1 The above borrowings carry mark-up at rates ranging from 8.1% to 10.75% (2004: 1.9% to 7.4%) per annum and are due to mature within two months of the year-end.

Note	2005	2004
	-----Rs. in '000-----	

29 PAYABLE TO STAFF GRATUITY FUND

29.3	2,817	3,372
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29.1 General description

As mentioned in note 4.18.2, Interbank operates an approved funded staff gratuity scheme. The scheme provides for terminal benefits for all permanent employees who have completed their qualifying period of service with Interbank at varying percentages of last drawn basic salary. The percentage depends on the number of service years with Interbank.

Annual provision is based on actuarial valuation and the latest valuation was carried out as at June 30, 2005 using the Projected Unit Credit Method.

29.2 Principal actuarial assumptions

The following principal actuarial assumptions were used for the valuation:

Estimated rate of increase per annum in salary of the employees	9.52%	8.90%
Discount rate per annum	11.65%	11.00%
Expected rate of return on plan assets	11.65%	11.00%

Notes to the Financial Statements

	Note	2005	2004
		-----Rs. in '000-----	
29.3 Reconciliation of provision for gratuity scheme			
Present value of defined benefit obligation		5,797	7,843
Fair value of plan assets		(3,542)	(4,471)
Unrecognised actuarial gain (net)		562	-
		<u>2,817</u>	<u>3,372</u>
29.4 Gratuity scheme expense			
Current service cost		756	1,077
Interest cost		344	837
Expected return on plan assets		(516)	-
Amortisation of transitional liability		-	366
Actuarial gain recognised during the year		(39)	-
	38	<u>545</u>	<u>2,280</u>
29.5 Movement in defined benefit plan liability			
Balance at the beginning of the year		3,372	7,242
Expense for the year	29.4	545	2,280
Contributions during the year		(1,100)	(6,150)
Balance at the end of the year		<u>2,817</u>	<u>3,372</u>
29.6 Actual return on plan assets			
Expected return on plan assets		(516)	(164)
Actuarial loss on plan assets		(73)	(74)
Actual return on plan assets		(589)	(238)
30 MARK-UP ACCRUED			
Secured			
- Long-term borrowings		9,361	4,651
- Short-term finance		699	104
- Borrowings from institutions		28	1,352
		10,088	6,107
Unsecured			
- TFCs		435	19,368
- Certificates of deposit		32,870	29,132
		33,305	48,500
		<u>43,393</u>	<u>54,607</u>
31 ACCRUED EXPENSES AND OTHER LIABILITIES			
Accrued expenses		8,929	6,175
Payable to customers on account of excess recoveries		3,028	3,028
Payable to Lahore Stock Exchange		407	-
Payable to customers in respect of brokerage business		3,903	-
Unclaimed dividends		776	776
Advances from lessees		9,505	5,537
Payments from customers received on account		11,283	11,922
Payable against usance letter of credit for an imported leased out asset		-	25,000
Negative fair value of derivative financial Instruments		1,121	-
Others		2,216	4,787
		<u>41,168</u>	<u>57,225</u>

Notes to the Financial Statements

32 CONTINGENCIES AND COMMITMENTS

32.1 Contingencies

Refer to note 40.3 to these financial statements in respect of contingencies related to taxation.

2005 2004
-----Rs. in '000-----

32.2 Commitments

- Forward sale of Pakistan Investment Bonds	-	205,255
- Forward sale of shares	194,328	-
- Underwriting commitments	65,000	20,000

33 INCOME FROM INVESTMENTS

2005			2004		
Held for trading	Available for sale	Total	Held for trading	Available for sale	Total
Rs in '000					

Interest / mark-up / profit from:

Government securities	14,133	18,332	32,465	35,818	6,939	42,757
Registered Special US Dollar Bonds	-	3,709	3,709	-	2,441	2,441
TFCs	106	10,187	10,293	2,263	17,303	19,566
	14,239	32,228	46,467	38,081	26,683	64,764

Dividend income

	131	9,795	9,926	60	6,405	6,465
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Gain / (loss) on disposal of:

Government securities	310	(14,637)	(14,327)	(3,123)	1,394	(1,729)
TFCs	-	-	-	1,801	5,773	7,574
Mutual fund units (open end)	-	-	-	-	10,221	10,221
Listed shares / certificates and modaraba certificates	(145)	36,430	36,285	3,196	17,566	20,762
	165	21,793	21,958	1,874	34,954	36,828
	14,535	63,816	78,351	40,015	68,042	108,057

2005 2004
-----Rs. in '000-----

34 INCOME FROM FINANCE

Mark-up on finance	47,586	32,066
Documentation charges and other finance related income	2,680	1,566
	50,266	33,632

35 INCOME FROM LEASE FINANCE

Mark-up on lease finance	110,738	97,782
Front-end fees, documentation charges and other lease related income	7,621	8,271
	118,359	106,053

Notes to the Financial Statements

	2005	2004
	-----Rs. in '000-----	
36 INCOME FROM FUND PLACEMENTS		
Fund placements with financial institutions	22,234	7,150
Securities purchased under resale agreements with financial institutions	68,261	5,203
	<u>90,495</u>	<u>12,353</u>
	Note	
	2005	2004
	-----Rs. in '000-----	
37 FINANCE COSTS		
Return on long term financing - term finance certificates	9,801	31,099
Return on long-term borrowings	41,971	21,139
Return on certificate of deposits	91,247	58,793
Mark-up on short-term finances	3,286	119
Mark-up on borrowings from institutions	25,783	12,596
Bank charges	651	305
Amortisation of deferred costs	9.1.1 149	1,013
	<u>172,888</u>	<u>125,064</u>
38 ADMINISTRATION AND OPERATING EXPENSES		
Salaries, allowances and benefits	42,880	39,126
Contribution to provident fund	1,792	1,641
Gratuity scheme expense	29.4 545	2,280
Contribution to Employees' Old-Age Benefit Institution	132	115
Depreciation on property, plant and equipment	5.1 5,464	4,508
Amortisation on intangible assets	5.2 449	277
Rent, rates and taxes	8,942	6,838
Travelling and entertainment	1,815	1,389
Telephone, telex and fax	3,153	2,161
Printing, postage and stationery	3,249	3,385
Insurance	1,147	1,757
Lighting, heating and cooling	2,134	2,001
Auditors' remuneration	38.1 590	1,617
Repairs and maintenance	1,942	2,265
Brokerage and commission	8,650	6,565
Legal and professional fees	7,549	2,927
Subscriptions	766	1,400
Advertisement	1,122	1,157
Other receivables / fixed assets written off	-	214
Amortisation of deferred costs	9.1.1 60	359
Other expenses	1,562	999
	<u>93,943</u>	<u>82,981</u>
38.1 Auditors' remuneration		
Statutory audit fee	425	413
Half yearly review fee	100	100
Taxation	-	635
Other services	55	299
Out-of-pocket expenses	10	170
	<u>590</u>	<u>1,617</u>

Notes to the Financial Statements

	Note	2005 -----Rs. in '000-----	2004
39 OTHER OPERATING INCOME			
Income from financial assets			
Income from deposits with banks		898	697
Net exchange gain		935	242
Income from other than financial assets			
Gain on disposal of fixed assets		586	1,058
		<u>2,419</u>	<u>1,997</u>
40 TAXATION			
For the year			
- Current		5,902	2,918
- Deferred	40.5	<u>11,742</u>	<u>3,115</u>
		17,644	6,033
For prior years	40.1	<u>(11,473)</u>	-
		<u>6,171</u>	<u>6,033</u>

40.1 This pertains to adjustment made for assessment years up to 2002-03.

	Note	2005 -----Rs. in '000-----	2004
40.2 Relationship between tax expense and accounting profit			
Profit for the year from ordinary activities before taxation		<u>80,866</u>	<u>48,048</u>
Tax at the applicable rate of 35% (2004: 35%)		28,303	16,817
Tax effect of income / expenses that are exempt / not allowed in determining taxable income		(13,374)	(10,011)
Tax effect on account of income taxed under Final Tax Regime		1,654	-
Adjustment in respect of current income tax of prior years		(11,473)	-
Tax effect of dividend income taxed at a lower rate		(2,977)	(1,677)
Tax relief on gain on sale of government securities held for one year or more		-	(2,014)
Minimum tax under section 113 of Income Tax Ordinance, 2001		4,038	2,918
Tax charge		<u>6,171</u>	<u>6,033</u>

40.3 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.

Notes to the Financial Statements

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.

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.

	Note	2005	2004
		-----Rs. in '000-----	
40.4 Deferred			
Deferred taxation comprises:			
Deferred tax assets arising in respect of			
- Provision for doubtful finance / potential lease losses		(14,512)	(12,014)
- Amortisation of premium on short term investments		-	(3,961)
- Provision for gratuity		-	(1,181)
- Carry forward of income tax loss	40.4.1	(67,442)	(20,400)
- Deficit on revaluation of investments	20	(16,510)	(14,750)
		(98,464)	(52,306)
Deferred tax liabilities arising due to			
- Deferred costs		-	73
- Accelerated tax depreciation		141,034	84,821
		141,034	84,894
	40.5	<u>42,570</u>	<u>32,588</u>

40.4.1 As at June 30, 2005, Interbank had unabsorbed tax losses of Rs. 192,693 thousand (2004: Rs. 58,286 thousand) against which deferred tax asset of Rs. 67,442 thousand (2004: Rs. 20,400 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.

	Note	2005	2004
		-----Rs. in '000-----	
40.5 Movement in deferred tax liability			
Opening provision		32,588	52,109
Provision made during the year		11,742	3,115
		<u>44,330</u>	<u>55,224</u>
Deferred tax asset on deficit on revaluation of investments		(1,760)	(22,636)
		<u>42,570</u>	<u>32,588</u>

Notes to the Financial Statements

41 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive*		Executives		Total	
	2005	2004	2005	2004	2005	2004
-----Rs in '000-----						
Managerial remuneration	2,977	2,591	7,119	6,439	10,096	9,030
House rent	-	765	2,052	2,616	2,052	3,381
Utilities	282	170	648	581	930	751
Retirement benefits	451	390	789	1,334	1,240	1,724
Medical expenses	282	60	327	464	609	524
Conveyance	138	149	1,181	958	1,319	1,107
Others	-	88	1,980	1,510	1,980	1,598
	<u>4,130</u>	<u>4,213</u>	<u>14,096</u>	<u>13,902</u>	<u>18,226</u>	<u>18,115</u>
Number of persons	<u>1</u>	<u>2</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>10</u>

Certain executives are provided with free unfurnished accommodation in lieu of house rent allowance. Free use of Interbank's cars is provided to the chief executive and senior executives.

* Includes remuneration of the previous chief executive upto May 31, 2004.

	Note	2005	2004
		-----Rs. in '000-----	
42 TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / RELATED PARTIES			
Certificates of deposits issued		1,332,260	75,925
Finance provided		805	2,714
Lease finance provided		959	2,726
Return on deposits		10,685	2,588
Income from finance		272	349
Income from lease finance		225	353
Brokerage, commission and fee income		2,935	-
Insurance premium		1,064	3,011
Acquisition of intangible assets	5.2.1	21,000	-
Financial charges		62	15
Charge for the year in respect of employee benefit & contribution plan		2,469	4,036

Aga Khan Foundation (Pakistan), Aga Khan University Foundation (Pakistan), American Express Bank Limited, Ali Institute of Education, Arif Habib Investment Management Limited, Aventis Limited, Baber Ali Foundation, Bayer CropScience (Pvt) Limited, Coca Cola Beverages Pakistan Limited, Haroon Oil Limited, International Industries Limited, Mitchell's Fruit Farms Limited, National Management Foundation, Nestle Milkpak Limited, Packages Limited, Packages Lanka (Private) Limited, Pak Chemicals, Pakistan Cables Limited, Siemens Pakistan Engineering Company Limited, Pakistan Premier Fund Limited, Systems (Private) Limited, Tetra Pak (Pakistan) Limited, Tri-Pack Films Limited, Unilever Pakistan Limited and Wazir Ali Industries Limited were related parties during the year being companies under common directorship.

Army Burn Hall Institution, Atchison College, Bagh-e-Rehmat Trust, Businessman Hospital Trust, Consulate of Republic of Cyprus, Kinnaird College, Lahore School of Economics, Layton Rehmat Ullah Benevolent Trust, Pakistan Society for Training and Development, Shell Live Wire International, Syed Ahsan Ali Gauhar Jee Foundation and World Wide Funds were related parties during the year due to certain directors being the member / trustee of the managing body of these institutions.

Notes to the Financial Statements

International General Insurance Company of Pakistan Limited (IGI) was a related party during the year due to a director of Interbank holding shares carrying more than 20% of the voting power in IGI. Transactions with associated undertakings / related parties, are in the normal course of business at contracted rates and terms determined in accordance with market rates.

Particulars of remuneration to key personnel are disclosed in note 41 of these financial statements.

43 NET FOREIGN CURRENCY EXPOSURE

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in exchange rates. Interbank is exposed to foreign currency risk on its foreign currency assets and liabilities.

Interbank's net exposure (financial assets less financial liabilities) in foreign currencies is given below:

	2005			2004		
	USD	Other foreign currencies	Total	USD	Other foreign currencies	Total
----- Rupee equivalent '000 -----						
Financial assets						
Investments	71,697	-	71,697	69,780	-	69,780
Bank balances	3,658	-	3,658	598	-	598
Others	1,860	-	1,860	1,244	-	1,244
	77,215	-	77,215	71,622	-	71,622
Financial liabilities						
Long-term borrowings	-	-	-	(33,509)	-	(33,509)
Others	-	-	-	(142)	-	(142)
	-	-	-	(33,651)	-	(33,651)
	77,215	-	77,215	37,971	-	37,971

Notes to the Financial Statements

44 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.

The table below summarises the maturity profile of Interbank's assets and liabilities. The contractual maturities of assets and liabilities at the year-end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by Interbank's deposit retention history and the availability of liquid funds. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

As at June 30, 2005	Total	Within one year	More than one year and less than five years	More than five years
	----- Rs in '000 -----			
Assets				
Fixed assets	52,034	396	30,638	21,000
Long-term loans and advances	409,549	153,050	250,023	6,476
Net investment in lease finance	1,670,899	514,395	1,153,328	3,176
Long-term deposits, prepayments and deferred costs	3,636	-	869	2,767
Short-term finance	168,022	168,022	-	-
Fund placements	749,426	749,426	-	-
Short-term investments	956,482	446,803	234,362	275,317
Taxation - net	216,717	216,717	-	-
Advances, deposits and prepayments	69,946	69,946	-	-
Interest / mark-up / profit accrued	20,541	20,541	-	-
Other receivables	9,268	9,268	-	-
Cash and bank balances	41,925	41,925	-	-
	<u>4,368,445</u>	<u>2,390,489</u>	<u>1,669,220</u>	<u>308,736</u>
Liabilities				
Long-term borrowings	1,033,333	325,000	708,333	-
Certificates of deposit	1,486,688	1,363,617	123,071	-
Deposits on lease contracts	339,937	33,790	304,031	2,116
Payable to staff gratuity fund	2,817	2,817	-	-
Deferred tax liabilities- net	42,570	(44,401)	103,481	(16,510)
Short-term finance	145,254	145,254	-	-
Borrowings from financial institutions	599,618	599,618	-	-
Mark-up accrued	43,393	43,393	-	-
Accrued expenses and other liabilities	41,168	41,168	-	-
	<u>3,734,778</u>	<u>2,510,256</u>	<u>1,238,916</u>	<u>(14,394)</u>
Net assets	<u>633,667</u>	<u>(119,767)</u>	<u>430,304</u>	<u>323,130</u>
Represented by:				
Share capital and reserves	665,942			
Deficit on revaluation of investments - net	(32,275)			
	<u>633,667</u>			

Notes to the Financial Statements

As at June 30, 2004

Total Within
one year More than
one year More than
and less five years
than five
years

----- Rs in '000 -----

Assets

Fixed assets	16,151	334	15,817	-
Long-term investments	69,780	-	69,780	-
Long-term loans and advances	304,630	102,576	184,173	17,881
Net investment in lease finance	1,148,608	338,986	807,208	2,414
Long-term deposits, prepayments and deferred costs	1,762	209	-	1,553
Short-term finance	131,107	131,107	-	-
Fund placements	694,578	694,578	-	-
Short-term investments	762,422	262,080	5,286	495,056
Taxation - net	197,423	197,423	-	-
Advances, deposits and prepayments	25,810	25,810	-	-
Interest / mark-up / profit accrued	22,641	22,641	-	-
Other receivables	11,938	11,938	-	-
Cash and bank balances	46,163	46,163	-	-
	<u>3,433,013</u>	<u>1,833,845</u>	<u>1,082,264</u>	<u>516,904</u>

Liabilities

Long term financing - term finance certificates	178,550	178,550	-	-
Long-term borrowings	675,176	130,673	544,503	-
Certificates of deposit	945,399	625,733	319,666	-
Deposits on lease contracts	232,382	25,233	205,935	1,214
Payable to staff gratuity fund	3,372	3,372	-	-
Deferred tax liabilities- net	32,588	-	32,588	-
Short term finance	27,284	27,284	-	-
Borrowings from financial institutions	655,000	655,000	-	-
Mark-up accrued	54,607	54,607	-	-
Accrued expenses and other liabilities	57,225	57,225	-	-
	<u>2,861,583</u>	<u>1,757,677</u>	<u>1,102,692</u>	<u>1,214</u>
Net assets	<u>571,430</u>	<u>76,168</u>	<u>(20,428)</u>	<u>515,690</u>

Represented by:

Share capital and reserves	591,247
Deficit on revaluation of investments - net	(19,817)
	<u>571,430</u>

45 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.

Notes to the Financial Statements

Interbank's exposure to yield / market rate risk and the effective rates on its financial assets and liabilities are summarised as follows :

As at June 30, 2005

Exposed to yield / market rate risk

	Effective rate	Total	Within one year	More than one year and less than five years	More than five years	Not exposed to yield / market rate risk
	%	Rs in '000				
FINANCIAL ASSETS						
Long-term loans and advances	11.01%	409,549	153,050	250,023	6,476	-
Net investment in lease						
lease finance	7.93%	1,670,899	775,808	891,915	3,176	-
Long-term deposits	-	2,767	-	-	-	2,767
Short term finance	10.56%	168,022	168,022	-	-	-
Fund placements	12.62%	749,426	749,426	-	-	-
Short-term investments	7.50%	956,482	134,111	130,785	247,329	444,257
Advances and deposits	-	56,836	-	-	-	56,836
Interest / mark-up / profit accrued	-	20,541	-	-	-	20,541
Other receivables	-	9,268	-	-	-	9,268
Cash and bank balances	1.50%	41,925	33,192	-	-	8,733
		<u>4,085,715</u>	<u>2,013,609</u>	<u>1,272,723</u>	<u>256,981</u>	<u>542,402</u>
FINANCIAL LIABILITIES						
Long-term borrowings	7.85%	1,033,333	325,000	708,333	-	-
Certificates of deposit	9.01%	1,486,688	1,363,617	123,071	-	-
Deposits on						
lease contracts	-	339,937	-	-	-	339,937
Short-term finance	8.36%	145,254	145,254	-	-	-
Borrowings from financial institutions	9.34%	599,618	599,618	-	-	-
Mark-up accrued	-	43,393	-	-	-	43,393
Accrued expenses and other liabilities	-	41,168	-	-	-	41,168
		<u>3,689,391</u>	<u>2,433,489</u>	<u>831,404</u>	<u>-</u>	<u>424,498</u>
On-balance sheet gap		<u>396,324</u>	<u>(419,880)</u>	<u>441,319</u>	<u>256,981</u>	<u>117,904</u>
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,843</u>
Total yield / market rate sensitivity gap			<u>(419,880)</u>	<u>441,319</u>	<u>256,981</u>	
Cumulative yield / market rate sensitivity gap			<u>(419,880)</u>	<u>21,439</u>	<u>278,420</u>	

Notes to the Financial Statements

As at June 30, 2004

Exposed to yield / market rate risk

	Effective rate	Total	Within one year	More than one year and less than five years	More than five years	Not exposed to yield / market rate risk
----- Rs in '000 -----						
FINANCIAL ASSETS						
Long-term investments	3.87%	69,780	-	69,780	-	-
Long-term loans and advances	8.00%	304,630	102,576	184,173	17,881	-
Net investment in lease finance	8.59%	1,148,608	398,276	747,918	2,414	-
Long-term deposits	-	1,553	-	-	-	1,553
Short-term finance	5.00%	131,107	131,107	-	-	-
Fund placements	3.51%	694,578	694,578	-	-	-
Short-term investments	9.31%	762,422	130,235	5,286	495,056	131,845
Advances and deposits	-	17,650	-	-	-	17,650
Interest / mark-up / profit accrued	-	22,641	-	-	-	22,641
Other receivables	-	11,938	5,613	-	-	6,325
Cash and bank balances	1.49%	46,163	29,170	-	-	16,993
		<u>3,211,070</u>	<u>1,491,555</u>	<u>1,007,157</u>	<u>515,351</u>	<u>197,007</u>
FINANCIAL LIABILITIES						
Long term financing - term finance certificates	13.98%	178,550	178,550	-	-	-
Long-term borrowings	5.11%	675,176	130,673	544,503	-	-
Certificates of deposit	6.22%	945,399	625,733	319,666	-	-
Deposits on lease contracts	-	232,382	-	-	-	232,382
Short term finance	3.89%	27,284	27,284	-	-	-
Borrowings from financial institutions	3.54%	655,000	655,000	-	-	-
Mark-up accrued	-	57,225	-	-	-	57,225
Accrued expenses and other liabilities	-	54,607	-	-	-	54,607
		<u>2,825,623</u>	<u>1,617,240</u>	<u>864,169</u>	<u>-</u>	<u>344,214</u>
On-balance sheet gap		<u>385,447</u>	<u>(125,685)</u>	<u>142,988</u>	<u>515,351</u>	<u>(147,207)</u>
Off-balance sheet gap	9.23%		<u>-</u>	<u>198,044</u>	<u>-</u>	
Total yield / market rate sensitivity gap			<u>(125,685)</u>	<u>341,032</u>	<u>515,351</u>	
Cumulative yield / market rate sensitivity gap			<u>(125,685)</u>	<u>215,347</u>	<u>730,698</u>	

46 CREDIT RISK AND CONCENTRATIONS 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. Interbank attempts to control credit risk by monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties 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.

Interbank follows two sets of guidelines. It has its own operating policy and also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

Interbank seeks to manage its credit risk through diversification of financing activities to avoid undue concentrations of credit risk with individuals or groups of customers in specific locations or businesses. It also obtains securities when appropriate. Details of the composition of finance and lease portfolios of Interbank are given below:

	2005		2004	
	Rs in '000	%	Rs in '000	%
Finance and leases				
Dairy and poultry	1,209	0.05	5,861	0.37
Cement	3,143	0.14	4,639	0.29
Health	3,975	0.18	3,928	0.25
Glass and ceramics	13,360	0.59	26,760	1.69
Leather	19,452	0.87	26,522	1.67
Paper and board	20,405	0.91	6,404	0.40
Construction	35,812	1.59	2,571	0.16
Energy, oil and gas	37,715	1.68	26,863	1.70
Financial institutions	40,000	1.78	30,000	1.89
Electric and electric goods	71,755	3.19	55,527	3.50
Chemicals / fertilizers / pharmaceuticals	71,893	3.20	74,233	4.69
Food, tobacco and beverages	96,769	4.30	51,093	3.22
Steel, engineering and automobiles	134,578	5.99	100,804	6.36
Transport	241,866	10.76	180,912	11.42
Textile / textile composite	390,529	17.37	197,178	12.45
Miscellaneous (including individuals)	1,066,009	47.40	791,050	49.93
	<u>2,248,470</u>	<u>100.00</u>	<u>1,584,345</u>	<u>100.00</u>

Sector-wise concentration of fund placements and investments has been included in notes 6, 12 and 13 to the financial statements.

47 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 amounts and the fair value estimates.

Underlying the definition of fair value is the presumption that Interbank 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 Financial Statements

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
	----- Rs in '000 -----			
FINANCIAL ASSETS				
Long-term investments	-	-	69,780	69,780
Long-term loans and advances	409,549	409,549	304,630	304,630
Net investment in lease finance	1,670,899	1,670,899	1,148,608	1,148,608
Long-term deposits	2,767	2,767	1,553	1,553
Short-term finance	168,022	168,022	131,107	131,107
Fund placements	749,426	749,426	694,578	694,578
Short-term investments	956,482	956,482	762,422	762,422
Advances and deposits	56,836	56,836	17,650	17,650
Interest / mark-up / profit accrued	20,541	20,541	22,641	22,641
Other receivables	9,268	9,268	11,938	11,938
Cash and bank balances	41,925	41,925	46,163	46,163
	<u>4,085,715</u>	<u>4,085,715</u>	<u>3,211,070</u>	<u>3,211,070</u>
FINANCIAL LIABILITIES				
Long term financing - term finance certificates	-	-	178,550	178,550
Long-term borrowings	1,033,333	1,033,333	675,176	675,176
Certificates of deposit	1,486,688	1,486,688	945,399	945,399
Deposits on lease contracts	339,937	339,937	232,382	232,382
Short-term finance	145,254	145,254	27,284	27,284
Borrowings from financial institutions	599,618	599,618	655,000	655,000
Mark-up accrued	43,393	43,393	57,225	57,225
Accrued expenses and other liabilities	41,168	41,168	54,607	54,607
	<u>3,689,391</u>	<u>3,689,391</u>	<u>2,825,623</u>	<u>2,825,623</u>
OFF BALANCE SHEET				
FINANCIAL INSTRUMENTS	<u>191,843</u>	<u>191,843</u>	<u>198,044</u>	<u>198,044</u>

47.1 As at June 30, 2005, the fair values of all financial instruments are based on the valuation methodology outlined below:

(a) Finances and certificates of deposit

For all finances, including leases, and certificates of deposit, the fair values have been taken at carrying amounts as these are not considered materially different from their fair values based on the current yields / market rates and repricing profiles of similar finance and deposit portfolios.

(b) Investments

The fair values of quoted investments are based on quoted market prices or average of quotations received from the brokers. Unquoted local currency investments are stated at cost less impairment, if any, which approximates their fair value in the absence of an active market. Fair value of unquoted foreign currency bonds which carry a floating rate of return is considered to be the same as their carrying amount as these can only be redeemed at their carrying amount from designated banks.

(c) Other financial instruments

The fair values of all other financial instruments are considered to approximate their carrying amounts.

48 EARNINGS PER SHARE

48.1 Basic

Basic earnings per share are calculated by dividing the profit for the year from ordinary activities after taxation by the weighted average number of shares outstanding during the year as follows:

	2005	2004
Profit for the year from ordinary activities after taxation - Rupees in thousands	<u>74,695</u>	<u>42,014</u>
Weighted average number of shares outstanding during the year - in thousands	<u>41,917.50</u>	<u>37,781.38</u>
Basic earnings per share - Rupees	<u>1.78</u>	<u>1.11</u>

48.2 Diluted

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

49 SEGMENTAL ANALYSIS

Interbank's activities may be broadly categorised into three primary business segments namely financing activities, investment activities and brokerage activities within Pakistan.

Financing activities

Financing activities include providing long-term and short-term financing facilities to corporate and individual customers including lease financing.

Investment activities

Investment activities include money market activities, investment in government securities, advisory services, capital market activities and the management of Interbank's liquidity.

Brokerage activities

Brokerage activities include brokerage services offered to retail and institutional clients through Interbank's seat at the Lahore Stock Exchange.

Notes to the Financial Statements

	Note	Financing activities	Investment activities	Brokerage activities	Total
		----- Rs in '000 -----			
Segmental information for the year ended June 30, 2005					
Segment revenue		<u>169,324</u>	<u>176,837</u>	<u>8,673</u>	<u>354,834</u>
Segment result / profit before tax		38,507	41,838	521	80,866
Taxation					6,171
Profit for the year from ordinary activities after taxation					<u>74,695</u>
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>
Capital expenditure - Tangible				<u>13,340</u>	<u>13,340</u>
Unallocated capital expenditure -Tangible					<u>4,955</u>
Capital expenditure - Intangible				<u>21,000</u>	<u>21,000</u>
Unallocated capital expenditure -Intangible					<u>2,819</u>
Segmented depreciation and amortisation of fixed assets	49.1	<u>2,271</u>	<u>2,372</u>	<u>1,270</u>	<u>5,913</u>
Segmental information for the year ended June 30, 2004					
Segment revenue		<u>141,589</u>	<u>121,349</u>	-	<u>262,938</u>
Segment result / profit before tax		27,851	20,196	-	48,047
Taxation					6,033
Profit for the year from ordinary activities after taxation					<u>42,014</u>
Segment assets		<u>1,584,346</u>	<u>1,572,943</u>	-	<u>3,157,289</u>
Unallocated assets					<u>275,724</u>
Unallocated liabilities					<u>2,861,583</u>
Unallocated capital expenditure -Tangible					<u>7,724</u>
Unallocated capital expenditure -Intangible					<u>605</u>
Segmented depreciation and amortisation of fixed assets	49.1	<u>2,577</u>	<u>2,208</u>	-	<u>4,785</u>

Notes to the Financial Statements

49.1 Depreciation and amortisation has been allocated in the proportion of segment revenue as fixed assets are shown under unallocated assets.

50 NUMBER OF EMPLOYEES

The total number of employees at year-end was 89 (2004: 65).

51 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on September 09, 2005 has proposed a stock dividend in respect of the year ended June 30, 2005 of ___ % (2004: 15%). This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended June 30, 2005 do not include the effect of this appropriations which will be accounted for subsequent to the year end.

52 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on September 9, 2005.

53 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Significant reclassifications are as follows:

- Interest / mark-up / profit accrued has been reclassified from prepayments, receivables and other assets and shown separately on the balance sheet.
- Other receivables has been reclassified from prepayments, receivables and other assets and shown separately on the balance sheet.
- Mark-up accrued has been reclassified from accrued expenses and other liabilities and shown separately on the balance sheet.
- Remuneration of executives have been restated due to the amendment in definition of 'executive' under the Fourth Schedule to the Companies Ordinance, 1984.
- Advances, deposits and prepayments and accrued expenses and other liabilities have been reclassified in Notes 44, 45 and 47 in line with the changes in requirements of the Fourth Schedule to the Companies Ordinance, 1984.

54 GENERAL

Figures have been rounded off to the nearest thousand of rupees.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive