

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

1. LEGAL STATUS AND OPERATIONS

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

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

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

During the pervious financial year Interbank has acquired Finex Securities Limited, a brokerage house in Karachi, and has established IGI Funds Limited, an Asset Management Company.

These financial statements are the separate financial statements of First International Investment Bank Limited. In addition to these financial statements, consolidated financial statements of the company and its subsidiary companies, Finex Securities Limited and IGI Funds Limited, have also been prepared.

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.

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.

3. **SIGNIFICANT ACCOUNTING POLICIES**

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

4. **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	4,843	1,585

5. **LONG-TERM INVESTMENTS**

September 30, June 30,
2006 2006

	-----Rupees in '000-----	
Investment in Subsidiary		
Finex Securities Limited (100% Share Holding)	152,571	152,571
IGI Funds Ltd.	30,000	30,000
	182,571	182,571

6. **CURRENT MATURITY OF NON-CURRENT ASSETS**

Long-term loan and advances	124,868	176,729
Net investment in finance lease	623,770	695,624
	748,638	872,353

7. **SHORT-TERM INVESTMENTS**

Held-for-trading, marked to market

Federal Investment Bonds	1,671	2,378
Pakistan Investment Bonds	1,333	1,482
Treasury Bills	99,391	97,372
	102,395	101,232

Available-for-sale, marked to market

Term finance certificates	229,346	250,345
Units of mutual funds	269,701	95,859
Shares and modaraba certificates	103,938	313,721
	602,985	659,925
	705,380	761,157

8. **CURRENT MATURITY OF NON-CURRENT LIABILITIES**

	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
	670,668	654,467

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 order 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-----	
9.2 Commitments		
Underwriting commitments	140,000	115,000
Commitment in respect of capital expenditure	-	5,310
Forward sale of Shares	10,511	29,292
10 INCOME FROM INVESTMENTS		
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	September 30, 2005
	-----Rupees in '000-----	
11 TAXATION		
	Note	
For the period		
- Current	2,235	1,505
- Deferred	2,765	4,489
	<u>5,000</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 RELATED PARTY TRANSACTIONS

Transactions with related parties are carried out in the normal course of business at contracted rates and terms determined on an arm's length basis using comparable uncontrolled price method.

30th, Sep 2006					
DESCRIPTION	Subsidiaries	Associated Undertakings	Other related parties	Key Management personnel	Total
----- Rs in '000 -----					
Transactions entered during the period					
Certificate of deposits issued		138,671	252,034	1,255	391,960
Insurance premium paid	1,869	501	1,379		3,748
Finance provided	40,000				40,000
Payment to staff gratuity fund	-	-	-		-
Balance outstanding as at the period end					
Loans and advances	40,000			3,771	43,771
Deposit against CFS trading	-	-	-		-
Deposit accounts	-				-
Certificate of deposits		138,671	118,447	10,379	267,497
Trade debts	288,508	74,707			363,215
Other receivable	-				-
Markup accrued - Certificate of deposits		966	1,412	5	2,383
Markup accrued- Finance	244				244
Trade creditors	-				-
Insurance		376			376
Profit / Expense for the period					
Income from finance	583			112	695
Brokerage, commission and fee income		1,201		13	1,214
Return on deposits		2,780	1,096	1,020	4,896
Rent expense		574	665		1,239
Insurance expense		125			125
Travelling and lodging	-				-
Charge for the year in respect of employee benefit and contribution plan				393	393
Remuneration to key management personnel				9,959	9,959
Post employment benefit	-				-

30th, Sep 2005					
DESCRIPTION	Subsidiaries	Associated Undertakings	Other related parties	Key Management personnel	Total
----- Rs in '000 -----					
Transactions entered during the period					
Certificate of deposits issued		470,143		9,614	479,757
Insurance premium paid		1,054			1,054
Finance provided				480	480
Payment to staff gratuity fund	-	-	-		-
Balance outstanding as at the period end					
Loans and advances	-	-	-		-
Deposit against CFS trading	-	-	-		-
Deposit accounts	-	-	-		-
Certificate of deposits	-	-	-		-
Trade debts	-	-	-		-
Other receivable	-	-	-		-
Markup accrued - Certificate of deposits					-
Markup accrued- Finance					-
Trade creditors	-				-
Insurance					-
Profit / Expense for the period					
Income from finance				41	41
Brokerage, commission and fee income		534		77	611
Return on deposits		4,047		83	4,130
Rent expense					-
Insurance expense					-
Travelling and lodging					-
Charge for the year in respect of employee benefit and contribution plan				1,048	1,048
Remuneration to key management personnel					-
Post employment benefit	-				-

	Financing activities	Investment activities	Brokerage	Total
	-----Rupees in '000-----			
Segmental information for the quarter ended September 30, 2006				
Segment revenue	<u>81,944</u>	<u>48,970</u>	<u>4,977</u>	<u>135,891</u>
Segment result profit/(loss) before taxation	(6,330)	7,897	(908)	659
Taxation				5,000
Loss for the quarter ended from ordinary activities after taxation				<u>(4,341)</u>
Segment assets	<u>2,900,225</u>	<u>1,500,823</u>	<u>40,982</u>	<u>4,442,030</u>
Unallocated assets				<u>722,153</u>
Unallocated liabilities				<u>4,794,295</u>
Comparative segmental information				
<u>For the quarter ended September 30, 2005</u>				
Segment revenue	<u>57,230</u>	<u>7,700</u>	<u>2,519</u>	<u>67,449</u>
Segment result profit/(loss) before taxation	(5,463)	(26,891)	1,462	(30,892)
Taxation				5,994
Loss for the quarter ended from ordinary activities after taxation				<u>(36,886)</u>
<u>As at June 30, 2006</u>				
Segment assets	<u>2,402,695</u>	<u>1,940,812</u>	<u>87,191</u>	<u>4,430,698</u>
Unallocated assets				<u>342,743</u>
Unallocated liabilities				<u>4,325,882</u>

15 DATE OF AUTHORISATION OF ISSUE

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

16 GENERAL

Figures have been rounded off to the nearest thousand rupees.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director and Chief Executive