Auditors' Report to the Members

We have audited the annexed balance sheet of **First International Investment Bank Limited** as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Fergusons & Co.
Chartered Accountants
Karachi
Dated: October 09, 2006

Balance Sheet

for the year ended June 30, 2006

	Note	2006	2005
		------------Rs in '000-----------	
ASSETS			
Non-current assets			
Fixed assets			
Property, plant and equipment	5.1	40,369	27,721
Intangible assets	5.2	50,714	24,313
		91,083	52,034
Long-term investments	6	182,571	-
Long-term loans and advances	7	369,825	256,499
Net investment in lease finance	8	1,233,578	1,156,504
Long-term deposits and prepayments	9	3,707	3,636
		1,880,764	1,468,673
Current assets			
Current maturity of non-current assets	10	872,353	667,445
Short-term finance	11	273,252	168,022
Fund placements	12	809,567	749,426
Short-term investments	13	761,157	956,482
Taxation - net		220,594	216,717
Advances, deposits and prepayments	14	151,704	69,946
Interest / mark-up / profit accrued	15	28,326	20,541
Trade debts	16	72,865	41,250
Other receivables	17	24,982	9,268
Cash and bank balances	18	196,978	41,925
		3,411,778	2,941,022
TOTAL ASSETS		5,292,542	4,409,695
EQUITY & LIABILITIES			
Capital and reserves			
Authorised capital			
100,000,000 (2005: 100,000,000) ordinary shares of Rs.10 each		1,000,000	1,000,000
Issued, subscribed and paid-up capital	19	419,175	419,175
Reserves	20	225,392	246,767
		644,567	665,942
Deficit on revaluation of investments - net	21	(28,929)	(32,275)
Non-current liabilities			
Pre-IPO subscription towards issue of term finance certifiicates	22	369,950	-
Long-term borrowings	23	693,333	708,333
Long-term certificates of deposit	24	289,059	123,071
Deposits on lease contracts	25	367,452	306,147
Deferred tax liabilities - net	42.3	40,994	42,570
		1,760,788	1,180,121
Current liabilities			
Current maturity of non-current borrowings	26	654,467	518,547
Current maturity of deposits on lease contracts	27	53,315	33,790
Short-term finance	28	237	145,254
Short-term certificates of deposit	29	1,709,714	1,170,070
Borrowings from financial institutions	30	294,347	599,618
Payable to staff gratuity fund	31	2,845	2,817
Mark-up accrued	32	59,937	43,393
Accrued expenses and other liabilities	33	141,254	82,418
		2,916,116	2,595,907
Contingencies and commitments	34		
		5,292,542	4,409,695

The annexed notes 1 to 57 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Cash Flow Statement
for the year ended June 30, 2006

	Note	2006	2005
		------------Rs in '000-----------	
CASH FLOWS FROM OPERATING ACTIVITIES :			
Profit for the year from ordinary activities before taxation		28,787	80,866
Adjustments for :			
Gain on disposal of fixed assets		(1,326)	(586)
Exchange (gain) / loss		8	(935)
Fixed assets written off		30	-
Amortisation of deferred costs		-	209
Depreciation		7,930	5,464
Amortisation		5,187	449
Provision for gratuity		1,528	545
Interest / mark-up / profit income		(426,384)	(296,184)
Financial charges		337,970	172,888
Dividend income		(13,377)	(9,926)
Provision for doubtful finance / potential lease losses - general		5,689	6,352
Provision under SECP's Prudential Regulations for NBFCs against doubtful finance / lease losses - specific		2,017	785
		(80,728)	(120,939)
		(51,941)	(40,073)
(Increase) / decrease in current assets :			
Short-term finance		(105,230)	(36,915)
Fund placements		(60,141)	(54,848)
Short-term investments		215,022	(136,581)
Trade debts		(31,615)	(41,250)
Prepayments, receivables and other assets		(94,971)	(39,367)
		(76,935)	(308,961)
Increase / (decrease) in current liabilities :			
Short-term certificates of deposit		539,644	595,568
Borrowings from institutions		(305,271)	(55,382)
Accrued expenses and other liabilities		58,835	25,193
		293,208	565,379
Cash generated / (used in) from operations		164,332	216,345
Disbursements of long-term finance - net		(141,220)	(102,746)
Net investments in lease finance		(261,794)	(531,601)
Long-term deposits, prepayments and deferred costs - net		(71)	(2,083)
Repayments of long-term certificates of deposit - net		11,908	(54,279)
Receipts from deposits on lease contracts - net		80,830	107,555
Interest / mark-up / profit received		418,599	296,184
Financial charges paid		(321,426)	(184,102)
Dividend received		10,876	9,926
		(202,298)	(461,146)
Net cash used in operating activities before income tax and gratuity		(37,966)	(244,801)
Income tax paid		(13,281)	(13,723)
Gratuity paid		(1,500)	(1,100)
Net cash used in operating activities	Balance c/f	(52,747)	(259,624)

	Note	2006	2005
		------------Rs in '000----------	
Net cash used in operating activities Balance b/f		(52,747)	(259,624)
CASH FLOWS FROM INVESTING ACTIVITIES :			
Acquisition of fixed assets		(53,332)	(42,114)
Long term investments		(182,571)	-
Sale proceeds of fixed assets		2,462	904
Net cash used in investing activities		(233,441)	(41,210)
CASH FLOWS FROM FINANCING ACTIVITIES :			
Proceeds from pre-IPO subscription towards issue of TFCS - net		369,950	-
Term finance certificates redeemed and sold - net		-	(178,550)
Long-term borrowings - net		275,000	357,093
Payment of dividend		(58,684)	-
Net cash generated from financing activities		586,266	178,543
Net decrease in cash and cash equivalents		300,078	(122,291)
Cash and cash equivalents at the beginning of the year		(103,329)	18,879
Effect of exchange rate changes on cash and cash equivalents		(8)	83
Cash and cash equivalents at the end of the year		196,741	(103,329)
Cash and cash equivalents at the end of the year			
Cash and bank balances	18	196,978	41,925
Running finance	28	(237)	(145,254)
		196,741	(103,329)

The annexed notes 1 to 57 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Company Information

Company Secretary	Muhammad Usman Amjad
Audit Committee	Mr. Khalid Yacob, Chairman Mr. Adi J. Cawasji Mr. Nadeem Karamat
Auditors	M/s A.F. Ferguson & Co., Chartered Accountants
Legal Advisers	M/s Hassan & Hassan, Advocates M/s Mohsin Tayebaly & Co., Advocate & Legal Consultants M/s Orr, Dignam & Co., Advocates
Bankers	American Express Bank Ltd. ABN-AMRO Bank N.V. Bank AL Habib Limited Metropolitan Bank Limited Muslim Commercial Bank Limited Soneri Bank Limited United Bank Limited My Bank Limited
Shares Registrar	Noble Computer Services (Private) Limited Sohni Centre BS 5 & 6, Main Karimabad, Block 4, Federal B. Area, Karachi. Telephone: (021) 680-1880 (3 lines) Fax: (021) 680-1129 E-mail: ncsl@noble-computers.com
Lahore Registered Office	5 F.C.C., Ground Floor, Syed Maratib Ali Road, Gulberg, Lahore. Telephone: (042) 575-3414 (3 lines), 571-0597 Fax: (042) 576-2790 E-mail: fiibl.lhr@interbank.com.pk

Lahore Stock Exchange (LSE) Office	Room No. 302, Lahore Stock Exchange Building 19 Khayaban-e-Aiwan-e-Iqbal, Lahore-54000 Telephone: (042) 631-1179
Karachi Office	7th Floor, Shaheen Commercial Complex, Dr. Ziauddin Ahmed Road, Karachi. Telephone: (021) 263-9042 (5 lines), 262-6781 (5 lines) Fax: (021) 263-0678 E-mail: fiibl.khi@interbank.com.pk
Islamabad Office	Mezzanine Floor, Razia Sharif Plaza, 90, Blue Area, G / 7, Islamabad. Telephone: (051) 227-5256 (3 lines) Fax: (051) 227-3861 E-mail: fiibl.isl@interbank.com.pk
Faisalabad Office	9th Floor, State Life Building, Faisalabad. Telephone: (041) 254-0811 (5 lines) Fax: (041) 254-0815 E-mail: fiibl.fsl@interbank.com.pk
Sialkot Office	Room # 206, Sialkot Trading Floor, 2nd Floor, Cantt Plaza, Allama Iqbal Road, Sialkot Cantt E-mail: fiibl.slk@interbank.com.pk
UAN	Tel: 111-234-234, Fax: 111-567-567
Website	www.interbank.com.pk

Balance Sheet
for the year ended June 30, 2006

	Note	2006	2005
		----------Rs in '000----------	
ASSETS			
Non-current assets			
Fixed assets			
Property, plant and equipment	6.1 & 6.2	63,288	27,721
Intangible assets	6.3	183,581	24,313
		246,869	52,034
Long-term loans and advances	7	332,403	256,499
Net investment in lease finance	8	1,233,578	1,156,504
Long-term deposits and prepayments	9	5,358	3,636
		1,818,208	1,468,673
Current assets			
Current maturity of non-current assets	10	872,833	667,445
Short-term finance	11	273,252	168,022
Fund placements	12	809,567	749,426
Short-term investments	13	786,464	956,482
Taxation - net		220,248	216,717
Advances, deposits and prepayments	14	62,778	69,946
Interest / mark-up / profit accrued	15	28,268	20,541
Trade debts	16	92,607	41,250
Other receivables	17	23,655	9,268
Cash and bank balances	18	315,856	41,925
		3,485,528	2,941,022
TOTAL ASSETS		5,303,736	4,409,695
EQUITY & LIABILITIES			
Capital and reserves			
Authorised capital			
100,000,000 (2005: 100,000,000) ordinary shares of Rs.10 each		1,000,000	1,000,000
Issued, subscribed and paid-up capital	19	419,175	419,175
Reserves	20	228,216	246,767
		647,391	665,942
Deficit on revaluation of investments - net	21	(28,623)	(32,275)
Non-Current liabilities			
Pre-IPO subscription towards issue of term finance certificates	22	369,950	-
Long-term borrowings	23	693,333	708,333
Long-term certificates of deposit	24	289,059	123,071
Deposits on lease contracts	25	367,452	306,147
Deferred tax liabilities - net	43.3	40,877	42,570
Liabilities against assets subject to finance lease	26	2,298	-
		1,762,969	1,180,121
Current liabilities			
Current maturity of non-current borrowings	27	654,467	518,547
Current maturity of deposits on lease contracts	28	53,315	33,790
Current portion of liabilities against assets subject to finance lease	26	378	-
Short-term finance	29	237	145,254
Short-term certificates of deposit	30	1,709,714	1,170,070
Borrowings from financial institutions	31	294,347	599,618
Payable to staff gratuity fund	32	3,338	2,817
Mark-up accrued	33	59,937	43,393
Accrued expenses and other liabilities	34	146,266	82,418
		2,921,999	2,595,907
Contingencies and commitments	35		
		5,303,736	4,409,695

The annexed notes 1 to 59 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Profit and Loss Statement for the year ended June 30, 2006

	Note	2006	2005
		------------Rs in '000----------	
Income			
Income from investments	36	81,392	78,351
Income from finance	37	90,205	50,266
Income from lease finance	38	176,253	118,359
Income from fund placements	39	140,867	90,495
Fees, commission and brokerage		46,782	14,944
		535,499	352,415
Finance costs	40	338,034	172,888
Administrative and operating expenses	41	162,833	93,943
		500,867	266,831
		34,632	85,584
Other operating income	42	6,146	2,419
Operating profit before provisions		40,778	88,003
Provision for doubtful finance / potential lease loan - general	7.3 & 8.5	5,689	6,352
Provision under SECP's Prudential Regulations for NBFCs against doubtful finance / lease losses (net of recoveries) - specific	7.3 & 8.5	2,017	785
		7,706	7,137
Profit for the year from ordinary activities before taxation		33,072	80,866
Taxation	43	(7,062)	6,171
Profit for the year from ordinary activities after taxation		40,134	74,695
		--------------- Rupees ---------------	
Earnings per share - Basic and Diluted	52.1	0.96	1.78

The annexed notes 1 to 59 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Cash Flow Statement
for the year ended June 30, 2006

	Note	2006	2005
		------------Rs in '000-----------	
CASH FLOWS FROM OPERATING ACTIVITIES :			
Profit for the year from ordinary activities before taxation		33,072	80,866
Adjustments for :			
Gain on disposal of fixed assets		(1,326)	(586)
Exchange (gain) / loss		8	(935)
Fixed assets written off		30	-
Amortisation of deferred costs		-	209
Depreciation		9,774	5,464
Amortisation		5,493	449
Provision for gratuity		2,021	545
Interest / mark-up / profit income		(425,847)	(296,184)
Financial charges		338,034	172,888
Dividend income		(13,377)	(9,926)
Provision for doubtful finance / potential lease losses - general		5,689	6,352
Provision under SECP's Prudential Regulations for NBFCs against doubtful finance / lease losses - specific		2,017	785
		(77,484)	(120,939)
		(44,412)	(40,073)
(Increase) / decrease in current assets :			
Short-term finance		(105,230)	(36,915)
Fund placements		(60,141)	(54,848)
Short-term investments		190,021	(136,581)
Trade debts		(51,357)	(41,250)
Prepayments, receivables and other assets		(4,718)	(39,367)
		(31,425)	(308,961)
Increase / (decrease) in current liabilities :			
Short-term certificates of deposit		539,644	595,568
Borrowings from institutions		(305,271)	(55,382)
Accrued expenses and other liabilities		62,398	25,193
		296,771	565,379
Cash generated / (used in) from operations		220,934	216,345
Disbursements of long-term finance - net		(104,278)	(102,746)
Net investments in lease finance		(261,794)	(531,601)
Long-term deposits, prepayments and deferred costs - net		(1,722)	(2,083)
Repayments of long-term certificates of deposit - net		(8,092)	(54,279)
Receipts from deposits on lease contracts - net		80,830	107,555
Interest / mark-up / profit received		418,120	296,184
Financial charges paid		(321,490)	(184,102)
Dividend received		10,876	9,926
		(187,550)	(461,146)
Net cash (used in) /operating activities before income tax and gratuity		33,384	(244,801)
Income tax paid		(14,513)	(13,723)
Gratuity paid		(1,500)	(1,100)
Net cash used in operating activities	Balance c/f	17,371	(259,624)

	Note	2006	2005
		------------Rs in '000-----------	
Net cash (used in) / operating activities Balance b/f		17,371	(259,624)
CASH FLOWS FROM INVESTING ACTIVITIES :			
Acquisition of Finex Securities Limited-net of cash acquired	44.1	(132,571)	-
Acquisition of fixed assets		(54,572)	(42,114)
Sale proceeds of fixed assets		2,462	904
Net cash used in investing activities		(184,681)	(41,210)
CASH FLOWS FROM FINANCING ACTIVITIES :			
Term finance certificates redeemed and sold - net		-	(178,550)
Proceeds from pre-IPO subscription towards issue of TFCS - net		369,950	-
Long-term borrowings - net		275,000	357,093
Payment of dividend		(58,684)	-
Net cash generated from financing activities		586,266	178,543
Net increase / (decrease) in cash and cash equivalents		418,956	(122,291)
Cash and cash equivalents at the beginning of the year		(103,329)	18,879
Effect of exchange rate changes on cash and cash equivalents		(8)	83
Cash and cash equivalents at the end of the year		315,619	(103,329)
Cash and cash equivalents at the end of the year			
Cash and bank balances	18	315,856	41,925
Running finance	29	(237)	(145,254)
		315,619	(103,329)

The annexed notes 1 to 59 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Statement
of Changes in Equity
for the year ended June 30, 2006

	Issued, subscribed and paid-up capital	Reserves					Total
		Capital reserves		Revenue reserves			
		Reserve for issue of bonus shares	Special reserve	General reserve	Unappro-priated profit/(loss)	Total Reserves	
	---Rs in '000---						
Balance as at July 1, 2004	364,500	-	74,697	118,000	34,050	226,747	591,247
Transfer to capital reserve for issue of bonus shares made subsequent to the year end	-	54,675	-	(20,675)	(34,000)	-	-
Net profit for the year	-	-	-	-	74,695	74,695	74,695
Transfer to special reserve during the year	-	-	14,939	-	(14,939)	-	-
Bonus shares issued	54,675	(54,675)	-	-	-	(54,675)	-
Balance as at June 30, 2005	419,175	-	89,636	97,325	59,806	246,767	665,942
Dividend for the year ended june 30, 2005 @ Rs. 1.40 per share declared subsequent to the year end	-	-	-	-	(58,685)	(58,685)	(58,685)
Net profit for the year	-	-	-	-	40,134	40,134	40,134
Transfer to special reserve during the year	-	-	7,462	-	(7,462)	-	-
Balance as at June 30, 2006	419,175	-	97,098	97,325	33,793	228,216	647,391

The annexed notes 1 to 59 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Directors' Report to the Shareholders

The Board of Directors of First International Investment Bank Limited ("INTERBANK") is pleased to present the annual report and audited financial statements for the year ended June 30, 2006 to the Sixteenth Annual General Meeting of the shareholders.

FINANCIAL HIGHLIGHTS

---------Rs. in million----------

	2006	2005	Growth (%)
Gross revenue	522.2	354.8	47.18
Profit for the year before taxation	28.8	80.8	(64.35)
Less: Taxation	(8.5)	6.1	-
Profit for the year after taxation	37.3	74.7	(50.06)
Total Assets	5,292.1	4,429.7	19.47
Earnings per share	Rs. 0.89	Rs. 1.78	(50.0)

Our income from fund placements and financing, including lease finance, increased from Rs. 259.1 million to Rs.408.1 million and is in line with a general growth in our business activity. Our net fund-based income increased marginally from last year's Rs. 134.3 million to Rs. 152 million this year. Income from investments increased from Rs. 78.4 million to Rs. 81.1 million. The revenue generated from fee based lines of business, i.e. brokerage; corporate finance & advisory and portfolio management have significantly contributed to our non-fund based income which increased from Rs. 14.9 million in 2005 to Rs. 27.1 million this year.

Total assets at year end grew by 19.47% from last year's Rs. 4,429.7 million to Rs. 5,292.1 million this year. Leasing portfolio sustained its healthy growth pattern in a highly competitive environment, and reached Rs. 1,929 million as compared to Rs. 1670.8 million last year showing a growth of 16.63%. The term finance portfolio and fund placements increased to Rs. 820 million and Rs. 809 million, respectively, from Rs. 577.6 million and Rs. 749.4 million last year. The total deposits increased from Rs. 1,486.7 million to Rs. 2,038 million demonstrating a growth rate of 37.14%.

The profit after tax for the year has decreased by approximately 50.06%, owing mostly to the realization of loss of approximately Rs. 46 million on sale of PIBs. This was a considered decision taken in view of the continuing adverse interest rate scenario. Furthermore, in line with the future growth plans of the company, INTERBANK has invested in human resource and other assets to facilitate the growth of new business lines.

During the year your company floated a 5 year secured Term Finance Certificate of Rs 500 million. Out of this amount, the pre-IPO(Initial Public Offer) amount of Rs. 375 million was received before June 30, 2006 whereas the balance amount of Rs. 125 million was raised through IPO subsequent to the year end. The TFC has been floated at six months KIBOR + 225 Basis Points (i.e. 2.25%)

During the year your company acquired 100% of the shareholding of Finex Securities Limited (FSL), a full service brokerage firm. FSL is member of Karachi Stock Exchange (Guarantee) Limited and National Commodity Exchange Limited. In addition to these FSL is also a member of The Financial Markets Association and has a fully established money market and foreign exchange brokerage desk.

During the year your company also successfully established an asset management company under the name of IGI Funds Limited, as a wholly owned subsidiary of INTERBANK. The company has been established to capture the growth potential of the asset management industry, which is still in the early stages of its development in Pakistan. The company is expected to become fully operational during 2006-07.

The above figures do not incorporate the figures of Finex Securities Limited and IGI Funds Limited, which are reflected in consolidated accounts.

With the growth prospects of the asset management industry in mind, your company also successfully launched a new product by the name of Fund Select. This is a mutual fund advisory and distribution service which has signed distribution agreements with most of the major asset management companies in the country. This product will be independent of the asset management company and shall be part of INTERBANK.

A summary of key operating and financial data for the last six years appears at the beginning of this annual report.

APPROPRIATIONS

The Directors recommend the following appropriations:

	(Rupees '000)
Profit for the year from ordinary activities after taxation	37,310
Unappropriated profit brought forward	59,806
	97,116
Less: Cash Dividend for the year 2005	(58,685)
Available for appropriation	38,431
Appropriations:	
Transfer to special reserve	7,462
Transfer to general reserve	-
Transfer to reserve for issue of bonus shares	-
	(7,462)
Unappropriated profit carried forward	30,969

BONUS SHARES

The Directors recommend issue of Bonus Shares in the proportion 1 (one) share for every 10 (ten) shares held. The bonus shares are proposed to be issued out of general reserve (Rs. 41,917,500)

CREDIT RATING

In December 2004, the Pakistan Credit Rating Agency (PACRA) maintained the long-term and short-term entity ratings of INTERBANK at 'A' (single A) and 'A1' (A one) respectively.

DIRECTORS

During the year, there were no changes in the Board of Directors of INTERBANK.

During the year under review, the Board met six times. The meetings were held on September 09, 2005, October 28, 2005, December 07, 2005, January 20, 2006, February 23, 2006 and April 27, 2006. The attendance of each Director at the Board meetings is given below:

Directors	Number of Board meetings attended
Syed Babar Ali – Chairman	6
Mr. Nasim Beg	3
Mr. Nadeem Karamat	6
Mr. Khalid Yacob	5
Mr. Naveed Qazi	6
Mr. Samir Ahmed – Managing Director and Chief Executive	6
Mr. Towfiq H. Chinoy	4

AUDITORS

The present auditors A.F. Ferguson & Co., Chartered Accountants, retire and have offered themselves for re-appointment. The Board as well as the Audit Committee of INTERBANK has recommended their re-appointment.

STAFF RETIREMENT BENEFITS

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. Based on the latest financial statements of the provident fund as of June 30, 2004, the investments of the fund amount to Rs. 14,747,287.

INTERBANK also has a funded staff gratuity scheme for its permanent employees who complete the qualifying period of service. Provision in the books of account has been made in accordance with actuarial recommendations.

CODE OF CORPORATE GOVERNANCE

The Board has adopted the Code of Corporate Governance, as per the listing regulations of the stock exchanges. As required by the Code, it is stated that:

- These financial statements, prepared by the management of the company, present fairly its state of affairs, the result of its operations, cash flows, and changes in equity.
- Proper books of account of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements, except for changes stated in note 4.10 and 5.1.1 and to the financial statements, and accounting estimates are based on reasonable and prudent judgment.

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and there has been no departure from them.
- The system of internal control is sound in design and has been effectively implemented and monitored. Timely corrective action is taken to address any exceptions that are identified.
- There are no doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations of the Karachi and Lahore Stock Exchanges.

FUTURE

Going forward, we will continue to strengthen our presence in our chosen areas in the investment banking and leasing markets. Our two subsidiaries i.e. Finex Securities Limited and IGI Funds Limited shall synergies with our existing client base in the areas of brokerage and asset management.We have over the last two years introduced a number of new products and services and do not expect any major additions. Our focus will now be on profitable growth in the existing lines of business with the ultimate objective of long term shareholder value creation. Needless to say, we will continue to observe our core values of integrity, innovation, and fairness, which has always been a hallmark of all Packages group companies.

SUBSEQUENT EVENTS

Subsequent to the year end, American Express Bank as divested its shareholding in INTERBANK and the same has been taken over by International General Insurance Company of Pakistan Limited, taking its total shareholding in INTERBANK to 24.99%.

In the Extra Ordinary General Meeting of the bank held on September 22, 2006, the shareholders of the company approved the change of name of the bank from First International Investment Bank Limited to IGI Investment Bank Limited. This change has been necessitated to encompass the value of the IGI brand developed over a period of more than 50 years of services to the industrial and financial sector. In line with this vision the name of Finex Securities Limited has also been changed subsequent to the year end to IGI Finex Securities Limited.

PATTERN OF SHAREHOLDING

The pattern of shareholding, disclosing the aggregate number of shares held by various categories of shareholders, appears at the end of this annual report. There were no trades in the shares of INTERBANK during the year, carried out by its Chief Executive, Directors, Chief Financial Officer, Company Secretary, and their spouses and minor children except as follows:

- Syed Babar Ali, Chaiman, INTERBANK, bought 10,000 shares.
- Sameer Ahmeed, Managing Director and Chief Executive, INTERBANK, bought 500 shares.

ACKNOWLEDGEMENT

The Directors thank all members of the staff for their dedication and commitment.

For and on behalf of the Board.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Notes to the Financial Statement for the year ended June 30, 2006

1 THE GROUP AND ITS OPERATIONS

The Group consists of :

Holding company

- First International Investment Bank Limited

Subsidiary companies	Percentage holding of First International Investment Bank Limited
- Finex Securities Limited	100%
- IGI Funds Limited (Formerly First International Capital Management Limited)	100%

First International Investment Bank Limited

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

Finex Securities Limited

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

IGI Funds Limited
(Formerly First International Capital Management Limited)

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

2 BASIS OF PRESENTATION

a) The consolidated financial statements include the financial statements of First International Investment Bank Limited, Finex Securities Limited and IGI Funds Limited. Comparative data represents holding company's financial statements only as Finex Securities Limited was acquired in the current year (Note 44) and IGI Funds Limited was incorporated in 2006.

b) Subsidiaries are entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases. The assets and liabilities of subsidiary Companies have been consolidated on a line by line basis based on the audited financial statements for the year ended June 30, 2006 and the carrying value of investments held by INTERBANK is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-Group balances and transactions have been eliminated.

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, interpretations issued by the Standards Interpretations Committee of the IASC and the requirements of the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Prudential Regulations for Non-Banking Finance Companies (Prudential Regulations). Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, NBFC Rules, Prudential Regulations and directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, NBFC Rules, Prudential Regulations and the said directives take precedence.

The SECP has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (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 Group 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 the Group.

4 BASIS OF MEASUREMENT

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

The preparation of financial statements in conformity with International Accounting Standards requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 54 to the financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below:

5.1 Investments

The management of the Group 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

These are securities which are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movement, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Available for Sale

These are 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.

Held-to-Maturity

These are securities with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold 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.

Impairment of investments is recognised when there is a permanent diminution in their values. Provision for impairment in value, if any, is taken to income currently.

Investments are derecognised when the right to receive cash flows from the investments have expired, have been realised or transferred and the company has transferred substantially all risks and rewards of ownership.

Gain or loss on sale of investments is included in income currently.

5.2 Financial Instruments

All the financial assets and financial liabilities are recognised at the time when the Group 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 5.3).

5.3 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 the Group. 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.

5.4 Derivatives

Derivative instruments held by the Group 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 the Group 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.

5.5 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 :

a) Sale of securities under repurchase obligations

Securities sold with a simultaneous commitment to repurchase (repo) 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.

b) Purchase of securities under resale obligations

Securities purchased with a corresponding commitment to resell (reverse repo) at a specified future date are not recognised in the financial statements. 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.

5.6 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.

The Group 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).

Income on financial assets which have been classified is recognised on receipt basis.

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.

Return on bank deposits is recognised on an accrual basis.

Remuneration for investment advisory and asset management services are recognised on an accrual basis.

Brokerage income, commission and fees are taken to income when the service is provided.

5.7 Taxation

Current

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

Deferred

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

A deferred tax asset is 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 utilised.

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.

Defrred 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.

5.8 Finances

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

5.9 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.

5.10 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).

According to the instructions issued by the Securities and Exchange Commission of Pakistan effective from January 09, 2006, NBFCs are required to maintain a general reserve at an amount equivalent to 1.5% of the secured consumer portfolio and an amount equivalent of 5% of the unsecured consumer portfolio, to protect them from the risks associated with the economic cyclical nature of the business. Had this general reserve not been created, the profit before taxation would have been higher by Rs. 2,225 thousand. In addition to the general reserve specified by SECP, INTERBANK also maintains a general provision to provide for potential lease losses on INTERBANK's finance / lease portfolio which have not been specifically indentified. This provision is calculated based on management's estimate.

5.11 Other provisions

Provisions are recognised when the Group has a present 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 obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.12 Assets acquired in satisfaction of claims

The Group 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.

5.13 Fixed assets

Tangible

These are stated at cost less accumulated depreciation and accumulated impairment losses, (if any).

Depreciation is calculated using the straight line method in accordance with the rates specified in note 6.1 to the financial statements after taking into account residual value, if any. Asset's residual values if significant, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the month in which an asset is put to use while in case of assets disposed of depreciation is charged till the month of disposal

Gains / losses on disposal of fixed assets, if any, are taken to income currently.

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.

Leased assets

Assets held under finance lease are stated at cost less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of change on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciation assets which are owned by the company.

Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. Amortisation on addition and deletion of intangible asset during the year is charged in proportion to the period of use.The useful life and amortisation method is reviewed and adjusted, if appropriate at each balance sheet date.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent impairment in value of the assets, if any.

The carrying amount of the Group'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.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

5.14 Impairment

The carrying amount of the Group'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.

5.15 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.

5.16 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. 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.

Term Finance Certificates are initially recognised at its fair value net of transaction costs that are directly attributable to the issue of TFCs. The transaction costs are amortised over the term of TFCs using the effective interest method.

5.17 Staff retirement benefits

5.17.1 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.

Finex Securities Limited operates a recognized provident fund scheme for all its employees for which equal monthly contributions are made both by the company and the employees to the fund at the rate of 8.33% of basic salary of the employees.

5.17.2 Defined Benefit Plan

INTERBANK 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.

Finex Securities Limited also operates, approved funded staff gratuity scheme for all permanent employees who have completed the minimum qualifying period of service i.e. five years, as defined under the scheme. The company recognises expense on the basis of acturial recommendations in accordance with International Accounting Standard 19 "Employee Benefits".

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

5.18 Employees' compensated absences

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

5.19 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. As the operations of the Group are carried out in Pakistan, information relating to geographical segment is not considered relevant.

The Group accounts for segment reporting using the business segments as the primary reporting format based on the Group's practice of reporting to the management on the same basis.

Assets, liabilities, capital expenditures and other balances that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets, liabilities and capital expenditure and other balances which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated.

5.20 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

5.21 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. Exchange differences are taken to income currently.

5.22 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Group 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.

5.23 Dividend distribution

Dividend distribution (including stock dividend) to Group's shareholders is accounted for as a liability in the period in which the dividends are declared.

5.24 Cash and Cash equivalents

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

	Note	2006	2005
		------------Rs in '000-----------	

6 FIXED ASSETS

	Note	2006	2005
Operating fixed assets	6.1	59,582	27,721
Capital work in progress	6.2	3,706	-
Property, plant and equipment		63,288	27,721
Intangible assets	6.3	183,581	24,313
		246,869	52,034

6.1 Operating Fixed Assets

	Lease hold premises	Lease hold improve- ments	Office equipment	Computer equipment	Furniture and fittings	Motor vehicles	Total
	------------ (Rupees in '000) ------------						
As at July 1, 2005							
Cost		4,327	8,262	11,631	5,485	17,945	47,650
Accumulated depreciation		(752)	(4,193)	(5,571)	(2,483)	(6,930)	(19,929)
Net book value	-	3,575	4,069	6,060	3,002	11,015	27,721
Additions (at cost)	-	-	1,212	7,948	1,856	10,938	21,954
Acquisition through business combinations	8,939	1,467	1,909	1,914	800	5,818	20,847
Disposals (at net book value)	-	-	(30)	-	-	(1,136)	(1,166)
Depreciation charge for the year	(259)	(878)	(1,311)	(2,514)	(768)	(4,044)	(9,774)
Closing net book value (NBV)	8,680	4,164	5,849	13,408	4,890	22,591	59,582
As at June 30, 2006							
Cost	8,939	5,794	11,313	21,493	8,141	31,785	87,465
Accumulated depreciation	(259)	(1,630)	(5,464)	(8,085)	(3,251)	(9,194)	(27,833)
Net book value	8,680	4,164	5,849	13,408	4,890	22,591	59,582
Depreciation rate % per annum	5	10-20	10-20	20-33.33	10-20	20	
As at July 1, 2004							
Cost		2,189	5,459	7,249	3,693	12,481	31,071
Accumulated depreciation		(266)	(3,957)	(4,663)	(2,298)	(4,679)	(15,863)
Net book value		1,923	1,502	2,586	1,395	7,802	15,208
Additions (at cost)		2,138	3,386	4,461	1,986	6,324	18,295
Disposals (at NBV)		-	(98)	-	(26)	(194)	(318)
Depreciation charge for the year		(486)	(721)	(987)	(353)	(2,917)	(5,464)
Closing net book value (NBV)		3,575	4,069	6,060	3,002	11,015	27,721
As at June 30, 2005							
Cost		4,327	8,262	11,631	5,485	17,945	47,650
Accumulated depreciation		(752)	(4,193)	(5,571)	(2,483)	(6,930)	(19,929)
Net book value		3,575	4,069	6,060	3,002	11,015	27,721
Depreciation rate % per annum		20	20	20	10-20	20	

6.1.1 International Accounting Standard (IAS) 16: "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005. The revised IAS 16 requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, the management carried out a review of the residual values and useful lives of its fixed assets during the current year. Based on this review, the management has revised its estimate in respect of residual value of vehicles to 20 percent of cost. Previously, residual value of these assets was considered as Nil. Had the accounting estimate not been revised the depreciation charge for the year would have been higher by Rs.964 thousand and the profit before tax for the year would have been lower by the same amount.

6.1.2 Cost and accumulated depreciation at the end of the year include Rs.12,146 thousand (2005: Rs. 8,375 thousand) and Rs. 11,753 thousand (2005: Rs. 8,375 thousand) respectively in respect of fully depreciated assets still in use.

	2006	2005
	------------Rs in '000------------	
6.2 Capital work-in-progress		
Advance for purchase of computer software	1,000	-
Advance against lease of vehicles	2,706	-
	3,706	-

6.3 Intangible assets

Description	Goodwill (note 44)	Membership card and room of LSE (note 6.3.1)	Non-competition agreement (note 6.3.2)	Computer software	Total
	----------------	----------------	(Rupees in '000)	----------------	----------------
As at July 1, 2005					
Cost	-	21,000	-	4,744	25,744
Accumulated amortisation	-	-	-	(1,431)	(1,431)
Net book value	-	21,000	-	3,313	24,313
Additions (at cost)	-	-	30,000	1,588	31,588
Acquisition through business combination	26,407	105,000	-	1,766	133,173
Amortisation charge for the year	-	-	(4,167)	(1,326)	(5,493)
Closing net book value	26,407	126,000	25,833	5,341	183,581
As at June 30, 2006					
Cost	26,407	126,000	30,000	8,098	190,505
Accumulated amortisation	-	-	(4,167)	(2,757)	(6,924)
Net book value	26,407	126,000	25,833	5,341	183,581
Amortisation rate % per annum	-	-	33.33	20-33.33	
As at July 1, 2004					
Cost	-	-	-	1,925	1,925
Accumulated amortisation	-	-	-	(982)	(982)
Net book value	-	-	-	943	943
Additions (at cost)	-	21,000	-	2,819	23,819
Amortisation charge for the year	-	-	-	(449)	(449)
Closing net book value	-	21,000	-	3,313	24,313
As at June 30, 2005					
Cost	-	21,000	-	4,744	25,744
Accumulated amortisation	-	-	-	(1,431)	(1,431)
Net book value	-	21,000	-	3,313	24,313
Amortisation rate % per annum	-	-	-	20	

6.3.1 This represents consideration paid by the Group to acquire the membership rights and room in the Lahore Stock Exchange and Karachi Stock Exchange.

6.3.2 This represents consideration in respect of a three year agreement with Mr. Ali Azam Shirazee (Ex-Director and Chief Executive Officer of Finex Securities) for not competing with INTERBANK in the financial brokerage business in Pakistan.

6.3.3 Cost and accumulated amortisation as at the end of the year include Rs.784 thousand (2005: Rs.778 thousand) in respect of fully depreciated assets still in use.

6.4 Particulars of disposal of fixed assets

Particulars	Original cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Gain / (loss) on disposal	Mode of disposal	Particular of Purchaser
	----------	----------	----------	Rs in '000	----------	----------	----------
Office equipment	70	40	30	-	(30)	Write off	-
Vehicles	2,366	1,340	1,026	2,050	1,024	Tender	Sardar Ahmed
	550	440	110	412	302	Negotiation	Wasim Irshad - Ex-employee
	2,916	1,780	1,136	2,462	1,326		
June 30, 2006	2,986	1,820	1,166	2,462	1,296		
June 30, 2005	1,716	1,398	318	904	586		

	Note	2006	2005
		------------Rs in '000-----------	
7 LONG-TERM LOANS AND ADVANCES - secured			
Loans and advances to staff - considered good	7.1	3,114	5,103
Other loans and advances -			
- Companies / organisations and individuals			
- considered good		506,498	404,446
- considered doubtful		8,978	4,763
	7.2	515,476	409,209
Less: Provision for doubtful loans and advances	7.3	8,978	4,763
		509,612	409,549
Less: Current maturity of long-term loans and advances	10	177,209	153,050
		332,403	256,499

7.1 Loans and advances to staff - considered good

	Note	2006	2005
Executives	7.1.1 & 7.1.2	2,318	3,758
Other employees	7.1.1	796	1,345
		3,114	5,103

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

	2006	2005	2006	2005
	Executives		Other employees	
	Rs in '000			
Opening balance	3,758	6,680	1,345	2,013
Disbursements during the year	558	-	-	900
Repayments during the year	(1,998)	(2,922)	(549)	(1,568)
	2,318	3,758	796	1,345

7.1.2 These represents loans and advances provided to executives for purchase of houses and for other purposes. These loans carry mark-up from 0% to 2.5% (2005: 2.5% to 5%) per annum and are extended upto a period of 16 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.3,703 thousand (2005: Rs. 6,638 thousand). The loans are secured against mortgage of house properties.

7.2 These loans carry mark-up at rates ranging from 7.25% to 25% (2005: 6.25% 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 Provision for doubtful loans and advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
	Rs in '000					
Opening balance	1,713	3,050	4,763	4,923	2,013	6,936
Charge for the year	1,453	3,139	4,592	790	1,037	1,827
Reversal on recovery during the year	(377)	-	(377)	(4,000)	-	(4,000)
Closing balance	2,789	6,189	8,978	1,713	3,050	4,763

7.3.1 The classified portfolio of the Group as at June 30, 2006 aggregated to Rs. 9,688 thousand (2005: Rs. 6,852 thousand). The Group has not recognised income on this balance.

	Note	2006	2005
		------------Rs in '000-----------	

8 NET INVESTMENT IN LEASE FINANCE

	Note	2006	2005
Net investment in lease finance	8.1	1,929,202	1,670,899
Less: Current maturity	10	695,624	514,395
		1,233,578	1,156,504

8.1 Particulars of net investment in lease finance

	2006				2005			
	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	819,572	1,036,950	185	1,856,707	619,540	980,323	1,285	1,601,148
Add: Residual value of leased assets	53,439	369,569	1,567	424,575	33,766	305,747	2,056	341,569
Gross investment in lease finance	873,011	1,406,519	1,752	2,281,282	653,306	1,286,070	3,341	1,942,717
Less: Unearned finance income	151,062	174,667	26	325,755	116,077	132,742	165	248,984
Net investment in lease finance - note 8.2, 8.3 & 8.4	721,949	1,231,852	1,726	1,955,527	537,229	1,153,328	3,176	1,693,733
Less: Provision for potential lease losses - note 8.5	26,325	-	-	26,325	22,834	-	-	22,834
Net investment in lease finance - net of provision - note 10	695,624	1,231,852	1,726	1,929,202	514,395	1,153,328	3,176	1,670,899

8.2 Net investment in lease finance includes Rs. 453 thousand (2005: Rs.Nil thousand) due from a related party. Maximum amount due from related parties at the end of any month during the year was Rs. 598 thousand (2005: Rs. 999 thousand).

8.3 The leases made by INTERBANK are for a term of 3 to 7 (2005: 3 to 7) years. Security deposits obtained at the time of disbursement of lease range from 0% to 79% (2005: 0% to 79%) 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 1.94% to 20.35% (2005: 1.74% to 20.35%) per annum. Penalty is charged in case of delayed payments.

8.4 Minimum lease payments and net investment in lease finance include Rs. 824,687 thousand and Rs. 782,081 thousand (2005: Rs.361,390 thousand and Rs. 342,632 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% (2005: 0.5% to 5%) per annum, with floor ranging from 6.5% to 10% (2005: 6% to 15%) per annum and ceilings ranging from 7.5% to 12% (2005: 7.5% to 16.5%) per anum. Mark-up rates are revised periodically (every three to six months) in line with the changes to the SBP's discount and KIBOR rates.

8.5 Provisions for lease losses

	2006			2005		
	Specific	General	Total	Specific	General	Total
	---------------------------------- Rs in '000 ----------------------------------					
Opening balance	5,897	16,937	22,834	1,902	11,622	13,524
Charge for the year	1,631	2,550	4,181	4,735	5,315	10,050
Reversal on recovery during the year	(690)	-	(690)	(740)	-	(740)
Closing balance	6,838	19,487	26,325	5,897	16,937	22,834

8.5.1 The principal amount classified as per SECP's Regulations for NBFCs aggregates to Rs. 46,099 thousand (2005: Rs. 22,139 thousand) on which income has been suspended.

9 LONG-TERM DEPOSITS AND PREPAYMENTS

	Note	2006	2005
		------------Rs in '000-----------	
Security deposits	9.1	5,278	2,767
Prepayments		-	869
Others		80	-
		5,358	3,636

9.1 This includes deposit amounting to Rs. 900 thousand (2005: 400 thousand) and Rs. 550 thousand (2005: Rs. 650 thousand) placed with Lahore Stock Exchange in respect of exposure arising out of trading in securities. In addition, it also includes deposit amounting to Rs. 750 thousand (2005: Rs. Nil) placed with National Commodity Exchange Limited.

10 CURRENT MATURITY OF NON-CURRENT ASSETS

	Note	2006	2005
		------------Rs in '000-----------	
Long-term loans and advances	7	177,209	153,050
Net investment in lease finance	8	695,624	514,395
		872,833	667,445

11 SHORT-TERM FINANCE - secured and considered good

	Note	2006	2005
		------------Rs in '000-----------	
Short-term finance	11.1	273,252	168,022

11.1 These finances carry interest at rates ranging from 8.5% to 16.25% (2005: 6% to 17%) per annum and have maturities ranging from 2 months to 1 year (2005: 2 months to 1 year).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.

12 FUND PLACEMENTS - considered good

	Note	2006	2005
Fund placements with financial institutions	12.1 & 12.2	390,149	400,147
Securities purchased under resale agreements with financial institutions		-	214,359
Receivable against continuous funding system transactions / carry over transactions	12.3	419,418	134,920
		809,567	749,426

12.1 This includes an amount of Rs 40 million (2005: Rs Nil) placed with Crescent Standard Investment Bank Limited (CSIBL). The amount was initially given as a clean placement for a specified period and is being rolled over on maturity dates upon request of CSIBL in view of its present liquidity problems. The management, however, considers that it will not be exposed to any loss as certain securities owned by CSIBL are available with INTERBANK. These securities were obtained by INTERBANK as margin under a reverse repo transaction which has since been settled.

The management is actively following up the matter with CSIBL and has also obtained legal advice in this regard. Based on the advice the management has given a notice to CSIBL for immediate settlement of this amount. The management is confident that the amount will be fully realised and it will not be exposed to any loss on this placement.

12.2 These carry rates of return ranging from 10.90% to 23% (2005: 5.5% to 23%) per annum.

12.3 These carry effective yields ranging from 13% to 25% (2005: 8.9% to 25%) per annum. The fair value of securities held as collateral against these receivables amounted to Rs. 445,204 thousand (2005: Rs. 437,316 thousand). Out of these, securities having fair value of Rs. 273,593 thousand (2005: 55,865 thousand) have been pledged with Lahore Stock Exchange (Guarantee) Limited.

13 SHORT-TERM INVESTMENTS

13.1 Particulars of investments by type

	2006			2005		
	Held by Group	Given as collateral	Total	Held by Interbank	Given as collateral	Total
	------------ Rs in '000 ------------					
Held for trading						
Federal Investment Bonds	2,378	-	2,378	2,432		2,432
Pakistan Investment Bonds	1,482	-	1,482	1,551	51,073	52,624
Listed shares / certificates and						-
modaraba certificates	-	-	-	191,150	-	191,150
Market Treasury Bills	-	97,372	97,372	-	-	-
	3,860	97,372	101,232	195,133	51,073	246,206
Available-for-sale						
Pakistan Investment Bonds	-	-	-	-	214,539	214,539
Registered Special US Dollar Bonds	-	-	-	71,697	-	71,697
Listed term finance certificates (TFCs)	235,900	-	235,900	163,155	-	163,155
Unlisted term finance certificates (TFCs)	14,445	-	14,445	7,778	-	7,778
Mutual fund units (open ended)	121,166	-	121,166	28,127	-	28,127
Listed shares / certificates and modaraba certificates	191,402	59,537	250,939	172,198	-	172,198
Unlisted shares / certificates and modaraba certificates	62,782	-	62,782	52,782	-	52,782
	625,695	59,537	685,232	495,737	214,539	710,276
	629,555	156,909	786,464	690,870	265,612	956,482

13.2 Particulars of investments by segment

	Note	2006	2005
		------------Rs in '000-----------	
Investments in:			
Government securities	13.2.1	101,232	341,292
Listed TFCs	13.2.2	235,900	163,155
Unlisted TFCs	13.2.2	14,445	7,778
Mutual fund units (open ended)	13.2.3	121,166	28,127
Listed shares / certificates and modaraba certificates	13.2.4	250,939	363,348
Unlisted shares / certificates and modaraba certificates	13.2.4	62,782	52,782
		786,464	956,482

13.2.1 These include:

Federal Investment Bonds (FIBs) having amortised cost of Rs.2,538 thousand (2005: Rs.2,747 thousand) and face value of Rs. 2,200 thousand (2005: Rs. 2,200 thousand) with income receivable semi-annually at 15% (2005: 15%) per annum and remaining terms of 1 to 2 years.

Pakistan Investment Bonds (PIBs) having amortised cost of Rs.1,759 thousand (2005: Rs. 304,228 thousand) and face value of Rs.1,400 thousand (2005: Rs.251,400 thousand) with income receivable semi-annually at 11% (2005: 8% to 12%) per annum and remaining term of 6 years.

Market Treasury Bills (T-Bills) having amortised cost of Rs. 97,390 thousand (2005: Rs. Nil) and face value of Rs. 100,000 thousand (2005: Rs. Nil) and remaining term of 4 months.

13.2.2 **Particulars of TFCs: ***

No. of certificates 2006	No. of certificates 2005	Name	2006 Amortised cost	2006 Market value	2005 Amortised cost	2005 Market value
			Rs in '000			
		LISTED TFCs				
		Investment banks and companies				
-	2,940	Atlas Investment Bank Limited	-	-	2,448	2,546
1,000	1,000	First Dawood Investment Bank Limited	5,059	5,075	5,601	5,062
		Commercial banks				
2,000	2,000	Union Bank Limited I	10,456	10,086	10,351	10,115
4,587	4,587	Union Bank Limited II	22,917	21,771	22,575	20,748
2,000	-	Union Bank Limited III	10,000	10,000	-	-
6,352	6,352	United Bank Limited II	31,759	30,171	31,760	31,760
10,000	-	Bank Alfalah	49,990	50,240	-	-
		Leasing				
190	190	Al-Zamin Leasing Modaraba	950	912	950	950
		Refinery				
1,448	1,448	Chanda Oil & Gas Securitization Co. Limited	6,603	6,570	7,240	7,240
5,913	5,913	Naimat Basal Oil & Gas Securitization Company Limited	24,430	24,674	29,417	29,269
		Miscellaneous				
5,903	-	Searle Pakistan Limited	29,515	29,588	-	-
897	897	Pakistan Services Limited	3,202	3,242	4,483	4,573
8,715	8,715	TeleCard Limited	43,557	39,202	43,575	43,575
2,000	2,000	WorldCALL Telecom Limited	4,393	4,369	7,790	7,317
			242,831	235,900	166,190	163,155
		UNLISTED TFCs				
2,000	2,000	Development Securitisation Trust	4,445	4,445	7,778	7,778
2,000	-	Security Leasing Corporation	10,000	10,000	-	-
			257,276	250,345	173,968	170,933

* Secured, unless specified otherwise.

Other particulars of listed TFCs are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption terms
Union Bank Limited (I)	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 (II)	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.
Union Bank Limited (III)	5,000	Six months KIBOR + 2%	Semi-annually	Redemption of Rs. 1 in the first 8 semi-annual installments. Rest of the principal will be redeemed in six semi-annual installments.
United Bank Limited (II)	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 Company 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 Company 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 Rs 1 in the first 3 semi annual installments. Rest of the principal will be redeemed in 7 equal semi annual installments.
Searle Pakistan	5,000	Average ask rate of six months KIBOR + 2.5%.	Semi-annually	Redemption of Rs 1 in the first two semi-annual installments. Rest of the principal will be redeemed in 8 equal semi-annual installments.
Bank- Alfalah Limited	5,000	Average ask rate of six months KIBOR + 1.5%.	Semi-annually	Redemption of Rs 0.96 in the first 13 semi annual installments. Rest of the principal will be redeemed in 3 equal semi annual installments.

13.2.3 Particulars of mutual fund units (open ended)

No. of units 2006	No. of units 2005		2006 Cost	2006 Market value	2005 Cost	2005 Market value
			Rs in '000			
9,002	10,000	Atlas Income Fund (Face value Rs. 500 each)	5,000	4,903	5,000	5,459
20,000	20,000	Atlas Stock Market Funds (Face value Rs. 500 each)	10,000	13,096	10,000	11,268
89,849	-	Dawood Money Market Fund (Face value Rs. 100 each)	10,000	9,985	-	-
2,955,758	-	NAFA Cash Fund (Face value Rs. 10 each)	30,000	29,491	-	-
144,538	-	KASB Liquid Fund (Face value Rs. 100 each)	20,000	20,137	-	-
190,458	-	Askari Income Fund (Face value Rs. 100 each)	20,000	19,983	-	-
-	100,000	Faisal Balanced Growth Fund (Face value Rs. 100 each)	-	-	10,000	11,400
99,800		United Money Market (Face value Rs. 50 each)	5,000	5,055	-	-
423,714	-	AKD Opportunity Fund (Face value Rs. 50 each)	20,000	18,516	-	-
			120,000	121,166	25,000	28,127

13.2.4 Particulars of shares / certificates and modaraba certificates

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			Rs in '000			
		Mutual fund (closed ended)				
-	1,052,000	ABAMCO Composite Fund	-	-	10,491	7,259
-	112,500	BSJS Balance Fund	-	-	1,321	928
500,000	200,000	PICIC Investment Fund XD	9,311	7,300	3,260	3,000
950,000	1,000,000	Atlas Fund of Funds	9,048	9,262	10,000	9,900
1,000,000	1,000,000	Meezan Balance Fund	10,000	10,050	10,000	8,200
-	191,250	PICIC Growth Fund (Face value Rs. 40.174 each)	-	-	7,683	10,270
3,665,704	3,030,400	First Dawood Mutual Fund	35,446	34,091	30,304	30,304
1,089,850	-	AKD Index Tracker Fund	10,899	10,245	-	-
500,226	-	UTP Growth Fund	9,116	6,503	-	-
		Modarabas				
-	11,500	B.R.R. International Modaraba	-	-	207	91
		Leasing				
78,200	68,000	ORIX Leasing Pakistan Limited	2,715	2,006	2,715	2,020
		Investment Banks / Companies / Securities				
29,000	-	International Housing Finance	218	180	-	-
32,500	-	P.I.C.I.C	1,681	1,705	-	-

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			------------------- Rs in '000			-------------------
		Commercial banks				
6,000	-	PICIC Commercial Bank	189	192	-	-
229,000	-	Bank Of Punjab	19,027	19,087	-	-
3,000	20,000	Askari Commercial Bank Limited	241	242	1,165	1,560
1,000	175,000	Faysal Bank Limited	63	63	8,626	9,415
-	414	KASB Bank Limited	-	-	4	5
63,000	-	Muslim Commercial Bank Limited	11,979	12,044	-	-
355,500	50,000	National Bank of Pakistan	64,612	64,971	5,250	5,397
		Textile spinning				
1,200,326	1,737,826	Dewan Farooque Spinning Mills Limited	12,003	8,042	17,378	15,293
-	1,000	Saitex Spinning Mills Limited	-	-	5	2
500,302	500,000	Zephyr Textile Mills Limited	5,003	3,502	5,000	5,000
		Textile composite				
-	2,200	Nishat Mills Limited	-	-	109	167
201,410	183,100	Kohinoor Textile Mills Limited	10,887	6,395	10,887	6,958
		Cement				
54,500	40,000	DG Khan Cement Company Limited	4,112	4,134	2,235	2,230
-	400,000	Maple Leaf Cement Factory Limited	-	-	12,373	8,720
		Refinery				
41,980	80,000	Attock Refinery Limited	6,106	3,640	9,010	12,764
		Power generation and distribution				
128,000	100,000	HUB Power Company Limited	4,867	2,955	4,217	2,640
		Oil and gas marketing				
8,000	100,000	Pakistan State Oil	2,406	2,411	38,413	38,600
-	1,100	Shell Pakistan Limited	-	-	466	609
		Oil and gas exploration				
29	31,229	Oil and Gas Development Company Limited	3	4	2,426	3,288
25,000	-	Pakistan Oilfield Limited	8,607	8,391	-	-
8,500	305,000	Pakistan Petroleum Limited	1,694	1,697	66,691	65,605
361,500	275,000	Sui Southern Gas Co.	11,592	11,676	7,467	6,366

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	Market value	2005 Cost	Market value
			------------------- Rs in '000		-------------------	
		Automobile assemblers				
-	20,000	Indus Motor Company Limited	-	-	1,988	1,800
		Technology and communication				
12,500	1,230,000	Pakistan Telecommunication Corporation Limited (A)	531	534	80,728	81,118
978,233	-	Eye Television Network Limited	9,782	6,848	-	-
647,500	-	Telecard	8,083	8,139	-	-
316	-	World call telecom	3	3	-	-
		Paper & Board				
12,700	124,400	Packages Limited (a related party)	2,113	2,659	18,339	17,416
		Fertilizer				
10,500	-	Engro Chemical Pakistan Limited	1,955	1,968	-	-
-	51,528	Fauji Fertilizer Company Limited	-	-	4,726	6,253
		Vanaspati and allied				
-	9,500	Wazir Ali Industries Limited (an associated undertaking)	-	-	239	170
			274,292	250,939	373,723	363,348
		UNLISTED SHARES				
		Miscellaneous				
4,000,000	4,000,000	DHA Cogen Limited	40,000	40,000	40,000	40,000
216,216	-	System Ltd	10,000	10,000	-	-
1,123,318	1,123,318	Techlogix Limited	12,782	12,782	12,782	12,782
			62,782	62,782	52,782	52,782
			337,074	313,721	426,505	416,130

	Note	2006	2005
		--------------Rs in '000---------------	

14 ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2006	2005
Advance against leases - considered good	14.1	18,545	37,422
Short term deposits		-	19,414
Prepayments	14.2	18,541	13,110
Exposure deposit with KSE		25,451	-
Advances to employees		241	-
		62,778	69,946

14.1 These represent advances paid to suppliers against assets to be leased out and carry mark-up at rates ranging from 12.5% to 15% (2005: 12.14% to 12.25%).

14.2 Prepayments include Rs. 8,495 thousand (2005: Rs. 5,686 thousand) in respect of advance rent of leased premises and Rs. 5,534 thousand (2005: Rs. 875 thousand) in respect of advance against suppliers.

15 INTEREST / MARK-UP / PROFIT ACCRUED

	Note	2006	2005
		-------------Rs in '000--------------	
Investments			
- Government securities		160	6,013
- Registered Special US Dollar Bonds		-	1,860
- Term finance certificates		5,935	3,221
		6,095	11,094
Finance		20,491	8,231
Fund placements		1,443	1,208
Deposits with banks		239	8
		28,268	20,541

16 TRADE DEBTS

	Note	2006	2005
		---------Rs in '000----------	
Secured - Considered good	16.1	70,385	41,250
Unsecured - Considered good			
Against purchase of shares on behalf of clients		19,922	-
Commission		2,300	-
		22,222	-
		92,607	41,250

16.1 Amount receivable from related parties at year end are as under:

	Note	2006	2005
		---------Rs in '000---------	
Key management personnel		-	4,574
Associated undertakings		21,022	3,292
		21,022	7,866

17 OTHER RECEIVABLES

	Note	2006	2005
Other receivables - considered good	17.1 & 17.2	22,863	9,268
Positive fair value of derivative financial instruments		792	-
		23,655	9,268

17.1 This includes an amount of Rs. 4,471 thousand (2005: 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.

17.2 Amount due from related parties as at June 30, 2006 is as follows:

	2006	2005
Packages Limited	963	963
International General Insurance Company of Pakistan Limited	1,067	-
	2,030	963

18 CASH AND BANK BALANCES

	Note	2006	2005
In hand		91	5
With banks - on current accounts with			
- State Bank of Pakistan		649	460
- Others			
local currency		178,658	4,610
foreign currencies		342	3,658
	18.1	179,000	8,268
With banks - on PLS saving accounts			
local currency		136,116	33,192
		315,856	41,925

18.1 This includes book overdraft balance with an associated undertaking of Rs. 517 thousand (2005: book overdraft of Rs. 196 thousand).

19 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006	2005		2006	2005
-----No of shares------			-------Rs in '000-------	
25,000,000	25,000,000	Ordinary shares of Rs. 10 each fully paid	250,000	250,000
16,917,500	11,450,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the beginning of the year	169,175	114,500
-	5,467,500	Add: Bonus shares issued during the year	-	54,675
16,917,500	16,917,500	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the end of the year	169,175	169,175
41,917,500	41,917,500		419,175	419,175

Shares of Interbank held by associated undertakings amount to Rs. 146,670 thousand (14,667 thousand shares of Rs. 10 each) [2005: 146,770 thousand (14,677 thousand shares of Rs. 10 each)].

20 RESERVES

	Note	2006	2005
		---------Rs in '000----------	
Capital reserves			
Special reserve	20.1	97,098	89,636
Revenue reserves			
General reserve		97,325	97,325
Unappropriated profit		33,793	59,806
		131,118	157,131
		228,216	246,767

20.1 This represents statutory reserve created at 20% of the profit of the holding company from ordinary activities after taxation in compliance with regulation No. 2 of part III SECP's Regulation for NBFCs.

21 (DEFICIT) / SURPLUS ON REVALUATION OF INVESTMENTS - NET

	Note	2006	2005
		---------Rs in '000---------	
(Deficit) / surplus on revaluation of:			
- government securities - net		(455)	(37,380)
- term finance certificates - net		(6,931)	(3,035)
- mutual funds units (open ended) - net		1,165	3,127

	Note	2006	2005
		---------Rs in '000---------	
- quoted shares and certificates - net		(23,353)	(10,376)
- forward sale of quoted shares and certificates - net		792	(1,121)
	21.1	(28,782)	(48,785)
Deferred tax asset on revaluation of investments	43.3	159	16,510
		(28,623)	(32,275)

21.1 **Particulars of (deficit) / surplus on revaluation of investments - net**

	2006	2005
Opening balance	(48,785)	(34,567)
Surplus / (Deficit) arising on revaluation of investments - current year	58,764	8,184
Transferred to the profit and loss account on realisation	(38,761)	(22,402)
Closing balance	(28,782)	(48,785)

22 PRE-IPO SUBSCRIPTION TOWARDS PROPOSED ISSUE OF TERM FINANCE CERTIFICATES

	Note	2006	2005
Liability in respect of term finance certificate to be issued by the company	22.1	375,000	-
Less: Transaction cost	22.2	(5,050)	-
		369,950	-

22.1 This represents the pre IPO (private placement) amount received by INTERBANK in respect of the proposed issue of Term Finance Certificates (TFCs). The total issue amounts to Rs 500 million out of which Rs 375 million has been received from institutional investors under pre-IPO. The remaining amount of Rs 125 million has been raised through the Initial Public Offer (IPO) subsequent to the year end. The TFCs are secured against all the present and future movable, fixed assets (excluding land and builiding) and current assets of Interbank. The rate of mark-up on these TFCs is six months average KIBOR + 225 Basis Points (2.25%) with no floor and cap and is payable semi-annually with a grace period of one year. These TFCs are redeemable within 5 years of issue.

22.2 Transaction cost incurred on issue of Term Finance Certificates has been adjusted from the related liability and is amortised over the term of TFCs using the effective interest method.

	Note	2006	2005
		---------Rs in '000----------	
23 LONG-TERM BORROWINGS - secured			
Local currency - banking companies	23.1	1,308,333	1,033,333
		1,308,333	1,033,333
Less: Current portion of long-term borrowings	27	615,000	325,000
		693,333	708,333

23.1 This includes:

- 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 installments 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 margin of 25%.

- Financing facility of Rs. 200,000 thousand obtained from a banking company in two 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 5.20% per annum to 5.45% per annum, which is payable in semi-annual installments 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 installments 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 installments 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.

- Financing facility of Rs. 100,000 thousand obtained from a banking company with a tenor of three years, repayable in four equal semi-annual installments 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.

- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years, repayable in five equal semi-annual installments of Rs. 40,000 thousand starting 13 months from the date of disbursement. The finance carries mark-up at a floating rate of 6-month KIBOR (ask side) average + 2% p.a. payable semi-annually. The facility is secured by a first pari passu charge on company's movable assets, receivables, leased assets and leased receivables amounting to Rs.267 million 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 twelve equal quarterly installments of Rs. 16,667 thousand starting from the date of disbursement. The finance carries mark-up at a floating rate of 6-month KIBOR (ask side) average + 2% p.a. payable quarterly. The facility is secured by a first pari passu charge on all present and future leased assets and hypothecation of movable assets and receivables of the company with a margin as prescribed in SBP Prudential regulations or the banking company's practice whichever is higher.

- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years repayable in four equal semi-annual installments commencing eighteen months from the date of disbursement. The finance carries mark-up at a floating rate of 6- months KIBOR (ask side) + 2% p.a. payable semi-annually. The facility is secured by a first pari passu charge on all present and future assets and receivables of the company with a margin of 25%.

	Note	2006	2005
		---------Rs in '000----------	
24 LONG-TERM CERTIFICATES OF DEPOSITS - unsecured			
Local currency			
- Individuals	24.1	284,741	235,852
- Others		43,785	80,766
	24.2	328,526	316,618
Less: Current portion of long-term certificates of deposit	27	39,467	193,547
		289,059	123,071

24.1 This includes certificates of deposit amounting to Rs. 500 thousand (2005: Rs. 1,134 thousand) issued to employees at mark-up rate of 11.25% (2005: 14% to 17.75%) and certificates of deposits amounting to Rs. 20 million payable in respect of acquisition of Finex Securities Limited.

24.2 The certificates of deposit have contractual maturities ranging from over 1 to 5 years (2005: over 1 to 5 years) of the contract date. Expected rates of return payable on long-term deposits are 4.75% to 17.75% (2005: 4% to 17.75%) per annum.

	Note	2006	2005
		---------Rs in '000----------	

25 DEPOSITS ON LEASE CONTRACTS

	Note	2006	2005
Deposits on lease contracts	25.1	420,767	339,937
Less: Current portion of deposits on lease contracts	28	53,315	33,790
		367,452	306,147

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

26 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006	2005
Not later than one year	661	-
Later than one year and not later than five years	2,867	-
	3,528	-
Less: Finance charge not yet due	852	-
Present value of minimum lease payments	2,676	-
Less: current portion of liabilities against assets subject to finance lease	378	-
	2,298	-

27 CURRENT MATURITY OF NON-CURRENT BORROWINGS

	Note	2006	2005
Long-term borrowings	23	615,000	325,000
Long-term certificates of deposit	24	39,467	193,547
		654,467	518,547

28 CURRENT MATURITY OF DEPOSITS ON LEASE CONTRACTS

	Note	2006	2005
Deposits on lease contracts	25	53,315	33,790

29 SHORT-TERM FINANCE - secured

	Note	2006	2005
Running finance	29.1	237	145,254

29.1 This represents amount borrowed against a running finance facility amounting to Rs. 200,000 thousand (2005: 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 (2005: last 6-month Market Treasury Bill cut off yield plus 1.75% per annum).

	Note	2006	2005
		---------Rs in '000----------	

30 SHORT-TERM CERTIFICATES OF DEPOSIT - unsecured

	Note	2006	2005
Local currency			
- Financial institutions		1,250,000	825,000
- Individuals		183,155	54,904
- Others		276,559	290,166
	30.1	1,709,714	1,170,070

30.1 Expected rates of return payable on short-term deposits range from 6.25% to 14.25% (2005: 3% to 14%) per annum for local currency deposits.

	Note	2006	2005
		---------Rs in '000----------	

31 BORROWINGS FROM FINANCIAL INSTITUTIONS

	Note	2006	2005
Securities sold under repurchase agreement		97,347	324,618
Unsecured borrowings		197,000	275,000
	31.1	294,347	599,618

31.1 The above borrowings carry mark-up at rates ranging from 8.00% to 9.50% (2005: 8.1% to 10.75%) per annum and are due to mature within 4 days of the year-end.

	Note	2006	2005
		---------Rs in '000----------	
32 PAYABLE TO STAFF GRATUITY FUND	32.3	3,338	2,817

32.1 General description

As mentioned in note 5.17.2, INTERBANK and Finex Securities Limited operate 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 the respective companies at varying percentages of last drawn basic salary. The percentage depends on the number of service years in the employment.

Annual provision is based on actuarial valuation and the latest valuation was carried out as at June 30, 2005 for INTERBANK as at June 30, 2006 for Finex Securities Limited using the Projected Unit Credit Method.

32.2 Principal actuarial assumptions

The following principal actuarial assumptions were used for the valuation:

	Finex Securities Limited	Interbank
	Per annum	
Estimated rate of increase per annum in salary of the employees	9.00%	9.52%
Discount rate per annum	9.00%	11.65%
Expected rate of return on plan assets	9.00%	11.65%

	Note	2006	2005
		---------Rs in '000----------	
32.3 Reconciliation of provision for gratuity scheme			
Present value of defined benefit obligation		9,686	5,797
Fair value of plan assets		(6,839)	(3,542)
Unrecognised actuarial gain (net)		617	562
Past service cost		(126)	-
		3,338	2,817
32.4 Gratuity scheme expense			
Current service cost		1,761	756
Interest cost		892	344
Expected return on plan assets		(713)	(516)
Actuarial (gain) / loss recognised during the year		18	(39)
Past service cost		63	-
	41	2,021	545
32.5 Movement in defined benefit plan liability			
Balance at the beginning of the year		2,817	3,372
Expense for the year	32.4	2,021	545
Contributions during the year		(1,500)	(1,100)
Balance at the end of the year		3,338	2,817
32.6 Movement of fair value of plan assets			
Balance at the beginning of the year		6,762	4,471
Expected return on plan assets		713	516
Contribution to the fund		1,500	1,100
Benefits paid		(2,506)	(2,472)
Acturial gain / (loss) on plan asssets		370	(73)
Fair value of plan assets at the end of the year		6,839	3,542

	Note	2006	2005
		---------Rs in '000----------	

32.7 Actual return on plan assets

Expected return on plan assets		713	(516)
Actuarial gain / (loss) on plan assets		370	(73)
Actual return on plan assets		1,083	(589)

33 MARK-UP ACCRUED

Secured			
- Long-term borrowings		7,732	9,361
- Short-term finance		331	699
- Borrowings from institutions		10	28
		8,073	10,088
Unsecured			
- TFCs		435	435
- Certificates of deposit		51,429	32,870
		51,864	33,305
		59,937	43,393

34 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses		14,563	8,929
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		87,915	45,153
Unclaimed dividends		777	776
Advances from lessees		7,617	9,505
Payments from customers received on account		10,263	11,283
Negative fair value of derivative financial Instruments		-	1,121
Payable in respect of non-competition fee		15,000	-
Others		7,103	2,216
		146,266	82,418

34.1 Amount due to related parties are as follows:

Key management personnel		4,573	4,573
Associated undertakings		21,095	2,273
Other related parties		1,495	271
		27,163	7,117

35 CONTINGENCIES AND COMMITMENTS

35.1 Contingencies

Contigencies relating to taxation have been disclosed in note 43.2

	Note	2006	2005
		---------Rs in '000----------	
35.2 Commitments			
- Forward sale of shares		22,292	194,328
- Underwriting commitments		115,000	65,000
- Commitment in respect of capital expenditure		6,310	-

36 INCOME FROM INVESTMENTS

	2006			2005		
	Held for trading	Available for sale	Total	Held for trading	Available for sale	Total
	------- Rs in '000 -------					
Interest / mark-up / profit from:						
Government securities	3,805	2,023	5,828	14,133	18,332	32,465
Registered Special US Dollar Bonds	-	2,645	2,645	-	3,709	3,709
TFCs	-	20,781	20,781	106	10,187	10,293
	3,805	25,449	29,254	14,239	32,228	46,467
Dividend income	523	12,854	13,377	131	9,795	9,926
Gain / (loss) on disposal of:						
Government securities	(17,617)	(28,680)	(46,297)	310	(14,637)	(14,327)
TFCs	-	52	52	-	-	-
Mutual fund units (open end)	-	10,253	10,253	-	-	-
Listed shares / certificates and modaraba certificates	27	74,726	74,753	(145)	36,430	36,285
	(17,590)	56,351	38,761	165	21,793	21,958
	(13,262)	94,654	81,392	14,535	63,816	78,351

37 INCOME FROM FINANCE

	2006	2005
	----------Rs in '000----------	
Mark-up on finance	86,922	47,586
Documentation charges and other finance related income	3,283	2,680
	90,205	50,266

		Note	2006	2005
			---------Rs in '000----------	
38	**INCOME FROM LEASE FINANCE**			
	Mark-up on lease finance		164,602	110,738
	Front-end fees, documentation charges and other lease related income		11,651	7,621
			176,253	118,359
39	**INCOME FROM FUND PLACEMENTS**			
	Fund placements with financial institutions		53,627	22,234
	Securities purchased under resale agreements with financial institutions		29,563	28,192
	Income from continuous funding system		57,677	40,069
			140,867	90,495
40	**FINANCE COSTS**			
	Return on long term financing - term finance certificates		-	9,801
	Return on long-term borrowings		93,854	41,971
	Return on certificate of deposits		215,117	91,247
	Mark-up on short-term finances		2,586	3,286
	Mark-up on borrowings from institutions		26,100	25,783
	Finance charge on leases		46	-
	Bank charges		331	651
	Amortisation of deferred costs		-	149
			338,034	172,888
41	**ADMINISTRATION AND OPERATING EXPENSES**			
	Salaries, allowances and benefits		66,323	42,880
	Director's Remuneration		1,122	-
	Contribution to provident fund		2,478	1,792
	Gratuity scheme expense	32.4	2,021	545
	Contribution to Employees' Old-Age Benefit Institution		176	132
	Depreciation on property, plant and equipment	6.1	9,774	5,464
	Amortisation on intangible assets	6.3	5,493	449
	Pre-incorporation expenses		765	-
	Rent, rates and taxes		11,950	8,942
	Travelling and entertainment		4,466	1,815
	Telephone, telex and fax		5,033	3,153
	Printing, postage and stationery		4,812	3,249
	Insurance		1,613	1,147

	Note	2006	2005
Lighting, heating and cooling		3,040	2,134
	Note	2006	2005
		---------Rs in '000----------	
Auditors' remuneration	41.1	1,043	590
Repairs and maintenance		2,374	1,942
Brokerage and commission		16,256	8,650
Legal and professional fees		9,825	7,549
Subscriptions		2,035	766
Advertisement		1,710	1,122
Fixed Assets written off		30	-
Provision against other assets		5,094	-
Amortisation of deferred costs		-	60
Donations		209	-
Other expenses		5,191	1,562
		162,833	93,943

41.1 Auditors' remuneration

	2006			2005
	A. F. Ferguson & Co.	Auditor of Finex Securities Limited	Total	A. F. Ferguson & Co.
	-----------------------------Rs in '000			--------------------------
Statutory audit fee	455	63	518	425
Half yearly review fee	100	-	100	100
Other services	363	8	371	55
Out-of-pocket expenses	54	-	54	10
	972	71	1,043	590

42 OTHER OPERATING INCOME

	Note	2006	2005
		---------Rs in '000----------	
Income from financial assets			
Income from deposits with banks		4,202	898
Net exchange gain / (loss)		(8)	935
Income from other than financial assets			
Gain on disposal of fixed assets		1,326	586
Other income		626	-
		6,146	2,419

43 TAXATION

	Note	2006	2005
		---------Rs in '000----------	
For the year			
- Current		10,954	5,902
- Deferred	43.4	(18,044)	11,742
		(7,090)	17,644
For prior years		28	(11,473)
		(7,062)	6,171

43.1 Relationship between tax expense and accounting profit

	2006	2005
Profit for the year from ordinary activities before taxation	33,072	80,866
Tax at the applicable rate of 35% (2005: 35%)	11,575	28,303
Tax effect of income / expenses that are exempt / not allowed in determining taxable income	(25,826)	(13,374)
Tax effect on account of income taxed under Final Tax Regime	1,229	1,654
Adjustment in respect of current income tax of prior years	28	(11,473)
Tax effect of dividend income taxed at a lower rate	(4,013)	(2,977)
Minimum tax under section 113 of Income Tax Ordinance, 2001	5,092	4,038
Others	4,853	-
Tax charge	(7,062)	6,171

43.2 The provision for taxation has been computed by Interbank at the rate applicable to a public company. In the original assessments made by the Deputy Commissioner of Income Tax (DCIT), the rate for the assessment years 1991-1992 to 2000-2001 and 2002-2003 applied in computing the tax liability was that applicable to a banking company. However, in the appeals filed against the original assessments upto the assessment year 1997-1998, the Commissioner of Income Tax (Appeals) [CIT(A)] directed the DCIT to apply the rate applicable to a public company. The Income Tax Department then filed appeals before the Income Tax Appellate Tribunal (ITAT) against these directions. The ITAT, in its decision on the issue of application of banking company tax rate in respect of assessment years 1991-1992 to 1997-1998 held that investment banks are not banking companies and therefore the rate of tax applicable to a public company should be applied. However, the tax authorities have filed appeals against the ITAT orders in the Lahore High Court.

In the original assessment made by the DCIT for the assessment years 1995-96 to 2000-2001, dividend income was taxed by applying the rate applicable to the business income of a banking company instead of applying the reduced rate of 5% as prescribed by law. The CIT (A) and the ITAT have confirmed that such income is taxable at the reduced rate of 5% in respect of assessment years 1995-96 to 1997-98. However the tax authorities have filed appeals against the ITAT orders in the Lahore High Court for assessment years 1995-96 and 1996-97. The ITAT has declined to refer the question of law proposed by the taxation authorities for assessment years 1997-98, regarding the taxation of dividend income, on the basis that Lahore High Court has already decided the matter against the taxation authorities. In addition, the taxation authorities have also disallowed certain expenses / made addition to taxable income in certain assessment years against which INTERBANK has filed appeals which are currently pending. Based on the previous decisions, INTERBANK is confident that the above matters would be decided in its favour and the possibility of any liability arising is considered remote.

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

Income tax return for tax year 2003 was filed and deemed to be assessed under section 120 of the Income Tax Ordinance, 2001. However, by resorting to the powers given under section 177 of the said Ordinance, the CIT had selected the case for audit. Against the said selection, INTERBANK had filed a writ in the Lahore High Court and the court had held the selection to be defective on the basis that while making this selection, the essentials required by the law were not followed. It was also mentioned in the order that the CIT could initiate fresh proceedings strictly in accordance with law. The Income Tax Department had filed an appeal against the decision of the Lahore High Court before the Supreme Court of Pakistan. The Supreme Court in its decision dated March 1, 2006 has directed that the department should issue fresh notices to INTERBANK in terms of Section 177 of the Ordinance disclosing criteria/reasons for selecting their cases for purpose of audit. Pursuant to this order, the company has received notice for selection of case for Tax Year 2003 for audit under section 177 of the Ordinance.

	Note	2006	2005
		---------Rs in '000----------	
43.3 Deferred			
Deferred taxation comprises:			
Deferred tax assets arising in respect of			
- Provision for doubtful finance / potential lease losses		(12,356)	(14,512)
- Carry forward of income tax loss	43.3.1	(102,831)	(67,442)
- Deficit on revaluation of investments	21	(159)	(16,510)
		(115,346)	(91,464)
Deferred tax liabilities arising due to			
- Accelerated tax depreciation		154,455	141,034
- Transaction cost in respect of TFCs issued		1,768	-

43.4	40,877	42,570

43.3.1 As at June 30, 2006, the Group had unabsorbed tax losses of Rs. 293,804 thousand (2005: Rs. 192,693 thousand) against which deferred tax asset of Rs. 102,831 thousand (2005: Rs. 67,442 thousand) has been recorded at the tax rates applicable to the periods in which these losses are expected to be realised based on the Group's projection of future taxable profits which would offset these losses before their expiry.

	2006	2005
	---------Rs in '000----------	
43.4 Movement in deferred tax liability		
Opening provision	42,570	32,588
Provision made/ (reversal) during the year	(18,044)	11,742
	24,526	44,330
Deferred tax credit/ (debit) on deficit on revaluation of investments	16,351	(1,760)
	40,877	42,570

44 BUSINESS COMBINATION

44.1 On January 28, 2006, the Group acquired 100% of the share capital of Finex Securities Limited, a brokerage house having operations in Karachi. The acquisition has been accounted for using the purchase method. The acquired business contributed revenues of Rs. 19,598 thousand to the group for the period from January 28, 2006 to June 30, 2006 and its assets and liabilities at June 30, 2006 were respectively 320,927 thousand and Rs. 254,766 thousand.

Details of net assets acquired and goodwill are as follows:

	Note	Rs in 000s
Purchase consideration, paid up-front		130,000
Purchase consideration, deferred (note 44.2)		20,000
Transaction costs		2,571
		152,571
Fair value of net assets acquired		126,164
Goodwill	6.3	26,407

Other than property, plant and equipment and intangible assets, fair value of net assets acquired approximate to their book value.

The assets and liabilities arising from the acquisition are as follows:

	Note	Rs in 000s
Property, plant and equipment	6.1	20,847
Intangible assets		
Membership cards and room	6.3	105,000
Computer software	6.3	1,766
Other net assets		(1,449)
Fair value of net assets acquired		126,164
Goodwill	6.3	26,407
Total purchase consideration		152,571
Less:		
Certificates of deposit issued	24	20,000
Cash outflow on acquisition		132,571

44.2 The contingent payment will be made in three tranches of Rs. 5 million, 5 million and Rs. 10 million at the end of first, second and third year of acquisition respectively.

45 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

45.1 The aggregate amounts charged in the financial statements for the year for remuneration, including all benefits, to the chief executive and executives of First International Investment Bank Limited were as follows:

	Chief Executive		Directors		Executive		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Rs in '000							
Managerial remuneration	6,235	2,977	-	-	14,685	7,119	20,920	10,096
House rent	-	-	-	-	5,529	2,052	5,529	2,052
Utilities	320	282	-	-	1,294	648	1,614	930
Retirement benefits	586	451	-	-	2,075	789	2,661	1,240
Medical expenses	354	282	-	-	619	327	973	609
Conveyance	196	138	-	-	2,134	1,181	2,330	1,319
Others	60	-	-	-	2,673	1,980	2,733	1,980
	7,751	4,130	-	-	29,009	14,096	36,760	18,226
Number of persons	1	1	-	-	22	8	23	9

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.

45.2 The aggregate amounts charged in the financial statements for the period January 28, 2006 to June 30, 2006 for remuneration, including all benefits, to the chief executive and directors of Finex Securities were as follows:

	Chief Executive		Directors		Executive		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Rs in '000							
Managerial remuneration	838	-	1,182	-	-	-	2,020	-
House rent	150	-	186	-	-	-	336	-
Utilities	17	-	21	-	-	-	38	-
	1,005	-	1,389	-	-	-	2,394	-
Number of persons	1	-	4	-	-	-	5	-

The Chief Executive is provided with free use of company maintainted car.

46 TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / RELATED PARTIES

DESCRIPTION	2006			
	Associated Undertakings	Other related Parties	Key Management Personnel	Total
	Rs in '000			
Transactions entered during the period				
Certificate of deposits issued	1,480,143	241,765	-	1,721,908
Insurance premium paid	1,074	-	-	1,074
Finance provided	-	-	6,386	6,386
Payment to staff gratuity fund	-	1,962	-	1,962
Lawyers' fee payment	50	-	-	50
Balance outstanding as at the period end				
Loans and advances	-	-	3,554	3,554
Deposit accounts	(517)	-	-	(517)
Certificate of deposits	100,000	48,295	-	148,295
Trade debts	21,022	-	-	21,022
Other receivable	2,080	-	-	2,080
Markup accrued - Certificate of deposits	542	943	-	1,485
Markup accrued- Finance	-	-	4	4
Trade creditors	21,095	1,495	4,573	27,163
Profit / Expense for the period				
Income from finance	-	-	249	249
Brokerage, commission and fee income	2,617	210	346	3,173
Return on deposits	24,668	5,001	-	29,669
Rent expense	2,882	-	-	2,882
Insurance expense	1,155	-	-	1,155
Travelling and lodging	664	57	-	721
Charge for the year in respect of employee benefit and contribution plan	-	4,996	-	4,996
Remuneration to key management personnel	-	-	30,608	30,608
Post employment benefit	-	-	303	303

	2005			
	Associated Undertakings	Other related Parties	Key Management Personnel	Total
	Rs in '000			
Transactions entered during the period				
Certificate of deposits issued	390,561	941,699	-	1,332,260
Insurance premium paid	1,064	-	-	1,064
Finance provided	-	-	1,764	1,764
Payment to staff gratuity fund	-	1,100	-	1,100
Balance outstanding as at the period end				
Loans and advances	-	-	4,296	4,296
Prepaid insurace	80	-	-	80
Deposit accounts	196	-	-	196
Certificate of deposits	50,000	38,320	-	88,320
Trade debts	3,292	-	4,574	7,866
Other receivable	968	-	-	968
Markup accrued - Certificate of deposits	70	222	-	292
Trade creditors	2,273	271	4,573	7,117
Profit / Expense for the period				
Income from finance	-	-	497	497
Brokerage, commission and fee income	1,386	1,526	23	2,935
Return on deposits	2,351	8,334	-	10,685
Rent expense	2,573	-	-	2,573
Insurance expense	984	-	-	984
Travelling and lodging	321	-	-	321
Charge for the year in respect of employee benefit and contribution plan	-	2,469	-	2,469
Remuneration to key management personnel	-	-	27,071	27,071

American Express Bank Limited, Ali Institute of Education, Arif Habib Investment Management Limited, Arif Habib Rupali Bank Limited, Aventis Limited, BOC Pakistan Ltd, Baber Ali Foundation, Bayer CropScience (Pvt) Limited, Coca Cola Beverages Pakistan Limited, Continental Funishing Company (Private) Limited, Gurmani Foundation, Haroon Oil Limited, Industrial Technical and Education Institute, International Industries Limited, Mitchell's Fruit Farms Limited, New Jubliee Insurance Co. Ltd, New Jubliee Life Insurance Co. Ltd, National Management Foundation, Nestle Pakistan Limited, Packages Limited, Packages Lanka (Private) Limited, Pak Arab Fertilizer (Private) Limited, Pak Chemicals Ltd, Pakistan Cables Limited, Real Estate Modaraba Management Company Limited, Rotocast Engineering (Private) Limited, Siemens Pakistan Engineering Company Limited, Syed Maratib Ali Religious & Charitable Society, Tetra Pak (Pakistan) Limited, Tri-Pack Films Limited, Unilever Pakistan Limited were related parties during the year being companies under common directorship.

Atchison College, Bagh-e-Rehmat Trust, Businessman Hospital Trust, Indus Valley School Arts & Architecture, Kinnaired College, Lahore School of Economics, Layton Rehmat Ullah Benevolent Trust, Mohatta Palace Gallery Trust, Pakistan Center For Philonthropy, Shell Live Wire International, Syed Ahsan Ali Gauhar Jee Foundation and World Wide Fund were related parties during the year due to certain directors being the member / trustee of the managing body of these institutions.

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.

47 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.

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

	2006			2005		
	USD	Other foreign currencies	Total	USD	Other foreign currencies	Total
	Rupee equivalent '000					
Financial assets						
Investments	-	-	-	71,697	-	71,697
Bank balances	342	-	342	3,658	-	3,658
Others	-	-	-	1,860	-	1,860
	342	-	342	77,215	-	77,215
Financial liabilities						
Long-term borrowings	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	-	-	-	-	-
	342	-	342	77,215	-	77,215

48 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, 2006	Total	Within one year less than	More than one year and	More than five years
	-- Rs in '000			---------------------------------------
Assets				
Fixed assets	246,869	25,651	61,461	159,757
Long-term loans and advances	509,612	177,209	329,578	2,825
Net investment in lease finance	1,929,202	695,624	1,231,852	1,726
Long-term deposits, prepayments and deferred costs	5,358	-	-	5,358
Short-term finance	273,252	273,252	-	-
Fund placements	809,567	809,567	-	-
Short-term investments	786,464	558,897	135,000	92,567
Taxation - net	220,248	220,248	-	-
Advances, deposits and prepayments	62,778	62,778	-	-
Interest / mark-up / profit accrued	28,268	28,268	-	-
Trade debts	92,607	92,607	-	-`
Other receivables	23,655	23,655	-	-
Cash and bank balances	315,856	315,856	-	-
	5,303,736	3,283,612	1,757,891	262,233
Liabilities				
Pre-IPO subscription towards issue of term finance certificates	369,950	-	-	369,950
Long-term borrowings	1,308,333	615,000	693,333	-
Certificates of deposit	2,038,240	1,749,181	289,059	-
Liabilities against assets subject to Finance lease	2,676	378	2,298	-
Deposits on lease contracts	420,767	53,315	365,885	1,567
Payable to staff gratuity fund	3,338	3,338	-	-
Deferred tax liabilities- net	40,877	44,954	67,761	(71,838)
Short term finance	237	237	-	-
Borrowings from financial institutions	294,347	294,347	-	-
Mark-up accrued	59,937	59,937	-	-
Accrued expenses and other liabilities	146,266	146,266	-	-
	4,684,968	2,966,953	1,418,336	299,679
Net assets	618,768	316,657	339,556	(37,446)

Net assets	
Represented by:	647,391
Share capital and reserves	(28,623)
Deficit on revaluation of investments - net	618,768

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	-	-
Trade debts	41,250	41,250	-	-
Other receivables	9,268	9,268	-	-
Cash and bank balances	41,925	41,925	-	-
	4,409,695	2,431,739	1,669,220	308,736
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	82,418	82,418	-	-
	3,776,028	2,551,506	1,238,916	(14,394)
Net assets	633,667	(119,767)	430,304	323,130
Represented by:				
Share capital and reserves	665,942			
Deficit on revaluation of investments - net	(32,275)			
	633,667			

49 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.

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, 2006

	Effective rate	Total	Exposed to yield / market rate risk: 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	13.90%	509,612	176,729	327,000	2,825	3,058
Net investment in lease finance	12.05%	1,929,202	695,624	1,231,852	1,726	-
Long-term deposits	-	5,358	-	-	-	5,358
Short term finance	13.09%	273,252	273,252	-	-	-
Fund placements	12.37%	809,567	809,567	-	-	-
Short-term investments	9.78%	786,464	124,010	135,000	92,567	434,887
Advances and deposits	-	44,237	-	-	-	44,237
Interest / mark-up / profit accrued	-	28,268	-	-	-	28,268
Trade debts	-	92,607	-	-	-	92,607
Other receivables	-	23,655	-	-	-	23,655
Cash and bank balances	1.54%	315,856	108,526	-	-	207,330
		4,818,078	2,187,708	1,693,852	97,118	839,400
FINANCIAL LIABILITIES						
Pre-IPO subscription towards issue of term finance certificates	11.90%	369,950	-	-	369,950	-
Long-term borrowings	10.22%	1,308,333	615,000	693,333	-	-
Certificates of deposit	10.18%	2,038,240	1,749,181	289,059	-	-
Liabilities against asset subject to finance lease	12.50%	2,676	378	2,298	-	-
Deposits on lease contracts	-	420,767	-	-	-	420,767
Short-term finance	10.11%	237	237	-	-	-
Borrowings from financial institutions	8.91%	294,347	294,347	-	-	-
Mark-up accrued	-	59,937	-	-	-	59,937
Accrued expenses and other liabilities	-	146,266	-	-	-	146,266
		4,640,753	2,659,143	984,690	369,950	626,970
On-balance sheet gap		177,325	(471,435)	709,162	(272,832)	212,430
Total yield / market rate sensitivity gap			(471,435)	709,162	(272,832)	
Cumulative yield / market rate sensitivity gap			(471,435)	237,727	(35,105)	

As at June 30, 2005

	Effective rate	Total	Exposed to yield / market rate risk: Within one year	Exposed to yield / market rate risk: More than one year and less than five years	Exposed to yield / market rate risk: 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 finance	7.93%	1,670,359	514,395	1,152,788	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
Trade debts	-	41,250	-	-	-	41,250
Other receivables	-	9,268	-	-	-	9,268
Cash and bank balances	1.50%	41,925	33,192	-	-	8,733
		4,126,425	1,752,196	1,533,596	256,981	583,652

	Effective rate	Total	Exposed to yield / market rate risk: Within one year	Exposed to yield / market rate risk: More than one year and less than five years	Exposed to yield / market rate risk: More than five years	Not exposed to yield / market rate risk
	%	Rs in '000				
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	-	82,418	-	-	-	82,418
		3,730,641	2,433,489	831,404	-	465,748
On-balance sheet gap		395,784	(681,293)	702,192	256,981	117,904
Off-balance sheet gap	9.23%		-		-	191,843
Total yield / market rate sensitivity gap			(681,293)	702,192	256,981	
Cumulative yield / market rate sensitivity gap			(681,293)	20,899	277,880	

50 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.

The Group 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.

The Group 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 the Group are given below:

	2006		2005	
	Rs in '000	**%**	**Rs in '000**	**%**
Finance and leases				
Dairy and poultry	3,722	0.14	1,209	0.05
Cement	5,999	0.22	3,143	0.14
Health	20,685	0.76	3,975	0.18
Glass and ceramics	8,012	0.30	13,360	0.59
Leather	29,419	1.08	19,452	0.87
Paper and board	55,360	2.04	20,405	0.91
Construction	39,360	1.45	35,812	1.59
Energy, oil and gas	65,333	2.41	37,715	1.68
Financial institutions	39,630	1.46	40,000	1.78
Electric and electric goods	55,811	2.06	71,755	3.19
Chemicals / fertilizers / pharmaceuticals	75,707	2.79	71,893	3.20
Food, tobacco and beverages	91,607	3.38	96,769	4.30
Steel, engineering and automobiles	131,366	4.48	134,578	5.99
Transport	261,333	9.63	241,866	10.76
Textile / textile composite	515,900	19.02	390,529	17.37
Miscellaneous (including individuals)	1,312,922	48.40	1,066,009	47.41
	2,712,066	100.00	2,248,470	100.00

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

51 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.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	---------------------------------- Rs in '000	----------------------------------		
FINANCIAL ASSETS				
Long-term loans and advances	509,612	509,612	409,549	409,549
Net investment in lease finance	1,929,202	1,929,202	1,670,359	1,670,359
Long-term deposits	5,358	5,358	2,767	2,767
Short-term finance	273,252	273,252	168,022	168,022
Fund placements	809,567	809,567	749,426	749,426
Short-term investments	786,464	786,464	956,482	956,482
Advances and deposits	44,237	44,237	56,836	56,836
Interest / mark-up / profit accrued	28,268	28,268	20,541	20,541
Trade debts	92,607	92,607	41,250	41,250
Other receivables	23,655	23,655	9,268	9,268
Cash and bank balances	315,856	315,856	41,925	41,925
	4,818,078	4,818,078	4,126,425	4,126,425
FINANCIAL LIABILITIES				
Long term financing - term finance certificates	369,950	369,950	-	-
Long-term borrowings	1,308,333	1,308,333	1,033,333	1,033,333
Certificates of deposit	2,038,240	2,038,240	1,486,688	1,486,688
Liabilities against assets subject to finance lease	2,676	2,676		
Deposits on lease contracts	420,767	420,767	339,937	339,937
Short-term finance	237	237	145,254	145,254
Borrowings from financial institutions	294,347	294,347	599,618	599,618
Mark-up accrued	59,937	59,937	43,393	43,393
Accrued expenses and other liabilities	146,266	146,266	82,418	82,418
	4,640,753	4,640,753	3,730,641	3,730,641
Off balance sheet				
Financial instruments	-	-	191,843	191,843

51.1 As at June 30, 2006, 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.

52 EARNINGS PER SHARE

52.1 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:

	2006	2005
Profit for the year from ordinary activities after taxation - Rupees in thousands	40,134	74,695
Weighted average number of shares outstanding during the year - in thousands	41,917,500	41,917,500
Basic earnings per share - Rupees	0.96	1.78

52.2 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.

53 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 and through Finex Securities.

	Note	Financing activities	Investment activities	Brokerage activities	Total
		---------- Rs in '000	----------	----------	----------
Segmental information for the year ended June 30, 2006					
Segment revenue		267,784	233,505	40,356	541,645
Segment result / profit before tax		(9,213)	42,286	1,274	34,347
Unallocated loss before tax					(1,275)
Taxation					(7,062)
Profit for the year from ordinary activities after taxation					40,134
Segment assets		2,764,036	1,581,555	481,505	4,827,096
Unallocated assets					476,640
Segment liabilities		428,384	-	104,732	533,116
Unallocated liabilities					4,151,852
Unallocated capital expenditure -Tangible					21,954
Acquisition through business combination - Tangible		-	-	20,847	20,847
Capital expenditure - Intangible				30,000	30,000
Unallocated capital expenditure -Intangible					1,588
Acquisition through business combination - Intangible				133,173	133,173
Segmented depreciation and amortisation of fixed assets	53.1	4,612	3,991	6,664	15,267

Note		Financing activities	Investment activities	Brokerage activities	Total
		-------------------------------	Rs in '000	--------------------------	
Segmental information for the year ended June 30, 2005					
Segment revenue		169,324	176,837	8,673	354,834
Segment result / profit before tax		38,507	41,838	521	80,866
Taxation					6,171
Profit for the year from ordinary activities after taxation					74,695
Segment assets		2,256,701	1,755,633	77,487	4,089,821
Unallocated assets					319,874
Segment liabilities		349,442		45,153	394,595
Unallocated liabilities					3,381,433
Capital expenditure - Tangible				13,340	13,340
Unallocated capital expenditure -Tangible					4,955
Capital expenditure - Intangible				21,000	21,000
Unallocated capital expenditure -Intangible					2,819
Segmented depreciation and amortisation of fixed assets	53.1	2,271	2,372	1,270	5,913

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

54 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the company's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification and valuations of investments (note 13)

ii) Income taxes (note 43)

iii) Staff retirement benefits (note 32)

55 NUMBER OF EMPLOYEES

The total number of employees at year-end was 182 (2005: 89).

56 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on October 06, 2006 has proposed a stock dividend of one share for every ten shares i.e. 10% in respect of the year ended June 30, 2006 (2005: cash dividend @Rs. 1.4 per share). The proposed stock dividend will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended June 30, 2006 do not include the effect of this stock dividend which will be accounted for in the financial statements for the year ended June 30, 2007.

57 CORRESPONDING FIGURES

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

- Receivable against continuous funding system transactions / carry over transactions amounting to Rs. 134,920 thousand was included under the head "securities purchased under resale agreements with financial institutions" in the comparative year. It has now been separately disclosed as a line item in the current year.

- Income from continuous funding system transactions / carry over transactions amounting to Rs. 40,069 thousand was included under the head " income from securities purchased under resale agreements with financial institutions" in the comparative year. It has now been separately disclosed as a line item in the current year.

58 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 06, 2006 by the Board of Directors of First International Investment Bank Limited, the holding company.

59 GENERAL

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

SYED BABAR ALI	**SAMIR AHMED**
Chairman	Managing Director & Chief Executive

Notes to the Financial Statement for the year ended June 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 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 BASIS OF MEASUREMENT

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

The preparation of financial statements in conformity with International Accounting Standards requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 52 to the financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

4.1 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

These are securities which are acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movement, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Available for Sale

These are 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.

Held-to-Maturity

These are securities with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold 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.

Investments in subsidiary companies are stated at cost less impairment for any diminution in their value. In arriving at the provision in respect of any diminution in the value of these investments, consideration is given only if there is a permanent impairment in the value of any investment.

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.

Impairment of investments is recognised when there is a permanent diminution in their values. Provision for impairment in value, if any, is taken to income currently.

Investments are derecognised when the right to receive cash flows from the investments have expired, have been realised or transferred and the company has transferred substantially all risks and rewards of ownership.

Gain or loss on sale of investments is included in income currently.

4.2 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 4.3).

4.3 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.

4.4 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.

4.5 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 :

a) Sale of securities under repurchase obligations

Securities sold with a simultaneous commitment to repurchase (repo) 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.

b) Purchase of securities under resale obligations

Securities purchased with a corresponding commitment to resell (reverse repo) at a specified future date are not recognised in the financial statements. 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.

4.6 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).

Income on financial assets which have been classified is recognised on receipt basis.

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.

4.7 Taxation

Current

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

Deferred

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

A deferred tax asset is 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 utilised.

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.

4.8 Finances

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

4.9 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.

4.10 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 Finance Companies (SECP's Regulations for NBFCs).

According to the instructions issued by the Securities and Exchange Commission of

Pakistan effective from January 09, 2006, NBFCs are required to maintain a general reserve at an amount equivalent to 1.5% of the secured consumer portfolio and an amount equivalent of 5% of the unsecured consumer portfolio, to protect them from the risks associated with the economic cyclical nature of the business. Had this general reserve not been created, the profit before taxation would have been higher by Rs. 2,225 thousand. In addition to the general reserve specified by SECP, INTERBANK also maintains a general provision to provide for potential lease losses on INTERBANK's finance / lease portfolio which have not been specifically indentified. This provision is calculated based on management's estimate.

4.11 Other provisions

Provisions are recognised when INTERBANK has a present 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 obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 is calculated using the straight line method in accordance with the rates specified in note 5.1 to the financial statements after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the month in which an asset is put to use while in case of assets disposed of depreciation is charged till the month of disposal.

Gains / losses on disposal of fixed assets, if any, are taken to income currently.

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.

Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. Amortisation on addition and deletion of intangible asset during the year is charged in proportion to the period of use.The useful life and amortisation method is reviewed and adjusted, if appropriate at each balance sheet date.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent impairment in value of the assets, if any.

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 Long Term Financing - Term Finance Certificates (TFCs)

Term Finance Certificates are initially recognised at its fair value net of transaction costs that are directly attributable to the issue of TFCs. The transaction costs are amortised over the term of TFCs using the effective interest method.

Term Finance Certificates issued by Interbank are shown net of own TFCs purchased and held for resale by INTERBANK. 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.

4.17 Staff retirement benefits

4.17.1 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.

4.17.2 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.

4.18 Employees' compensated absences

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

4.19 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

4.20 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. Exchange differences are taken to income currently.

4.21 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when 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.

4.22 Dividend distribution

Dividend distribution (including stock dividend) to INTERBANK's shareholders is accounted for as a liability in the period in which the dividends are declared.

4.23 Segment Reporting

A Business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. As the operations of INTERBANK are carried out in Pakistan, information relating to geographical segment is not considered relevant.

INTERBANK accounts for segment reporting using the business segments as the primary reporting format based on INTERBANK'S practice of reporting to the management on the same basis.

Assets, liabilities, capital expenditures and other balances that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets, liabilities and capital expenditure and other balances which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated.

4.24 Cash and cash equivalents

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

	Note	2006	2005
		------------Rs in '000-----------	

FIXED ASSETS

	Note	2006	2005
Property, plant and equipment	5.1	40,369	27,721
Intangible assets	5.2	50,714	24,313
		91,083	52,034

Property, plant and equipment

	Lease hold improvements	Office equipment	Computer equipment	Furniture and fittings	Motor vehicles	Total
	---------- (Rupees in '000) ----------					
As at July 1, 2005						
Cost	4,327	8,262	11,631	5,485	17,945	47,650
Accumulated depreciation	(752)	(4,193)	(5,571)	(2,483)	(6,930)	(19,929)
Net book value	3,575	4,069	6,060	3,002	11,015	27,721
Additions (at cost)	-	1,212	7,738	1,856	10,938	21,744
Disposals (at net book value)	-	(30)	-	-	(1,136)	(1,166)
Depreciation charge for the year	(845)	(1,211)	(1,984)	(721)	(3,169)	(7,930)
Closing net book value (NBV)	2,730	4,040	11,814	4,137	17,648	40,369
As at June 30, 2006						
Cost	4,327	9,404	19,369	7,341	25,967	66,408
Accumulated depreciation	(1,597)	(5,364)	(7,555)	(3,204)	(8,319)	(26,039)
Net book value	2,730	4,040	11,814	4,137	17,648	40,369
Depreciation rate % per annum	20	20	20	10-20	20	
As at July 1, 2004						
Cost	2,189	5,459	7,249	3,693	12,481	31,071
Accumulated depreciation	(266)	(3,957)	(4,663)	(2,298)	(4,679)	(15,863)
Net book value	1,923	1,502	2,586	1,395	7,802	15,208
Additions (at cost)	2,138	3,386	4,461	1,986	6,324	18,295
Disposals (at net book value)	-	(98)	-	(26)	(194)	(318)
Depreciation charge for the year	(486)	(721)	(987)	(353)	(2,917)	(5,464)
Closing net book value (NBV)	3,575	4,069	6,060	3,002	11,015	27,721
As at June 30, 2005						
Cost	4,327	8,262	11,631	5,485	17,945	47,650
Accumulated depreciation	(752)	(4,193)	(5,571)	(2,483)	(6,930)	(19,929)
Net book value	3,575	4,069	6,060	3,002	11,015	27,721
Depreciation rate % per annum	20	20	20	10-20	20	

International Accounting Standard (IAS) 16: "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005. The revised IAS 16 requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, the management carried out a review of the residual values and useful lives of its fixed assets during the current year. Based on this review, the management has revised its estimate in respect of residual value of vehicles to 20 percent of cost. Previously, residual value of these assets was considered as nil. Had the accounting estimate not been revised the depreciation charge for the year would have been higher by Rs.964 thousand and the profit before tax for the year would have been lower by the same amount.

Cost and accumulated depreciation at the end of the year include Rs.12,146 thousand (2005: Rs. 8,375 thousand) and Rs. 11,753 thousand (2005: Rs. 8,375 thousand) respectively in respect of fully depreciated assets still in use.

Intangible assets

Description	Membership card and room of LSE (note 5.2.1)	Non-competition agreement (note 5.2.2)	Computer software	Total
	(Rupees in '000)			
As at July 1, 2005				
Cost	21,000	-	4,744	25,744
Accumulated amortisation	-	-	(1,431)	(1,431)
Net book value	21,000	-	3,313	24,313
Additions (at cost)	-	30,000	1,588	31,588
Amortisation charge for the year	-	(4,167)	(1,020)	(5,187)
Closing net book value	21,000	25,833	3,881	50,714
As at June 30, 2006				
Cost	21,000	30,000	6,332	57,332
Accumulated amortisation	-	(4,167)	(2,451)	(6,618)
Net book value	21,000	25,833	3,881	50,714
Amortisation rate % per annum	-	33.33	20	

	Membership card and room of LSE	Non-competition agreement	Computer software	Total
	(Rupees in '000)			
As at July 1, 2004				
Cost	-	-	1,925	1,925
Accumulated amortisation	-	-	(982)	(982)
Net book value	-	-	943	943
Additions (at cost)	21,000	-	2,819	23,819
Amortisation charge for the year	-	-	(449)	(449)
Closing net book value	21,000	-	3,313	24,313
As at June 30, 2005				
Cost	21,000	-	4,744	25,744
Accumulated amortisation	-	-	(1,431)	(1,431)
Net book value	21,000	-	3,313	24,313
Amortisation rate % per annum	-	-	20	

5.2.1 This represents consideration paid by INTERBANK to acquire the 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 This represents consideration in respect of a three year agreement with Mr. Ali Azam Shirazee (Ex-Director and Chief Executive Officer of Finex Securities) for not competing with INTERBANK in the financial brokerage business in Pakistan. As mentioned in note 1 INTERBANK acquired 100% shareholding of Finex Securities during the year.

5.2.3 Cost and accumulated amortisation as at the end of the year include Rs.784 thousand (2005: Rs.778 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 / (loss) on disposal	Mode of disposal	Particular of Purchaser
	Rs in '000						
Office equipment	70	40	30	-	(30)	Write off	-
Vehicles	2,366	1,340	1,026	2,050	1,024	Tender	Sardar Ahmed
	550	440	110	412	302	Negotiation	Wasim Irshad - Ex-employee
	2,916	1,780	1,136	2,462	1,326		
June 30, 2006	2,986	1,820	1,166	2,462	1,296		
June 30, 2005	1,716	1,398	318	904	586		

6 LONG-TERM INVESTMENTS

Particulars of investments - by type and segment

	Note	2006	2005
		Rs in '000	
Investment in subsidiaries (wholly owned) at cost			
Finex securities	6.1	152,571	-
IGI Funds Limited	6.2	30,000	-
		182,571	-

6.1 This represents investments (along with the related transaction cost amounting to Rs 2,571 thousand) made during the year in Finex Securities (a corporate member of the Karachi Stock Exchange (Guarantee) Limited).

6.2 This represents investments made during the year by INTERBANK in IGI Funds Limited, an Asset Management Company.

6.3 Other details of subsidiary companies are as follows:

Name	Country of Incorporation	Year of Incorporation
Finex Securities Limited	Pakistan	1994
IGI Funds Limited	Pakistan	2006

	Note	2006	2005
		------------Rs in '000-----------	
LONG-TERM LOANS AND ADVANCES - secured			
Loans and advances to staff - considered good	7.1	2,556	5,103
Other loans and advances			
- Companies / organisations and individuals			
- considered good		543,998	404,446
- considered doubtful		8,978	4,763
	7.2	552,976	409,209
Less: Provision for doubtful loans and advances	7.3	8,978	4,763
		546,554	409,549
Less: Current maturity of long-term loans and advances	10	176,729	153,050
		369,825	256,499

Loans and advances to staff - considered good

	Note	2006	2005
Executives	7.1.1 & 7.1.2	1,760	3,758
Other employees	7.1.1	796	1,345
		2,556	5,103

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

	2006	2005	2006	2005
	Executives		Other employees	
	---------------------- Rs in '000 -------------------------			
Opening balance	3,758	6,680	1,345	2,013
Disbursements during the year	-	-	-	900
Repayments during the year	(1,998)	(2,922)	(549)	(1,568)
	1,760	3,758	796	1,345

These represents loans and advances provided to executives for purchase of houses and for other purposes. These loans carry mark-up at 2.5% (2005: 2.5% to 5%) per annum and are extended for a period of 16 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.3,703 thousand (2005: Rs. 6,638 thousand). The loans are secured against mortgage of house properties and hypothecation of vehicles.

These loans carry mark-up at rates ranging from 7.25% to 25% (2005: 6.25% 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.

Provision for doubtful loans and advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
	Rs in '000					
Opening balance	1,713	3,050	4,763	4,923	2,013	6,936
Charge for the year	1,453	3,139	4,592	790	1,037	1,827
Reversal on recovery during the year	(377)	-	(377)	(4,000)	-	(4,000)
Closing balance	2,789	6,189	8,978	1,713	3,050	4,763

The classified portfolio of INTERBANK as at June 30, 2006 aggregated to Rs. 9,688 thousand (2005: Rs. 6,852 thousand). INTERBANK has not recognised income on this balance.

	Note	2006	2005
		Rs in '000	
NET INVESTMENT IN LEASE FINANCE			
Net investment in lease finance	8.1	1,929,202	1,670,899
Less: Current maturity	10	695,624	514,395
		1,233,578	1,156,504

Particulars of net investment in lease finance

	2006				2005			
	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	819,572	1,036,950	185	1,856,707	619,540	980,323	1,285	1,601,148
Add: Residual value of leased assets	53,439	369,569	1,567	424,575	33,766	305,747	2,056	341,569
Gross investment in lease finance	873,01	1,406,519	1,752	2,281,282	653,306	1,286,070	3,341	1,942,717
Less: Unearned finance income	151,062	174,667	26	325,755	116,077	132,742	165	248,984
Net investment in lease finance - note 8.2, 8.3 & 8.4	721,949	1,231,852	1,726	1,955,527	537,229	1,153,328	3,176	1,693,733
Less: Provision for potential lease losses - note 8.5	26,325	-	-	26,325	22,834	-	-	22,834
Net investment in lease finance - net of provision - note 10	695,624	1,231,852	1,726	1,929,202	514,395	1,153,328	3,176	1,670,899

Net investment in lease finance includes Rs. 453 thousand (2005: Rs.Nil thousand) due from a related party. Maximum amount due from related parties at the end of any month during the year was Rs 598 thousand. (2005: Rs. 999 thousand).

The leases made by INTERBANK are for a term of 3 to 7 (2005: 3 to 7) years. Security deposits obtained at the time of disbursement of lease generally range from 0% to 79% (2005: 0% to 79%) 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 1.94% to 20.35% (2005: 1.74% to 20.35%) per annum. Penalty is charged in case of delayed payments.

Minimum lease payments and net investment in lease finance include Rs. 824,687 thousand and Rs. 782,081 thousand (2005: Rs.361,390 thousand and Rs. 342,632 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% (2005: 0.5% to 5%) per annum, with floor ranging from 6.5% to 10% (2005: 6% to 15%) per annum and ceilings ranging from 7.5% to 12% (2005: 7.5% to 16.5%) per anum. Mark-up rates are revised periodically (every three to six months) in line with the changes to the SBP's discount and KIBOR rates.

8.5 Provisions for lease losses

	2006			2005		
	Specific	General	Total	Specific	General	Total
	Rs in '000					
Opening balance	5,897	16,937	22,834	1,902	11,622	13,524
Charge for the year	1,631	2,550	4,181	4,735	5,315	10,050
Reversal on recovery during the year	(690)	-	(690)	(740)	-	(740)
Closing balance	6,838	19,487	26,325	5,897	16,937	22,834

The principal amount classified as per SECP's Regulations for NBFCs aggregates to Rs. 46,099 thousand (2005: Rs. 22,139 thousand) on which income has been suspended.

	Note	2006	2005
		Rs in '000	

LONG-TERM DEPOSITS AND PREPAYMENTS

	Note	2006	2005
Security deposits	9.1	3,707	2,767
Prepayments		-	869
		3,707	3,636

This includes deposit amounting to Rs. 900 thousand (2005: Rs. 400 thousand) placed with Lahore Stock Exchange in respect of exposure arising out of trading in securities.

CURRENT MATURITY OF NON-CURRENT ASSETS

	Note	2006	2005
		Rs in '000	
Long-term loans and advances	7	176,729	153,050
Net investment in lease finance	8	695,624	514,395
		872,353	667,445

SHORT-TERM FINANCE - secured and considered good

Short-term finance	11.1	273,252	168,022

These finances carry interest at rates ranging from 8.5% to 16.25% (2005: 6% to 17%) per annum and have maturities ranging from 2 months to 1 year (2005: 2 months to 1 year).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	2006	2005
		------------Rs in '000-----------	
FUND PLACEMENTS - considered good			
Fund placements with financial institutions	12.1 & 12.2	390,149	400,147
Securities purchased under resale agreements with financial institutions		-	214,359
Receivable against continuous funding system transactions / carry over transactions	12.3	419,418	134,920
		809,567	749,426

This includes an amount of Rs 40 million (2005: Rs Nil) placed with Crescent Standard Investment Bank Limited (CSIBL). The amount was initially given as a clean placement for a specified period and is being rolled over on maturity dates upon request of CSIBL in view of its present liquidity problems. The management, however, considers that it will not be exposed to any loss as certain securities owned by CSIBL are available with INTERBANK. These securities were obtained by INTERBANK as margin under a reverse repo transaction which has since been settled.

The management is actively following up the matter with CSIBL and has also obtained legal advice in this regard. Based on the advice the management has given a notice to CSIBL for immediate settlement of this amount. The management is confident that the amount will be fully realised and it will not be exposed to any loss on this placement.

These carry rates of return ranging from 10.90% to 23% (2005: 5.5% to 23%) per annum.

These carry effective yields ranging from 13% to 25% (2005: 8.9% to 25%) per annum. The fair value of securities held as collateral against these receivables amounted to Rs. 445,204 thousand (2005: Rs. 437,316 thousand). Out of these, securities having fair value of Rs. 273,593 thousand (2005: 55,865 thousand) and Rs. 16,043 thousand (2005: Rs. Nil) have been pledged with Lahore Stock Exchange (Guarantee) Limited and Finex Securities Limited respectively

SHORT-TERM INVESTMENTS

13.1 Particulars of investments by type

	2006			2005		
	Held by INTERBANK	Given as collateral	Total	Held by INTERBANK	Given as collateral	Total
	------------------- Rs in '000 -------------------					
Held for trading						
Federal Investment Bonds	2,378	-	2,378	2,432	-	2,432
Pakistan Investment Bonds	1,482	-	1,482	1,551	51,073	52,624
Listed shares / certificates and						-
modaraba certificates	-	-	-	191,150	-	191,150
Market Treasury Bills	-	97,372	97,372	-	-	-
	3,860	97,372	101,232	195,133	51,073	246,206
Available-for-sale						
Pakistan Investment Bonds	-	-	-	-	214,539	214,539
Registered Special US Dollar Bonds	-	-	-	71,697	-	71,697
Listed term finance certificates (TFCs)	235,900	-	235,900	163,155	-	163,155
Unlisted term finance certificates (TFCs)	14,445	-	14,445	7,778	-	7,778
Mutual fund units (open ended)	95,859	-	95,859	28,127	-	28,127
Listed shares / certificates and modaraba certificates	191,402	59,537	250,939	172,198	-	172,198
Unlisted shares / certificates and modaraba certificates	62,782	-	62,782	52,782	-	52,782
	600,388	59,537	659,925	495,737	214,539	710,276
	604,248	156,909	761,157	690,870	265,612	956,482

Particulars of investments by segment

	Note	2006	2005
		------------Rs in '000-----------	
Investments in:			
Government securities	13.2.1	101,232	341,292
Listed TFCs	13.2.2	235,900	163,155
Unlisted TFCs	13.2.2	14,445	7,778
Mutual fund units (open ended)	13.2.3	95,859	28,127
Listed shares / certificates and modaraba certificates	13.2.4	250,939	363,348
Unlisted shares / certificates and modaraba certificates	13.2.4	62,782	52,782
		761,157	956,482

These include:

Federal Investment Bonds (FIBs) having amortised cost of Rs.2,538 thousand (2005: Rs.2,747 thousand) and face value of Rs. 2,200 thousand (2005: Rs. 2,200 thousand) with income receivable semi-annually at 15% (2005: 15%) per annum and remaining terms of 1 to 2 years.

Pakistan Investment Bonds (PIBs) having amortised cost of Rs.1,759 thousand (2005: Rs. 304,228 thousand) and face value of Rs.1,400 thousand (2005: Rs.251,400 thousand) with income receivable semi-annually at 11% (2005: 8% to 12%) per annum and remaining term of 6 years.

Market Treasury Bills (T-Bills) having amortised cost of Rs. 97,390 thousand (2005: Rs. Nil) and face value of Rs. 100,000 thousand (2005: Rs. Nil) and remaining term of 4 months.

Particulars of TFCs: *

No. of certificates 2006	No. of certificates 2005	Name	2006 Amortised cost	2006 Market value	2005 Amortised cost	2005 Market value
			Rs in '000			
		LISTED TFCs				
		Investment banks and companies				
-	2,940	Atlas Investment Bank Limited	-	-	2,448	2,546
1,000	1,000	First Dawood Investment Bank Limited	5,059	5,075	5,601	5,062
		Commercial banks				
2,000	2,000	Union Bank Limited I	10,456	10,086	10,351	10,115
4,587	4,587	Union Bank Limited II	22,917	21,771	22,575	20,748
2,000	-	Union Bank Limited III	10,000	10,000	-	-
6,352	6,352	United Bank Limited II	31,759	30,171	31,760	31,760
10,000	-	Bank Alfalah	49,990	50,240	-	-
		Leasing				
190	190	Al-Zamin Leasing Modaraba	950	912	950	950
		Refinery				
1,448	1,448	Chanda Oil & Gas Securitization Co. Limited	6,603	6,570	7,240	7,240
5,913	5,913	Naimat Basal Oil & Gas Securitization Company Limited	24,430	24,674	29,417	29,269
		Miscellaneous				
5,903	-	Searle Pakistan Limited	29,515	29,588	-	-
897	897	Pakistan Services Limited	3,202	3,242	4,483	4,573
8,715	8,715	TeleCard Limited	43,557	39,202	43,575	43,575
2,000	2,000	WorldCALL Telecom Limited	4,393	4,369	7,790	7,317
			242,831	235,900	166,190	163,155
		UNLISTED TFCs				
2,000	2,000	Development Securitisation Trust	4,445	4,445	7,778	7,778
2,000	-	Security Leasing Corporation	10,000	10,000	-	-
			257,276	250,345	173,968	170,933

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption terms
Union Bank Limited (I)	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 (II)	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.
Union Bank Limited (III)	5,000	Six months KIBOR + 2%	Semi-annually	Redemption of Rs. 1 in the first 8 semi-annual installments. Rest of the principal will be redeemed in six semi-annual installments.
United Bank Limited (II)	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 Company 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 Company 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 Rs 1 in the first 3 semi annual installments. Rest of the principal will be redeemed in 7 equal semi annual installments.
Searle Pakistan	5,000	Average ask rate of six months KIBOR + 2.5%.	Semi-annually	Redemption of Rs 1 in the first two semi-annual installments. Rest of the principal will be redeemed in 8 equal semi-annual installments.
Bank- Alfalah	5,000	Average ask rate of six months KIBOR + 1.5%.	Semi-annually	Redemption of Rs 0.96 in the first 13 semi annual installments. Rest of the principal will be redeemed in 3 equal semi annual installments.

13.2.3 Particulars of mutual fund units (open ended)

No. of units 2006	No. of units 2005	Name	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			Rs in '000			
9,002	10,000	Atlas Income Fund (Face value Rs. 500 each)	5,000	4,903	5,000	5,459
20,000	20,000	Atlas Stock Market Funds (Face value Rs. 500 each)	10,000	13,096	10,000	11,268
89,849	-	Dawood Money Market Fund (Face value Rs. 100 each)	10,000	9,985	-	-
1,962,709	-	NAFA Cash Fund (Face value Rs. 10 each)	20,000	19,370	-	-
98,678	-	KASB Liquid Fund (Face value Rs. 100 each)	10,000	10,006	-	-
190,458	-	Askari Income Fund (Face value Rs. 100 each)	20,000	19,983	-	-
-	100,000	Faisal Balanced Growth Fund (Face value Rs. 100 each)	-	-	10,000	11,400
-	-	Unit Trust of Pakistan (Face value Rs. 5,000 each)	-	-	-	-
423,714	-	AKD Opportunity Fund (Face value Rs. 50 each)	20,000	18,516	-	-
			95,000	95,859	25,000	28,127

13.2.4 Particulars of shares / certificates and modaraba certificates

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			Rs in '000			
		Mutual fund (closed ended)				
-	1,052,000	ABAMCO Composite Fund	-	-	10,491	7,259
-	112,500	BSJS Balance Fund	-	-	1,321	928
500,000	200,000	PICIC Investment Fund XD	9,311	7,300	3,260	3,000
950,000	1,000,000	Atlas Fund of Funds	9,048	9,262	10,000	9,900
1,000,000	1,000,000	Meezan Balance Fund	10,000	10,050	10,000	8,200
-	191,250	PICIC Growth Fund (Face value Rs. 40.174 each)	-	-	7,683	10,270
3,665,704	3,030,400	First Dawood Mutual Fund	35,446	34,091	30,304	30,304
1,089,850	-	AKD Index Tracker Fund	10,899	10,245	-	-
500,226	-	UTP Growth Fund	9,116	6,503	-	-
		Modarabas				
-	11,500	B.R.R. International Modaraba	-	-	207	91
		Leasing				
78,200	68,000	ORIX Leasing Pakistan Limited	2,715	2,006	2,715	2,020
		Investment Banks / Companies / Securities				
29,000	-	International Housing Finance	218	180	-	-
32,500	-	P.I.C.I.C	1,681	1,705	-	-

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			Rs in '000			
		Commercial banks				
6,000	-	PICIC Commercial Bank	189	192	-	-
229,000	-	Bank Of Punjab	19,027	19,087	-	-
3,000	20,000	Askari Commercial Bank Limited	241	242	1,165	1,560
1,000	175,000	Faysal Bank Limited	63	63	8,626	9,415
-	414	KASB Bank Limited	-	-	4	5
63,000	-	Muslim Commercial Bank Limited	11,979	12,044	-	-
355,500	50,000	National Bank of Pakistan	64,612	64,971	5,250	5,397
		Textile spinning				
1,200,326	1,737,826	Dewan Farooque Spinning Mills Limited	12,003	8,042	17,378	15,293
-	1,000	Saitex Spinning Mills Limited	-	-	5	2
500,302	500,000	Zephyr Textile Mills Limited	5,003	3,502	5,000	5,000
		Textile composite				
-	2,200	Nishat Mills Limited	-	-	109	167
201,410	183,100	Kohinoor Textile Mills Limited	10,887	6,395	10,887	6,958
		Cement				
54,500	40,000	DG Khan Cement Company Limited	4,112	4,134	2,235	2,230
-	400,000	Maple Leaf Cement Factory Limited	-	-	12,373	8,720
		Refinery				
41,980	80,000	Attock Refinery Limited	6,106	3,640	9,010	12,764
		Power generation and distribution				
128,000	100,000	HUB Power Company Limited	4,867	2,955	4,217	2,640
		Oil and gas marketing				
8,000	100,000	Pakistan State Oil	2,406	2,411	38,413	38,600
-	1,100	Shell Pakistan Limited	-	-	466	609
		Oil and gas exploration				
29	31,229	Oil and Gas Development Company Limited	3	4	2,426	3,288
25,000	-	Pakistan Oilfield Limited	8,607	8,391	-	-
8,500	305,000	Pakistan Petroleum Limited	1,694	1,697	66,691	65,605
361,500	275,000	Sui Southern Gas Co.	11,592	11,676	7,467	6,366

No. of ordinary shares / certificates of Rs. 10/- each 2006	2005	LISTED SHARES / CERTIFICATES AND MODARABA CERTIFICATES	2006 Cost	2006 Market value	2005 Cost	2005 Market value
			------------------- Rs in '000			-----------------
		Automobile assemblers				
-	20,000	Indus Motor Company Limited	-	-	1,988	1,800
		Technology and communication				
12,500	1,230,000	Pakistan Telecommunication Corporation Limited (A)	531	534	80,728	81,118
978,233	-	Eye Television Network Limited	9,782	6,848	-	-
647,500	-	Telecard	8,083	8,139	-	-
316	-	World call telecom	3	3	-	-
		Paper & Board				
12,700	124,400	Packages Limited (a related party)	2,113	2,659	18,339	17,416
		Fertilizer				
10,500	-	Engro Chemical Pakistan Limited	1,955	1,968	-	-
-	51,528	Fauji Fertilizer Company Limited	-	-	4,726	6,253
		Vanaspati and allied				
-	9,500	Wazir Ali Industries Limited (an associated undertaking)	-	-	239	170
			274,292	250,939	373,723	363,348
		UNLISTED SHARES				
		Miscellaneous				
4,000,000	4,000,000	DHA Cogen Limited	40,000	40,000	40,000	40,000
216,216	-	System Ltd	10,000	10,000	-	-
1,123,318	1,123,318	Techlogix Limited	12,782	12,782	12,782	12,782
			62,782	62,782	52,782	52,782
			337,074	313,721	426,505	416,130

	Note	2006	2005
		--------------Rs in '000---------------	

14 ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2006	2005
Advance against leases - considered good	14.1	18,545	37,422
Short term deposits	14.2	115,000	19,414
Prepayments	14.3	18,159	13,110
		151,704	69,946

14.1 These represent advances paid to suppliers against assets to be leased out and carry mark-up at rates ranging from 12.5% to 15% (2005: 12.14% to 12.25%).

14.2 These represent deposits placed with Finex Securities Limited (subsidiary company) for trading in future and Continuous Funding System transactions at the Karachi Stock Exchange.

14.3 Prepayments include Rs. 8,495 thousand (2005: Rs. 5,686 thousand) in respect of advance rent of leased premises and Rs, 5,534 thousand (2005: Rs. 875 thousand) in respect of advance against suppliers.

15 INTEREST / MARK-UP / PROFIT ACCRUED

	Note	2006	2005
		-------------Rs in '000-------------	
Investments			
- Government securities		160	6,013
- Registered Special US Dollar Bonds		-	1,860
- Term finance certificates		5,935	3,221
		6,095	11,094
Finances		20,727	8,231
Fund placements		1,443	1,208
Deposits with banks		61	8
		28,326	20,541

16 TRADE DEBTS

	Note	2006	2005
		---------Rs in '000----------	
Secured			
Considered good		72,865	41,250

16.1 Amount receivable from related parties at year end are as under:

Key management personnel	-	4,574
Associated undertakings	21,022	3,292
	21,022	7,866

	Note	2006	2005
		---------Rs in '000----------	

17 OTHER RECEIVABLES

	Note	2006	2005
Other receivables - considered good	17.1 & 17.2	24,190	9,268
Positive fair value of derivative financial instruments		792	-
		24,982	9,268

17.1 This includes an amount of Rs. 4,471 thousand (2005: 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	2006	2005
		---------Rs in '000----------	

17.2 Amount due from related parties as at June 30, 2006 is as follows:

	2006	2005
Packages Limited	963	963
IGI Funds Limited	1,377	125
International General Insurance Company of Pakistan Limited	1,067	-
	3,407	1,088

18 CASH AND BANK BALANCES

	Note	2006	2005
In hand		91	5
With banks - on current accounts with			
- State Bank of Pakistan		649	460
- Others			
local currency		104,188	4,610
foreign currencies		342	3,658
	18.1	104,530	8,268
With banks - on PLS saving accounts			
local currency		91,708	33,192
		196,978	41,925

18.1 This includes book overdraft balance with an associated undertaking of Rs. 517 thousand (2005: book overdraft of Rs. 196 thousand).

19 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006	2005		2006	2005
-----No of shares------			-------Rs in '000-------	
25,000,000	25,000,000	Ordinary shares of Rs. 10 each fully paid in cash	250,000	250,000
16,917,500	11,450,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the beginning of the year	169,175	114,500
-	5,467,500	Add: Bonus shares issued during the year	-	54,675
16,917,500	16,917,500	Ordinary shares of Rs. 10 each issued as fully paid bonus shares at the end of the year	169,175	169,175
41,917,500	41,917,500		419,175	419,175

Shares of INTERBANK held by associated undertakings amount to Rs. 146,670 thousand (14,667 thousand shares of Rs. 10 each) [2005: 146,770 thousand (14,677 thousand shares of Rs. 10 each)].

20 RESERVES

	Note	2006	2005
		---------Rs in '000----------	
Capital reserves			
Special reserve	20.1	97,098	89,636
Revenue reserves			
General reserve		97,325	97,325
Unappropriated profit		30,969	59,806
		128,294	157,131
		225,392	246,767

20.1 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.

21 (DEFICIT) / SURPLUS ON REVALUATION OF INVESTMENTS - NET

	Note	2006	2005
		---------Rs in '000---------	
(Deficit) / surplus on revaluation of:			
- government securities - net		(455)	(37,380)
- term finance certificates - net		(6,931)	(3,035)
- mutual funds units (open ended) - net		859	3,127
- quoted shares and certificates - net		(23,353)	(10,376)
- forward sale of quoted shares and certificates - net		792	(1,121)
	21.1	(29,088)	(48,785)
Deferred tax asset on revaluation of investments	42.3	159	16,510
		(28,929)	(32,275)

	Note	2006	2005
		---------Rs in '000---------	
21.1 Particulars of (deficit) / surplus on revaluation on investments - net			
Opening balance		(48,785)	(34,567)
Surplus / (Deficit) arising on revaluation of investments - current year		58,265	8,184
Transferred to the profit and loss account on realisation		(38,568)	(22,402)
Closing balance		(29,088)	(48,785)

22 PRE-IPO SUBSCRIPTION TOWARDS PROPOSED ISSUE OF TERM FINANCE CERTIFICATES

	Note	2006	2005
Liability in respect of term finance certificate to be issued by INTERBANK	22.1	375,000	-
Less: Transaction cost	22.2	(5,050)	-
		369,950	-

22.1 This represents the pre IPO (private placement) amount received by Interbank in respect of the proposed issue of Term Finance Certificates (TFCs). The total issue amounts to Rs 500 million out of which Rs 375 million has been received from institutional investors under pre-IPO. The remaining amount of Rs 125 million has been raised through the Initial Public Offer (IPO) subsequent to the year end. The TFCs are secured against all the present and future movable fixed assets (excluding land and builiding) and current assets of INTERBANK. The rate of mark-up on these TFCs is six months average KIBOR + 225 Basis Points (2.25%) with no floor and cap and is payable semi-annually with a grace period of one year. These TFCs are redeemable within 5 years of issue.

22.2 Transaction cost incurred on issue of Term Finance Certificates has been adjusted from the related liability and is amortised over the term of TFCs using the effective interest method.

	Note	2006	2005
		---------Rs in '000----------	
23 LONG-TERM BORROWINGS - secured			
Local currency - banking companies	23.1	1,308,333	1,033,333
		1,308,333	1,033,333
Less: Current portion of long-term borrowings	26	615,000	325,000
		693,333	708,333

23.1 This includes:

- 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 installments 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 margin of 25%.

- Financing facility of Rs. 200,000 thousand obtained from a banking company in two 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 5.20% per annum to 5.45% per annum, which is payable in semi-annual installments 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 installments 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 installments 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.

- Financing facility of Rs. 100,000 thousand obtained from a banking company with a tenor of three years, repayable in four equal semi-annual installments 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.

- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years, repayable in five equal semi-annual installments of Rs. 40,000 thousand starting 13 months from the date of disbursement. The finance carries mark-up at a floating rate of 6-month KIBOR (ask side) average + 2% p.a. payable semi-annually. The facility is secured by a first pari passu charge on company's movable assets, receivables, leased assets and leased receivables amounting to Rs.267 million 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 twelve equal quarterly installments of Rs. 16,667 thousand starting from the date of disbursement. The finance carries mark-up at a floating rate of 6-month KIBOR (ask side) average + 2% p.a. payable quarterly. The facility is secured by a first pari passu charge on all present and future lease assets and hypothecation of movable assets and receivables of the company with a margin as prescribed in SBP Prudential regulations or the banking company's practice whichever is higher.

- Financing facility of Rs. 200,000 thousand obtained from a banking company with a tenor of three years repayable in four equal semi-annual installments commencing eighteen months from the date of disbursement. The finance carries mark-up at a floating rate of 6- months KIBOR (ask side) + 2% p.a. payable semi-annually. The facility is secured by a first pari passu charge on all present and future assets and receivables of the company with a margin of 25%.

	Note	2006	2005
		---------Rs in '000----------	
24 LONG-TERM CERTIFICATES OF DEPOSITS - unsecured			
Local currency			
- Individuals	24.1	284,741	235,852
- Others		43,785	80,766
	24.2	328,526	316,618
Less: Current portion of long-term certificates of deposit	26	39,467	193,547
		289,059	123,071

24.1 This includes certificates of deposit amounting to Rs. 500 thousand (2005: Rs. 1,134 thousand) issued to employees at mark-up rate of 11.25% (2005: 14% to 17.75%) and certificates of deposit amounting to Rs. 20 million payable in respect of acquisition of Finex Securities Limited.

24.2 The certificates of deposit have contractual maturities ranging from over 1 to 5 years (2005: over 1 to 5 years) of the contract date. Expected rates of return payable on long-term deposits are 4.75% to 17.75% (2005: 4% to 17.75%) per annum.

	Note	2006	2005
		---------Rs in '000----------	
25 DEPOSITS ON LEASE CONTRACTS			
Deposits on lease contracts	25.1	420,767	339,937
Less: Current portion of deposits on lease contracts	27	53,315	33,790
		367,452	306,147

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

	Note	2006	2005
		---------Rs in '000----------	

26 CURRENT MATURITY OF LONG TERM BORROWINGS

	Note	2006	2005
Long-term borrowings	23	615,000	325,000
Long-term certificates of deposit	24	39,467	193,547
		654,467	518,547

27 CURRENT MATURITY OF DEPOSITS ON LEASE CONTRACTS

	Note	2006	2005
Deposits on lease contracts	25	53,315	33,790

28 SHORT-TERM FINANCE - secured

	Note	2006	2005
Running finance	28.1	237	145,254

28.1 This represents amount borrowed against a running finance facility amounting to Rs. 200,000 thousand (2005: 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 (2005: last 6-month Market Treasury Bill cut off yield plus 1.75% per annum).

29 SHORT-TERM CERTIFICATES OF DEPOSIT - unsecured

	Note	2006	2005
		---------Rs in '000----------	
Local currency			
- Financial institutions		1,250,000	825,000
- Individuals		183,155	54,904
- Others		276,559	290,166
	29.1	1,709,714	1,170,070

29.1 Expected rates of return payable on short-term deposits range from 6.25% to 14.25% (2005: 3% to 14%) per annum for local currency deposits.

30 BORROWINGS FROM FINANCIAL INSTITUTIONS

	Note	2006	2005
		---------Rs in '000----------	
Securities sold under repurchase agreement		97,347	324,618
Unsecured borrowings		197,000	275,000
	30.1	294,347	599,618

30.1 The above borrowings carry mark-up at rates ranging from 8.00% to 9.50% (2005: 8.1% to 10.75%) per annum and are due to mature within 4 days of the year-end.

	Note	2006	2005
		---------Rs in '000----------	
31 PAYABLE TO STAFF GRATUITY FUND	31.3	2,845	2,817

31.1 General description

As mentioned in note 4.17.2, 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.

31.2 Principal actuarial assumptions

The following principal actuarial assumptions were used for the valuation:

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

	Note	2006	2005
		---------Rs in '000----------	
31.3 Reconciliation of provision for gratuity scheme			
Present value of defined benefit obligation		6,462	5,797
Fair value of plan assets		(4,755)	(3,542)
Unrecognised actuarial gain (net)		1,138	562
		2,845	2,817
31.4 Gratuity scheme expense			
Current service cost		1,379	756
Interest cost		601	344
Expected return on plan assets		(423)	(516)
Actuarial gain recognised during the year		(29)	(39)
	40	1,528	545

		Note	2006	2005
			---------Rs in '000----------	
31.5	**Movement in defined benefit plan liability**			
	Balance at the beginning of the year		2,817	3,372
	Expense for the year	31.4	1,528	545
	Contributions during the year		(1,500)	(1,100)
	Balance at the end of the year		2,845	2,817
31.6	**Movement of fair value of plan assets**			
	Balance at the beginning of the year		3,542	4,471
	Expected return on plan assets		423	516
	Contribution to the fund		1,500	1,100
	Benefits paid		(1,315)	(2,472)
	Acturial gain / (loss) on plan asssets		605	(73)
	Fair value of plan assets at the end of the year		4,755	3,542
31.7	**Actual return on plan assets**			
	Expected return on plan assets		423	516
	Actuarial gain / (loss) on plan assets		605	(73)
	Actual return on plan assets		1,028	443

32 MARK-UP ACCRUED

	2006	2005
Secured		
- Long-term borrowings	7,732	9,361
- Short-term finance	331	699
- Borrowings from institutions	10	28
	8,073	10,088
Unsecured		
- TFCs	435	435
- Certificates of deposit	51,429	32,870
	51,864	33,305
	59,937	43,393

	Note	2006	2005
		---------Rs in '000----------	

33 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2006	2005
Accrued expenses		13,130	8,929
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	33.1	84,377	45,153
Unclaimed dividends		777	776
Advances from lessees		7,617	9,505
Payments from customers received on account		10,263	11,283
Negative fair value of derivative financial Instruments		-	1,121
Payable in respect of non-competition fee		15,000	-
Others		7,062	2,216
		141,254	82,418

33.1 Amount due from related parties are as follows:

	2006	2005
Key management personnel	4,573	4,573
Associated undertakings	21,095	2,273
Subsidiaries	2,480	-
Other related parties	1,495	271
	29,643	7,117

34 CONTINGENCIES AND COMMITMENTS

34.1 Contingencies

Contingencies relating to taxation have been disclosed in note 42.2

	Note	2006	2005
		---------Rs in '000----------	

34.2 Commitments

	2006	2005
- Forward sale of shares	29,292	194,328
- Underwriting commitments	115,000	65,000
- Commitment in respect of capital acquisition	5,310	-

35 INCOME FROM INVESTMENTS

	2006			2005		
	Held for trading	Available for sale	Total	Held for trading	Available for sale	Total
	-----	-----	----- Rs in '000	-----	-----	-----
Interest / mark-up / profit from:						
Government securities	3,805	2,023	5,828	14,133	18,332	32,465
Registered Special US Dollar Bonds	-	2,645	2,645	-	3,709	3,709
TFCs	-	20,781	20,781	106	10,187	10,293
	3,805	25,449	29,254	14,239	32,228	46,467
Dividend income	523	12,854	13,377	131	9,795	9,926
Gain / (loss) on disposal of:						
Government securities	(17,617)	(28,680)	(46,297)	310	(14,637)	(14,327)
TFCs	-	52	52	-	-	-
Mutual fund units (open end)	-	10,253	10,253	-	-	-
Listed shares / certificates and modaraba certificates	(166)	74,726	74,560	(145)	36,430	36,285
	(17,783)	56,351	38,568	165	21,793	21,958
	(13,455)	94,654	81,199	14,535	63,816	78,351

	2006	2005
	-------Rs in '000-------	

36 INCOME FROM FINANCE

Mark-up on finance	87,716	47,586
Documentation charges and other finance related income	3,283	2,680
	90,999	50,266

37 INCOME FROM LEASE FINANCE

Mark-up on lease finance	164,602	110,738
Front-end fees, documentation charges and other lease related income	11,651	7,621
	176,253	118,359

38 INCOME FROM FUND PLACEMENTS

Fund placements with financial institutions	53,627	22,234
Securities purchased under resale agreements with financial institutions	29,563	28,192
Income from continuous funding system	57,677	40,069
	140,867	90,495

	Note	2006	2005
		---------Rs in '000----------	

39 FINANCE COSTS

	Note	2006	2005
Return on long term financing - term finance certificates		-	9,801
Return on long-term borrowings		93,854	41,971
Return on certificate of deposits		215,117	91,247
Mark-up on short-term finances		2,586	3,286
Mark-up on borrowings from institutions		26,100	25,783
Bank charges		313	651
Amortisation of deferred costs		-	149
		337,970	172,888

40 ADMINISTRATION AND OPERATING EXPENSES

	Note	2006	2005
Salaries, allowances and benefits		65,262	42,880
Contribution to provident fund		2,478	1,792
Gratuity scheme expense	31.4	1,528	545
Contribution to Employees' Old-Age Benefit Institution		176	132
Depreciation on property, plant and equipment	5.1	7,930	5,464
Amortisation on intangible assets	5.2	5,187	449
Rent, rates and taxes		11,935	8,942
Travelling and entertainment		3,387	1,815
Telephone, telex and fax		4,078	3,153
Printing, postage and stationery		4,167	3,249
Insurance		1,373	1,147
Lighting, heating and cooling		2,413	2,134
Auditors' remuneration	40.1	942	590
Repairs and maintenance		1,873	1,942
Brokerage and commission		13,200	8,650
Legal and professional fees		9,314	7,549
Subscriptions		529	766
Advertisement		1,701	1,122
Fixed assets written off		30	-
Provision against other assets		5,094	-
Amortisation of deferred costs		-	60
Other expenses		5,134	1,562
		147,731	93,943

	Note	2006	2005
		---------Rs in '000----------	

40.1 Auditors' remuneration

Statutory audit fee		425	425
Half yearly review fee		100	100
Other services		363	55
Out-of-pocket expenses		54	10
		942	590

41 OTHER OPERATING INCOME

Income from financial assets			
Income from deposits with banks		3,945	898
Net exchange gain / (loss)		(8)	935
Income from other than financial assets			
Gain on disposal of fixed assets		1,326	586
Other income		429	-
		5,692	2,419

42 TAXATION

	Note	2006	2005
		---------Rs in '000----------	
For the year			
- Current		9,404	5,902
- Deferred	42.3	(17,927)	11,742
		(8,523)	17,644
For prior years		-	(11,473)
		(8,523)	6,171

	2006	2005
	---------Rs in '000----------	

42.1 Relationship between tax expense and accounting profit

	2006	2005
Profit for the year from ordinary activities before taxation	28,787	80,866
Tax at the applicable rate of 35% (2005: 35%)	10,075	28,303
Tax effect of income / expenses that are exempt / not allowed in determining taxable income	(26,094)	(13,374)
Tax effect on account of income taxed under Final Tax Regime	1,563	1,654
Adjustment in respect of current income tax of prior years	-	(11,473)
Tax effect of dividend income taxed at a lower rate	(4,013)	(2,977)
Minimum tax under section 113 of Income Tax Ordinance, 2001	5,092	4,038
Others	4,853	-
Tax charge	(8,523)	6,171

42.2 The provision for taxation has been computed by INTERBANK at the rate applicable to a public company. In the original assessments made by the Deputy Commissioner of Income Tax (DCIT), the rate for the assessment years 1991-1992 to 2000-2001 and 2002-2003 applied in computing the tax liability was that applicable to a banking company. However, in the appeals filed against the original assessments upto the assessment year 1997-1998, the Commissioner of Income Tax (Appeals) [CIT(A)] directed the DCIT to apply the rate applicable to a public company. The Income Tax Department then filed appeals before the Income Tax Appellate Tribunal (ITAT) against these directions. The ITAT, in its decision on the issue of application of banking company tax rate in respect of assessment years 1991-1992 to 1997-1998 held that investment banks are not banking companies and therefore the rate of tax applicable to a public company should be applied. However, the tax authorities have filed appeals against the ITAT orders in the Lahore High Court.

In the original assessment made by the DCIT for the assessment years 1995-96 to 2000-2001, dividend income was taxed by applying the rate applicable to the business income of a banking company instead of applying the reduced rate of 5% as prescribed by law. The CIT (A) and the ITAT have confirmed that such income is taxable at the reduced rate of 5% in respect of assessment years 1995-96 to 1997-98. However the tax authorities have filed appeals against the ITAT orders in the Lahore High Court for assessment years 1995-96 and 1996-97. The ITAT has declined to refer the question of law proposed by the taxation authorities for assessment years 1997-98, regarding the taxation of dividend income, on the basis that Lahore High Court has already decided the matter against the taxation authorities. In addition, the taxation authorities have also disallowed certain expenses / made addition to taxable income in certain assessment years against which INTERBANK has filed appeals which are currently pending. Based on the previous decisions, INTERBANK is confident that the above matters would be decided in its favour and the possibility of any liability arising is considered remote.

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

Income tax return for tax year 2003 was filed and deemed to be assessed under section 120 of the Income Tax Ordinance, 2001. However, by resorting to the powers given under section 177 of the said Ordinance, the CIT had selected the case for audit. Against the said selection, INTERBANK had filed a writ in the Lahore High Court and the court had held the selection to be defective on the basis that while making this selection, the essentials required by the law were not followed. It was also mentioned in the order that the CIT could initiate fresh proceedings strictly in accordance with law. The Income Tax Department had filed an appeal against the decision of the Lahore High Court before the Supreme Court of Pakistan. The Supreme Court in its decision dated March 1, 2006 has directed that the department should issue fresh notices to INTERBANK in terms of Section 177 of the Ordinance disclosing criteria/reasons for selecting their cases for purpose of audit. Pursuant to this order, the company has received notice for selection of case for Tax Year 2003 for audit under section 177 of the Ordinance.

	Note	2006	2005
		---------Rs in '000----------	

42.3 Deferred

Deferred taxation comprises:

	Note	2006	2005
Deferred tax assets arising in respect of			
- Provision for doubtful finance / potential lease losses		(12,356)	(14,512)
- Carry forward of income tax loss	42.3.1	(102,670)	(67,442)
- Deficit on revaluation of investments	21	(159)	(16,510)
		(115,185)	(98,464)
Deferred tax liabilities arising due to			
- Accelerated tax depreciation		154,411	141,034
- Transaction cost in respect of TFCs issued	42.4	1,768	-
		40,994	42,570

42.3.1 As at June 30, 2006, INTERBANK had unabsorbed tax losses of Rs.293,343 thousand (2005: Rs. 192,693 thousand) against which deferred tax asset of Rs. 102,670 thousand (2005: Rs. 67,442 thousand) has been recorded at the tax rates applicable to the periods in which these losses are expected to be realised based on INTERBANK's projection of future taxable profits which would offset these losses before their expiry.

42.4 Movement in deferred tax liability

	2006	2005
	---------Rs in '000----------	
Opening provision	42,570	32,588
Provision made / (reversal) during the year	(17,927)	11,742
	24,643	44,330
Deferred tax credit / (debit) on deficit on revaluation of investments	16,351	(1,760)
	40,994	42,570

43 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives		Total	
	2006	2005	2006	2005	2006	2005
	Rs in '000					
Managerial remuneration	4,224	2,977	14,685	7,119	18,909	10,096
House rent	-	-	5,529	2,052	5,529	2,052
Utilities	320	282	1,294	648	1,614	930
Retirement benefits	586	451	2,075	789	2,661	1,240
Medical expenses	354	282	619	327	973	609
Conveyance	196	138	2,134	1,181	2,330	1,319
Others	60	-	2,673	1,980	2,733	1,980
	5,740	4,130	29,009	14,096	34,749	18,226
Number of persons	1	1	22	8	23	9

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.

44 TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS / RELATED PARTIES

DESCRIPTION	2006				
	Subsidiaries	Associated Undertakings	Other related parties	Key Management personnel	Total
	Rs in '000				
Transactions entered during the period					
Certificate of deposits issued	-	1,480,143	241,765	-	1,721,908
Insurance premium paid	-	1,074	-	-	1,074
Finance provided	40,000	-	-	6,386	46,386
Payment to staff gratuity fund	-	-	1,500	-	1,500
Balance outstanding as at the period end					
Loans and advances	40,000	-	-	3,554	43,554
Deposit against CFS trading	115,000	-	-	-	115,000
Deposit accounts	-	(517)	-	-	(517)
Certificate of deposits	-	100,000	48,295	-	148,295
Trade debts	-	21,022	-	-	21,022
Other receivable	1,377	2,030	-	-	3,407
Markup accrued - Certificate of deposits	-	542	943	-	1,485
Markup accrued- Finance	236	-	-	4	240
Trade creditors	2,480	21,095	1,495	4,573	29,643
Profit / Expense for the period					
Income from finance	1,905	-	-	249	2,154
Brokerage, commission and fee income	-	2,617	210	73	2,900
Return on deposits	-	24,668	5,001	-	29,669
Rent expense	-	2,882	-	-	2,882
Insurance expense	-	1,155	-	-	1,155
Travelling and lodging	-	664	57	-	721
Charge for the year in respect of employee benefit and contribution plan	-	-	4,182	-	4,182
Remuneration to key management personnel	-	-	-	24,745	24,745
Post employment benefit	-	-	-	303	303

DESCRIPTION	2005				
	Subsidiaries	Associated Undertakings	Other related parties	Key Management personnel	Total
	----------	----------	Rs in '000	----------	----------
Transactions entered during the period					
Certificate of deposits issued	-	390,561	941,699	-	1,332,260
Insurance premium paid	-	1,064	-	-	1,064
Finance provided	-	-	-	1,764	1,764
Payment to staff gratuity fund	-	-	1,100	-	1,100
Balance outstanding as at the period end					
Loans and advances	-	-	-	4,296	4,296
Prepaid insurance	-	80	-	-	80
Deposit accounts	-	196	-	-	196
Certificate of deposits	-	50,000	38,320	-	88,320
Trade debts	-	3,292	-	4,574	7,866
Other receivable	-	968	-	-	968
Markup accrued - Certificate of deposits	-	70	222	-	292
Trade creditors	-	2,273	271	4,573	7,117
Profit / Expense for the period					
Income from finance	-	-	-	497	497
Brokerage, commission and fee income	-	1,386	1,526	23	2,935
Return on deposits	-	2,351	8,334	-	10,685
Rent expense	-	2,573	-	-	2,573
Insurance expense	-	984	-	-	984
Travelling and lodging	-	321	-	-	321
Charge for the year in respect of employee benefit and contribution plan	-	-	2,469	-	2,469
Remuneration to key management personnel					
Post employment benefit	-	-	-	27,071	27,071

American Express Bank Limited, Ali Institute of Education, Arif Habib Investment Management Limited, Arif Habib Rupali Bank Limited, Aventis Limited, BOC Pakistan Ltd, Baber Ali Foundation, Bayer CropScience (Pvt) Limited, Coca Cola Beverages Pakistan Limited, Continental Furnishing Company (Private) Limited, Gurmani Foundation, Haroon Oil Limited, Industrial Technical and Education Institute, International Industries Limited, Mitchell's Fruit Farms Limited, New Jubliee Insurance Co. Ltd, New Jubliee Life Insurance Co. Ltd, National Management Foundation, Nestle Pakistan Limited, Packages Limited, Packages Lanka (Private) Limited, Pak Arab Fertilizer (Private) Limited, Pak Chemicals Ltd, Pakistan Cables Limited, Real Estate Modaraba Management Company Limited, Rotocast Engineering (Private) Limited, Siemens Pakistan Engineering Company Limited, Syed Maratib Ali Religious & Charitable Society, Tetra Pak (Pakistan) Limited, Tri-Pack Films Limited, Unilever Pakistan Limited were related parties during the year being companies under common directorship.

Atchison College, Bagh-e-Rehmat Trust, Businessman Hospital Trust, Indus Valley School Arts & Architecture, Kinnaired College, Lahore School of Economics, Layton Rehmat Ullah Benevolent Trust, Mohatta Palace Gallery Trust, Pakistan Center For Philonthropy, Shell Live Wire International, Syed Ahsan Ali Gauhar Jee Foundation and World Wide Fund were related parties during the year due to certain directors being the member / trustee of the managing body of these institutions.

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.

IGI Funds Limited (formerly First International Capital Management Limited) and Finex Securities Limited are related parties due to INTERBANK holding 100% shares in these companies.

45 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:

	2006			2005		
	USD	Other foreign currencies	Total	USD	Other foreign currencies	Total
	Rupee equivalent '000					
Financial assets						
Investments	-	-	-	71,697	-	71,697
Bank balances	342	-	342	3,658	-	3,658
Others	-	-	-	1,860	-	1,860
	342	-	342	77,215	-	77,215
Financial liabilities						
Long-term borrowings	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	-	-	-	-	-
	342	-	342	77,215	-	77,215

46 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, 2006

	Total	Within one year	More than one year and less than five years	More than five years
	Rs in '000			
Assets				
Fixed assets	91,083	20,501	49,582	21,000
Long-term investments	182,571	-	-	182,571
Long-term loans and advances	546,554	176,729	367,000	2,825
Net investment in lease finance	1,929,202	695,624	1,231,852	1,726
Long-term deposits and prepayments	3,707	-	-	3,707
Short-term finance	273,252	273,252	-	-
Fund placements	809,567	809,567	-	-
Short-term investments	761,157	533,590	135,000	92,567
Taxation - net	220,594	220,594	-	-
Advances, deposits and prepayments	151,704	151,704	-	-
Interest / mark-up / profit accrued	28,326	28,326	-	-
Trade debts	72,865	72,865	-	-
Other receivables	24,982	24,982	-	-
Cash and bank balances	196,978	196,978	-	-
	5,292,542	3,204,712	1,783,434	304,396
Liabilities				
Pre-IPO subscription towards issue of term finance certificates	369,950	-	-	369,950
Long-term borrowings	1,308,333	615,000	693,333	-
Certificates of deposit	2,038,240	1,749,181	289,059	-
Deposits on lease contracts	420,767	53,315	365,885	1,567
Payable to staff gratuity fund	2,845	2,845	-	-
Deferred tax liabilities- net	40,994	44,939	67,733	(71,678)
Short term finance	237	237	-	-
Borrowings from financial institutions	294,347	294,347	-	-
Mark-up accrued	59,937	59,937	-	-
Accrued expenses and other liabilities	141,254	141,254	-	-
	4,676,904	2,961,055	1,416,010	299,839
Net assets	615,638	243,657	367,424	4,557
Represented by:				
Share capital and reserves	644,567			
Deficit on revaluation of investments - net	(28,929)			
	615,638			

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	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	-	-
Trade debts	41,250	41,250	-	-
Other receivables	9,268	9,268	-	-
Cash and bank balances	41,925	41,925	-	-
	4,409,695	2,431,739	1,669,220	308,736
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	82,418	82,418	-	-
	3,776,028	2,551,506	1,238,916	(14,394)
Net assets	633,667	(119,767)	430,304	323,130
Represented by:				
Share capital and reserves	665,942			
Deficit on revaluation of investments - net	(32,275)			
	633,667			

47 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.

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, 2006

	Effective rate	Total	Exposed to yield / market rate risk: 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	13.90%	546,554	176,729	367,000	2,825	-
Net investment in lease finance	12.05%	1,929,202	695,624	1,231,852	1,726	-
Long-term deposits	-	3,707	-	-	-	3,707
Short term finance	13.09%	273,252	273,252	-	-	-
Fund placements	12.37%	809,567	809,567	-	-	-
Short-term investments	9.78%	761,157	124,010	135,000	92,567	409,580
Advances and deposits	-	133,545	-	-	-	133,545
Interest / mark-up / profit accrued	-	28,326	-	-	-	28,326
Trade debts	-	72,865	-	-	-	72,865
Other receivables	-	24,982	-	-	-	24,982
Cash and bank balances	2.86%	196,978	64,118	-	-	132,860
		4,780,135	2,143,300	1,733,852	97,118	805,865
FINANCIAL LIABILITIES						
Pre-IPO subscription towards issue of term finance certificates	11.90%	369,950	-	-	369,950	-
Long-term borrowings	10.22%	1,308,333	615,000	693,333	-	-
Certificates of deposit	10.18%	2,038,240	1,749,181	289,059	-	-
Deposits on lease contracts	-	420,767	-	-	-	420,767
Short-term finance	10.11%	237	237	-	-	-
Borrowings from financial institutions	8.91%	294,347	294,347	-	-	-
Mark-up accrued	-	59,937	-	-	-	59,937
Accrued expenses and other liabilities	-	141,254	-	-	-	141,254
		4,633,065	2,658,765	982,392	369,950	621,958
On-balance sheet gap		147,070	(515,465)	751,460	(272,832)	183,907
Total yield / market rate sensitivity gap			(515,465)	751,460	(272,832)	
Cumulative yield / market rate sensitivity gap			(515,465)	235,995	(36,837)	

As at June 30, 2005

	Effective rate	Total	Exposed to yield / market rate risk: 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 finance	7.93%	1,670,359	514,395	1,152,788	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
Trade debts	-	41,250	-	-	-	41,250
Other receivables	-	9,268	-	-	-	9,268
Cash and bank balances	1.50%	41,925	33,192	-	-	8,733
		4,126,425	1,752,196	1,533,596	256,981	583,652
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	-	82,418	-	-	-	82,418
		3,730,641	2,433,489	831,404	-	465,748
On-balance sheet gap		395,784	(681,293)	702,192	256,981	117,904
Off-balance sheet gap	9.23%		-	-	-	191,843
Total yield / market rate sensitivity gap			(681,293)	702,192	256,981	
Cumulative yield / market rate sensitivity gap			(681,293)	20,899	277,880	

48 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:

	2006		2005	
	Rs in '000	%	Rs in '000	%
Finance and leases				
Dairy and poultry	3,722	0.14	1,209	0.05
Cement	5,999	0.22	3,143	0.14
Health	20,685	0.75	3,975	0.18
Glass and ceramics	8,012	0.29	13,360	0.59
Leather	29,419	1.07	19,452	0.87
Paper and board	55,360	2.01	20,405	0.91
Construction	39,360	1.43	35,812	1.59
Energy, oil and gas	65,333	2.38	37,715	1.68
Financial institutions	79,260	2.88	40,000	1.78
Electric and electric goods	55,811	2.03	71,755	3.19
Chemicals / fertilizers / pharmaceuticals	75,707	2.75	71,893	3.20
Food, tobacco and beverages	91,607	3.33	96,769	4.30
Steel, engineering and automobiles	131,366	4.78	134,578	5.99
Transport	261,333	9.50	241,866	10.76
Textile / textile composite	515,900	18.77	390,529	17.37
Miscellaneous (including individuals)	1,310,234	47.67	1,066,009	47.41
	2,749,008	100.00	2,248,470	100.00

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

49 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.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rs in '000			
FINANCIAL ASSETS				
Long-term loans and advances	546,554	546,544	409,549	409,549
Net investment in lease finance	1,929,202	1,929,202	1,670,359	1,670,359
Long-term deposits	3,707	3,707	2,767	2,767
Short-term finance	273,252	273,252	168,022	168,022
Fund placements	809,567	809,567	749,426	749,426
Short-term investments	761,157	761,157	956,482	956,482
Advances and deposits	133,545	133,545	56,836	56,836
Interest / mark-up / profit accrued	28,326	28,326	20,541	20,541
Trade debts	72,865	72,865	41,250	41,250
Other receivables	24,982	24,982	9,268	9,268
Cash and bank balances	196,978	196,978	41,925	41,925
	4,780,135	4,780,135	4,126,425	4,126,425
FINANCIAL LIABILITIES				
Long term financing - term finance certificates	369,950	369,950	-	-
Long-term borrowings	1,308,333	1,308,333	1,033,333	1,033,333
Certificates of deposit	2,038,240	2,038,240	1,486,688	1,486,688
Deposits on lease contracts	420,767	420,767	339,937	339,937
Short-term finance	237	237	145,254	145,254
Borrowings from financial institutions	294,347	294,347	599,618	599,618
Mark-up accrued	59,937	59,937	43,393	43,393
Accrued expenses and other liabilities	141,254	141,254	82,418	82,418
	4,633,065	4,633,065	3,730,641	3,730,641
OFF BALANCE SHEET FINANCIAL INSTRUMENTS	-	-	191,843	191,843

49.1 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.

50 EARNINGS PER SHARE

50.1 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:

	2006	2005
Profit for the year from ordinary activities after taxation - Rupees in thousands	37,310	74,695
Weighted average number of shares outstanding during the year - in thousands	41,917,500	41,917,500
Basic earnings per share - Rupees	0.89	1.78

50.2 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.

51 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 and through its subsidiary Finex Securities.

Note	Financing activities	Investment activities	Brokerage activities	Total
	----------------------	Rs in '000	----------------------	
Segmental information for the year ended June 30, 2006				
Segment revenue	268,578	232,859	20,757	522,194
Segment result / profit before tax	(8,419)	41,641	(4,435)	28,787
Taxation				(8,523)
Profit for the year from ordinary activities after taxation				37,310
Segment assets	2,804,272	1,764,126	279,457	4,847,855
Unallocated assets				444,687
Segment liabilities	428,384		99,377	527,761
Unallocated liabilities			4,149,143	4,149,143
Unallocated capital expenditure -Tangible				21,744
Capital expenditure - Intangible			30,000	30,000
Unallocated capital expenditure -Intangible				1,588
Segment depreciation and amortisation of fixed assets	4,603	3,991	4,523	13,117

Segmental information for the year ended June 30, 2005

Segment revenue		169,324	176,837	8,673	354,834
Segment result / profit before tax		38,507	41,838	521	80,866
Taxation					6,171
Profit for the year from ordinary activities after taxation					74,695
Segment assets		2,256,701	1,755,633	77,487	4,089,821
Unallocated assets					319,874
Segment liabilities		349,442		45,153	394,595
Unallocated liabilities					3,381,433
Capital expenditure - Tangible				13,340	13,340
Unallocated capital expenditure -Tangible					4,955
Capital expenditure - Intangible				21,000	21,000
Unallocated capital expenditure -Intangible					2,819
Segmented depreciation and amortisation of fixed assets	51.1	2,271	2,372	1,270	5,913

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

52 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the company's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification and valuations of investments (note 13)

ii) Income taxes (note 42)

iii) Staff retirement benefits (note 31)

53 NUMBER OF EMPLOYEES

The total number of employees at year-end was 140 (2005: 89).

54 NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on October 06, 2006 has proposed a stock dividend of one share for every ten share i.e. 10 % in respect of the year ended June 30, 2006 (2005: cash dividend @ Rs 1.4 per share). The proposed stock dividend will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended June 30, 2006 do not include the effect of this stock dividend which will be accounted for in the financial statements for the year ended June 30, 2007.

55 CORRESPONDING FIGURES

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

- Receivable against continuous funding system transactions / carry over transactions amounting to Rs. 134,920 thousand was included under the head "securities purchased under resale agreements with financial institutions" in the comparative year. It has now been separately disclosed as a line item in the current year.

- Income from continuous funding system transactions / carry over transactions amounting to Rs. 40,069 thousand was included under the head " income from securities purchased under resale agreements with financial institutions" in the comparative year. It has now been separately disclosed as a line item in the current year.

56 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on October 06, 2006.

57 GENERAL

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

SYED BABAR ALI	**SAMIR AHMED**
Chairman	Managing Director & Chief Executive

Profit and Loss Statement

for the year ended June 30, 2006

	Note	2006	2005
		------------Rs in '000-----------	
Income			
Income from investments	35	81,199	78,351
Income from finance	36	90,999	50,266
Income from lease finance	37	176,253	118,359
Income from fund placements	38	140,867	90,495
Fees, commission and brokerage		27,184	14,944
		516,502	352,415
Finance costs	39	337,970	172,888
Administrative and operating expenses	40	147,731	93,943
		485,701	266,831
		30,801	85,584
Other operating income	41	5,692	2,419
Operating profit before provisions		36,493	88,003
Provision for doubtful finance / potential lease loan - general	7.3 & 8.5	5,689	6,352
Provision under SECP's Prudential Regulations for NBFCs against doubtful finance / lease losses (net of recoveries) - specific	7.3 & 8.5	2,017	785
		7,706	7,137
Profit for the year from ordinary activities before taxation		28,787	80,866
Taxation	42	(8,523)	6,171
Profit for the year from ordinary activities after taxation		37,310	74,695
		--------------Rupees--------------	
Earnings per share - Basic and Diluted	50.1	0.89	1.78

The annexed notes 1 to 57 form an integral part of these financial statements.

SYED BABAR ALI
Chairman

SAMIR AHMED
Managing Director & Chief Executive

Consolidated

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **First International Investment Bank Limited** and its subsidiary companies, Finex Securities Limited and IGI Funds Limited (formerly First International Capital Management Limited) as at June 30, 2006 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of First International Investment Bank Limited and on the financial statements of one of its subsidiary company IGI Funds Limited (formerly First International Capital Management Limited). The financial statements of the other subsidiary company, Finex Securities Limited, were audited by another firm of Chartered Accountants whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the auditing standards as applicable in Pakistan and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of First International Investment Bank Limited and its subsidiary companies as at June 30, 2006 and the results of their operations for the year then ended.

A. F. Fergusons & Co.
Chartered Accountants
Karachi
Dated: October 09, 2006