



Bachat ka Dusra Naam

**Annual Report
2012**



PAKISTAN

INCOME ENHANCEMENT FUND

Paachon Ungliyaan Ghee Mein

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

PAKISTAN INCOME ENHANCEMENT FUND

CONTENTS

1	Vision, Mission & Core Values	2
2	Fund's Information	3
3	Report of the Director of Management Company	5
4	Report of the Fund Manager	9
5	Trustee Report to the Unit Holders	10
6	Statement of Compliance with the Code of Corporate Governance	11
7	Review Report to the Unit Holders on the Statement of Compliance with the best Practices of the Code of Corporate Governance	13
8	Independent Auditors Report to the Unit Holders	14
9	Statements of Assets and Liabilities	16
10	Income Statement	17
11	Distribution Statement	18
12	Statement of Movement in Unit Holders' Fund	19
13	Cash Flow Statement	20
14	Notes to and Forming part of the Financial Statements	21
15	Pattern of holding as per Requirement of Code of Corporate Governance	41
16	Pattern of Unit Holding by Size	42
17	Performance Table	43

Vision

To become synonymous with Savings

Mission

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

Core Values

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

PAKISTAN INCOME ENHANCEMENT 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 Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Bank Al-Habib Limited Faysal Bank Limited Summit Bank Limited Allied Bank Limited	
Auditors	A.F. Ferguson & Co. Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi-74000.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.	
Rating	AM2 - Management Quality Rating assigned by PACRA	

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

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

Economy and Money Market Overview

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

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

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

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

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

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

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

Future outlook

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

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

Fund's Performance

The net assets of the fund declined significantly by 39% on a YoY basis to around PKR 991 million as on June 30, 2012. The investment objective of the Fund is to deliver returns from aggressive investment strategy in the debt and fixed income markets. The fund is benchmarked against a composite benchmark based on 90% of 12 M KIBOR + 10% of 3M PKRV. The fund was able to yield an annualized return of 8.9% during the period under review which was lower than the Fund's benchmark return of 13.7% during the same period. The under-performance was due to provisioning of certain non-performing TFCs/ Sukuks during the period. Since inception returns of the fund has been strong at 13.3% as against benchmark's return of 12.9%, an out-performance by 0.4%.

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

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

instruments. Considering the risk-return profile of government papers, the fund has kept a decent exposure towards government papers while maintaining sizeable allocations towards TFCs especially of financial sector. Although the fund maintained decent exposure towards government papers throughout the year, it managed its portfolio's duration actively to take advantage of the fast changing interest rate scenario while also placing TDRs at attractive rates during quarter-ends.

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

Performance Information (%)	PIEF	Benchmark
Last twelve Months Return(Annualized)	8.9%	13.7%
Since Inception (CAGR)	13.3%	12.9%

During the year your fund earned net income of Rs 111.556 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 7.742 million (i.e. Rs. 0.40 per unit). In addition to final distribution, the Chief Executive Officer has approved following interim distribution during the year ended June 30, 2012.

Date of distribution	Distribution PKR / Unit
25 July 2011	Re. 0.4000 per unit
25 August 2011	Re. 0.4800 per unit
25 September 2011	Re. 0.2900 per unit
25 October 2011	Re. 0.3200 per unit
25 November 2011	Re. 0.3600 per unit
26 December 2011	Re. 0.5000 per unit
26 January 2012	Re. 0.3000 per unit
26 February 2012	Re. 0.3500 per unit
26 March 2012	Re. 0.4000 per unit
26 April 2012	Re. 0.3500 per unit
26 May 2012	Re. 0.3510 per unit

During the period, units worth Rs.649.290 million (including Rs. 111.759 million worth of bonus units) were issued and units with a value of Rs.1,275.654 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs.51.83 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.

PAKISTAN INCOME ENHANCEMENT FUND

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

FOR THE YEAR ENDED JUNE 30, 2012

The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.10.234 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 Islamabad Stock Exchange.

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. The details of attendance of Board of Directors meeting is disclosed in note 26 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

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

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

External Auditors

The fund's external auditors, A.F. Ferguson & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Since AFF have consented to act as the External Auditors of the Management Company, they are not eligible for reappointment as statutory auditors of the Fund. The audit committee of the Board has recommended appointment of KPMG Taseer Hadi & Co., Chartered Accountants, (who have given consent to such appointment) as auditors for the year ending June 30, 2012.

**PAKISTAN INCOME ENHANCEMENT FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED 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 Islamabad Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

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

Fund Type and Category

Pakistan Income Enhancement Fund (PIEF) is an open-end Aggressive Fixed Income Scheme

Fund Benchmark

The benchmark for PIEF is 90% of 12 M KIBOR + 10% of 3M PKRV

Investment Objective

The objective of the Fund is to deliver returns from aggressive investment strategy in the debt and fixed income markets.

Investment Strategy

Pakistan Income Enhancement Fund (An Aggressive Fixed Income Fund) (referred to as PIEF) is an open end fund which primarily invests in debt and fixed income instruments and may also take limited exposure in structured products. The maximum duration of the fund shall not exceed 3 years.

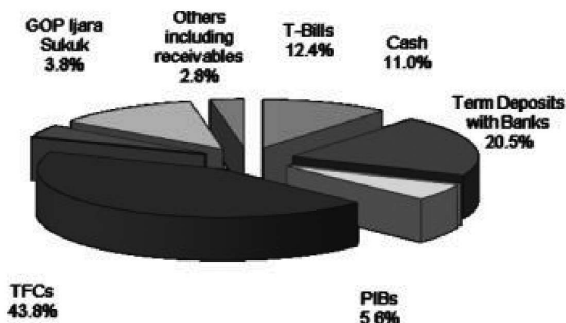
Manager's Review

The fund was able to generate an annualized return of 8.9% during the year under review as against the fund's benchmark return of 13.7% during the same period, an under-performance of 4.8%. Significant under-performance during the period was due to mark-down/provisioning of non-performing TFCs in the portfolio.

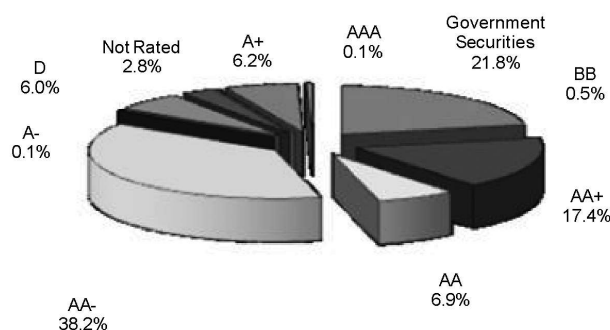
The fund remained focused towards providing higher return to the investors by taking aggressive position in the debt and money markets. During the year, the fund also capitalized strongly on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs as well as TDRs whenever available. The fund's year end allocations were 12% in Treasury Bills, 44% in Term Finance Certificates, 4% in GoP Ijarah Sukuk, 6% in PIBs, 21% in TDRs and the rest in cash & other assets.

The net assets of the fund stood at PKR 991 million by the end of June 2012, which was down by around 39% amid redemption pressures during the period under review.

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



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



Mr. Saad Ahmed
Fund Manager

Karachi: August 15, 2012

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400. Pakistan.
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Email: info@cdcpak.com



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TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME ENHANCEMENT FUND

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

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

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


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

Karachi: October 17, 2012



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

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of Pakistan Income Enhancement Fund ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

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

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

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

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

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

For and on behalf of the board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

**PAKISTAN INCOME ENHANCEMENT FUND
REVIEW REPORT TO THE UNIT HOLDERS ON THE
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES
OF THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**



A. F. FERGUSON & CO.

**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 **Pakistan Income Enhancement Fund**, to comply with the Listing Regulation No. 35 (Chapter XI) of the Islamabad 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. 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 Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the 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 controls and the effectiveness of such internal controls.

Regulation 35 (x) of the Listing Regulations 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 the above requirements 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 undertaken at arm's length prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2012.

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


Chartered Accountants

Karachi

Dated: September 17, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazi-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan; Tel: +92 (51) 2273457-60; Fax: +92 (51) 2277924
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Meina, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 (799) 315320, +93 (799) 315320

**PAKISTAN INCOME ENHANCEMENT FUND
AUDITORS' REPORT TO THE PARTICIPANTS
FOR THE YEAR ENDED JUNE 30, 2012**



A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

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

Management Company's responsibility for the financial statements

The Management Company is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 financial position of the Fund as at June 30, 2012, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of matter paragraph


We draw attention to note 14.1 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

OTHER MATTER

The financial statements of the Fund for the year ended June 30, 2011 were audited by another firm of Chartered Accountants. Their audit report dated September 20, 2011 contained an emphasis of matter paragraph on the same issue as described above.


Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: September 17, 2012

Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
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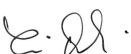
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FINANCIAL STATEMENTS

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

	Note	2012 (Rupees in '000)	2011
ASSETS			
Balances with banks	4	113,366	32,062
Investments	5	657,538	1,556,161
Term deposit receipts	6	205,000	-
Receivable against sale of units		2,096	14,292
Receivable against sale of investments		-	678
Receivable against margin trading system		-	7,707
Income and profit receivable	7	18,260	20,322
Deposits and prepayments and other receivables	8	1,810	796
Preliminary expenses and floatation cost	9	231	432
Total assets		998,301	1,632,450
LIABILITIES			
Payable to the Management Company	10	1,484	2,683
Payable to Central Depository Company of Pakistan Limited - Trustee	11	141	183
Payable to Securities and Exchange Commission of Pakistan		993	1,402
Payable against redemption of units		3,100	2,297
Accrued expenses and other liabilities	13	1,276	1,473
Total liabilities		6,994	8,038
NET ASSETS		991,307	1,624,412
Unit holders' fund (as per statement attached)		991,307	1,624,412
CONTINGENCIES AND COMMITMENTS			
	14		
		(Number of units)	
NUMBER OF UNITS IN ISSUE		19,125,741	31,124,731
		(Rupees)	
NET ASSET VALUE PER UNIT		51.83	52.19

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

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



Director

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

	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
INCOME			
Capital gain / (loss) on sale of investments - net		4,731	(1,108)
Profit on bank deposits		6,108	3,335
Income from government securities		83,348	145,407
Income from margin trading system		36	1,316
Income from term finance certificates and sukuk bonds		65,348	96,918
Income from commercial papers		585	922
Other income		58	30
Income from placements, certificates of investment and term deposit receipts		6,131	10,352
		166,345	257,172
Net unrealised diminution on re-measurement of investments classified as financial assets at 'fair value through profit or loss'	5.1.5	(17,358)	(12,354)
Total Income		148,987	244,818
EXPENSES			
Remuneration of the Management Company		19,863	27,949
Sindh Sales tax on Management Company's remuneration		3,178	-
Remuneration of Central Depository Company of Pakistan Limited -Trustee		1,975	2,663
Annual fee - Securities and Exchange Commission of Pakistan		993	1,402
Brokerage and settlement charges		1,213	1,403
Amortisation of preliminary expenses and floatation costs	9.1	201	200
Auditors' remuneration	16	479	391
Printing and related costs		308	125
Fees and subscription		117	177
Legal and professional charges		93	87
Provision / (reversal) against receivables	8.1	4,914	(2,278)
Total expenses		33,334	32,119
Net income from operating activities		115,653	212,699
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		(4,098)	(13,086)
Net income for the year before taxation		111,555	199,613
Taxation	17	-	-
Net income for the year after taxation		111,555	199,613
Other comprehensive income/ (loss) for the year		-	-
Total comprehensive income for the year		111,555	199,613
Earnings per unit	18		

The annexed notes 1 to 31 form an integral part of these financial statements.


Chief Executive Officer

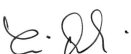
**For Arif Habib Investments Limited
(Management Company)**


Director

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

	2012	2011
Note	(Rupees in '000)	
Undistributed income brought forward		
- Realised gain	80,414	46,694
- Unrealised gain / (loss)	<u>(12,354)</u>	<u>13,175</u>
	<u>68,060</u>	<u>59,869</u>
Final Distribution for the year ended June 30, 2011 at Rs 0.3309 per unit (For the year ended June 30, 2010 at Rs 0.51 per unit)		
- Issue of 172,045 (2011: 394,579) bonus units	(9,130)	(20,072)
- Cash distribution	<u>(1,169)</u>	<u>(1,998)</u>
	<u>(10,299)</u>	<u>(22,070)</u>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	(22,318)	-
Net income for the year	111,555	199,613
Interim distribution for the year ended June 30, 2012		
- Issue of 1,825,752 (2011: 2,954,045) bonus units for the year	19 (95,004)	(150,583)
- Cash distribution	19 (9,348)	(18,769)
Final distribution for the year ended June 30, 2012 : On June 20, 2012		
- Issue of 147,030 bonus units	(7,625)	-
- Cash distribution	(117)	-
Undistributed income carried forward	<u>34,904</u>	<u>68,060</u>
- Realised gain	52,262	80,414
- Unrealised loss	(17,358)	(12,354)
Undistributed income carried forward	<u>34,904</u>	<u>68,060</u>

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

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



Director

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

	Note	2012 (Rupees in '000)	2011
Net assets at beginning of the year		1,624,412	2,223,592
Issue of 10,498,160 units (2011: 13,095,009 units)		537,531	670,153
Redemption of 24,645,977 units (2011: 28,592,898 units)		(1,275,655) (738,124)	(1,461,265) (791,112)
Issue of 2,148,827 bonus units (2011: 3,348,624 units)		111,759 (626,365)	170,655 (620,457)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:			
- amount representing loss and capital losses - transferred to income statement		4,098	13,086
- amount representing loss and capital losses that form part of unit holders' fund - transferred to distribution statement		22,318	-
Capital gain / (loss) on sale of investments - net		4,731	(1,108)
Unrealised diminution in value of investments classified as 'at fair value through profit or loss'		(17,358)	(12,354)
Other net income for the year		124,182 111,555	213,075 199,613
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised gains/ losses - net		(22,318)	-
Final Distribution			
Final Distribution for the year ended June 30, 2011 at Rs 0.3309 per unit (For the year ended June 30, 2010 at Rs 0.51 per unit)			
- Bonus units		(9,130)	(20,072)
- Cash Distribution		(1,169)	(1,998)
Interim Distribution			
Interim distribution for the year ended June 30, 2012			
-Issue of 1,825,752 (2011: 2,954,045) bonus units for the year	19	(95,004)	(150,583)
-Cash distribution	19	(9,348)	(18,769)
Final distribution for the year ended June 30, 2012 : On June 25, 2012 at Rs 0.4000 per unit			
- Cash distribution		(117)	-
- Bonus distribution		(7,625)	-
Net assets at end of the year		991,307	1,624,412

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

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



Director

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

	Note	2012 (Rupees in '000)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		111,555	199,613
Adjustments for:			
Element of loss and capital losses included in prices of units issued less those in units redeemed		4,098	12,354
Amortisation of preliminary expenses and floatation costs		201	200
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		17,358	13,086
Provision against receivables		4,914	(2,278)
		<u>138,126</u>	<u>222,975</u>
(Increase) / decrease in assets			
Investments		1,004,692	502,047
Receivable against sale of units		12,196	13,339
Receivable against margin trading system		7,707	(7,707)
Receivable against sale of investments		678	(678)
Income and profit receivable		2,062	6,454
Prepayments and other receivables		(5,928)	509
		<u>1,021,407</u>	<u>513,964</u>
Increase / (decrease) in liabilities			
Payable to the Management Company		(1,199)	(924)
Payable to the Trustee		(42)	(74)
Payable to Securities and Exchange Commission of Pakistan		(409)	237
Payable against redemption of units		803	54
Accrued expenses and other liabilities		(197)	390
		<u>(1,044)</u>	<u>(317)</u>
Net cash generated from operating activities		<u>1,158,489</u>	<u>736,622</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net receipts from issuance of units		537,531	(791,112)
Net payments on redemption of units		(1,275,655)	-
Cash distributions		(10,634)	(20,767)
Net cash used in financing activities		<u>(748,758)</u>	<u>(811,879)</u>
Net increase / (decrease) in cash and cash equivalents during the year		<u>409,731</u>	<u>(75,257)</u>
Cash and cash equivalents at beginning of the year		32,062	107,319
Cash and cash equivalents at end of the year	21	<u><u>441,793</u></u>	<u><u>32,062</u></u>

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

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



Director

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund (the Fund) was established through a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on July 14, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on June 26, 2008 in accordance with 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 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-AMC and AHI the two companies have merged as of June 27, 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). AHI 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 July 30, 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 SHC. The honourable 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.

The Fund is an open-ended mutual fund listed on the Islamabad 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. Unit holders are divided into plan "A" and plan "B". The unit holders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend. The Fund has been categorised as Aggressive Fixed Income scheme by the Board of Directors of the Asset Management Company.

Pakistan Credit Rating Agency (PACRA) has assigned asset manager rating of 'AM2' (positive outlook) to the Management Company and A+(f) - as stability rating to the Fund.

The objective of the Fund is to invest in investment grade term finance certificates and sukuk bonds, certificate of investments, term deposit receipts, spread transactions and, with SECP approval, structured deposits, notes, interest rate / cross currency swap and arbitrage products, options, derivatives, index linked structures etc. both within and outside Pakistan, international mutual funds, credit linked notes, and any other investment permissible under NBFC Regulations.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with 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 Regulations) Rules, 2003 (the NBFC Rules), the Non-Banking Finance and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures' (effective January 1, 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements, other than certain additional disclosures.
- b) IFRS 7, 'Financial instruments: Disclosures' (effective July 1, 2011). The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Fund's financial statements as currently no items are being reported in other comprehensive income.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Fund's financial statements.

There are other new and amended standards and interpretation that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published accounting standards that are not yet effective and have not been early adopted

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any effect on the Fund's financial statement as presently no items are reported in other comprehensive income.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of its accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The area involving a higher degree of judgment or complexity, or area where estimates and assumptions are significant to the financial statements is classification and valuation of financial assets (notes 3.2 and 5).

2.5 Accounting convention

These financial statements are prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

2.6 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash and cash equivalents comprise of bank balances and other short term investments having original maturities of less than three months.

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- Available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices are classified as held for trading in the financial assets at fair value through profit or loss category.

b) Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

c) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

3.2.4 Subsequent measurement

a) Financial assets 'at fair value through profit or loss' and 'available for sale'

Subsequent to initial recognition, financial assets designated by the management as 'at fair value through profit or loss' and 'available for sale' are valued as follows:

- Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 1 of 2009 dated January 6, 2009. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

- Basis of valuation of government securities

The investment of the Fund in Government Securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan in accordance with the requirements of the NBFC Regulations.

Net gains and losses arising from changes in the fair value of financial assets 'at fair value through profit or loss' are taken to the 'income statement'.

Net gains and losses arising from changes in fair value of 'available for sale' financial assets are taken to other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to income before taxation.

b) Loans and receivable

Subsequent to initial recognition financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired.

3.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in income before taxation.

Provision for non-performing exposures is made in accordance with the criteria specified in circular No. 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

3.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership.

3.3 Derivatives

Derivative financial instruments are initially recognised at fair value and subsequent to initial measurement each derivative financial instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

3.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to management company, payable to trustee and other liabilities.

3.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities only 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 realise the assets and settle the liabilities simultaneously.

3.6 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. Amount paid under these agreements are included in 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 reverse-repo agreement.

All reverse repo transactions are accounted for on the settlement date.

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3.7 Securities under Margin Trading System (MTS)

Securities purchased under an agreement to resell (reverse repo) are included as receivable against MTS transactions at fair value of the consideration given. All purchases and sale of securities that require delivery within the time frame established by the regulations or market convention are recognised at the trade date. Trade date is the date at which the Fund commits to purchase or sell the assets. The MTS transactions are accounted for on the settlement date. The income is accrued at the applicable rate of return specified in the Bid on the outstanding Marginal Trading Transaction Value after adjustment of MTM losses.

3.8 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 date. 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. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption requests during business hours of 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.

3.9 Proposed distribution

Distributions declared subsequent to the reporting date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

3.10 Element of income / (loss) and capital gains / (losses) included in prices of units sold 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 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is credited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net asset value and included in the sale proceeds of units. Upon redemption of units, the 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is debited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net asset value and included in the redemption price.

The net 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' during an accounting period is transferred to the 'income statement'.

3.11 During the year the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed is arrived at by comparing opening NAV as reduced by final distribution for the financial year then ended with the NAV prevailing on the date on which units were issued / redeemed and recognised in the income statement except to the extent that it is represented by unrealised appreciation / (diminution) on available for sale financial assets, which is included in other comprehensive income. Previously, the Fund used to determine element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed by comparing prevailing NAV with the face value of the units issued / redeemed.

The element of income / loss and capital gains / (losses) included in prices of units issued less those in units redeemed is an equalisation account between income for the period and undistributed income. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology income for the year would have been lower by Rs 22.318 million.

3.12 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimates.

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

3.13 Net asset value per unit

The net asset value (NAV) 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 circulation at the year end.

3.14 Taxation

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 for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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 asset on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years 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 every year.

3.15 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the income statement in the period in which they arise.
- Profit on bank deposits, term deposit receipts, placements and certificate of investments are recognised on an accrual basis.
- Income on Pakistan Investment Bonds, GoP Ijara Sukuk, term finance certificates and Sukuk bonds are recognised on an accrual basis.
- Income on issue and purchase of units is recognised when the units are issued and redeemed at the transaction date.
- Discount on purchase of Market Treasury Bills is amortised to the income statement using the straight line method.

	Note	2012	2011
		Rupees in '000	
4 BALANCES WITH BANKS			
In current account		72	21
In deposit accounts	4.1	<u>113,294</u>	<u>32,041</u>
		<u>113,366</u>	<u>32,062</u>

4.1 These carry mark-up at rates ranging between 6% to 12% per annum (2011: 5% to 11.5% per annum).

	Note	2012	2011
		Rupees in '000	
5 INVESTMENTS			
Investments 'at fair value through profit or loss'	5.1	657,538	1,536,746
Available for sale	5.2	<u>-</u>	<u>19,415</u>
		<u>657,538</u>	<u>1,556,161</u>

5.1 Investments at fair value through profit or loss

Government securities	5.1.1	218,211	1,062,209
Listed debt securities	5.1.2	214,924	237,022
Unlisted debt securities	5.1.3	224,403	212,515
Advance against subscription of Term Finance Certificate		<u>-</u>	<u>25,000</u>
		<u>657,538</u>	<u>1,536,746</u>

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

5.1.1 Government Securities

Issue date	Tenor	Face value			Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2011	Purchases during the year	Sales / matured during the year	Balance as at June 30, 2012	Carrying value	Market value		

----- Rupees in '000 -----

Market Treasury Bills

21-Apr-11	6 months	160,000	-	160,000	-	-	-	-	-	
21-Apr-11	1 month	20,000	-	20,000	-	-	-	-	-	
5-May-11	6 months	95,000	-	95,000	-	-	-	-	-	
5-May-11	3 months	165,000	-	165,000	-	-	-	-	-	
19-May-11	3 months	125,000	-	125,000	-	-	-	-	-	
19-May-11	6 months	42,500	-	42,500	-	-	-	-	-	
2-Jun-11	3 months	135,000	-	135,000	-	-	-	-	-	
9-Jun-11	1 month	30,000	-	30,000	-	-	-	-	-	
16-Jun-11	3 months	135,000	-	135,000	-	-	-	-	-	
16-Jun-11	6 months	135,000	-	135,000	-	-	-	-	-	
21-Apr-11	12 months	-	70,000	70,000	-	-	-	-	-	
5-May-11	6 months	-	165,000	165,000	-	-	-	-	-	
2-Jun-11	6 months	-	25,000	25,000	-	-	-	-	-	
16-Jun-11	12 months	-	100,000	100,000	-	-	-	-	-	
28-Jul-11	3 months	-	110,000	110,000	-	-	-	-	-	
28-Jul-11	6 months	-	265,000	265,000	-	-	-	-	-	
11-Aug-11	12 months	-	145,000	145,000	-	-	-	-	-	
25-Aug-11	12 months	-	494,000	494,000	-	-	-	-	-	
25-Aug-11	6 months	-	50,000	50,000	-	-	-	-	-	
22-Sep-11	12 months	-	2,000	2,000	-	-	-	-	-	
6-Oct-11	12 months	-	50,000	50,000	-	-	-	-	-	
20-Oct-11	12 months	-	89,000	89,000	-	-	-	-	-	
3-Nov-11	12 months	-	225,000	225,000	-	-	-	-	-	
17-Nov-11	12 months	-	275,000	275,000	-	-	-	-	-	
17-Nov-11	6 months	-	275,000	275,000	-	-	-	-	-	
26-Jan-12	12 months	-	187,500	187,500	-	-	-	-	-	
26-Jan-12	3 months	-	80,000	80,000	-	-	-	-	-	
23-Feb-12	3 months	-	125,000	125,000	-	-	-	-	-	
22-Mar-12	3 months	-	500,000	500,000	-	-	-	-	-	
5-Apr-12	3 months	-	40,000	40,000	-	-	-	-	-	
5-Apr-12	3 months	-	110,000	110,000	-	-	-	-	-	
19-Apr-12	3 months	-	687,000	687,000	-	-	-	-	-	
3-May-12	3 months	-	550,000	550,000	-	-	-	-	-	
17-May-12	3 months	-	1,125,000	1,125,000	-	-	-	-	-	
17-May-12	3 months	-	125,000	-	125,000	123,452	123,427	(25)	12.45	18.77
						123,452	123,427	(25)		

Pakistan Investment Bonds

30-Aug-08	10 Years	-	40,000	40,000	-	-	-	-	-	
22-Jul-10	5 Years	-	50,000	50,000	-	-	-	-	-	
18-Aug-11	10 Years	-	50,000	50,000	-	-	-	-	-	
18-Aug-11	10 Years	-	50,000	50,000	-	-	-	-	-	
18-Aug-11	10 Years	-	50,000	50,000	-	-	-	-	-	
18-Aug-11	10 Years	-	50,000	50,000	-	-	-	-	-	
18-Aug-11	3 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	5 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	3 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	5 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	3 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	5 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	5 Years	-	25,000	25,000	-	-	-	-	-	
18-Aug-11	10 Years	-	25,000	25,000	-	-	-	-	-	
30-Aug-08	5 Years	-	8,000	-	8,000	7,929	7,952	(23)	0.80	1.21
22-Jul-10	5 Years	-	50,000	-	50,000	48,927	48,604	323	4.90	7.39
						56,856	56,556	300		

Government Ijara Sukuk

15-Nov-10	3 years	50,000	280,000	330,000	-	-	-	-	-	
16-May-11	3 years	-	383,200	370,000	13,200	13,295	13,210	(85)	1.33	2.01
26-Dec-11	3 years	-	25,000	-	25,000	25,076	25,018	(58)	2.52	3.80
						38,371	38,228	(143)		

Total as at June 30, 2012

218,679 218,211 132

Total as at June 30, 2011

1,062,659 1,062,209 (450)

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

5.1.2 Listed debt securities - term finance certificates

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of the investee company	Issue date	As at June 30, 2011	Purchases during the year	Sales / matured during the year	As at June 30, 2012	Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage in relation to the size of issue
						Carrying value	Market value	Appreciation / (diminution)			
----- Number of certificates -----						----- (Rupees in '000) -----					
Bank AL-Habib Limited	7-Feb-07	5,000	-	-	5,000	25,644	25,788	144	2.60	0.04	1.67
Askari Bank Limited	31-Oct-05	6,000	-	-	6,000	30,282	30,010	(272)	3.03	0.05	2.00
PACE Pakistan Limited (Note 5.1.6)	15-Feb-08	15,000	-	-	15,000	49,363	38,194	(11,169)	3.85	0.06	2.55
Pak Arab Fertilizer Limited	28-Feb-08	4,703	-	4,703	-	-	-	-	-	-	-
Askari Bank Limited	18-Nov-09	4,000	-	3,000	1,000	5,161	5,279	118	0.53	0.01	0.18
Askari Bank Limited	4-Feb-05	425	-	-	425	2,125	2,119	(6)	0.21	0.00	0.14
Escorts Investment Bank Limited	15-Mar-07	6,000	-	-	6,000	6,262	5,478	(784)	0.55	0.01	1.10
United Bank Limited	14-Feb-08	5,000	-	5,000	-	-	-	-	-	-	-
NIB Bank Limited	5-Mar-08	-	12,399	-	12,399	60,744	61,617	873	6.22	0.09	2.05
Askari Bank Limited	23-Dec-11	-	45	-	45	45,000	46,439	1,439	4.68	0.07	4.64
Total as at June 30, 2012						224,581	214,924	(9,657)			
Total as at June 30, 2011						246,122	237,022	(9,100)			

5.1.3 Unlisted debt securities - term finance certificates and sukuk bonds

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of the investee company	Issue date	As at June 30, 2011	Purchases during the year	Sales / matured during the year	As at June 30, 2012	Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage in relation to the size of issue
						Carrying value	Market value	Appreciation / (diminution)			
----- Number of certificates -----						----- (Rupees in '000) -----					
Term finance certificates											
Engro Fertilizer Limited	18-Mar-08	27,200	-	4,100	23,100	108,570	109,841	1,271	11.08	0.07	2.75
KASB Securities Limited	27-Jun-07	8,000	-	8,000	-	-	-	-	-	-	4.00
Bank Alfalah Limited (Floating)	2-Dec-09	11,000	-	2,000	9,000	45,581	47,428	1,847	4.78	0.03	0.95
Bank Al Falah Limited (Fixed)	2-Dec-09	-	6,000	5,530	470	2,351	2,459	108	0.25	0.00	0.05
Jahangir Siddiqui & Company Limited	4-Jul-07	3,250	-	-	3,250	16,237	16,154	(83)	1.63	0.01	1.29
Bank AL Habib Limited	30-Jun-11	-	15,000	10,100	4,900	25,144	26,056	912	2.63	0.02	0.87
						197,883	201,938	4,055			
Sukuk Bonds - Unlisted											
Eden Housing Limited (Note 5.1.6)	31-Mar-08	10,415	-	-	10,415	16,796	10,465	(6,331)	1.06	0.01	0.42
Pak Elektron Limited (Note 5.1.6)	28-Sep-07	8,000	-	-	8,000	16,957	12,000	(4,957)	1.21	0.01	1.00
						33,753	22,465	(11,288)			
Total as at June 30, 2012						231,636	224,403	(7,233)			
Total as at June 30, 2011						202,659	212,515	9,856			

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

Name of the investee company	Number of certificates	Face value / Redemption value (Rupees)	Mark-up rate (Per annum)	Issue date	Maturity	Secured / unsecured	Rating
Listed debt securities							
Bank AL-Habib Limited	5,000	4,990	6 month KIBOR+1.95%	February 7, 2007	February 7, 2015	Unsecured	AA
Askari Bank Limited	6,000	4,987	6 month KIBOR+1.5%	October 31, 2005	October 31, 2013	Unsecured	AA-
PACE Pakistan Limited	15,000	4,993	6 month KIBOR+2%	February 15, 2008	February 15, 2017	Secured	D
Askari Bank Limited	1,000	4,995	6 month KIBOR+2.5%	November 18, 2009	November 18, 2019	Unsecured	AA-
Askari Bank Limited	425	4,986	6 month KIBOR+1.5%	February 4, 2005	February 4, 2013	Unsecured	AA-
Escorts Investment Bank Limited	6,000	1,249	6 month KIBOR+2.5%	March 15, 2007	March 15, 2012	Secured	A
NIB Bank Limited	12,399	4,992	6 month KIBOR+1.15%	March 5, 2008	March 5, 2016	Unsecured	A+
Askari Bank Limited	45	1,000,000	6 month KIBOR+1.75%	December 23, 2011	December 23, 2021	Unsecured	AA-
Unlisted debt securities							
Engro Fertilizer Limited	23,100	5,000	6 month KIBOR+1.7%	March 18, 2008	March 18, 2018	Secured	AA-
Bank Al Falah Limited (Floating)	9,000	4,995	6 month KIBOR+2.5%	December 2, 2009	December 2, 2017	Unsecured	AA-
Bank Al Falah Limited (Fixed)	470	4,995	15.00%	December 2, 2009	December 2, 2017	Unsecured	AA-
Jahangir Siddiqui & Company Limited	3,250	4,991	6 month KIBOR+1.7%	July 4, 2007	July 4, 2013	Secured	AA
Bank Al Habib Limited	4,900	4,999	15.00%	June 30, 2011	June 30, 2021	Unsecured	AA
Eden Housing Limited	10,415	3,469	6 month KIBOR+2.5%	March 31, 2008	March 31, 2013	Secured	D
Pak Elektron Limited	8,000	2,143	3 month KIBOR+1.75%	September 28, 2007	September 28, 2012	Secured	A

5.1.4.1 The Term Finance Certificates and Sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

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

5.1.5	Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets 'at fair value through profit or loss'	2012	2011
		(Rupees in '000)	
	Carrying value of investments	674,896	1,555,855
	Market value of investments	657,538	1,543,501
		<u>(17,358)</u>	<u>(12,354)</u>

5.1.6 Securities listed below have been classified as non-performing in accordance with SECP Circular 1 of 2009 and the Fund's provisioning policy for non-performing exposure. Accordingly, the carrying values stated above have been arrived at after taking into account provisions as under:

Name of the investee company	2012			2011		
	Outstanding balance	Provision held	Net carrying value	Outstanding balance	Provision held	Net carrying value
	----- (Rupees in '000) -----					
PACE Pakistan Limited	74,880	(36,686)	38,194	74,910	-	74,910
Eden Housing Limited	27,827	(17,362)	10,465	36,127	-	36,127
Pak Elektron Limited	17,143	(5,143)	12,000	17,143	-	17,143

5.1.6.1 These carry a rate of return ranging from to 13.7% to 16.02% (2011: 15.54% to 16.29%) per annum

5.2 Commercial papers

Name of investee company	Rate	Maturity	Face Value				Carrying value as at June 30, 2012	Investment as percentage of		
			As at July 01, 2011	Purchased during the year	Matured during the year	As at June 30, 2012		Net assets	Total investments	Issue size
	----- (Rupees in '000) -----									
Tameer Micro Finance Bank	16.25%	10-Sep-11	20,000	-	20,000	-	-	-	-	-
Total as at June 30, 2012						-	-			
Total as at June 30, 2011						20,000	19,415			

6	TERM DEPOSIT RECEIPTS	Note	2012	2011
			(Rupees in '000)	
	Term deposit receipts	6.1	<u>205,000</u>	<u>-</u>

6.1 These carry interest at rates ranging between 12.15% and 12.4% and are maturing at various dates upto July 18, 2012.

7	INCOME AND PROFIT RECEIVABLE	Note	2012	2011
			(Rupees in '000)	
	Income receivable on term finance certificates and sukuk bonds		11,409	18,992
	Income receivable on Pakistan Investment Bonds		2,858	-
	Income receivable on term deposit receipts		3,184	-
	Profit receivable on deposit accounts with banks		579	339
	Income receivable on Ijara sukuk certificates		230	866
	Income receivable against Margin Trading System		-	125
			<u>18,260</u>	<u>20,322</u>

8 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits with				
- National Clearing Company of Pakistan Limited		250	250	
- Central Depository Company of Pakistan Limited		200	325	
- Others		1,277	-	
Prepayments		83	221	
Receivable against defaulted instalments of term finance certificates and sukuk		4,914	-	
		<u>6,724</u>	<u>796</u>	
Less: Provision against receivables	8.1	<u>(4,914)</u>	-	
		<u>1,810</u>	<u>796</u>	

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

	2012	2011
	(Rupees in '000)	
8.1 Movement in provision against receivables		
Opening provision	-	2,278
Add: Charge for the year	4,914	-
Less: Reversal during the year	-	(2,278)
Closing provision	<u>4,914</u>	<u>-</u>
9 PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs	432	632
Amortization during the year	<u>(201)</u>	<u>(200)</u>
	<u>231</u>	<u>432</u>

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from August 28, 2008.

	Note	2012	2011
		(Rupees in '000)	
10 PAYABLE TO THE MANAGEMENT COMPANY			
Management Company's remuneration	10.1	1,266	2,004
Sindh Sales Tax on Management Company's remuneration	10.2	203	-
Preliminary expenses and floatation costs		-	600
Front-end load		15	79
		<u>1,484</u>	<u>2,683</u>

10.1 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. During the current year, the management company has charged its remuneration at the rate of 1.50% (2011: 1.50%) of the average annual net assets of the Fund. Remuneration is paid by the Fund on a monthly basis in arrears.

10.2 During the current year, the Provincial Government of Sindh levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through the Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

Trustee Fee

11.1 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:

Based on the Trust Deed, the tariff structure applicable to the Fund is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.6 million or 0.17% per annum of NAV whichever is higher
Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% per annum of NAV exceeding 1,000 million
Over Rs 5,000 million	Rs 5.1 million plus 0.07% per annum of NAV exceeding Rs 1,000 million.

The remuneration is paid to the Trustee monthly in arrears.

12 ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective investment scheme classified as "Aggressive Fixed Income Fund" is required to pay as an annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

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

13 ACCRUED EXPENSES AND OTHER LIABILITIES	2012	2011
	(Rupees in '000)	
Auditor's remuneration	325	265
Zakat payable	581	201
Brokerage payable	63	12
Legal and professional charges	94	131
Printing and publication charges payable	190	114
Capital gain tax payable	-	731
Others	23	19
	1,276	1,473
	1,276	1,473
14 CONTINGENCIES AND COMMITMENTS		
14.1 CONTRIBUTION TO WORKERS' WELFARE FUND		
<p>The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication</p> <p>Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on July 8, 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.</p> <p>Subsequent to the year ended June 30, 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the constitutional petition which is pending in the Sindh High Court (SHC).</p> <p>However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate amount of WWF not provided by the management as at June 30, 2012 amounted to Rs 12.465 million (including Rs 2.231 million for the current year).</p>		
14.2	There were no other contingencies and commitments outstanding as at June 30, 2012 and June 30, 2011.	
15 NUMBER OF UNITS IN ISSUE	2012	2011
The units in issue as at June 30 in each class are as follows:		
	Plan	
	A	27,591,170
	B	3,533,561
	18,832,486	31,124,731
	293,255	3,533,561
	19,125,741	31,124,731
16 AUDITOR'S REMUNERATION	2012	2011
	(Rupees in '000)	
Annual audit fee	225	210
Half yearly review fee	125	100
Other certifications	105	55
Out of pocket expenses	24	26
	479	391
	479	391
17 TAXATION		

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 for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the Management Company has distributed more than ninety percent of the Fund's accounting income for the current year to its unit holders.

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

18 EARNINGS PER UNIT

Earnings per unit (EPU) has not been disclosed as in the opinion of management determination of cumulative weighted average number of outstanding units is not practicable.

19 INTERIM DISTRIBUTIONS

The Fund makes distribution on a monthly basis and has made following distributions during the year.

Date	Rate Per Unit	Units	Bonus *		Cash Distribution**	Total
			Amount	Rupees in '000		
July 25, 2011	Re. 0.4000	208,325	10,812	1,413	12,225	
August 25, 2011	Re. 0.4800	238,365	12,383	1,237	13,620	
September 25, 2011	Re. 0.2900	142,358	7,400	747	8,147	
October 25, 2011	Re. 0.3200	137,033	7,127	825	7,952	
November 25, 2011	Re. 0.3600	152,788	7,953	927	8,880	
December 25, 2011	Re. 0.5000	218,466	11,399	1,288	12,687	
January 25, 2012	Re. 0.3000	131,045	6,842	773	7,615	
February 25, 2012	Re. 0.3500	151,256	7,870	902	8,772	
March 25, 2012	Re. 0.4000	171,527	8,931	1,031	9,962	
April 25, 2012	Re. 0.3500	139,977	7,280	103	7,383	
May 25, 2012	Re. 0.3510	134,612	7,006	103	7,109	
		1,825,752	95,004	9,348	104,352	

* Bonus units have been distributed to unit holders under plan A

** Cash dividends have been distributed to unit holders under plan B

As per clause 12 of the Trust Deed and clause 6 of Part VI of the Offering Document, the Management Company, on behalf of the Fund, on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorisation to the Chief Executive Officer to approve and declare interim dividends out of profits earned by the Fund upto the 25th of each month. SECP vide letter no. NBFC - II.DD / AHIL / Misc-734 / 2009 has approved the above arrangement.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	-----As at June 30, 2012-----			
	Assets at fair value through profit or loss	Loans and receivables	Available for sale	Total
Assets	-----Rupees in '000-----			
Balances with banks	-	113,366	-	113,366
Investments	657,538	-	-	657,538
Term deposit receipts	-	205,000	-	205,000
Receivable against sale of units	-	2,096	-	2,096
Income and profit receivable	-	18,260	-	18,260
Deposits and other receivables	-	1,727	-	1,727
	657,538	340,449	-	997,987
	-----As at June 30, 2012-----			
Liabilities			Other financial liabilities	Total
	-----Rupees in '000-----			
Payable to the Management Company		-	1,484	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee		-	141	141
Payable against redemption of units		-	3,100	3,100
Accrued expenses and other liabilities		-	695	695
		-	5,420	5,420
	-----As at June 30, 2011-----			
	Assets at fair value through profit or loss	Loans and receivables	Available for sale	Total
Assets	-----Rupees in '000-----			
Balances with banks	-	32,062	-	32,062
Investments	1,536,746	-	19,415	1,556,161
Receivable against sale of units	-	14,292	-	14,292
Receivable against sale of investments	-	678	-	678
Receivable against margin trading system	-	7,707	-	7,707
Income and profit receivable	-	20,322	-	20,322
Deposits and other receivables	-	575	-	575
	1,536,746	75,636	19,415	1,631,797

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

		-----As at June 30, 2011-----		
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
		-----Rupees in '000-----		
Liabilities				
	Payable to the Management Company	-	2,683	2,683
	Payable to Central Depository Company of Pakistan Limited - Trust	-	183	183
	Payable against redemption of units	-	2,297	2,297
	Accrued expenses and other liabilities	-	1,272	1,272
		-	<u>6,435</u>	<u>6,435</u>
		Note	2012	2011
			(Rupees in '000)	
21	CASH AND CASH EQUIVALENTS			
	Balances with banks	4	113,366	32,062
	Term deposit receipts	6	205,000	-
	Market treasury bills	5.1.1	123,427	-
			<u>441,793</u>	<u>32,062</u>
22	TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES			
22.1	Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.			
22.2	The transactions with connected persons are in the normal course of business and are carried out on agreed terms.			
22.3	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.			
22.4	Details of transactions with connected persons are as follows:		2012	2011
			(Rupees in '000)	
	Arif Habib Investments Limited - Management Company			
	Remuneration for the year inclusive of Sindh Sales tax		23,041	27,949
	Front-end load for the year		1,605	4,589
	Arif Habib Investments Management Limited - Employee Provident Fund			
	Distribution of bonus units: Nil (2011: 2,213 units)		-	113
	Redemption of units: Nil (2011: 23,004 units)		-	1,197
	Arif Habib Investments Management Limited - Employee Stock Beneficial Ownership Trust			
	Redemption of units: Nil (2011: 9,409 units)		-	488
	Distribution of bonus units: Nil (2011: 735 units)		-	37
	MCB Bank Limited			
	Profit on bank deposits		2,539	-
	Summit Bank Limited			
	Profit on bank deposits		223	499
	Redemption of units: Nil (2011: 1,042,977 units)		-	53,015
	Distribution of bonus units: Nil (2011: 29,023 units)		-	1,474
	Central Depository Company of Pakistan Limited - Trustee			
	Remuneration for the year		1,975	2,663
	CDS charges		37	18
	CDS eligibility fee		-	68
	Habib Metropolitan Bank Limited (more than 10% holding)			
	Profit on bank deposits		1,885	2,352
	Distribution of bonus units: 177,206 (2011: Nil units)		9,217	-
	Redemption of units: 3,417,514 (2011: 676,852 units)		178,238	35,000
	Adamjee Insurance Company Limited Employees Provident Fund			
	Distribution of bonus units: 4,986		259	-
	Redemption of units: 72,309		3,777	-
	Adamjee Life Assurance Company Limited			
	Distribution of bonus units: 57,496		2,991	-
	Redemption of units: 1,041,719		54,386	-

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

	2012	2011
	(Rupees in '000)	
Key management personnel		
Issue of 139,811 units (2011: 1,782,044 units)	7,349	91,376
Redemption of 233,810 units (2011: 1,402,872 units)	12,200	72,034
Bonus distribution of 13,964 units (2011: 33,355 units)	726	1,705
Mr. M.Najeeb Butt (more than 10% holding)		
Bonus distribution of 170,499 units	8,868	-
22.5	Amount outstanding as at year end	
Arif Habib Investments Limited Management Company		
Remuneration payable	1,469	2,004
Payable in respect of preliminary expenses and floatation costs	-	600
Front-end load payable	15	79
MCB Bank Limited		
Bank balance at the end of the period / year	775	-
Accrued profit on bank deposit	121	-
Summit Bank Limited		
Bank deposit held	429	5,300
Accrued profit on bank deposit	2	30
Central Depository Company of Pakistan Limited - Trustee		
Security deposit	200	200
Remuneration payable	141	183
Habib Metropolitan Bank Limited (more than 10% holding)		
Bank deposit held	-	7,840
Accrued profit on bank deposit	39	209
Nil units held as at June 30, 2012 (2011: 3,240,306 units)	-	169,112
Key management personnel		
77,106 units (more than 10% holding) (2011: 636,396 units)	3,996	33,213
Mr. M.Najeeb Butt (10% or more holding)		
1,928,611 units held as at June 30, 2012	99,960	-

23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

23.1 Details of members of the investment committee of the Fund are as follow:

----- 2012 -----				
	Designation	Experience in years	Qualification	
1	Mr. Yasir Qadri	Chief Executive	17	MBA
2	Mr. Kashif Rafi	Fund Manager - Fixed Income	11	MBA & CFA level I
3	Mr. Muhammad Asim	Fund Manager - Equity Funds	9	MBA & CFA
4	Mr. Syed Akbar Ali	Head Of Research	7	MBA & CFA
5	Mr. Mohsin Pervez	Senior Research Analyst	11	CFA level I
6	Mr. Saad Ahmed	Senior Manager	7	BS & MBA

23.2 Mr. Kashif Rafi is the Fund Manager. He is also the fund manager of MCB Cash Management Optimizer and MCB Dynamic Allocation Fund.

24 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2012
	(Percentage)
1 Investor Capital Securities Limited	28.98
2 BMA Capital Management Limited	16.09
3 JS Global Capital Limited	14.19
4 KASB Securities Limited	13.93
5 Invest and Finance	10.92
6 Elixier Securities.	7.91
7 Vector Capital	4.47
8 Invisor Securities	2.76
9 FCSC	0.45
10 Pearl Securities (Private) Limited	0.29

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

2011
(Percentage)

1	Alfalsh Securities Limited	22.00
2	Invest Capital and Investment Bank Limited	18.00
3	JS Global Capital Limited	11.00
4	IGI Finex Securities Limited	10.00
5	Icon Securities	9.00
6	First Capital Securities	8.00
7	BMA Capital Management Limited	7.00
8	Global Securities	5.00
9	KASB Securities	5.00
10	Atlas Capital	5.00

25 PATTERN OF UNIT HOLDINGS

-----June 30, 2012-----				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
Rupees '000'				
Individuals	749	15,340,623	795,121	80.21%
Associated companies / Directors	-	-	-	0.00%
Insurance companies	-	-	-	0.00%
Banks / DFIs	1	293,255	15,200	1.53%
NBFCs	1	565	29	0.00%
Retirement funds	22	2,218,522	114,988	11.60%
Public limited companies	-	-	-	0.00%
Others	21	1,272,776	65,969	6.65%
	794	19,125,741	991,307	100%

-----June 30, 2011-----				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
Rupees '000'				
Individuals	1,010	21,331,109	1,113,279	68.53%
Associated companies / Directors	-	-	-	0.00%
Insurance companies	1	984,223	51,367	3.16%
Banks / DFIs	2	3,533,543	184,417	11.35%
NBFCs	1	53,746	2,805	0.17%
Retirement funds	25	2,230,391	116,405	7.17%
Public limited companies	-	-	-	0.00%
Others	18	2,991,719	156,139	9.61%
	1,057	31,124,731	1,624,412	100%

26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th and 97th BoD meetings of the Fund were held on July 4, 2011, August 8, 2011, September 10, 2011, September 29, 2011, October 26, 2011, January 27, 2012, and March 29, 2012, April 27, 2012 and June 25, 2012 respectively. Information in respect of attendance by Directors in the meetings is given below:

	Name of persons	Number of meetings held	Number of Meetings			Meetings not attended
			Attendance required	Attended	Leave granted	
1	Mian Muhammad Mansha	9	9	4	5	89th, 90th, 93rd, 96th and 97th meetings
2	Mr. Nasim Beg	9	9	9	-	-
3	Syed Salman Ali Shah	9	9	8	1	92nd meeting
4	Mr. Haroun Rashid	9	9	6	3	91st, 92nd and 95th meetings
5	Mr. Ahmed Jahangir	9	9	7	2	91st and 92nd meetings.
6	Mr. Samad A. Habib	9	9	6	3	89th, 91st and 96th meetings
7	Mr. Mirza Mahmood Ahmad	9	9	7	2	89th and 97th meetings
8	Mr. Yasir Qadri (Chief Executive Officer)	9	9	9	-	-

PAKISTAN INCOME ENHANCEMENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities, spread transactions, marginal trading system transactions and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

27.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

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

27.1.1 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.

27.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates, Sukuk Bonds and GoP Ijara sukuk exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date, 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 1.210 million (2011: Rs 1.45 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2012, the Fund holds Treasury bills and Pakistan Investment Bonds 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 in rates announced by Financial Market Association of Pakistan (FMAP) on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be lower by Rs 1.453 million (2011: Rs 10.556 million). In case of 100 basis points decrease in rates announced by FMAP on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be higher by Rs 1.416 million (2011: Rs 10.556 million).

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

Yield / interest rate sensitivity position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

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

-----June 30, 2012-----

Yield / effective interest rate (%)	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	

-----Rupees in '000 -----

On-balance sheet financial instruments

Financial Assets

Balances with banks	6.00 - 12	113,366	113,294	-	-	72
Investments	8.00 - 15.00	657,538	405,083	195,899	56,556	-
Term deposit receipts	12.15-12.75	205,000	205,000	-	-	-
Receivable against sale of units		2,096	-	-	-	2,096
Income and profit receivable		18,260	-	-	-	18,260
Deposits and other receivables		1,810	-	-	-	1,810
		998,070	723,377	195,899	56,556	22,238

Financial Liabilities

Payable to the Management Company		1,484	-	-	-	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee		141	-	-	-	141
Payable against redemption of units		3,100	-	-	-	3,100
Accrued expenses and other liabilities		695	-	-	-	695
		5,420	-	-	-	5,420

On-balance sheet gap

		992,650	723,377	195,899	56,556	16,818
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-----June 30, 2011-----

Yield / effective interest rate (%)	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	

-----Rupees in '000 -----

On-balance sheet financial instruments

Financial Assets

Balances with banks	5.00 - 11.50	32,062	32,041	-	-	21
Investments	12.23 - 16.29	1,556,161	936,044	620,117	-	-
Receivable against sale of units		14,292	-	-	-	14,292
Receivable against sale of investments		678	-	-	-	678
Receivable against margin trading system		7,707	-	-	-	7,707
Income and profit receivable		20,322	-	-	-	20,322
Deposits and other receivables		575	-	-	-	575
		1,631,797	968,085	620,117	-	43,595

Financial Liabilities

Payable to the Management Company		2,683	-	-	-	2,683
Payable to Central Depository Company of Pakistan Limited - Trustee		183	-	-	-	183
Payable against redemption of units		2,297	-	-	-	2,297
Accrued expenses and other liabilities		1,272	-	-	-	1,272
		6,435	-	-	-	6,435

On-balance sheet gap

		1,625,362	968,085	620,117	-	37,160
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27.1.3 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. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2012.

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

27.2 Credit risk

Credit risk represents the risk of a loss if the counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, loans and receivables and balances with banks. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the Investment Committee) require the Fund to invest in debt securities that have been rated as investment-grade by a well known rating agency.

The analysis below summarises the credit quality of the Fund's investment in term finance certificates, sukuk bonds, term deposit receipts and balances with banks and government securities as at June 30, 2012 and June 30, 2011:

Investments by rating category	June 30, 2012	June 30, 2011
AA+	81.04%	1.48%
AA	0.15%	48.49%
AA-	18.69%	20.01%
A+	0.02%	7.95%
A	0.09%	2.63%
D	0.01%	14.36%
Others	0.00%	5.08%
	100%	100%
	100%	100%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2012 is the carrying amount of the financial assets.

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 concentration of credit risk.

27.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

In order to manage the Fund's overall liquidity, the Fund also has the ability to 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 Fund did not withhold any significant redemptions during the year.

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.

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

-----June 30, 2012-----

Total	Upto three months	Over three months and upto one year	Over one year
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------(Rupees in '000)-----

Liabilities

Payable to the Management Company	1,484	1,484	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	141	141	-	-
Payable against redemption of units	3,100	3,100	-	-
Accrued expenses and other liabilities	695	695	-	-
Total liabilities	5,420	5,420	-	-

-----June 30, 2011-----

Total	Upto three months	Over three months and upto one year	Over one year
-------	-------------------	-------------------------------------	---------------

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

Liabilities

Payable to the Management Company	2,683	2,083	600	-
Payable to Central Depository Company of Pakistan Limited - Trustee	183	183	-	-
Payable against redemption of units	2,297	2,297	-	-
Accrued expenses and other liabilities	1,272	1,272	-	-
Total liabilities	6,435	5,835	600	-

28 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund 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 share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable to the Fund.

The Fund's objectives when managing unit holder's funds 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 base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 27, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2) ; and

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

- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

ASSETS	----- As at June 30, 2012 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
Investments	-	596,879	60,659	657,538

30 GENERAL

30.1 Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

30.2 Corresponding figures have been rearranged or reclassified, wherever necessary, for the purpose of comparison and better presentation. No significant rearrangements or reclassifications were made in these financial statements in the current year.

31 DATE OF AUTHORISATION FOR ISSUE

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



Chief Executive Officer

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



Director

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

Category	No. of Units Holders	No. of Units
Banks, Development finance institutions, Non-banking finance companies & Insurance companies	2	293,820
Shareholders holding 5 percent or more voting interest in the listed company M. NAJEEB BUTT	1	1,928,611
Trust	22	2,218,522
Individuals	748	13,412,011
Others	21	1,272,777
	794	19,125,741

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

No. of Unit Holders	Units Holdings	Total Units Held
379	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	593,497.05
142	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	1,014,368.47
62	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	757,532.60
28	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	493,622.69
32	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	715,705.23
24	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	659,832.90
12	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	396,253.42
8	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	299,145.28
16	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	682,465.88
8	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	384,025.17
4	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	212,656.39
8	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	463,758.35
3	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	187,652.59
9	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	606,404.73
3	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	214,848.02
2	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	155,166.33
1	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	82,508.80
1	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	87,869.18
1	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	92,404.61
8	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	780,271.08
4	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	403,710.53
3	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	318,113.39
2	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	237,607.29
3	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	366,669.09
1	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	127,220.70
1	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	132,976.98
2	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	272,937.34
3	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	427,887.44
1	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	146,040.84
1	(SHAREHOLDING FROM 150001.0000 TO 155000.0000)	154,780.30
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	159,611.01
2	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	334,541.87
1	(SHAREHOLDING FROM 180001.0000 TO 185000.0000)	181,665.95
1	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	188,978.62
1	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	190,601.84
2	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	404,575.00
1	(SHAREHOLDING FROM 205001.0000 TO 210000.0000)	206,943.21
3	(SHAREHOLDING FROM 255001.0000 TO 260000.0000)	768,085.87
1	(SHAREHOLDING FROM 260001.0000 TO 265000.0000)	262,129.83
1	(SHAREHOLDING FROM 290001.0000 TO 295000.0000)	293,255.13
1	(SHAREHOLDING FROM 300001.0000 TO 305000.0000)	302,688.89
1	(SHAREHOLDING FROM 355001.0000 TO 360000.0000)	358,380.46
1	(SHAREHOLDING FROM 400001.0000 TO 405000.0000)	402,927.42
1	(SHAREHOLDING FROM 540001.0000 TO 545000.0000)	541,229.20
1	(SHAREHOLDING FROM 555001.0000 TO 560000.0000)	557,819.15
1	(SHAREHOLDING FROM 570001.0000 TO 575000.0000)	571,484.78
1	(SHAREHOLDING FROM 1925001.0000 TO 1930000.0000)	1,928,611.43
793	Total :	19,121,462.30

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

	June 30, 2012 (Rupees in '000)	June 30, 2011 (Rupees in '000)	June 30, 2010 (Rupees in '000)
Net Assets	991,307	1,624,000	2,223,592
Net Income	111,555	199,613	227,364
Net Asset Value per Unit	51.83	52.19	51.38
Dividend distribution (stock-)interim	4.10	4.67	5.95
Dividend distribution (stock-)final	0.40	0.33	0.51
Distribution date-final	June 20, 2012	July 4, 2011	July 5, 2010
Offer price	52.53	52.90	52.08
Repurchase price	51.83	52.19	51.38
Highest offer price	53.39	52.94	52.09
Lowest offer price	52.50	51.08	51.11
Highest repurchase price per unit	52.68	52.23	51.39
Lowest repurchase price per unit	51.80	50.39	50.42

	(Percentage)		
Total return of the Fund	8.9	12.42	14.26
Capital growth	1.08	2.59	1.48
Income Distribution	7.82	9.83	12.78
Average return of the fund	8.90	12.42	14.26
Waeighted average portfolio duration	803 Days	515 days	165 days

*** Interim Distribution**

Date	2012 Rate per Unit
25 July 2011	0.4000
25 August 2011	0.4800
25 September 2011	0.2900
25 October 2011	0.3200
25 November 2011	0.3600
26 December 2011	0.5000
26 January 2012	0.3000
26 February 2012	0.3500
26 March 2012	0.4000
26 April 2012	0.3500
26 May 2012	0.3510

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.