



Bachat ka Doosra Naam

Annual Report  
2012



PAKISTAN

# INCOME FUND

Kum Risk, Bala Nasheen

Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)

# PAKISTAN INCOME FUND

## CONTENTS

1	Vision, Mission & Core Values .....	2
2	Fund's Information .....	3
3	Report of the Director of Management Company .....	4
4	Report of the Fund Manager .....	8
5	Trustee Report to the Unit Holders .....	9
6	Statement of Compliance with the Code of Corporate Governance .....	10
7	Review Report to the Unit Holders on the Statement of Compliance with the best Practices of the Code of Corporate Governance .....	12
8	Independent Auditors Report to the Unit Holders .....	13
9	Statements of Assets and Liabilities .....	16
10	Income Statement .....	17
11	Distribution Statement .....	18
12	Statement of Movement in Unit Holders' Fund .....	19
13	Cash Flow Statement .....	20
14	Notes to and Forming part of the Financial Statements .....	21
15	Pattern of holding as per Requirement of Code of Corporate Governance .....	48
16	Pattern of Unit Holding by Size .....	49
17	Performance Table .....	50

## **Vision**

To become synonymous with Savings

## **Mission**

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

## **Core Values**

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

# PAKISTAN INCOME FUND

## FUND'S INFORMATION

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
<b>Human Resource Committee</b>	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; CFO of the Management Company</b>	Mr. Muhammad Saqib Saleem	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	Bank AL Habib Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Bank Al-Habib Limited Faysal Bank Limited NIB Bank Limited Allied Bank Limited Summit Bank Limited Askari Bank Limited Habib Bank Limited Meezan Bank Limited Standard Chartered Bank (Pakistan) Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	Arif Habib Investments Limited 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

# PAKISTAN INCOME FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

The board of Directors of Arif Habib Investment Limited, the Management Company of Pakistan Income Fund (PIF), is pleased to present the Annual Report on the affairs of PIF for the year ending June 30, 2012.

## Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '11-June '12) could be classified as a mixed bag for the economy and capital markets as some of the key macroeconomic indicators have depicted positive trend during the period under review despite having burgeoning fiscal challenges.

The external account, which was the top performing sector during the previous year, couldn't maintain its positive trend during FY12 owing to widening trade deficit on the back of lower cotton and higher oil prices despite having record-high workers' remittances. During the year, export dipped by 3% while imports grew by 12% causing the overall trade deficit to widen to around US\$ 15.4 billion, 46% higher YoY. Despite record-high level of workers' remittances flow of US\$ 13.2 billion, higher trade and income deficit caused the current account balance to post a deficit of US\$ 4.5 billion as against a surplus of US\$ 214 million last year. Given higher current account deficit coupled with meager financial account flows, country's balance of payment position declined significantly during the year by around US\$ 3.3 billion - taking the FX reserves down to a level of US\$ 15.3 billion, while also causing sizeable depreciation of 10% in the PKR-USD exchange rate during the year.

Inflationary pressures, on the other hand, have remained largely on the lower side during the period with YoY CPI Inflation averaging 11.0% amid change in CPI methodology as well as high base-effect of last year. Moreover, real economy has shown a relatively improved picture during the year with FY12 real GDP growth stood at 3.7%, slightly higher than the revised GDP growth of 3.0% during the last year.

Fiscal indiscipline continued to remain a cause of concern for the economic managers as the country is expected to witness a higher deficit of over 8% of the GDP during FY12 (including one-off circular debt adjustments). Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 895 billion, 4.3% of the GDP. Although growth in tax revenue collection has been strong, lower non-tax revenue on the back of non-realization of CSF proceeds coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review. Government borrowing from Central Bank has gone up by Rs. 508 billion during FY12, which is staggering 44% of total outstanding stock.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Given benign YoY CPI Inflation coupled with lower GoP borrowing from SBP as well as contained external current account deficit during the earlier part of the year, the SBP cut its policy discount rate cumulatively by 200 bps to 12.0%. However, gradual deterioration in the macro-economic environment lately has compelled the central bank to keep its policy DR unchanged for the next 4 policies during the latter part of the year. Due to an overall relatively lower interest rate environment, 1 year PKRV averaged at around 12.4% during FY12, much lower than the average 13.4% a year ago.

During FY12, key monetary indicators have shown reasonable improvement with money supply (M2) posting a strong growth of 14.4%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY decline of 32% in Net Foreign Assets (NFA) has been very alarming - also reflecting weak BOP position.

Significant credit demand by the government coupled with an attractive risk-return profile has kept government papers a very attractive investment vehicle for the investors during this year also. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs continued to command improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS), like previous year, has remained an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during this year also in both primary as well as secondary markets.

## Future outlook

Although medium term macroeconomic picture remains gloomy, benign CPI inflation trend coupled with the release of US\$ 1.18 billion under Coalition Support Fund by the US does provide a short term breather thereby creates a potential room for monetary easing by the State Bank of Pakistan in the upcoming monetary policy announcement. We continue to emphasize that the realization of sizeable foreign inflows holds the key in rejuvenating economic engine, while a potential return to IMF program in the next 6-8 months would adversely affect the liquidity and interest rate scenario.

In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

## Fund's Performance

The net assets of the fund declined significantly by 28% on a YoY basis to around PKR 1.3 billion as on June 30, 2012. The investment objective of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk. The fund is benchmarked against a composite benchmark based on 75% of 6M KIBOR + 25% of 3M PKRV. The fund, through active management and carefully selected trading positions was able to yield an annualized return of 9.4% during the period under review which was lower than the Fund's benchmark return of 13.3% during the same period. The under-performance was due to provisioning of certain non-performing TFCs/ Sukuks during the period.

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year's. The fund continued to deploy assets cautiously, without aggressively chasing, and has maintained a strong focus on the credit quality of the

**PAKISTAN INCOME FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2012**

instruments. Considering the risk-return profile of government papers, the fund increased its exposure significantly towards government papers while maintaining decent allocations towards TFCs especially of financial sector. Although the fund maintained decent exposure towards government papers throughout the year, it managed its portfolio's duration actively to take advantage of the fast changing interest rate scenario.

The Fund yields for the period under review remained as follows:

Performance Information (%)	PIF	Benchmark
Last twelve Months Return(Annualized)	9.4%	13.3%
Since Inception (CAGR)	10.6%	9.0%

During the year your fund earned net income of Rs 134.294 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 34.181 million (i.e. Rs. 1.40 per unit). In addition to final distribution, the Board has approved following interim distribution during the year ended June 30, 2012.

Date of distribution	Distribution PKR / Unit
29 September 2011	Re. 0.8000 per unit
26 January 2012	Re. 1.3700 per unit
28 March 2012	Re. 1.1000 per unit

During the period, units worth Rs.380.304 million (including Rs. 164.771 million worth of bonus units) were issued and units with a value of Rs. 861.099 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 52.04 per unit.

**Update on Workers' Welfare Fund**

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court and included an emphasis of matter paragraph in auditor' report highlighting the said issue.

The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.18.308 million.

**Corporate Governance**

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange.

**PAKISTAN INCOME FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2012**

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 20.3 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

S. No.	Name	Designation	Attendance required	Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member - Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	2	2
4.	Mr. Ali Munir	Member	4	2	2

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. No trades in the Units of the Fund were carried out during the year by Directors, CE, CFO/Company Secretary of the Management Company and their spouses and minor children.

**PAKISTAN INCOME FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE YEAR ENDED JUNE 30, 2012**

**External Auditors**

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2013. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2013.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Karachi Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board

**Yasir Qadri**  
Chief Executive Officer

Karachi: August 15, 2012

# PAKISTAN INCOME FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2012

## Fund Type and Category

Pakistan Income Fund (PIF) is an open-end Income scheme.

## Fund Benchmark

The benchmark for PIF is 75% of 6M KIBOR + 25% of 3M PKRV.

## Investment Objective

The objective of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

## Investment Strategy

Pakistan Income Fund (PIF) is an open end fund, which invests in corporate securities, Government securities; money market placements, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 2 year, in order to keep interest rate risk at a relatively low and manageable level. PIF is a long only fund and cannot undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

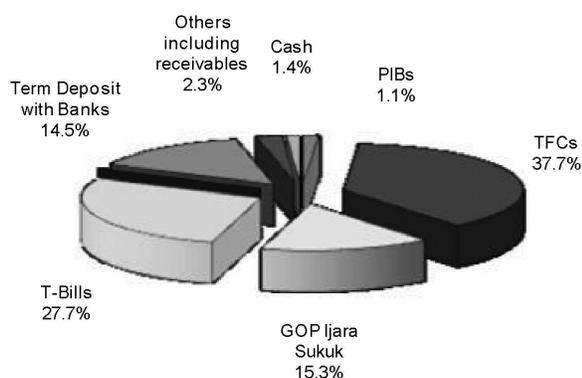
## Manager's Review

The fund was able to generate an annualized return of 9.4% during the year under review, which was lower than the fund's benchmark return of 13.3% during the same period.

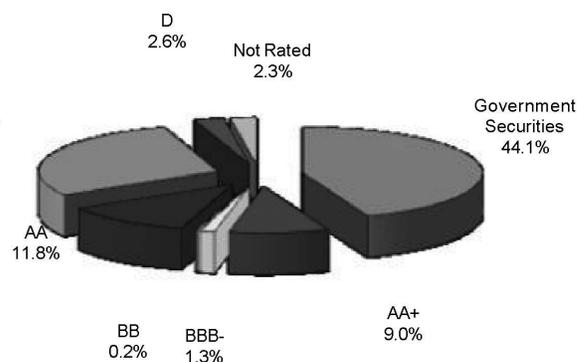
The fund remained focused towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the fund continued to emphasize on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs. At year-end, the fund had around 44% exposure in Government papers, 38% in TFCs and around 15% in TDRs.

The net assets of the fund stood at PKR 1.3 billion by the end of June 2012, which was down by around 28% due to redemption pressures during the period under review.

Asset Allocation as on June 30, 2012 (% of total assets)



Asset Quality as of June 30, 2012 (% of total assets)



**Mr. Saad Ahmed**  
Fund Manager

Karachi: August 15, 2012

**PAKISTAN INCOME FUND  
TRUSTEE REPORT TO THE UNIT HOLDERS  
FOR THE YEAR ENDED JUNE 30, 2012**

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shakra-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
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Email: info@cdcpak.com



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**TRUSTEE REPORT TO THE UNIT HOLDERS**

**PAKISTAN INCOME FUND**

**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Income Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

  
**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi: October 17, 2012



## PAKISTAN INCOME FUND STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of Pakistan Income Fund ("the Fund") to comply with the Code of Corporate Governance (the Code) contained in Regulation no. 35 of Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Pakistan Income Fund is an open end mutual fund and is listed at Karachi Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, Arif Habib Investments Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg - Executive Vice Chairman 2. Mr. Yasir Qadri - Chief Executive Officer
Non - Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings,. The minutes of the meetings were appropriately recorded and circulated.
9. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Accordingly, the Management Company is compliant with this requirement for the current year. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
10. No new appointments of Chief Financial Officer and Company Secretary were made during the year. The Board has approved the remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. Subsequent to the year end, the Management Company has appointed Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.
11. The Directors' Report of the fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

**PAKISTAN INCOME FUND**  
**STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

15. The Board has formed an Audit Committee for the Management Company. It comprises of four members, three of whom are the directors of the Management Company. Two are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises four members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. During the year, the Management Company has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

For and on behalf of the board

**Yasir Qadri**  
Chief Executive Officer

Karachi: August 15, 2012

**PAKISTAN INCOME FUND  
REVIEW REPORT TO THE UNIT HOLDERS ON THE  
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES  
OF THE CODE OF CORPORATE GOVERNANCE**



**KPMG Taseer Hadi & Co.**  
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**Review report to the Unit holders of Pakistan Income Fund “the Fund” on Statement of  
Compliance with  
Best Practices of Code of Corporate Governance**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (“Statement of Compliance”) prepared by the Board of Directors of Arif Habib Investments Limited, (“the Management Company”) of the Fund to comply with the Listing Regulations of Karachi Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company’s personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations 35 notified by the Karachi Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2012.

We draw attention to paragraph 10 of the annexed Statement of Compliance which explains that subsequent to year end the Management Company has appointed Head of Internal Audit who is also planned to be designated as Secretary to the Audit Committee in the upcoming Audit Committee meeting.

**Date: 15 August 2012**

**Karachi**

*KPMG Taseer Hadi & Co.*  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan  
and a member firm of the KPMG network of independent member  
firms affiliated with KPMG International Cooperative  
("KPMG International"), a Swiss entity.

# PAKISTAN INCOME FUND

## INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

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Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

### Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **Pakistan Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2012, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2012, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the financial statements*

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2012, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

**PAKISTAN INCOME FUND  
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS**

*Emphasis of matter*

We draw attention to note 12 to the financial statements relating to provision for Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 18.308 million is not being maintained by the Fund. Our opinion is not qualified in respect of this matter.

*Other matters*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Date: 15 August 2012**

**Karachi**



**KPMG Taseer Hadi & Co.  
Chartered Accountants  
Moneeza Usman Butt**

# **FINANCIAL STATEMENTS**

**PAKISTAN INCOME FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2012**

	<i>Note</i>	<b>2012</b>	2011
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks	4	<b>208,167</b>	32,102
Receivable against sale of units		<b>1,945</b>	5,772
Investments	5	<b>1,067,991</b>	1,716,445
Dividend and profit receivable	6	<b>19,956</b>	24,335
Advances, deposits and other receivables	7	<b>7,974</b>	42,145
<b>Total assets</b>		<b>1,306,033</b>	1,820,799
<b>Liabilities</b>			
Payable on redemption of units		-	1,389
Payable to Arif Habib Investments Limited - Management Company	8	<b>1,868</b>	2,338
Payable to Central Depository Company of Pakistan Limited - Trustee	9	<b>160</b>	196
Payable to Securities and Exchange Commission of Pakistan	10	<b>1,193</b>	1,483
Accrued expenses and other liabilities	11	<b>2,056</b>	1,813
<b>Total liabilities</b>		<b>5,277</b>	7,219
<b>Contingencies and commitments</b>	12		
<b>Net assets</b>		<b>1,300,756</b>	1,813,580
<b>Unit holders' funds (as per statement attached)</b>		<b>1,300,756</b>	1,813,580
		<b>(Number of units)</b>	
<b>Number of units in issue</b>		<b>24,993,755</b>	34,090,038
		<b>(Rupees)</b>	
<b>Net asset value per unit</b>		<b>52.04</b>	53.20

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

**For Arif Habib Investments Limited  
(Management Company)**

  
\_\_\_\_\_  
Director

**PAKISTAN INCOME FUND  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
<i>Note</i>		
<b>Income</b>		
Capital gain on sale of investments	4,115	3,504
Income from term finance and sukuk certificates	78,746	106,739
Income from government securities	108,887	151,243
Income from placements	-	673
Income from term deposit receipts	3,263	7,236
Profit on bank deposits	8,035	3,043
	<u>203,046</u>	<u>272,438</u>
Net unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss'	5.4 922	(2,801)
Provision against non performing exposures	5.5 (28,510)	(1,934)
<b>Total income</b>	<u>175,458</u>	<u>267,703</u>
<b>Expenses</b>		
Remuneration of Arif Habib Investments Limited - Management Company	8.1 23,862	29,667
Sindh sales tax on management fee	8.2 3,818	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9 2,203	2,763
Annual fee - Securities and Exchange Commission of Pakistan	10 1,193	1,483
Securities transaction cost	382	223
Settlement and bank charges	421	475
Fees and subscription	94	258
Legal and professional charges	106	77
Auditors' remuneration	13 610	533
Printing and related costs	320	172
<b>Total expenses</b>	33,009	35,651
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	(8,155)	(15,924)
<b>Net income for the year</b>	<u>134,294</u>	<u>216,128</u>
<b>Other comprehensive income for the year</b>		
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4)	(17,829)	-
<b>Total comprehensive income for the year</b>	<u>116,465</u>	<u>216,128</u>
<b>Earnings per unit</b>	14	

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

**For Arif Habib Investments Limited  
(Management Company)**

  
\_\_\_\_\_  
Director

**PAKISTAN INCOME FUND  
DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
Undistributed income brought forward:		
- Realised gains	132,476	117,150
- Unrealised losses	<u>(23,291)</u>	<u>(27,569)</u>
	<b>109,185</b>	89,581
Net income for the year	<b>134,294</b>	216,128
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement (refer note 3.4)	<b>(17,829)</b>	-
<i>Distributions:</i>		
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011 (2010: Rs. 1.24 per unit)]		
- Cash distribution	<b>(3,504)</b>	(3,642)
- Issue of bonus units	<b>(38,765)</b>	(40,631)
Final distribution at the rate of Rs. 1.40 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012 (2011: Rs. 1.10 per unit)]		
- Cash distribution	-	-
- Issue of bonus units	<b>(34,181)</b>	-
Interim distributions during the year (refer note 19.1)		
- Cash distributions	<b>(6,203)</b>	(11,505)
- Issue of bonus units	<b>(91,825)</b>	(140,746)
	<b>(174,478)</b>	(196,524)
Undistributed income carried forward	<u><b>51,172</b></u>	<u>109,185</u>
Undistributed income carried forward:		
- Realised gains	<b>100,812</b>	132,476
- Unrealised losses	<b>(49,640)</b>	(23,291)
	<u><b>51,172</b></u>	<u>109,185</u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

For Arif Habib Investments Limited  
(Management Company)

  
\_\_\_\_\_  
Director

**PAKISTAN INCOME FUND  
STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	2012 (Rupees in '000)	2011
Net assets at beginning of the year	1,813,580	2,101,695
<i>Contributions and redemptions by the unit holders:</i>		
Issue of 4,076,672 units (2011: 10,203,316 units)	215,533	531,644
Issue of 3,158,932 bonus units during the year ended 30 June 2012 (2011: 3,553,445 bonus units)	164,771	181,377
Redemption of 16,331,887 units (2011: 19,881,238 units)	(861,099)	(1,036,664)
	(480,795)	(323,643)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement	8,155	15,924
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement (refer note 3.4)	17,829	-
	25,984	15,924
<i>Total comprehensive income for the year:</i>		
Net income for the year (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	129,257	215,425
Capital gain on sale of investments	4,115	3,504
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	922	(2,801)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	(17,829)	-
	116,465	216,128
<i>Distributions:</i>		
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011 (2010: Rs. 1.24 per unit)]		
- Cash distribution	(3,504)	(3,642)
- Issue of bonus units	(38,765)	(40,631)
Final distribution at the rate of Rs. 1.40 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012 (2011: Rs. 1.10 per unit)]		
- Cash distribution	-	-
- Issue of bonus units	(34,181)	-
Interim distributions during the year (refer note 19.1)		
- Cash distributions	(6,203)	(11,505)
- Bonus units	(91,825)	(140,746)
	(174,478)	(196,524)
Net assets at end of the year	1,300,756	1,813,580
	(Rupees)	
Net asset value per unit as at beginning of the year	53.20	52.22
Net asset value per unit as at end of the year	52.04	53.20

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
\_\_\_\_\_  
Chief Executive Officer

**For Arif Habib Investments Limited  
(Management Company)**

  
\_\_\_\_\_  
Director



**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

Pakistan Income Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited (Management Company) and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In conformity with Circular 7 of 2009 dated March 6, 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Income" category.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company and Arif Habib Investments Limited the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/ MCBAMCL & AHIL/271/2011 dated 10 June 2011 ). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court. The Honourable Sindh High Court has held the SECP's subsequent order in abeyance and instructed the SECP to treat the companies as merged pending a final ruling. No hearing since then has taken place. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

The Fund is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. This Fund is income scheme and the policy of the Fund is to invest in a mix of investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' (positive outlook) to the Management Company and AA-(f) as stability rating to the Fund.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as trustee of the Fund.

**PAKISTAN INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) , the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

**2.2 Standards, amendments or interpretations which became effective during the year**

During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund.

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

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. These standards are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements, other than increased disclosures in certain cases:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) effective for annual periods beginning on or after 1 January 2014.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) effective for annual periods beginning on or after 1 January 2013.
- Annual Improvements 2009 - 2011 (effective for annual period beginning on or after 1 January 2013). The new cycle of improvements contain amendments to five standards. However, those amendments do not have any affect on the financial statements of the Fund.

**2.4 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that certain financial assets are measured at fair value.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**2.5 Functional and presentation currency**

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

**2.6 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

*Investments stated at fair value and derivative financial instruments*

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan and Financial Markets Association of Pakistan (Reuters). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

*Other assets*

Judgment is also involved in assessing the realisability of the assets balances.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except stated otherwise.

**3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

*a) Financial instruments as 'at fair value through profit or loss'*

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments as 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in the Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

*b) 'Available-for-sale'*

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

*c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

*d) Financial liabilities*

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

*Recognition*

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

*Measurement*

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortized cost less provision for impairment, if any.

*Fair value measurement principles*

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP.

*Basis of valuation of government securities and GoP Ijarah sukuk certificates*

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

The fair value of the investments in GoP Ijarah sukuk certificates is determined by using the market rates from Reuters page.

*Securities under repurchase/resale agreements*

Transactions of purchase under resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

*Impairment*

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment.

A financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets and that loss events had an impact on the future cash flows of that assets and that can be estimated reliably.

An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

*Derecognition*

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred on in which the Fund neither transferred does not retains substantially all the risks and rewards of ownership and does not retain control of the financial assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

*Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**3.2 Unit holders' funds**

Unit holders' funds representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

**3.3 Issue and redemption of units**

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that day. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

**3.4 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed**

An equalisation account called the "element of income / (loss) included in prices of units sold less those in units redeemed" is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

During the year, the Fund has revised the calculation for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised calculation, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognized in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) held in separate reserve account at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the calculation not been changed, the net income for the year ended 30 June 2012 would have been lower by Rs. 17.829 million.

**3.5 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from the last day after the close of the IPO period as per the Trust Deed of the Fund.

**3.6 Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

**3.7 Net asset value per unit**

The net asset value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

**3.8 Taxation**

*Current*

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

*Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

**3.9 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions and debt securities (including government securities) is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair which they value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

**3.10 Expenses**

All expenses including Management fee and Trustee fee are recognised in the Income Statement on an accrual basis.

**3.11 Cash and cash equivalents**

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

**3.12 Other assets**

Other assets are stated at cost less impairment losses, if any.

**3.13 Dividend distributions and appropriations**

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>4</b>	<b>BALANCES WITH BANKS</b>	<b>2012</b>	<b>2011</b>
		<b>(Rupees in '000)</b>	
	In current accounts	<b>3,816</b>	4,024
	In deposit accounts	4.1 <b>14,351</b>	28,078
	In term deposit receipts	4.2 <b>190,000</b>	-
		<u><b>208,167</b></u>	<u>32,102</u>

**4.1** These deposit accounts carry mark-up at the rate ranging from 5% to 11% per annum (2011: 5% to 11.5% per annum).

**4.2** This represent term deposits placed with Habib Metropolitan Bank at a mark-up rate ranging from 12.15% to 12.40% (2011: Nil).

<b>5</b>	<b>INVESTMENTS</b>	<b>2012</b>	<b>2011</b>
		<b>(Rupees in '000)</b>	
	<b>'At fair value through profit or loss' - held for trading</b>		
	<i>Fixed income and other debt securities</i>		
	Term finance certificates	5.1 <b>492,304</b>	513,184
	Government securities	5.2 <b>575,687</b>	1,203,261
		<u><b>1,067,991</b></u>	<u>1,716,445</u>

**PAKISTAN INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Fixed income and other debt securities - 'at fair value through profit or loss' - held for trading**

5.1 Term finance certificates

Name of the investee company	Profit / mark-up percentage	Number of certificates		Balance as at 30 June 2012			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value in relation to the size of the issue		
		As at 01 July 2011	Purchases during the year	Sales / Mature during the year	As at 30 June 2012	Cost				Market value	(Diminution) / appreciation
------(Rupees in '000)-----											
<b>30 June 2012</b>											
Askari Bank Limited - I	13.33%	14,000	-	6,000	8,000	39,473	39,880	407	3.07	3.73	2.67
Askari Bank Limited - III	14.52%	6,000	-	-	6,000	30,075	31,693	1,618	2.44	2.97	1.00
Askari Bank Limited IV	13.79%	-	65	13	52	51,990	53,652	1,662	4.12	5.02	0.01
Bank AL Habib Limited (7 February 2007)	13.78%	5,520	-	-	5,520	27,545	28,470	925	2.19	2.67	1.84
Bank AL Habib Limited (30 June 2011)	15.00%	-	15,000	3,500	11,500	59,021	61,190	2,169	4.70	5.73	0.00
Bank Alfalah Limited (floating)	14.51%	7,000	-	2,000	5,000	24,975	26,349	1,374	2.03	2.47	0.50
Bank Alfalah Limited (fixed)	15.00%	-	6,000	2,735	3,265	16,341	17,082	741	1.31	1.60	0.00
Engro Corporation Limited	13.63%	29,400	-	5,100	24,300	117,072	115,547	(1,525)	8.88	10.82	3.04
Escorts Investment Bank Limited	8.00%	3,016	-	-	3,016	3,810	2,753	(1,057)	0.21	0.26	3.02
KASB Securities Limited	13.90%	8,500	-	8,500	-	-	-	-	-	-	-
Maple Leaf Cement Factory Limited I (refer note 5.1.2)		2,000	-	-	2,000	6,987	6,106	(881)	0.47	0.57	0.13
Maple Leaf Cement Factory Limited II (refer note 5.1.3)		75	-	75	-	-	-	-	-	-	-
Pace Pakistan Limited (refer note 5.1.4)		10,000	-	-	10,000	42,583	32,930	(9,653)	2.53	3.08	3.33
Telecard Limited (refer note 5.1.5)		19,975	-	-	19,975	36,663	27,497	(9,166)	2.11	2.57	4.16
Trust Investment Bank Limited - III	13.80%	10,000	-	-	10,000	18,743	17,606	(1,137)	1.35	1.65	8.33
United Bank Limited - III	13.63%	15,612	-	-	15,612	65,171	64,464	(707)	4.96	6.04	3.90
Worldcall Telecom Limited	16.47%	7,000	-	7,000	-	-	-	-	-	-	-
United Bank Limited IV	14.23%	-	6,000	6,000	-	-	-	-	-	-	-
						540,449	525,219	(15,230)			
							(32,915)				
						540,449	492,304	(15,230)			

Provision against non-performing exposure (note 5.5)

**PAKISTAN INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

Name of the investee company	Profit / mark-up percentage	Number of certificates Purchases during the year	As at 01 July 2010	Sales / Mature during the year	As at 30 June 2011	Balance as at 30 June 2011		Market value	Market value as a percentage of net assets	Market value as a percentage of total investments	Face value in relation to the size of the issue
						Cost	Market value (Diminution) / appreciation				
------(Rupees in '000)-----											
<b>30 June 2011</b>											
Askari Bank Limited - I	15.27%	-	14,000	-	14,000	69,107	70,041	934	3.86	4.08	4.67
Askari Bank Limited - III	16.06%	-	13,000	7,000	6,000	30,086	31,011	925	1.71	1.81	1.00
Bank AL Habib Limited - II	15.71%	-	12,220	6,700	5,520	27,556	28,322	766	1.56	1.65	1.84
Bank Alfalah Limited (floating)	16.24%	-	15,000	8,000	7,000	34,979	35,469	490	1.96	2.07	0.70
Engro Corporation Limited	15.44%	-	39,400	10,000	29,400	141,619	138,180	(3,439)	7.62	8.05	3.68
Escorts Investment Bank Limited	16.25%	-	3,016	-	3,016	5,083	4,403	(680)	0.24	0.26	3.02
KASB Securities Limited	15.69%	-	8,500	-	8,500	24,524	28,028	3,504	1.55	1.63	8.50
Maple Leaf Cement Factory Limited - I		-	2,000	-	2,000	6,991	6,107	(884)	0.34	0.36	0.13
Maple Leaf Cement Factory Limited - II		75	-	-	75	375	262	(113)	0.01	0.02	0.00
Pace Pakistan Limited		-	10,000	-	10,000	42,599	32,929	(9,670)	1.82	1.92	3.33
Pakistan Mobile Communications Limited (1 October 2007)	13.71%	-	19,250	-	19,250	-	-	-	-	-	-
Pakistan Mobile Communications Limited( 28 October 2008)	14.86%	-	1,535	1,535	-	-	-	-	-	-	-
Searle Pakistan Limited	15.38%	-	4,000	4,000	-	-	-	-	-	-	-
Telecard Limited		-	19,975	-	19,975	36,704	28,630	(8,074)	1.58	1.67	4.16
Trust Investment Bank Limited - II	15.49%	-	7,500	7,500	-	-	-	-	-	-	-
Trust Investment Bank Limited - III	14.22%	-	10,000	-	10,000	31,237	29,566	(1,671)	1.63	1.72	8.33
United Bank Limited - III	15.45%	-	16,012	400	15,612	78,194	78,890	696	4.35	4.60	3.90
Worldcell Telecom Limited	16.49%	-	7,000	-	7,000	5,887	5,751	(136)	0.32	0.34	10.00
Provision against non-performing exposure						534,941	517,589	(17,352)			
							(4,405)				
							534,941	513,184			

**5.1.1** The above include term finance certificates with fair value aggregating to Rs. 0.091 million (2011: Rs. 0.146 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated 23 October 2007, issued by the SECP.

**5.1.2** During the year, owing to financial difficulties, Maple Leaf Cement Factory Limited has defaulted in the payment of coupon due on 3 September 2011, 3 December 2011, 3 March 2012 and 3 June 2012. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date it restructured last year. Further, provision amounting to Rs. 1,416 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

**5.1.3** During the year, owing to financial difficulties, Maple Leaf Cement Factory Limited II issued against interest repayment, defaulted in the payment of coupon. As per the repayment terms it matured on 31 March 2012, however, the amount has not yet been redeemed as per the terms of the agreement. In view of uncertainty regarding its recovery the management has recognised full provision thereagainst in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company.

**5.1.4** During the year, owing to financial difficulties, Pace Pakistan Limited has defaulted in the payment of coupon due on 15 August 2011 and 15 February 2012. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date the coupon was due. Further, provision amounting to Rs. 7,47 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

**5.1.5** During the year, owing to financial difficulties, Telecard Limited has defaulted in the payment of coupon due on 27 November 2011 and 27 May 2012. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued on such investment from the date the coupon was due. Further, provision amounting to Rs. 24,029 million has been made in accordance with the provisioning policy approved by the Board of Directors of the Management Company.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**5.1.6** Significant terms and conditions of Term Finance Certificates outstanding as at 30 June 2012 are as follows:

<b>Name of security</b>	<b>Mark-up rate (per annum)</b>	<b>Issue date</b>	<b>Maturity date</b>
Askari Bank Limited - I	6 months KIBOR + 1.5%	04 February 2005	04 February 2013
Askari Bank Limited - III	6 months KIBOR + 2.5%	18 November 2009	18 November 2019
Askari Bank Limited	6 months KIBOR + 1.75%	23 December 2011	23 December 2021
Bank AL Habib Limited	6 months KIBOR + 1.95%	07 February 2007	07 February 2015
Bank AL Habib Limited	6 months KIBOR	30 June 2011	30 June 2021
Bank Alfalah Limited (floating)	6 months KIBOR + 2.5%	02 December 2009	02 December 2017
Bank Alfalah Limited (fixed)	15%	2 December 2009	2 December 2017
Engro Corporation Limited	6 months KIBOR + 1.7%	18 March 2008	18 March 2018
Escorts Investment Bank Limited *	8%	15 March 2007	15 September 2014
KASB Securities Limited	6 months KIBOR + 1.9%	27 June 2007	27 June 2012
Maple Leaf Cement Factory Limited	6 months KIBOR + 1.7%	03 December 2007	03 December 2018
Maple Leaf Cement Factory Limited	6 months KIBOR + 1.5%	30 September 2010	30 September 2020
Pace Pakistan Limited	6 months KIBOR + 2%	15 February 2008	15 February 2017
Telecard Limited **	6 months KIBOR + 3.75%	27 May 2005	27 May 2015
Trust Investment Bank Limited - III	6 months KIBOR + 1.85%	04 July 2008	04 July 2013
United Bank Limited	6 months KIBOR + 1.7%	08 September 2006	08 September 2014
Worldcall Telecom Limited	6 months KIBOR + 2.75%	28 November 2006	28 November 2011

Significant terms and conditions of Term Finance Certificates outstanding as at 30 June 2011 are as follows:

<b>Name of security</b>	<b>Mark-up rate (per annum)</b>	<b>Issue date</b>	<b>Maturity date</b>
Askari Bank Limited - I	6 months KIBOR + 1.5%	04 February 2005	04 February 2013
Askari Bank Limited - III	6 months KIBOR + 2.5%	18 November 2009	18 November 2019
Bank AL Habib Limited	6 months KIBOR + 1.95%	07 February 2007	07 February 2015

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Name of security</b>	<b>Mark-up rate (per annum)</b>	<b>Issue date</b>	<b>Maturity date</b>
Bank Alfalah Limited	6 months KIBOR + 2.5%	02 December 2009	02 December 2017
Engro Corporation Limited	6 months KIBOR + 1.7%	18 March 2008	18 March 2018
Escorts Investment Bank Limited *	6 months KIBOR + 2.5%	15 March 2007	15 March 2012
KASB Securities Limited	6 months KIBOR + 1.9%	27 June 2007	27 June 2012
Maple Leaf Cement Factory Limited	6 months KIBOR + 1.7%	03 December 2007	03 December 2018
Maple Leaf Cement Factory Limited	6 months KIBOR + 1.5%	30 September 2010	30 September 2020
Pace Pakistan Limited	6 months KIBOR + 2%	15 February 2008	15 February 2017
Telecard Limited **	6 months KIBOR + 3.75%	27 May 2005	27 November 2013
Trust Investment Bank Limited - III	6 months KIBOR + 1.85%	04 July 2008	04 July 2013
United Bank Limited	6 months KIBOR + 1.7%	08 September 2006	08 September 2014
Worldcall Telecom Limited	6 months KIBOR + 2.75%	28 November 2006	28 November 2011
Pakistan Mobile Communications Limited	6 months KIBOR + 1.3%	1 October 2007	1 October 2017
Pakistan Mobile Communications Limited	3 months KIBOR + 1.65%	28 October 2008	28 October 2018
Searle Pakistan Limited	6 months KIBOR + 2.5%	9 March 2006	9 March 2011
Trust Investment Bank Limited	6 months KIBOR + 2%	15 July 2005	15 July 2010

\* During the year, Escorts Investment Bank Limited has restructured its Term Finance Certificate issue dated 15 March 2007 via letter no. FDIBL/2561/2011 dated 27 October 2011. According to the restructured agreement the six monthly interest payments will commence from 15 September 2012.

\*\* During the year, Telecard Limited has restructured its Term Finance Certificate issue dated 27 May 2005 via trust deed executed between Telecard Limited and Faysal Bank Limited (trustee) dated 30 December 2011. According to the restructured terms the six monthly interest payments and redemption will commence from 27 May 2012.

<b>5.2 Government securities</b>		<b>2012</b>	<b>2011</b>
Pakistan Investment Bonds	5.2.1	<b>14,910</b>	-
Treasury bills	5.2.2	<b>360,677</b>	1,153,183
Government of Pakistan - IJARA sukuk	5.2.3	<b>200,100</b>	50,078
		<b>575,687</b>	<b>1,203,261</b>

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**5.2.1 Pakistan Investment Bonds**

Issue date	Tenor	Face value			Balance as at 30 June 2012				Market value	
		As at 1 July 2011	Purchases during the year	Sales / matured during the year	As at 30 June 2012	Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
<i>30 June 2012</i>										
20 August 2008	5 years	-	15,000	-	15,000	14,867	14,910	43	1.15	1.40
<i>30 June 2011</i>										
3 September 2009	3 years	25,000	-	25,000	-	-	-	-	-	-
3 September 2009	5 years	25,000	-	25,000	-	-	-	-	-	-

**5.2.2 Treasury Bills**

<i>30 June 2012</i>										
<b>1 year</b>										
14 July 2011		-	33,000	33,000	-	-	-	-	-	-
6 October 2011		-	286,000	286,000	-	-	-	-	-	-
26 January 2012		-	200,000	200,000	-	-	-	-	-	-
24 February 2012		-	150,000	150,000	-	-	-	-	-	-
22 September 2011		-	100,000	100,000	-	-	-	-	-	-
20 October 2011		-	89,000	89,000	-	-	-	-	-	-
21 April 2011		170,000	-	170,000	-	-	-	-	-	-
25 August 2011		-	110,000	110,000	-	-	-	-	-	-
11 August 2011		-	175,000	175,000	-	-	-	-	-	-
3 November 2011		-	125,000	125,000	-	-	-	-	-	-
17 November 2011		-	275,000	275,000	-	-	-	-	-	-
16 June 2011		-	50,000	50,000	-	-	-	-	-	-
6 October 2011		-	122,000	122,000	-	-	-	-	-	-
16 June 2011		-	500,000	500,000	-	-	-	-	-	-
11 August 2011		-	250,000	250,000	-	-	-	-	-	-
26 January 2012		-	187,500	187,500	-	-	-	-	-	-
<b>6 months</b>										
7 April 2011		15,000	-	15,000	-	-	-	-	-	-
21 April 2011		168,000	-	168,000	-	-	-	-	-	-
5 May 2011		298,000	-	298,000	-	-	-	-	-	-
5 May 2011		-	425,000	425,000	-	-	-	-	-	-
19 May 2011		-	250,000	250,000	-	-	-	-	-	-
17 November 2011		-	275,000	275,000	-	-	-	-	-	-
28 July 2011		-	225,000	225,000	-	-	-	-	-	-
25 August 2011		-	100,000	100,000	-	-	-	-	-	-
28 July 2011		-	325,000	325,000	-	-	-	-	-	-
11 August 2011		-	150,000	150,000	-	-	-	-	-	-
8 September 2011		-	50,000	50,000	-	-	-	-	-	-
<b>3 months</b>										
21 April 2011		5,000	-	5,000	-	-	-	-	-	-
5 May 2011		230,000	-	230,000	-	-	-	-	-	-
19 May 2011		272,000	-	272,000	-	-	-	-	-	-
16 June 2011		40,000	-	40,000	-	-	-	-	-	-
17 November 2011		-	100,000	100,000	-	-	-	-	-	-
20 October 2011		-	10,000	10,000	-	-	-	-	-	-
26 January 2012		-	100,000	100,000	-	-	-	-	-	-
17 November 2011		-	100,000	100,000	-	-	-	-	-	-
1 December 2011		-	322,000	322,000	-	-	-	-	-	-
23 February 2012		-	187,500	187,500	-	-	-	-	-	-
8 March 2012		-	70,000	70,000	-	-	-	-	-	-
22 March 2012		-	1,100,000	1,100,000	-	-	-	-	-	-
5 April 2012		-	200,000	200,000	-	-	-	-	-	-
19 April 2012		-	530,000	500,000	30,000	29,895	29,892	(3)	2.30	2.80
3 May 2012		-	425,000	425,000	-	-	-	-	-	-
17 May 2012		-	540,000	205,000	335,000	330,843	330,785	(58)	25.43	30.97
<u>360,738</u> <u>360,677</u> <u>(61)</u>										
<b>1 months</b>										
28 July 2011		-	130,000	130,000	-	-	-	-	-	-
<u>360,738</u> <u>360,677</u> <u>(61)</u>										
<i>30 June 2011</i>										
<b>1 year</b>										
13 August 2009		50,000	-	50,000	-	-	-	-	-	-
27 August 2009		100,000	-	100,000	-	-	-	-	-	-
10 September 2009		25,000	-	25,000	-	-	-	-	-	-
26 September 2009		50,000	-	50,000	-	-	-	-	-	-
8 October 2009		75,000	-	75,000	-	-	-	-	-	-
11 March 2010		50,000	-	50,000	-	-	-	-	-	-
6 May 2010		100,000	-	100,000	-	-	-	-	-	-
20 May 2010		150,000	-	150,000	-	-	-	-	-	-
29 July 2010		-	125,000	125,000	-	-	-	-	-	-
21 April 2011		-	200,000	30,000	170,000	153,415	152,991	(424)	11.76	14.33
17 June 2011		-	15,000	15,000	-	-	-	-	-	-
<u>153,415</u> <u>152,991</u> <u>(424)</u>										

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Issue date	Tenor	Face value			Balance as at 30 June 2012				Market value	
		As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
<b>6 months</b>										
14 January 2010		300,000	-	300,000	-	-	-	-	-	-
8 April 2010		75,000	-	75,000	-	-	-	-	-	-
6 May 2010		-	100,000	100,000	-	-	-	-	-	-
13 August 2010		-	25,000	25,000	-	-	-	-	-	-
16 November 2010		-	180,000	180,000	-	-	-	-	-	-
7 April 2011		-	15,000	-	15,000	14,490	14,479	(11)	1.11	1.36
21 April 2011		-	268,000	100,000	168,000	161,500	161,351	(149)	12.40	15.11
5 May 2011		-	298,000	-	298,000	285,141	284,664	(477)	21.88	26.65
19 May 2011		-	170,000	170,000	-	-	-	-	-	-
						461,131	460,494	(637)		
<b>3 months</b>										
6 May 2010		100,000	125,000	225,000	-	-	-	-	-	-
20 May 2010		150,000	-	150,000	-	-	-	-	-	-
3 June 2010		40,000	-	40,000	-	-	-	-	-	-
15 July 2010		-	265,000	265,000	-	-	-	-	-	-
29 July 2010		-	89,000	89,000	-	-	-	-	-	-
13 August 2010		-	345,000	345,000	-	-	-	-	-	-
19 August 2010		-	45,000	45,000	-	-	-	-	-	-
26 August 2010		-	187,500	187,500	-	-	-	-	-	-
9 September 2010		-	50,000	50,000	-	-	-	-	-	-
7 October 2010		-	230,000	230,000	-	-	-	-	-	-
21 October 2010		-	80,000	80,000	-	-	-	-	-	-
4 November 2010		-	425,000	425,000	-	-	-	-	-	-
2 December 2010		-	110,000	110,000	-	-	-	-	-	-
13 January 2011		-	180,000	180,000	-	-	-	-	-	-
27 January 2011		-	425,000	425,000	-	-	-	-	-	-
2 February 2011		-	25,000	25,000	-	-	-	-	-	-
10 February 2011		-	470,000	470,000	-	-	-	-	-	-
24 February 2011		-	190,500	190,500	-	-	-	-	-	-
24 March 2011		-	25,000	25,000	-	-	-	-	-	-
21 April 2011		-	20,000	15,000	5,000	4,977	4,976	(1)	0.38	0.47
5 May 2011		-	230,000	-	230,000	227,841	227,754	(87)	17.51	21.33
19 May 2011		-	272,000	-	272,000	268,083	267,961	(122)	20.60	25.09
16 June 2011		-	40,000	-	40,000	39,011	39,007	(4)	3.00	3.65
						539,912	539,698	(214)		
						1,154,458	1,153,183	(1,275)		

**5.2.3 Government of Pakistan - IJARA sukuk**

Profit rate (%)	As at 1 July	Number of certificates		As at 30 June	Balance as at 30 June 2012			Market value	
		Purchases during the year	Sales / Mature during the year		Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Number of certificates) -----									
----- (Rupees in '000) -----									
<b>2012</b>									
15 November 2010	11.94%	-	200,000	200,000	201,577	200,100	(1,477)	15.383	18.736
<b>2011</b>									
15 November 2010	13.45%	-	10,000	10,000	50,000	50,078	78	0.038	0.047

**5.3 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 30 June 2012, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment*	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
----- (Rupees in '000) -----						
Investment in debt securities	Maple Leaf Cement Factory Limited - Sukuk I	6,106	1,416	4,690	0.36	0.36
Investment in debt securities	Pace Pakistan Limited	32,930	7,470	25,460	1.96	1.95
Investment in debt securities	Telecard Limited	27,497	24,029	3,468	0.27	0.27
Investment in debt securities	Escorts Investment Bank	2,753	-	2,753	0.21	0.21
Investment in debt securities	Maple Leaf Cement Factory Limited - Sukuk II	260	260	-	-	-

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**5.3.1** At the time of purchase, the above investments were in compliance of the said circular (i.e.investment grade) and were subsequently downgraded to D due to default in payments of principal and mark-up due on respective coupon dates.

<b>5.4 Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' - held for trading</b>	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
Fair value of investments	<b>1,067,991</b>	1,716,445
Less: Cost of investments	<b>(1,117,631)</b>	(1,739,736)
	<b>(49,640)</b>	(23,291)
Add: Net unrealised diminution in fair value of investments at beginning of the year	<b>23,291</b>	27,569
Add: Provision against non performing exposure	<b>28,510</b>	1,934
Less: Realised on disposal during the year	<b>(1,239)</b>	(9,013)
	<b>50,562</b>	20,490
	<b>922</b>	(2,801)

**5.5 Movement in provision against debt securities**

Opening balance	<b>4,405</b>	2,471
Charge for the year	<b>28,510</b>	4,405
Reversals during the year	-	(2,471)
Closing balance	<b>32,915</b>	4,405

**6 DIVIDEND AND PROFIT RECEIVABLE**

Income accrued on term finance certificates	<b>13,718</b>	23,217
Income accrued on government securities	<b>3,707</b>	866
Profit receivable on bank deposits	<b>333</b>	252
Income accrued on term deposit receipt	<b>2,198</b>	-
	<b>19,956</b>	24,335

**7 ADVANCES, DEPOSITS AND OTHER RECEIVABLES**

Advance tax		<b>3,927</b>	3,927
Advance against issue of term finance certificates of Bank AL Habib Limited		-	25,000
Deposit with National Clearing Company of Pakistan Limited	7.1	<b>3,479</b>	2,785
Deposit with Central Depository Company of Pakistan Limited	7.2	<b>486</b>	200
Receivable from Pakistan Cash Fund (fund under common management)		-	10,000
Receivable from Pakistan Stock Market Fund (fund under common management)		-	233
Others		<b>82</b>	-
		<b>7,974</b>	42,145

**7.1** This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS).

**7.2** This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>8</b>	<b>PAYABLE TO ARIF HABIB INVESTMENTS LIMITED - MANAGEMENT COMPANY</b>		<b>2012</b>	<b>2011</b>
			<b>(Rupees in '000)</b>	
	Management fee payable	8.1	1,600	2,234
	Sales load payable		12	104
	Sindh sales tax payable on management fee		256	-
			<b>1,868</b>	<b>2,338</b>

**8.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund and in any case it shall not exceed the limit prescribed by the NBFC Regulations, 2008. During the year, the management company has charged its remuneration at the rate of 1.50 percent per annum of the average annual net assets of the Fund. The remuneration is paid to the Management Company monthly in arrears.

**8.2** During the current year, the Sindh Government has levied General Sales Tax (GST) at the rate of 16% on the remuneration of the Management Company through the enactment of Sindh Sales Tax on Services Act, 2011.

**9 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF  
PAKISTAN LIMITED - TRUSTEE**

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure as amended by the Trustee of the Fund vide letter no. CDC/T&C-SII/DH/1637/2010 dated 18 December 2010, is applicable based on net assets of the Fund.

<b>Amount of Funds Under Management (Average NAV)</b>	<b>Tariff per annum</b>
Up to Rs. 1 billion	Rs. 0.6 million or 0.17% p.a. of NAV, whichever is higher
Rs. 1 billion to Rs 5 billion	Rs. 1.7 million plus 0.085% p.a. of NAV exceeding Rs. 1 billion
Over Rs. 5 billion	Rs. 5.1 million plus 0.07% p.a. of NAV exceeding Rs. 5 billion

**10 PAYABLE TO THE SECURITIES AND EXCHANGE  
COMMISSION OF PAKISTAN**

As per Schedule II of the NBFC Regulations 2008, an income scheme is required to pay an amount equal to 0.075 percent of the average annual net assets of the Scheme as annual fee to the SECP.

<b>11</b>	<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>		<b>2012</b>	<b>2011</b>
			<b>(Rupees in '000)</b>	
	Auditors' remuneration		335	420
	Legal and professional		146	200
	Brokerage payable		935	5
	Others		640	1,188
			<b>2,056</b>	<b>1,813</b>

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**12 CONTINGENCIES AND COMMITMENTS**

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on 14 December 2010, the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 30 June 2012 amounted to Rs. 18.308 million. (NAV per unit: Re. 0.73)

**13 AUDITORS' REMUNERATION**

	<b>2012</b>	2011
	<b>(Rupees in '000)</b>	
Annual audit fee	<b>270</b>	225
Half yearly review fee	<b>150</b>	125
Other certifications and services	<b>155</b>	155
Out of pocket expenses	<b>35</b>	28
	<b><u>610</u></b>	<u>533</u>

**14 EARNINGS PER UNIT**

Earnings per unit has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating earnings per unit is not practicable.

**15 TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the NBFC Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner explained above, no provision for taxation has been made in these financial statements.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**16 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS**

Related parties / Connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

The transactions with related parties / connected persons are in the normal course of business and at contracted rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

All other transactions with related parties /connected persons are in the normal course of business and are carried out on agreed terms.

Details of transactions with related parties / connected persons and balances with them at year end are as follows:

<b>16.1 Details of the transactions with related parties / connected persons are as follows:</b>	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
<i>Management Company</i>		
Management fee for the year	<b>23,862</b>	29,667
Sales load for the year	<b>155</b>	710
<i>Associated Companies and Funds under common management</i>		
<i>MCB Bank Limited</i>		
Bank Charges	<b>3</b>	-
Profit on bank deposits	<b>2,911</b>	-
<i>Summit Bank Limited</i>		
Bank Charges	<b>1</b>	-
Profit on bank deposits	<b>303</b>	736
<i>Other related parties</i>		
<i>Directors and executives of the management company</i>		
Issue of 41,987 units (2011: 1,434,185 units)	<b>2,222</b>	74,492
Issue of 11,661 bonus units (2011: 37,950 units)	<b>608</b>	1,953
Redemption of 164,091 units (2011: 1,293,452 units)	<b>8,664</b>	67,383
<i>Central Depository Company of Pakistan Limited</i>		
Trustee fee for the year	<b>2,203</b>	2,763
CDS charges for the year	<b>5</b>	6
CDS Induction Charges	-	67
<i>Arif Habib Corporation Limited</i>		
Brokerage *	<b>18</b>	-

\* The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>16.2 Amounts outstanding as at the year end</b>	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
<i>Management company</i>		
Payable to Arif Habib Investments Limited - Management Company	<b>1,868</b>	2,338
<i>MCB Bank Limited</i>		
Bank balance	<b>3,178</b>	-
Profit receivable on bank deposits	<b>172</b>	-
<i>Summit Bank Limited</i>		
Bank balance	<b>454</b>	3,073
Profit receivable on bank deposits	<b>2</b>	49
<i>Directors and executives of the Management Company</i>		
Units held 34,174 (2011: 26,844 units)	<b>1,778</b>	1,428
<i>Central Depository Company of Pakistan Limited - Trustee</i>		
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>160</b>	196
Security deposit	<b>200</b>	200
<i>Pakistan Cash Fund (Fund under common management)</i>		
Receivable from Pakistan Cash Fund	-	10,000
<i>Pakistan Stock Market Fund (Fund under common management)</i>		
Receivable from Pakistan Stock Market Fund	-	233

**17 FINANCIAL RISK MANAGEMENT**

The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund primarily invests in fixed income instrument, money and debt market instrument and government securities with an objective of optimizing the return to unit holders. The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

**17.1 Market risk**

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rate. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

*Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds floating as well as fixed rate debt securities that expose the fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates .

As at 30 June 2012, the investment in debt securities exposed to interest rate risk is detailed in Note 5.1.

*Sensitivity analysis for variable rate instruments*

In case of 100 basis points increase / decrease in KIBOR on 30 June 2012, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 4.644 million (2011: Rs. 6.9 million).

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The fluctuation is interest of 100 basis points is reasonably possible in current economic environment.

*Sensitivity analysis for fixed rate instruments*

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan or Mutual Funds Association of Pakistan on 30 June 2012, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 4.81 million (2011: Rs. 3.069 million). The fluctuation is interest of 100 basis points is reasonably possible in current economic environment.

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan and Mutual Funds Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

*Other price risk*

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2012 the Fund does not hold any investment exposed to price risk, accordingly there shall be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e. term finance certificates and government securities) for change in factors other than those arising from interest rate or currency risk.

**17.2 Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It principally arises from balances with banks, receivable from sale of investment, receivable against sale of units, other receivables and deposits with central clearing companies. The credit exposures arises from investment in debt securities (before impairment) as defined in note 5.1 to these financial statements.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

*Credit risk management*

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. However, for testing an investment for impairment the management does not consider the value of collaterals or other credit enhancements. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

*Exposure to credit risk*

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with banks, deposits with central clearing companies, receivable against sale of units and other receivables in Statement of Assets and Liabilities. The credit exposure arises from investment in debt securities (before impairment) as detailed in note 5.1 to these financial statements.

*Settlement risk*

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

*Balances with banks*

As at 30 June 2012, the Fund kept surplus liquidity with banks having credit rating ranging from AAA to A. The rating to respective banks are assigned by reputable credit rating agencies. The rating of the banks is monitored by the Fund Manager and Investment Committee.

*Investment in fixed income securities*

Investment in treasury bills, Pakistan Investment Bonds and GOP IJARA sukuk does not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan and the management does not expect to incur any credit loss on such investments.

*Investment in debt securities*

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery is appeared to be unlikely from customary measures like restructuring or negotiations.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

The analysis below summarises the credit quality of the Fund's investment in term finance certificates and sukuk certificates as at 30 June:

<b>Debt Securities by rating category</b>	<b>2012</b>	<b>2011</b>
	<b>Percentage</b>	
AA, AA-	<b>83.46%</b>	74.42%
A, A+	-	7.44%
BBB, BBB+	<b>3.35%</b>	7.00%
Non-investment grade	<b>0.52%</b>	-
Non performing	<b>12.67%</b>	11.14%
	<b><u>100%</u></b>	<b><u>100%</u></b>

*Receivables against sale of units*

These represents amount held under distribution accounts maintained by the management company for receipt of subscription money from unit holders. The amount has been cleared subsequently by the management company.

*Advances, deposits and other receivables*

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties. Further, the other receivable comprising dues from funds under common management on account of conversion of units and has recovered those amount subsequently from respective funds under common management.

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

*Past due and impaired assets*

None of the above financial assets were considered to be past due or impaired in 2012 and 2011 except for the exposures and the provisions there against as provided in note 5.1. For those assets that are not past due it is believed that the risk of default is minimal and the capital repayments will be made in accordance with the agreed terms and conditions. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment.

**17.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting it's obligations arising from it's financial liabilities that are settled by delivering cash or other financial assets or that such obligations will

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

have to be settled in a manner disadvantageous to the Funds. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders.

*Management of liquidity risk*

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. For the purpose of making redemptions, the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets up to 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by the Fund Manager on daily basis and by the Investment Committee on quarterly basis. The aim of the review is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the management company.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows:

	30 June 2012			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	-	-	-	-
Payable to Arif Habib Investments Limited - Management Company	1,868	-	-	1,868
Payable to Central Depository Company of Pakistan Limited - Trustee	160	-	-	160
Accrued expenses and other liabilities	1,779	-	-	1,779
	<u>3,807</u>	<u>-</u>	<u>-</u>	<u>3,807</u>
	30 June 2011			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable on redemption of units	1,389	-	-	1,389
Payable to Management Company	2,338	-	-	2,338
Payable to Central Depository Company of Pakistan Limited - Trustee	196	-	-	196
Accrued expenses and other liabilities	815	-	-	815
	<u>4,738</u>	<u>-</u>	<u>-</u>	<u>4,738</u>

The table above shows the undiscounted cashflows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Unit holders' fund risk management**

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations 2008, to maintain minimum fund size to Rs. 100 million 1 July 2012. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holder's funds are to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

**18 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

**30 June 2012**

*'At fair value through profit or loss' Held for trading*  
 - Fixed income and other debt securities

<b>Level 2</b>	<b>Level 3</b>
(Rupees in '000)	
<b>664,018</b>	403,973

30 June 2011

*'At fair value through profit or loss' Held for trading*  
 - Fixed income and other debt securities

1,221,092	824,894
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**19 DISTRIBUTIONS BY THE FUND**

**19.1 Distributions during the year**

<i>Date of distributions</i>	<b>For the year ended 30 June 2012</b>				
	<b>Distribution per unit</b>	<b>Bonus</b>		<b>Cash</b>	<b>Total</b>
	Units	Amount		(Rupees in '000)	-----
29 September 2011	0.8	465,054	24,282	1,517	25,799
26 January 2012	1.37	766,805	40,230	2,599	42,829
28 March 2012	1.1	523,299	27,313	2,087	29,400
		1,755,158	91,825	6,203	98,028
<i>Date of distributions</i>	<b>For the year ended 30 June 2011</b>				
<i>Date of distributions</i>	<b>Distribution per unit</b>	<b>Bonus</b>		<b>Cash</b>	<b>Total</b>
<i>Date of distributions</i>	Units	Amount		(Rupees in '000)	-----
30 September 2010	1.15	842,537	43,323	3,251	46,574
31 December 2010	1.42	919,246	47,718	4,014	51,732
31 March 2011	1.5	996,845	49,705	4,240	53,945
		2,758,628	140,746	11,505	152,251

The Board of Directors on 30th September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund, in the form of cash or bonus units or in any other form on monthly / quarterly basis. However, the final distributions to the Fund is recommended and approved by the Board of Directors of the Management Company.

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**20 SUPPLEMENTARY NON FINANCIAL INFORMATION**

The information regarding pattern of unit holding, list of top ten brokers, attendance at the meetings of the Board of Directors of the management company and members of the Investment Committee are as follows:

**20.1 Pattern of unit holding:**

	As at 30 June 2012		
	Number of unit holders	Investment amount	Percentage investment
	----- (Rupees in '000) -----		
Individuals	1,095	523,153	40.22%
Directors	2	1,201	0.09%
Insurance companies	6	271,613	20.88%
Bank / DFIs	17	83,770	6.44%
Retirement funds	64	350,191	26.92%
Others	50	70,827	5.45%
	<b>1,234</b>	<b>1,300,756</b>	<b>100.00%</b>

	As at 30 June 2011		
	Number of unit holders	Investment amount	Percentage investment
	----- (Rupees in '000) -----		
Individuals	1,355	796,218	43.90%
Directors	2	1,072	0.06%
Insurance companies	8	215,850	11.90%
Bank / DFIs	23	469,470	25.89%
Retirement funds	77	322,720	17.79%
Public Limited companies	6	8,250	0.45%
	<b>1,471</b>	<b>1,813,580</b>	<b>100.00%</b>

**20.2 Top ten brokers / dealers by percentage of commission paid:**

	2012 Percentage
1 BMA Capital Management Limited	28.33%
2 Invest Capital Investment Bank Limited	15.51%
3 JS Global Capital Limited	13.49%
4 KASB Securities Limited	12.32%
5 Elixir Securities Pakistan (Private) Limited	6.48%
6 Arif Habib Investments Limited	4.78%
7 Invisor Securities (Private) Limited	4.68%
8 Invest & Finance Securities (Private) Limited	4.17%
9 Invest One Markets Limited	3.49%
10 ICON Securities (Private) Limited	2.64%
	2011 Percentage
1 Alfalah Securities Limited	22.91%
2 JS Global Capital limited	15.73%
3 Invest & Finance Securities (Private) Limited	15.20%
4 ICON Securities (Private) Limited	9.70%
5 Invest Capital Investment Bank Limited	9.22%
6 Invisor Securities (Private) Limited	6.77%
7 Global Securities Pakistan Limited	5.93%
8 BMA Capital Management Limited	5.39%
9 KASB Securities Limited	3.25%
10 Atlas Capital Markets (Private) Limited	2.13%

**PAKISTAN INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**20.3 Attendance at meetings of Board Of Directors:**

During the year, nine board meetings were held on 4 July 2011, 8 August 2011, 10 September 2011, 22 September 2011, 26 October 2011, 27 January 2012, 29 March 2012, 27 April 2012 and 25 June 2012. Information in respect of attendance by Directors in the meetings is given below:

Information in respect of attendance by Directors in the meetings is given below:

Name of Directors	Designation	Number of Meetings			Meetings not attended
		Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	9	4	5	89th, 90th, 93rd, 96th and 97th meeting
Mr. Nasim Beg	Executive Vice Chairman	9	9	0	
Mr. Yasir Qadri	Chief Executive Officer	9	9	0	
Dr. Syed Salman Ali Shah	Director	9	8	1	92nd meeting
Mr. Haroun Rashid	Director / Chairman Audit Committee	9	6	3	91st, 92nd and 95th meeting
Mr. Ahmed Jahangir	Director	9	7	2	91st and 92nd meeting
Mr. Samad A. Habib	Director	9	6	3	89th, 91st, 96th meeting
Mr. Mirza Mehmood Ahmed	Director	9	7	2	89th and 97th meeting
Mr. M. Saqib Saleem	Chief Financial Officer & Company Secretary	9	9	0	

**20.4 Particulars of Investment Committee and Fund Manager:**

Details of members of the investment committee of the Fund are as follows:

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	17 Years
Mr. Kashif Rafi	SVP - Investments	MBA, CFA (Level I)	11 Years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	9 Years
Mr. Syed Akbar Ali	VP - Head of Research	MBA & CFA	7 Years
Mr. Mohsin Pervaiz	VP - Investments	MBA, CFA (Level I)	11 Years
Mr. Saad Ahmed	Fund Manager	BS, MBA	7 Years

**20.5 Other funds managed by the Fund Manager:**

Pakistan Income Enhancement Fund under the management of Arif Habib Investments Limited.

**21 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on **August 15, 2012** by the Board of Directors of the Management Company.

  
 Chief Executive Officer

**For Arif Habib Investments Limited**  
**(Management Company)**

  
 Director

**PAKISTAN INCOME FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Category</b>	<b>No. of Units Holders</b>	<b>No. of Units</b>
<b>Directors and their spouse(s) and minor children:</b>		
- Nasim Beg	2	22,528
- Yasir Qadri		556
<b>Banks, Development finance institutions, Non-banking finance companies &amp; Insurance companies</b>	23	6,829,034
<b>Shareholders holding 5 percent or more voting interest in the listed company</b>		
American Life Insurance Company Pakistan Limited	1	2,689,671
National Refinery Executive Staff Post Retirement Medical Benefit Fund	1	1,531,173
<b>Individuals</b>	1095	10,051,329
<b>Others</b>	112	3,869,464
	1,234	24,993,755

**PAKISTAN INCOME FUND**  
**PETTERN OF UNIT HOLDING BY SIZE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

No. of Unit Holders	Units Holdings	Total Units Held
814	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	711,468.59
124	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	882,650.33
63	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	758,687.77
27	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	468,054.21
34	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	759,375.58
16	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	451,594.68
15	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	490,314.71
14	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	522,160.37
11	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	467,871.84
7	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	334,175.66
8	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	419,633.05
7	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	401,883.97
12	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	755,121.07
2	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	133,450.92
3	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	219,780.56
1	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	78,709.52
3	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	247,123.20
2	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	176,243.79
2	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	186,490.06
2	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	193,457.44
4	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	412,051.71
2	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	212,838.09
4	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	452,059.13
2	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	232,591.86
3	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	366,910.92
3	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	383,156.24
1	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	132,576.58
2	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	273,248.13
2	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	285,055.45
2	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	294,225.43
1	(SHAREHOLDING FROM 150001.0000 TO 155000.0000)	150,466.23
3	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	473,746.59
1	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	165,450.66
2	(SHAREHOLDING FROM 170001.0000 TO 175000.0000)	345,036.55
1	(SHAREHOLDING FROM 180001.0000 TO 185000.0000)	183,452.79
1	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	191,652.06
1	(SHAREHOLDING FROM 195001.0000 TO 200000.0000)	196,047.76
2	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	403,057.86
1	(SHAREHOLDING FROM 210001.0000 TO 215000.0000)	211,660.88
1	(SHAREHOLDING FROM 225001.0000 TO 230000.0000)	229,099.21
1	(SHAREHOLDING FROM 250001.0000 TO 255000.0000)	253,594.81
1	(SHAREHOLDING FROM 255001.0000 TO 260000.0000)	257,679.77
1	(SHAREHOLDING FROM 270001.0000 TO 275000.0000)	273,473.42
1	(SHAREHOLDING FROM 275001.0000 TO 280000.0000)	279,883.50
1	(SHAREHOLDING FROM 285001.0000 TO 290000.0000)	288,692.90
1	(SHAREHOLDING FROM 460001.0000 TO 465000.0000)	460,501.00
1	(SHAREHOLDING FROM 545001.0000 TO 550000.0000)	545,408.11
1	(SHAREHOLDING FROM 555001.0000 TO 560000.0000)	555,846.80
1	(SHAREHOLDING FROM 645001.0000 TO 650000.0000)	647,936.29
1	(SHAREHOLDING FROM 820001.0000 TO 825000.0000)	821,285.44
1	(SHAREHOLDING FROM 1030001.0000 TO 1035000.0000)	1,034,380.84
1	(SHAREHOLDING FROM 1080001.0000 TO 1085000.0000)	1,081,588.72
1	(SHAREHOLDING FROM 1530001.0000 TO 1535000.0000)	1,531,173.21
1	(SHAREHOLDING FROM 2705001.0000 TO 2710000.0000)	2,709,671.45
<b>1,234</b>	<b>Total :</b>	<b>24,993,755</b>

**PAKISTAN INCOME FUND  
PERFORMANCE TABLE  
FOR THE YEAR ENDED JUNE 30, 2012**

Performance Information	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 *
Total Net Assets Value – Rs. in million	1,301	1,814	2,102	2,370	6,070	9,406	5,687	3,707	3,401	1,500	310
Net Assets value per unit – Rupees	52.0400	53.2000	52.2200	53.0600	51.4800	55.4700	55.1100	54.8500	54.5300	56.7300	51.9400
Highest offer price per unit	54.6275	54.0598	53.6949	54.0600	54.3600	56.2000	55.8300	55.6000	55.2800	57.5100	54.2700
Lowest offer price per unit	52.7724	51.9209	51.3634	47.8800	50.9500	50.8000	50.7600	50.6200	51.4700	52.5700	52.4900
Highest Redemption price per unit	53.8900	53.3300	52.9700	53.3300	53.6300	55.4400	55.0800	54.8500	54.5300	56.7300	51.8300
Lowest Redemption price per unit	52.0600	51.2200	50.6700	47.2300	50.2600	50.1100	50.0700	49.9400	50.7800	50.2000	50.1300
Distribution per unit (interim) – Rs. (28 Mar-08)		-	-	-	3.3000	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-08)		-	-	1.3000	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-09)		-	1.8700	-	-	-	-	-	-	-	-
Net Assets Value before distribution		-	52.9500	-	-	-	-	-	-	-	-
Net Assets Value after distribution		-	51.0800	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Dec-09)		-	2.0000	-	-	-	-	-	-	-	-
Net Assets Value before distribution		-	52.8200	-	-	-	-	-	-	-	-
Net Assets Value after distribution		-	50.8200	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Mar-10)		-	1.4000	-	-	-	-	-	-	-	-
Net Assets Value before distribution		-	52.0600	-	-	-	-	-	-	-	-
Net Assets Value after distribution		-	50.6600	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (30 Jun-10)		-	1.1000	-	-	-	-	-	-	-	-
Net Assets Value before distribution		-	52.8200	-	-	-	-	-	-	-	-
Net Assets Value after distribution		-	52.2200	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Sep-10)		1.1500	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution		52.5700	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution		51.4200	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Dec-10)		1.4200	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution		53.3300	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution		51.9100	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Mar-11)		1.5000	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution		52.9100	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution		51.4100	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (30 Jun-11)		1.2400	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution		53.2000	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution		51.9600	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-11)	0.8000										
Net Assets Value before distribution	53.0100										
Net Assets Value after distribution	52.2100										
Distribution per unit (interim) – Rs. (26 Jan-12)	1.3700										
Net Assets Value before distribution	53.8300										
Net Assets Value after distribution	52.4600										
Distribution per unit (interim) – Rs. (28 Mar-12)	1.1000										
Net Assets Value before distribution	53.2900										
Net Assets Value after distribution	52.1900										
Distribution per unit (interim) – Rs. (30 Jun-12)	1.4000										
Net Assets Value before distribution	53.2800										
Net Assets Value after distribution	51.8800										
<b>Average Annual Return - %</b>											
One year	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Two year	9.88	14.10	11.38	9.01	9.97	10.40	9.89	8.56	10.18	-	-
Three year	12.18	13.20	10.65	9.57	10.03	10.16	9.07	10.01	-	-	-
Net Income for the period – Rs. in million	134.92	216.13	283.72	281.27	842.17	918.14	523.84	315.81	284.42	154.30	10.68
Income Distribution – Rs. in million	174.48	194.55	-	-	-	-	-	-	-	-	-
Total return of the fund	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Dividend distribution	9.34	10.62	12.56	7.30	9.50	10.50	10.00	9.60	9.00	12.00	3.50
Capital Growth	0.05	1.88	1.45	1.51	(0.23)	0.22	0.12	0.04	(1.38)	1.08	1.25

Fund keeps the average duration of its portfolio less than two years.

\* First year of operations from the period 1 March 2002 to 30 June 2002.