

PAKISTAN INCOME FUND CONTENTS

1	Fund's Information	1
2	Report of the Director of the Management Company	2
3	Report of the Fund Manager	6
4	Trustee Report to the Unit Holders	7
5	Statement of Compliance with the Code of Corporate Governance	8
6	Review Report to the Unit Holders on the Statement of Compliance with the Best Practices of the Code of Corporate Governance	10
7	Independent Auditor's Report to the Unit Holders	11
8	Statement of Assets and Liabilities	13
9	Income Statement	14
10	Distribution Statement	15
11	Statement of Movement in Unit Holders' Fund	16
12	Cash Flow Statement	17
13	Notes to and Forming part of the Financial Statements	18
14	Pattern of holding as per Requirement of Code of Corporate Governance	44
15	Pattern of Unit Holding (Size)	45
16	Performance Table	46

PAKISTAN INCOME FUND FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi
Board of Directors of the Management Company	Mian Mohammad Mansha Chairman(subject to the approval of SECP) Mr. Nasim Beg Executive Vice Chairman Mr. Yasir Qadri Chief Executive (subject to the approval of SECP) Syed Salman Ali Shah Director (subject to the approval of SECP) Mr. Haroun Rashid Director (subject to the approval of SECP) Mr. Ahmed Jahangir Director (subject to the approval of SECP) Mr. Samad A. Habib Director Mr. Mirza Mahmood Ahmad Director (subject to the approval of SECP)
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem
Audit Committee	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400
Bankers	Summit Bank Limited Allied Bank Limited Bank Alfalah Limited Habib Bank Limited MCB Bank Limited NIB Bank Limited United Bank Limited Askari Bank Limited Bank AL Habib Limited Faysal Bank Limited Habib Metropolitan Bank Limited Meezan Bank Limited Standard Chartered Bank (Pakistan) Limited
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530
Registrar	Gangjees Registrar Services (Pvt.) Limited. Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.
Rating	PACRA: AM2 (Positive Outlook) - Management Quality Rating assigned to Management Company

PAKISTAN INCOME FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

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 ended 30th June, 2011.

Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US\$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US\$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US\$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US\$ 2.5 billion - taking the FX reserves to a record level of US\$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection 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.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs commanded improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as 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 the year in both primary as well as secondary markets.

Future outlook

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates.

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.

Funds Performance

The net assets of the fund were around PKR 1.8 billion as on June 30, 2011. 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 12.5% during the period under review which was marginally lower than the Fund's benchmark return of 12.6% during the same period.

PAKISTAN INCOME FUND

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

FOR THE YEAR ENDED JUNE 30, 2011

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year. The fund continued to deploy assets cautiously, without aggressively chasing available instruments, and has maintained a strong focus on the credit quality of the instruments. Considering the risk-return profile of government papers, the fund increased its exposure significantly towards government papers while maintaining decent allocations towards some good quality TFCs.

In addition, the portfolio return continued its upward movement during the period while at the same time maintaining the exposure to interest rate risk on the lower side. The Fund yields for the period under review remained as follows:

Performance Information (%)	PIF	Benchmark
Last twelve Months Return(Annualized)	12.5%	12.6%
Since Inception (CAGR)	10.7%	8.5%

During the year your fund earned net income of Rs 216 million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 42.3 million (i.e. Rs. 1.24 per unit). In addition to Final distribution, the Management Company has approved following interim distribution during the year ended 30th June, 2011.

Date of Distribution	Distribution PKR / Unit
30th September, 2010	1.15
31st December, 2010	1.42
31st March, 2011	1.50

During the period, units worth Rs.0.71 billion (including Rs. 181.38 million worth of bonus units) were issued and units with a value of Rs. 1.036 billion were redeemed. As on 30th June 2011 the NAV of the Fund was Rs. 53.20 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, 2011 amounted to Rs 15.6 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, 2011**

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 the 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. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011. Statement showing attendance of Board Meeting is as under:-

Attendance of Board Meeting from 1st July 2010 to 30th June 2011.

S.#	Name	Designation	Meetings			
			Total	Attended	Eligible to Attend	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	15	15	15	-
2.	Mr. Nasim Beg **	E. Vice Chairman	15	15	15	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	15	15	15	-
4.	Mr. Muhammad Kashif *	Former Director	15	11	15	4
5.	Syed Ajaz Ahmed *	Former Director	15	13	15	2
6.	Mr. Sirajuddin Cassim *	Former Director	15	4	15	11
7.	Mr. S. Gulrez Yazdani *	Former Director	15	13	15	2
8.	Mr. Samad A. Habib ***	Director	15	5	5	-
9.	Mian Mohammad Mansha ****	Chairman	15	1	1	-
10.	Mr. Yasir Qadri ****	Chief Executive	15	1	1	-
11.	Syed Salman Ali Shah ****	Director	15	1	1	-
12.	Mr. Haroun Rashid ****	Director	15	1	1	-
13.	Mr. Ahmed Jahangir ****	Director	15	1	1	-
14.	Mr. Mirza Mahmood Ahmad ****	Director	15	1	1	-

* Resigned on 27th June, 2011

** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.

*** Mr. Samad A. Habib was elected as director on 7th February, 2011 and his appointment approved by SECP on 31st March, 2011.

****Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

- m. The trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary of the management company and their spouses and minor children, as are under:-

S. #	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Baig	Executive Vice Chairman	-	554.1339	37.6672
2.	Syed Ajaz Ahmed	Former Director	-	-	632.7601

**PAKISTAN INCOME FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

External Auditors

The fund's external auditors, Messers KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. 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, 2012.

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**

Karachi: September 20, 2011

PAKISTAN INCOME FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

Fund Type and Category (to be changed)

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.

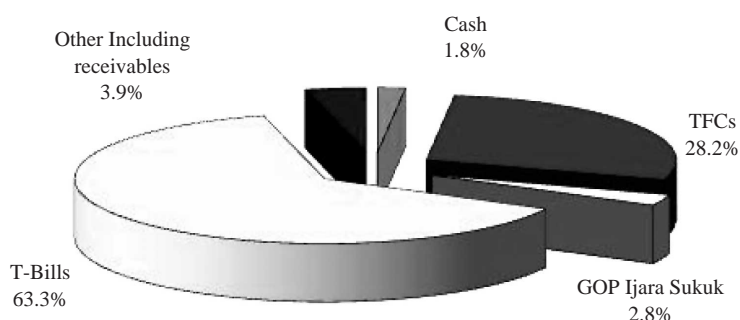
Manager's Review

The fund was able to generate an annualized return of 12.5% during the year under review, which was marginally lower than the fund's benchmark return of 12.6% during the same period.

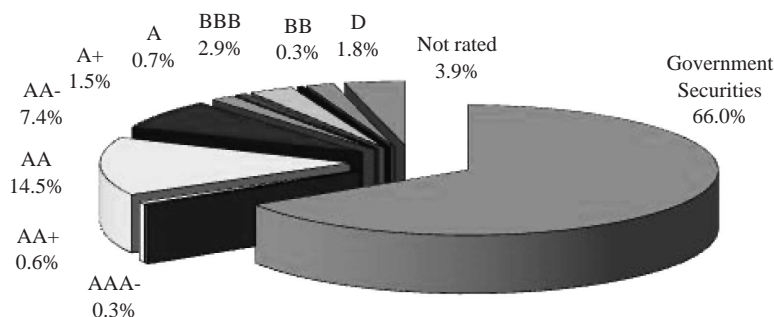
The fund remained focused towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the fund continued to emphasize on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs. The fund's allocation towards TFCs was on a higher side during the first half of the year under review with an average allocation of over 35% of net assets. The exposure towards Term Finance Certificates was later reduced to below 30% during the second half and closed the year at a level of 28%.

The net assets of the fund stood at PKR 1.8 billion by the end of June 2011, which was down by around 14% during the period under review. The decline in net assets was in line with the industry trend as money market funds continued to grow during the period while income funds kept on depleting in terms of assets under management amid investors' preference for the former.

Asset Allocation as on June 30, 2011 (% of total assets)



Asset Quality as of June 30, 2011 (% of total assets)



Mr. Umair Khan
Fund Manager

Karachi: September 20, 2011

PAKISTAN INCOME FUND TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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

The Pakistan Income Fund (the Fund), an open-end Fund was established under a trust deed dated October 23, 2001, executed between Arif Habib Investments Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 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 26, 2011

PAKISTAN INCOME FUND STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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 contained in Listing Regulations of Lahore 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.

The Management Company 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 three independent non-executive directors out of a total strength of eight directors.
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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company, on the same day due to merger as fully explained in note 1 to the financial statements.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
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 (CE) has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
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, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated and signed by the Chairman of the Board of Directors.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive.
12. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CE 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 financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. 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.
18. The Company has an effective internal audit function which was headed by the Head of Internal Audit who resigned on amalgamation. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

**PAKISTAN INCOME FUND
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2011**

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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
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 IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the board

**Yasir Qadri
Chief Executive**

Karachi: September 20, 2011

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance 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 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all the controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail 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 2011.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi
Dated: September 20, 2011

PAKISTAN INCOME FUND INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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 2011, and the income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 2011 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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 2011, 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.

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. 15.6 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.

The financial statements of the Fund for the year ended 30 June 2010 were audited by another firm of Chartered Accountants who vide their report dated 03 August 2010 issued an qualified report thereon in respect of non provision of Workers' Welfare Fund in the financial statements.

**Date: September 20, 2011
Karachi**

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

FINANCIAL STATEMENTS

**PAKISTAN INCOME FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2011**

	Note	2011	2010
(Rupees in '000)			
Assets			
Balances with banks	4	32,102	16,396
Receivable against sale of units		5,772	4,990
Investments	5	1,716,445	2,045,986
Dividend and profit receivable	6	24,335	32,074
Advances, deposits and other receivables	7	42,145	9,323
Total assets		1,820,799	2,108,769
Liabilities			
Payable on redemption of units		1,389	1,134
Payable to Management Company	8	2,338	2,743
Payable to Central Depository Company of Pakistan Limited - Trustee	9	196	258
Payable to Securities and Exchange Commission of Pakistan	10	1,483	1,741
Accrued expenses and other liabilities	11	1,813	1,198
Total liabilities		7,219	7,074
Contingency	12		
Net assets		1,813,580	2,101,695
Unit holders' funds (as per statement attached)		1,813,580	2,101,695
(Number of Units)			
Number of units in issue		34,090,038	40,244,515
(Rupees)			
Net asset value per unit		53.20	52.22

The annexed notes from 1 to 23 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN INCOME FUND
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	30 June, 2011	30 June, 2010
(Rupees in '000)			
Income			
Capital gain on sale of investments - net		3,504	26,711
Income from term finance and sukuk certificates		106,739	158,455
Income from government securities		151,243	113,030
Income from placements		673	7,317
Income from certificates of investment		-	1,856
Income from term deposit receipts		7,236	19,981
Income from reverse repurchase transactions		-	1,160
Profit on bank deposits		3,043	8,562
		<u>272,438</u>	<u>337,072</u>
Unrealised (diminution) / appreciation in value of investments 'at fair value through profit or loss' -net	5.3	(2,801)	13,403
Provision against non performing exposures		(1,934)	(2,471)
Reversal of income from term finance and sukuk certificates		-	(382)
Total income		<u>267,703</u>	<u>347,622</u>
Expenses			
Remuneration of the Management Company	8.1	29,667	34,815
Remuneration of Central Depository Company of Pakistan Limited-Trustee	9	2,763	3,321
Annual fee - Securities and Exchange Commission of Pakistan	10	1,483	1,741
Securities transaction cost		223	690
Settlement and bank charges		475	1,229
Fees and subscription		258	258
Legal and professional charges		77	83
Auditors' remuneration	13	533	496
Printing and related costs		172	141
Total expenses		<u>35,651</u>	<u>42,774</u>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(15,924)	(21,131)
Net income for the year		<u>216,128</u>	<u>283,717</u>
Earnings per unit	14		

The annexed notes from 1 to 23 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN INCOME FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	30 June, 2011	30 June, 2010
		(Rupees in '000)	
Undistributed income brought forward			
- Realised gains		117,150	220,382
- Unrealised losses		(27,569)	(83,787)
		89,581	136,595
Net income for the year		216,128	283,717
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2010 - Date of distribution: 5 July 2010 (2009: Rs. 2.35 per unit)			
- Cash distribution		(3,642)	(4,581)
- Issue of bonus units		(40,631)	(100,401)
		(44,273)	(104,982)
Interim distributions during the year	20.1		
- Cash distributions		(11,505)	(30,245)
- Issue of bonus units		(140,746)	(195,504)
		(152,251)	(225,749)
Undistributed income carried forward		109,185	89,581
Undistributed income carried forward			
- Realised gains		132,476	117,150
- Unrealised losses		(23,291)	(27,569)
		109,185	89,581

The annexed notes from 1 to 23 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN INCOME FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2011**

Note	30 June, 2011	30 June, 2010
	(Rupees in '000)	
Net assets at the beginning of the year	2,101,695	2,369,938
Issue of 10,203,316 units (2010: 57,734,013 units)	531,644	3,003,820
Issue of 794,817 bonus units for the year ended 30 June 2010 (2009: 1,979,902 bonus units)	40,631	100,401
Issue of 2,758,628 bonus units during the year (2010: 3,843,232 bonus units)	140,746	195,504
Redemption of 19,881,238 units (2010: 1,029,957 units)	(1,036,664)	(3,542,085)
	(323,643)	(242,360)
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	15,924	21,131
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2010 (Date of distribution: 5 July 2010) (2009: Rs. 2.35 per unit)		
- Cash distribution	(3,642)	(4,581)
- Issue of bonus units	(40,631)	(100,401)
	(44,273)	(104,982)
Interim distributions during the year		
- Cash distributions	(11,505)	(30,245)
- Bonus units	(140,746)	(195,504)
	(152,251)	(225,749)
Net income for the year (excluding unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains)	215,425	243,603
Capital gain on sale of investments	3,504	26,711
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	(2,801)	13,403
Net income for the year (including unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains on sale of investments)	216,128	283,717
Net assets at the end of the year	1,813,580	2,101,695
	(Rupees)	
Net asset value per unit as at beginning of the year	52.22	53.06
Net asset value per unit as at end of the year	53.20	52.22

The annexed notes from 1 to 23 form an integral part of these financial statements.

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

Chief Executive

Director

**PAKISTAN INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011**

	30 June, 2011	30 June, 2010
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	216,128	283,717
Adjustments for:		
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss'	2,801	(13,403)
Net realised element of (gain) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	15,924	21,131
Provision against non performing exposures	1,934	2,471
	236,787	293,916
Decrease / (increase) in assets		
Investments	324,806	86,592
Dividend and profit receivable	7,739	35,243
Advances, deposits and other receivables	(32,822)	(2,383)
	299,723	119,452
(Decrease) / increase in liabilities		
Payable to Management Company	(405)	(352)
Payable to Central Depository Company of Pakistan Limited - Trustee	(62)	(25)
Payable to Securities and Exchange Commission of Pakistan	(258)	(1,391)
Accrued expenses and other liabilities	615	(544)
	(110)	(2,312)
Net cash generated from operating activities	536,400	411,056
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(15,147)	(34,826)
Net payments from sale and redemption of units	(505,547)	(505,450)
Net cash used in from financing activities	(520,694)	(540,276)
Net increase / (decrease) in cash and cash equivalents during the year	15,706	(129,220)
Cash and cash equivalents at beginning of the year	16,396	145,616
Cash and cash equivalents at beginning of the year	32,102	16,396

The annexed notes from 1 to 23 form an integral part of these financial statements.

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

Chief Executive

Director

PAKISTAN INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund (PIF) 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).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules. During the year, the registered office of the Management Company has been shifted to Techno City Corporate Tower, 8th Floor, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th 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 June 10, 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 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 (SHC). The honourable Sindh High Court (SHC) has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

Pakistan Income 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.

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 during the year. 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:

PAKISTAN INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

- 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.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

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.

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. 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 significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amount 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. 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 following significant accounting policies have been applied consistently in the preparation of these financial statements for all period presented. At present, the Fund has no item to be reported in other comprehensive income, hence total comprehensive income equals reported net income for the year as well as for comparative period.

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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 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 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 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.

PAKISTAN INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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.

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 average of the mid-rates obtained from dealers.

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. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the 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 financial assets and the transfer qualifies for derecognising in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

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.

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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) and capital gains / (losses) included in prices of units issued 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.

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in Unit Holders' Funds is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to unit holders.

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.

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.

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 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.

4. BALANCES WITH BANKS

	Note	2011	2010
		(Rupees in '000)	
In current accounts		4,024	3,611
In deposit accounts	4.1	28,078	12,785
		32,102	16,396

4.1 These deposit accounts carry mark-up at the rate ranging from 8% to 11.5% per annum (2010: 5% to 11.25% per annum).

5. INVESTMENTS

	Note	2011	2010
		(Rupees in '000)	
<i>At fair value through profit or loss- held for trading</i>			
<i>Fixed income and other debt securities</i>			
Term finance certificates	5.1	513,184	774,816
Government securities	5.2	1,203,261	1,271,170
		1,716,445	2,045,986

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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	Issue Date	Number of certificates				Balance as at June 30, 2011			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value percentage in relation to the size of the issue
		As at 1 July 2010	Purchases during the year	Sales / Mature during the year	As at 30 June 2011	Cost	Market value	Appreciation / (Diminution)			
-----Rupees in '000 -----											
30 June 2011											
Askari Bank Limited	4 February 2005	14,000	-	-	14,000	69,107	70,041	934	3.86	4.08	4.67
Askari Bank Limited	18 November 2009	13,000	-	7,000	6,000	30,086	31,011	925	1.71	1.81	1.00
Bank AL Habib Limited	7 February 2007	12,220	-	6,700	5,520	27,556	28,322	766	1.56	1.65	1.84
Bank Alfalah Limited	2 December 2009	15,000	-	8,000	7,000	34,979	35,469	490	1.96	2.07	0.70
Engro Corporation Limited	18 March 2008	39,400	-	10,000	29,400	141,619	138,180	(3,439)	7.62	8.05	3.68
Escorts Investment Bank Limited	15 March 2007	3,016	-	-	3,016	5,083	4,403	(680)	0.24	0.26	3.02
KASB Securities Limited	27 June 2007	8,500	-	-	8,500	24,524	28,028	3,504	1.55	1.63	8.50
Maple Leaf Cement Factory Limited	3 December 2007	2,000	-	-	2,000	6,991	6,107	(884)	0.34	0.36	0.13
Maple Leaf Cement Factory Limited	30 September 2010	-	75	-	75	375	262	(113)	0.01	0.02	0.00
Pace Pakistan Limited	15 February 2008	10,000	-	-	10,000	42,599	32,929	(9,670)	1.82	1.92	3.33
Pakistan Mobile Communications Limited	1 October 2007	19,250	-	19,250	-	-	-	-	-	-	-
Pakistan Mobile Communications Limited	28 October 2008	1,535	-	1,535	-	-	-	-	-	-	-
Searle Pakistan Limited	9 March 2006	4,000	-	4,000	-	-	-	-	-	-	-
Telecard Limited (refer note 5.1.2)	27 May 2005	19,975	-	-	19,975	32,299	28,630	(3,669)	1.58	1.67	4.16
Trust Investment Bank Limited	15 November 2005	7,500	-	7,500	-	-	-	-	-	-	-
Trust Investment Bank Limited	4 July 2008	10,000	-	-	10,000	31,237	29,566	(1,671)	1.63	1.72	8.33
United Bank Limited	8 September 2006	16,012	-	400	15,612	78,194	78,890	696	4.35	4.60	3.90
Worldcall Telecom Limited	28 November 2006	7,000	-	-	7,000	5,887	5,751	(136)	0.32	0.34	10.00
						530,536	517,589	(12,947)			
Provision against non-performing exposure (note 5.4)						-	(4,405)	(4,405)			
						530,536	513,184	(17,352)			

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Name of the Investee company	Issue Date	Number of certificates				Balance as at June 30, 2010			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value percentage in relation to the size of the issue
		As at 1 July 2009	Purchases during the year	Sales / Mature during the year	As at 30 June 2010	Cost	Market value	Appreciation / (Diminution)			
						-----Rupees in '000 -----					
30 June 2010											
Askari Bank Limited	04 February 2005	19,800	-	5,800	14,000	69,135	67,722	(1,413)	3.22	3.31	4.67
Askari Bank Limited	18 November 2009	-	13,000	-	13,000	65,212	62,482	(2,730)	2.97	3.05	2.17
Bank AL Habib Limited	07 February 2007	17,320	-	5,100	12,220	61,027	58,944	(2,083)	2.80	2.88	4.07
Bank Alfalah Limited	02 December 2009	-	25,000	10,000	15,000	74,985	71,949	(3,036)	3.42	3.52	1.50
Engro Corporation Limited	18 March 2008	44,900	6,500	12,000	39,400	189,789	175,799	(13,990)	8.36	8.59	4.93
Engro Corporation Limited	06 September 2007	-	10,000	10,000	-	-	-	-	-	-	-
Escorts Investment Bank Limited	15 March 2007	3,016	-	-	3,016	10,165	9,877	(288)	0.47	0.48	3.02
KASB Securities Limited	27 June 2007	6,000	3,000	500	8,500	36,789	40,879	4,090	1.95	2.00	8.50
Maple Leaf Cement Factory Limited	03 December 2007	-	2,000	-	2,000	6,997	8,497	1,500	0.40	0.42	0.13
NIB Bank Limited	05 March 2007	-	502	502	-	-	-	-	-	-	-
Orix Leasing Pakistan Limited	25 May 2007	31,000	-	31,000	-	-	-	-	-	-	-
Pace Pakistan Limited	15 February 2008	-	10,000	-	10,000	42,616	48,074	5,458	2.29	2.35	3.33
Pakistan Mobile Communications Limited	01 October 2007	38,250	-	19,000	19,250	45,109	47,388	2,279	2.25	2.32	2.75
Pakistan Mobile Communications Limited	28 October 2008	17,035	-	15,500	1,535	7,637	6,639	(998)	0.32	0.32	0.14
Searle Pakistan Limited	09 March 2006	4,000	-	-	4,000	4,998	4,860	(138)	0.23	0.24	5.00
Standard Chartered Bank (Pakistan) Limited	01 February 2006	10,000	-	10,000	-	-	-	-	-	-	-
Telecard Limited	27 May 2005	19,980	-	5	19,975	41,108	36,456	(4,652)	1.73	1.78	4.16
Trust Investment Bank Limited	15 November 2005	7,500	-	-	7,500	3,750	3,697	(53)	0.18	0.18	3.75
Trust Investment Bank Limited	04 July 2008	10,000	-	-	10,000	43,733	39,014	(4,719)	1.86	1.91	8.33
United Bank Limited	08 September 2006	22,012	500	6,500	16,012	80,229	77,974	(2,255)	3.71	3.81	4.00
United Bank Limited	14 February 2008	-	10,000	10,000	-	-	-	-	-	-	-
Worldcall Telecom Limited	28 November 2006	7,000	-	-	7,000	17,661	17,036	(625)	0.81	0.83	10.00
						800,940	777,287	(23,653)			
Provision against non-performing exposure						-	(2,471)	(2,471)			
						800,940	774,816	(26,124)			

5.1.1 The above include term finance certificates with fair value aggregating to Rs.0.146 million (2010: Rs. 0.329 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, Telecard Limited has defaulted in the payment of the twelfth coupon of principal due while paid accumulated mark-up there on 27 May 2011. In accordance with the requirements of Circular 1 of 2009, issued by the SECP, no further mark-up is being accrued from the date the coupon was due. Further, provision amounting to Rs 4.405 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, 2011

5.1.3 Significant terms and conditions of term finance certificates outstanding at the year end are as follows:

Name of Security	Mark-up rate (per annum)	Issue Date	Maturity Date
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
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

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5.2 Government securities

Issue Date	Tenor	Face Value				Balance as at 30 June 2011			Market value	
		As at 1 July, 2010	Purchases during the period	Sales / Matured during the period	As at June 30, 2011	Cost	Market value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investment

------(Rupees in 000)-----

Pakistan Investment Bond

30 June 2011

3 September 2009	3 Years	25,000	-	25,000	-	-	-	-	-	-
3 September 2009	5 Years	25,000	-	25,000	-	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>		

30 June 2010

03 September 2009	3 Years	-	25,000	-	25,000	24,548	24,418	(130)	1.16	1.19
03 September 2009	5 Years	-	25,000	-	25,000	24,358	24,151	(207)	1.15	1.18
03 September 2009	10 Years	-	75,000	75,000	-	-	-	-	-	-
						<u>48,906</u>	<u>48,569</u>	<u>(337)</u>		

Treasury Bills

30 June 2011

13 August 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
27 August 2009	1 Year	100,000	-	100,000	-	-	-	-	-	-
10 September 2009	1 Year	25,000	-	25,000	-	-	-	-	-	-
26 September 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
8 October 2009	1 Year	75,000	-	75,000	-	-	-	-	-	-
14 January 2010	6 Month	300,000	-	300,000	-	-	-	-	-	-
11 March 2010	1 Year	50,000	-	50,000	-	-	-	-	-	-
8 April 2010	6 Month	75,000	-	75,000	-	-	-	-	-	-
6 May 2010	1 Year	100,000	-	100,000	-	-	-	-	-	-
6 May 2010	3 Month	100,000	125,000	225,000	-	-	-	-	-	-
6 May 2010	6 Month	-	100,000	100,000	-	-	-	-	-	-
20 May 2010	3 Month	150,000	-	150,000	-	-	-	-	-	-
20 May 2010	1 Year	150,000	-	150,000	-	-	-	-	-	-
3 June 2010	3 Month	40,000	-	40,000	-	-	-	-	-	-
15 July 2010	3 Month	-	265,000	265,000	-	-	-	-	-	-
29 July 2010	3 Month	-	89,000	89,000	-	-	-	-	-	-

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5.2 Government securities

Issue Date	Tenor	Face Value				Balance as at 30 June 2010			Market value	
		As at 1 July, 2009	Purchases during the period	Sales / Matured during the period	As at June 30, 2010	Cost	Market value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investment
------(Rupees in 000)-----										
29 July 2010	1 Year	-	125,000	125,000	-	-	-	-	-	-
13 August 2010	3 Month	-	345,000	345,000	-	-	-	-	-	-
13 August 2010	6 Month	-	25,000	25,000	-	-	-	-	-	-
19 August 2010	3 Month	-	45,000	45,000	-	-	-	-	-	-
26 August 2010	3 Month	-	187,500	187,500	-	-	-	-	-	-
9 September 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
7 October 2010	3 Month	-	230,000	230,000	-	-	-	-	-	-
21 October 2010	3 Month	-	80,000	80,000	-	-	-	-	-	-
4 November 2010	3 Month	-	425,000	425,000	-	-	-	-	-	-
16 November 2010	6 Month	-	180,000	180,000	-	-	-	-	-	-
2 December 2010	3 Month	-	110,000	110,000	-	-	-	-	-	-
13 January 2011	3 Month	-	180,000	180,000	-	-	-	-	-	-
27 January 2011	3 Month	-	425,000	425,000	-	-	-	-	-	-
2 February 2011	3 Month	-	25,000	25,000	-	-	-	-	-	-
10 February 2011	3 Month	-	470,000	470,000	-	-	-	-	-	-
24 February 2011	3 Month	-	190,500	190,500	-	-	-	-	-	-
24 March 2011	3 Month	-	25,000	25,000	-	-	-	-	-	-
7 April 2011	6 Month	-	15,000	-	15,000	14,490	14,479	(11)	0.80	0.84
21 April 2011	3 Month	-	20,000	15,000	5,000	4,977	4,976	(1)	0.27	0.29
21 April 2011	6 Month	-	268,000	100,000	168,000	161,500	161,351	(149)	8.90	9.40
21 April 2011	1 Year	-	200,000	30,000	170,000	153,415	152,991	(424)	8.44	8.91
5 May 2011	3 Month	-	230,000	-	230,000	227,841	227,754	(87)	12.56	13.27
5 May 2011	6 Month	-	298,000	-	298,000	285,141	284,664	(477)	15.70	16.58
19 May 2011	3 Month	-	272,000	-	272,000	268,083	267,961	(122)	14.78	15.61
19 May 2011	6 Month	-	170,000	170,000	-	-	-	-	-	-
16 June 2011	3 Month	-	40,000	-	40,000	39,011	39,007	(4)	2.15	2.27
17 June 2011	1 Year	-	15,000	15,000	-	-	-	-	-	-
						<u>1,154,458</u>	<u>1,153,183</u>	<u>(1,275)</u>		

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Issue Date	Tenor	Face Value				Balance as at 30 June 2010			Market value	
		As at 1 July, 2010	Purchases during the period	Sales / Matured during the period	As at June 30, 2011	Cost	Market value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investment

------(Rupees in 000)-----

30 June 2010

12 February 2009	1 Year	100,000	375,000	475,000	-	-	-	-	-	-
12 February 2009	6 Month	10,000	-	10,000	-	-	-	-	-	-
26 February 2009	6 Month	-	100,000	100,000	-	-	-	-	-	-
26 February 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
26 February 2009	1 Year	-	200,000	200,000	-	-	-	-	-	-
26 March 2009	1 Year	100,000	50,000	150,000	-	-	-	-	-	-
26 March 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
09 April 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
09 April 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
09 April 2009	1 Year	-	50,000	50,000	-	-	-	-	-	-
23 April 2009	6 Month	-	100,000	100,000	-	-	-	-	-	-
07 May 2009	6 Month	-	50,000	50,000	-	-	-	-	-	-
07 May 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
21 May 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
04 June 2009	1 Year	-	25,000	25,000	-	-	-	-	-	-
13 August 2009	1 Year	-	100,000	50,000	50,000	49,371	49,313	(58)	2.35	2.41
27 August 2009	1 Year	-	200,000	200,000	-	-	-	-	-	-
27 August 2009	1 Year	-	100,000	-	100,000	98,182	98,177	(5)	4.67	4.80
10 September 2009	6 Month	-	50,000	50,000	-	-	-	-	-	-
10 September 2009	1 Year	-	100,000	100,000	-	-	-	-	-	-
10 September 2009	1 Year	-	25,000	-	25,000	24,439	24,432	(7)	1.16	1.19
10 September 2009	6 Month	-	48,000	48,000	-	-	-	-	-	-
10 September 2009	6 Month	-	30,000	30,000	-	-	-	-	-	-
10 September 2009	6 Month	-	50,000	50,000	-	-	-	-	-	-
26 September 2009	1 Year	-	200,000	150,000	50,000	48,710	48,642	(68)	2.31	2.38
26 September 2009	6 Month	-	100,000	100,000	-	-	-	-	-	-
08 October 2009	1 Year	-	75,000	75,000	-	-	-	-	-	-
08 October 2009	3 Month	-	200,000	200,000	-	-	-	-	-	-
08 October 2009	6 Month	-	250,000	250,000	-	-	-	-	-	-
08 October 2009	1 Year	-	75,000	-	75,000	72,665	72,627	(38)	3.46	3.55
22 October 2009	3 Month	-	50,000	50,000	-	-	-	-	-	-
05 November 2009	3 Month	-	65,000	65,000	-	-	-	-	-	-
03 December 2009	3 Month	-	100,000	100,000	-	-	-	-	-	-

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Issue Date	Tenor	Face Value				Balance as at 30 June 2010			Market value	
		As at 1 July, 2009	Purchases during the period	Sales / Matured during the period	As at June 30, 2010	Cost	Market value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investment
------(Rupees in 000)-----										
14 January 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
14 January 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
14 January 2010	6 Month	-	150,000	150,000	-	-	-	-	-	-
14 January 2010	6 Month	-	300,000	-	300,000	298,644	298,638	(6)	14.21	14.60
11 February 2010	6 Month	-	75,000	75,000	-	-	-	-	-	-
25 February 2010	3 Month	-	250,000	250,000	-	-	-	-	-	-
25 February 2010	3 Month	-	50,000	50,000	-	-	-	-	-	-
11 March 2010	1 Year	-	100,000	100,000	-	-	-	-	-	-
11 March 2010	1 Year	-	50,000	-	50,000	46,173	46,075	(98)	2.19	2.25
25 March 2010	1 Year	-	100,000	100,000	-	-	-	-	-	-
08 April 2010	3 Month	-	150,000	150,000	-	-	-	-	-	-
08 April 2010	6 Month	-	75,000	-	75,000	72,678	72,627	(51)	3.46	3.55
06 May 2010	1 Year	-	100,000	-	100,000	90,819	90,541	(278)	4.31	4.43
06 May 2010	3 Month	-	100,000	-	100,000	99,107	99,087	(20)	4.71	4.84
20 May 2010	3 Month	-	150,000	-	150,000	148,005	147,940	(65)	7.04	7.23
20 May 2010	1 Year	-	150,000	-	150,000	135,643	135,231	(412)	6.43	6.61
03 June 2010	3 Month	-	40,000	-	40,000	39,273	39,271	(2)	1.87	1.92
						1,223,709	1,222,601	(1,108)		

30

	Profit rate (%)	Number of Certificates				Balance as at 30 June 2011			Market value	
		As at 1 July, 2010	Purchases during the period	Sales / Mature during the period	As at June 30, 2011	Cost	Market value	Appreciation / (Dumunation)	as a percentage of net assets	as a percentage of total investment
-----Number of Certificates-----										
------(Rupees in 000)-----										
Government of Pakistan - IJARA										
30 June 2011	13.45%	-	10,000	-	10,000	50,000	50,078	78	0.028	0.029
30 June 2010	-	-	-	-	-	-	-	-	-	-
Total of government securities as at 30 June 2011						1,204,458	1,203,261	(1,197)		
Total of government securities as at 30 June 2010						1,272,615	1,271,170	(1,445)		

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5.3 Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - held for trading

	Note	2011	2010
(Rupees in '000)			
Fair value of investments		1,716,445	2,045,986
Less: Cost of investments		(1,739,736)	(2,073,555)
		<u>(23,291)</u>	<u>(27,569)</u>
Less: Net unrealised diminution in fair value of investments at beginning of the year		27,569	83,787
Less: Provision against non performing exposure		1,934	2,471
Add: Realised on disposal during the year		(9,013)	(45,286)
		<u>20,490</u>	<u>40,972</u>
		<u>(2,801)</u>	<u>13,403</u>

5.4 Movement in provision against debt securities

Opening balance		2,471	-
Charge for the year	5.1.2	4,405	2,471
Reversals during the year		(2,471)	-
Closing balance		<u>4,405</u>	<u>2,471</u>

6. DIVIDEND AND PROFIT RECEIVABLE

Income accrued on term finance certificates		23,217	30,067
Income accrued on government securities		866	1,870
Profit receivable on bank deposits		252	137
		<u>24,335</u>	<u>32,074</u>

7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Advance tax		3,927	3,927
Advance against issue of term finance certificates	7.1	25,000	-
Receivable from Pakistan Cash Fund (fund under common management)		10,000	-
Receivable from Pakistan Stock Market Fund (fund under common management)		233	2,406
Receivable from Pakistan International Element Islamic Fund (fund under common management)		-	5
Deposit with National Clearing Company of Pakistan Limited		2,785	2,785
Deposit with Central Depository Company of Pakistan Limited		200	200
		<u>42,145</u>	<u>9,323</u>

7.1 This represents advance provided against issue of term finance certificates of Bank Al-Habib Limited (BAH). The investment is unsecured and subordinated as to payment of principal and profit to all other indebtedness of BAH including deposits. The advance carries mark up at the rate of 15% per annum. Subsequent to year end BAH has issued term finance certificates against such advance.

8. PAYABLE TO MANAGEMENT COMPANY

	Note	2011	2010
(Rupees in '000)			
Management fee payable	8.1	2,234	2,637
Front end load payable		104	106
		<u>2,338</u>	<u>2,743</u>

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 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.

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 as per the tariff specified therein based on the daily net assets of the Fund. The remuneration is paid to the trustee monthly in arrears.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2011 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
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 Fund is required to pay as annual fee to the SECP, at the rate of 0.075 percent of the average annual net assets of the Scheme.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
	(Rupees in '000)	
Auditors' remuneration	420	415
Legal and professional	200	100
Brokerage payable	5	19
Others	1,188	664
	1,813	1,198

12. CONTINGENCIES

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. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honourable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response a petition has been filed with the SHC by some of Mutual Funds through their Trustees along with few investors. However, subsequent to filing of the petition, the Ministry of Labour and Manpower (the Ministry) issued a letter which states that mutual funds are not liable for WWF. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income of Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

There have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds for the recovery of WWF. On December 14, 2010, the Ministry filed its response contesting the said petition. The legal proceedings in respect of the aforementioned petition are currently in progress.

Based on the advice of the legal counsel handling the case, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds due to the clarification issued by the Ministry which creates vested right, hence no provision of Rs 15.6 million (Re. 0.46 per unit) has been made in respect of WWF as the the year ended 30 June 2011.

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Subsequent to the year end, the Lahore High Court in a petition filed by an industrial establishment "has declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and" 2008 as unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments and is in consultation with MUFAP.

13. AUDITORS' REMUNERATION

	2011	2010
	(Rupees in '000)	
Annual audit fee	225	210
Half yearly review fee	125	100
Other certifications and services	155	135
Out of pocket expenses	28	51
	533	496

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.

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

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated 6 March 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Board has approved the category of the fund as "Income Scheme".

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 2011, 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
Investment in debt securities	Maple Leaf Cement Factory Limited - Term Finance Certificate	6,107	-	6,107	0.337%	0.335%
Investment in debt securities	Pace Pakistan Limited	32,929	-	32,929	1.816%	1.808%
Investment in debt securities	Telecard Limited	24,225	(4,405)	19,820	1.093%	1.089%

16.1 At the time of purchase the said Sukuk was in compliance of the said circular (i.e. investment grade) and was subsequently downgraded to D due to default in payments of principal and mark-up due on respective coupon dates.

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

17. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Connected persons of the Fund include the Management Company, other collective investment schemes being 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 undertaking.

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.

17.1 Details of the transactions with related parties / connected persons are as follows:

	2011	2010
	(Rupees in '000)	
<i>Management Company</i>		
Management Fee for the year	29,667	34,815
Sales load for the period	710	389
<i>Associated Companies and Funds under common management</i>		
<i>Summit Bank Limited (formerly Arif Habib Bank Limited)</i>		
Issue of Nil units (2010: 7,812,500 units)	-	400,000
Redemption of Nil units (2010: 7,812,500 units)	-	404,922
Profit on bank deposits	736	1,604
<i>Pakistan International Element Islamic Fund</i>		
Term finance certificates sold - Sukuk		
Engro Chemical Pakistan Limited (6 September 2007)		
Nil (2010: 10,000) certificates	-	49,194
<i>Other related parties</i>		
<i>Directors and executives of the management company</i>		
Issue of 1,434,185 units (2010: 5,348,247 units)	74,492	274,636
Issue of 37,950 bonus units (2010: 40,616 units)	1,953	2,064
Redemption of 1,293,452 units (2010: 5,189,235 units)	67,383	266,474
<i>Central Depository Company of Pakistan Limited</i>		
Trustee fee for the year	2,763	3,321
CDS charges for the year	6	6
CDS Induction Charges	67	68
<i>Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)</i>		
Brokerage *	-	8

* 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, 2011

17.2 Amounts outstanding as at the year end

	2011	2010
	(Rupees in '000)	
<i>Management company</i>		
Payable to Management Company	2,338	2,743
<i>Summit Bank Limited (formerly Arif Habib Bank Limited)</i>		
Bank balance	3,073	3,594
Profit receivable on bank deposits	49	97
<i>Directors and executives of the Management Company</i>		
Units held 26,844 (2010: 388,262 units)	1,428	20,275
<i>Central Depository Company of Pakistan Limited - Trustee</i>		
Payable to Central Depository Company of Pakistan Limited - Trustee	196	258
Security deposit	200	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	2,406
<i>Pakistan International Element Islamic Fund (Fund under common management)</i>		
Receivable from Pakistan International Element Islamic Fund	-	5

18. 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's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund primarily invests in fixed income instrument, money and debt market instrument and government securities with an objective of providing Unit Holders a higher return. Such investments are subject to varying degrees of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

18.1 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 interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

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.

PAKISTAN INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

18.1.1 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.

18.1.2 Interest rate risk

Interest rate risk arises from the possibility that changes in prevailing level of interest rates will affect future cash flows or the fair values of financial instruments. The Fund holds floating rate debt securities that expose the fund to cash flow interest rate risk.

As at 30 June 2011, the investment in debt securities exposed to interest rate risk is detailed in Note 5.1.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds floating based interest bearing term finance certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2011, 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. 6.9 million (2010: Rs. 2.127 million).

b) Sensitivity analysis for fixed rate instruments

As at 30 June 2011, the Fund holds fixed rate government securities which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on 30 June 2011, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 3.069 million (2010: Rs. 4.403 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund is not allowed to invest in equity securities, hence it is not exposed to equity price risk.

18.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

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. 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.

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

The maximum exposure to credit risk before any credit enhancements at 30 June is the carrying amount of the financial assets as set out below:

	2011	2010
	(Rupees in '000)	
Dividend and profit receivable	24,335	32,074
Investments	1,716,445	2,045,986
Balances with banks	32,102	16,396
Advances, deposits and other receivables	42,145	9,323
	1,815,027	2,103,779

None of the above financial assets were considered to be past due or impaired in 2011 and 2010 except for the exposures and the provisions there against as provided in note 5.4. The Management Company follows Circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by the SECP for the purpose of making provision against non-performing debt securities. Further Management Company has devised provisioning policy duly approved by the Board of Directors of the Management Company to make provision over and above required by the said circular and for those exposures not covered by the said circular. 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 condition.

Settlement risk

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.

Bank balances

The Fund kept surplus liquidity with banks having credit rating from AAA to A. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Advance, deposits and other receivables

The Fund has provided advance against issue of term finance certificates to Bank Al Habib Limited, detail of which is provided in note 7.1 to these financial statements. The credit rating of the issuer is AA rated by reputable credit rating agency. 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.

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

Debt Securities by rating category

	2011	2010
	Percentage	
AA, AA-	74.42%	66.45%
A, A+	7.44%	21.93%
BBB, BBB+	7.00%	10.84%
D	11.14%	0.78%
	100%	100%

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

The movement in provision against non performing debt securities is provided in note 5.4 to these financial statements.

Management believes that investment in GOP Ijarah Sukuk Certificates, Pakistan Investment Bonds and treasury bills does not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan.

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.

18.3 Liquidity risk

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

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.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings shall not exceed the limit provided in the NBFC Rules. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

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:

The maturity profile of the funds liabilities based on contractual maturities is given below:

	30 June 2011			
	Up to three months	More than three months and up to 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	1,441	-	-	1,441
	5,364	-	-	5,364

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

30 June 2010				
Up to three months	More than three months and up to one year	More than one year	Total	
----- (Rupees in '000) -----				
Payable on redemption of units	1,134	-	-	1,134
Payable to Management Company	2,743	-	-	2,743
Payable to Central Depository Company of Pakistan Limited - Trustee	258	-	-	258
Accrued expenses and other liabilities	1,198	-	-	1,198
	5,333	-	-	5,333

18.4 Unit Holders' Fund Risk Management

The Fund's capital is represented by redeemable units. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' funds.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong unit holders' fund base to meet unexpected losses or opportunities. In accordance with the NBFC Regulations the Fund is required to distribute at least ninety percent of its income from sources other than unrealised capital gain as reduced by such expenses as are chargeable to the Fund.

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.

19. 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.

	Level 2	Level 3
	(Rupees in '000)	
30 June 2011		
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Fixed income and other debt securities	1,341,441	375,004
 30 June 2010		
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Fixed income and other debt securities	1,271,170	774,816

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

20. DISTRIBUTIONS BY THE FUND

20.1 Interim distributions during the year

For the year ended 30 June 2011					
Distribution per unit	Bonus		Cash	Total	
	Units	Amount			
------(Rupees in '000)-----					
<i>Date of distributions</i>					
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
		<u>2,758,628</u>	<u>140,746</u>	<u>11,505</u>	<u>152,251</u>

For the year ended 30 June 2010					
Distribution per unit	Bonus		Cash	Total	
	Units	Amount			
------(Rupees in '000)-----					
<i>Date of distributions</i>					
30 September 2009	1.87	1,365,737	69,762	10,732	80,494
31 December 2009	2	1,447,538	73,564	11,478	85,042
31 March 2010	1.4	1,029,957	52,178	8,035	60,213
		<u>3,843,232</u>	<u>195,504</u>	<u>30,245</u>	<u>225,749</u>

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.

20.2 Non-adjusting event after the balance sheet date

The Board of Directors of the Management Company has approved the final dividend distribution of Rs. 1.24 per unit for the year ended 30 June 2011, amounting to Rs. 42.3 million in total in their meeting held on 4 July 2011. The financial statements for the year ended 30 June 2011 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2012.

21. SUPPLEMENTARY NON FINANCIAL INFORMATION

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

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

21.1 PATTERN OF UNIT HOLDING

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
	1,471	1,813,579	100.00

PATTERN OF UNIT HOLDING

As at 30 June 2010			
Number of Unit Holders	Investment amount	Percentage investment	
------(Rupees in '000)-----			
Individuals	1,466	670,378	31.89
Associated companies	1	147,617	7.02
Directors	2	344	0.02
Insurance companies	6	120,392	5.73
Bank / DFIs	23	414,782	19.74
Retirement funds	108	522,032	24.84
Public Limited companies	4	38,235	1.82
Others	34	187,915	8.94
	1,644	2,101,695	100.00

21.2 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		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	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%
		2010 Percentage
1	Alfalah Securities Limited	22.60%
2	KASB Securities Limited	17.39%
3	Invest Capital Investment Bank Limited	15.07%
4	JS Global Capital limited	13.71%
5	BMA Capital Management Limited	9.53%
6	First Capital Securities Corporation Limited	8.54%
7	Global Securities Pakistan Limited	6.03%
8	Atlas Capital Markets (Private) Limited	2.18%
9	Elixir Securities Pakistan (Private) Limited	1.42%
10	Invisor Securities (Private) Limited	1.31%

PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

21.3 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 74th, 75th, 76th, 77th, 78th, 79th, 80th, 81st, 82nd, 83rd, 84th, 85th, 86th, 87th and 88th Board meetings were held on 5 July 2010, 3 August 2010, 4 August 2010, 22 October 2010, 25 October 2010, 12 November 2010, 20 December 2010, 30 December 2010, 17 February 2011, 19 February 2011, 16 April 2011, 21 April 2011, 23 April 2011, 15 June 2011, 27 June 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of Meetings			Meeting not attended
	Held	Attended	Leave Granted	
1 Mr. Shafi Malik*	15	15	-	
2 Mr. Nasim Beg	15	15	-	
3 Mr. Sirajuddin Cassim*	15	4	11	74th to 83rd and 88th meeting
4 Mr. S. Gulrez Yazdani *	15	13	2	75th and 76th meeting
5 Mr. Muhammad Akmal Jameel*	15	15	-	
6 Syed Ajaz Ahmed*	15	13	2	74th and 88th meeting
7 Mr. Muhammad Kashif Habib*	15	11	4	74th, 77th, 87th and 88th meeting
8 Mr. Samad A. Habib**	5	5	-	
9 Mian Mohammad Mansha***	1	1	-	
10 Mr. Yasir Qadri***	1	1	-	
11 Syed Salman Ali Shah***	1	1	-	
12 Mr. Haroun Rashid***	1	1	-	
13 Mr. Ahmed Jahangir***	1	1	-	
14 Mr. Mirza Mahmood Ahmad***	1	1	-	

* The above directors retired in the 88th meeting held on 27 June 2011

** Mr. Samad A. Habib was appointed as director during the year in the extraordinary general meeting held on 7 February 2011 and approved by SECP on 31 March 2011

*** The above directors are appointed in place of retiring directors in the 88th meeting held on 27 June 2011

21.4 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
Basharat Ullah	Chief Investment Officer	MBA	18
Zeeshan	Chief Financial Officer	ACA	8
Muhammad Imran Khan	Head of Research	MBA	8
Zafar Rehman	Fund Manager	B.COM	19
Tariq Hashmi	Head of Marketing	MBA	19

Subsequent to the year end, due to merger of Arif Habib Investments Limited with MCB Asset Management Company, the investment committee has been reconstituted and recomposed as follows:

Name	Designation	Qualification	Experience in years
Yasir Qadri	Chief Executive Officer	MBA	16
Kashif Rafi	Fund Manager - Fixed Income Funds	MBA, CFA Level 1	10
Muhammad Asim	Fund Manager - Equity Funds	MBA, CFA	8
Syed Akbar Ali	Senior Research Analyst	MBA, CFA	7
Mohsin Pervez	Senior Research Analyst	CFA Level 1	9
Umair Khan	Fund Manager	CFA Level 2	2

**PAKISTAN INCOME FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

21.4.1 Other Funds managed by the Fund Manager

Zafar Rehman

Zafar Rehman is the Manager of the Fund as at year end. He has obtained a Bachelors degree in Commerce. Other funds being managed by him are as follows:

- Pakistan Income Enhancement Fund
- Metro-bank Pakistan Sovereign Fund

Subsequent to the year end owing to merger of Arif Habib Investments Limited with MCB Asset Management Company, Mr. Umair Khan has been appointed as Fund manager in place of Mr. Zafar Rehman.

22. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the Management Company.

23. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

**PAKISTAN INCOME FUND
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
Associated Company, Undertakings, and Related Parties		
Arif Habib Investments Limited		
Summit Bank Limited	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	31	12,882,026
Director, CEO and their spouses and minor children		
NASIM BEG	2	20,141
Trust	77	6,066,199
Corporate	6	155,076
Individuals	1,355	14,966,595
	<u>1,471</u>	<u>34,090,038</u>

**PAKISTAN INCOME FUND
PATTERN OF UNIT HOLDING (SIZE)
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
1,101	1 - 10000	2,056,589
316	10001 - 100000	10,225,857
49	100001 - 1000000	10,306,048
5	1000001 - onwards	11,501,544
<u>1,471</u>		<u>34,090,038</u>

PAKISTAN INCOME FUND PERFORMANCE TABLE

Performance Information	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Total Net Assets Value – Rs. in million	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	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	54.0598	53.6949	54.0600	54.3600	56.2000	55.8300	55.6000	55.2800	57.5100	54.2700
Lowest offer price per unit	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	53.3300	52.9700	53.3300	53.6300	55.4400	55.0800	54.8500	54.5300	56.7300	51.8300
Lowest Redemption price per unit	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-10)	1.2400	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution	53.2000	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution	51.9600	-	-	-	-	-	-	-	-	-
Average Annual Return - %										
One year	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Two year	14.10	11.38	9.01	9.97	10.40	9.89	8.56	10.18	-	-
Three year	13.20	10.65	9.57	10.03	10.16	9.07	10.01	-	-	-
Net Income for the period – Rs. in million	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	194.5510	-	-	-	-	-	-	-	-	-
Total return of the fund	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Dividend distribution	10.62	12.56	7.30	9.50	10.50	10.00	9.60	9.00	12.00	3.50
Capital Growth	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.