

## PAKISTAN INCOME FUND

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## PAKISTAN INCOME FUND

### FUND'S INFORMATION

#### Management Company

Arif Habib Investments Limited  
(Formerly: Arif Habib Investment Management Limited)  
2 / 1, R. Y. 16, Old Queens Road, Karachi-74000, Pakistan.

#### Board of Directors of the Management Company

Mr. Nasim Beg	Chief Executive
Mr. Muhammad Shafi Malik	Director
Syed Ajaz Ahmed	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Akmal Jameel	Director
Mr. Muhammad Kashif	Director
Mr. S. Gulrez Yazdani	Director (Appointment subject to approval of SECP)

#### CFO & Company Secretary of the Management Company

Mr. Zeeshan

#### Audit Committee

Mr. Muhammad Shafi Malik	Member
Syed Ajaz Ahmed	Member
Mr. Muhammad Akmal Jameel	Member
Mr. Muhammad Kashif	Member

#### Trustee

Central Depository Company of Pakistan Limited (CDC)  
CDC House, 99-B, Block B, S.M.C.H.S  
Main Shahrah-e-faisal, Karachi.

#### Bankers to the Fund

• Arif Habib Bank Limited	• Askari Bank Limited
• Allied Bank Limited	• Bank Al Habib Limited
• Bank Alfalah Limited	• Faysal Bank Limited
• Habib Bank Ltd	• Habib Metropolitan Bank Limited
• MCB Bank Limited	• Meezan Bank Limited
• NIB Bank Limited	• Standard Chartered Bank (Pakistan) Limited
• The Bank of Punjab	• United Bank Limited

#### Auditors

A.F. Ferguson & Co. - Chartered Accountants  
State Life Building No. 1-C,  
I.I Chundrigar Road, Karachi

#### Legal Adviser

M/s. Kabraji & Talibuddin  
64-A/1, Gulshan-e-Faisal,  
Bath Island, Karachi-75530

#### Registrar

M/s. Gangjees Registrar Services (Pvt.) Limited  
Room No. 516, 5<sup>th</sup> Floor, Clifton Centre, Kehkashan, Clifton,  
Karachi.

#### Rating

- PACRA : AA- (f) Stability Rating
- PACRA : AM2 - (Management Quality rating assigned to Management Company)

## PAKISTAN INCOME FUND

### REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

The Board of Directors of Arif Habib Investments Limited (Formerly: Arif Habib Investment Management Limited), the Management Company of Pakistan Income Fund (PIF) is pleased to present its Report together with Condensed Interim Financial Statements for the quarter ended 30<sup>th</sup> September 2009.

#### **Fund Objective**

The objective of the Fund is to deliver regular income and preservation of capital, primarily from debt and fixed income securities investments.

#### **Fund Profile**

PIF is an Open-end Fund, which is allowed to invest in investment grade Corporate Securities, Government Securities, Spread Transactions, Continuous Funding System (CFS), Certificates of Investment (COIs), Term Deposit Receipt (TDRs), Clean Placements and short maturity Reverse Repurchase Transactions. The overall duration of the portfolio is kept below two years, in order to keep interest rate risk at a relatively low and manageable level.

#### **Funds Performance during the Quarter ended 30<sup>th</sup> September 2009**

The net income for the quarter ended 30<sup>th</sup> September 2009 was Rs 99 million which comprised mainly of income from Term Finance Certificates amounting to Rs 43 million, Government Securities Rs 17 million, and bank deposits, COI, TDRs and Placement Rs 14 million

The net assets of the Fund as at 30<sup>th</sup> September 2009 stood at Rs 2,266 million. The ex-dividend Net Asset Value (NAV) per unit at the start of the period was Rs 50.71 and with an increase of Rs 2.28 in the NAV per unit during the period, the NAV per unit as on 30<sup>th</sup> September 2009 was Rs 51.12 after interim distribution of Rs 1.87 per unit. The Fund earned a total return of 19.08% per annum during the period.

#### **Earning Per Unit (EPU)**

EPU has not been disclosed as we feel determination of weighted average units for calculating EPU is not practicable for Open-end funds.

#### **Income Distribution**

The Management Company on 30<sup>th</sup> September 2009 has announced an interim distribution of Rs 1.87 per unit in the form of bonus units to A class units and equivalent cash dividend for B class units for the period ended 30<sup>th</sup> September 2009.

#### **Future Outlook**

While declining core inflation and improvements in the external account have provided impetus to the case for further monetary easing, pressures from the fiscal side, particularly uncertainty with respect to the externally financed portion of the budget, will likely result in the SBP to adopt a more cautious stance in this respect. Along this view, Market yields will probably remain at higher levels for the time being. Thus, government securities will continue to provide good yields in the near term with the advantage of a valuation gain once interest rates do come down. This, to a large extent depends on SBP's decision to reduce the discount rate in its monetary policy statement in November, 2009.

## PAKISTAN INCOME FUND

### **Acknowledgment**

The Board is thankful to its valued investors, the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, the Trustees of the Fund – Central Depository Company of Pakistan Limited and the management of the Karachi Stock Exchange for their continued cooperation and support. The Directors of the Management Company also acknowledge the efforts put in by the team of the Management Company and for the meticulous management of the Fund.

For and on behalf of the Board

Karachi  
22<sup>nd</sup> October 2009

**Nasim Beg**  
Chief Executive

## PAKISTAN INCOME FUND

### REPORT OF THE FUND MANAGER FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

#### **Objective**

The objective of the Fund is to deliver regular income and preservation of capital, primarily from debt and fixed income securities investments.

#### **Fund Profile**

Pakistan Income Fund (PIF) is an Open-end Fund, which is allowed to invest in investment grade corporate securities, Government securities, spread transactions, CFS, COIs, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 2 years, in order to keep interest rate risk at a relatively low and manageable level.

#### **Performance in First Quarter FY10**

PIF delivered an annualized return of 19.08% for the quarter ended 30<sup>th</sup> September 2009, compared to industry average of 10.76%. This outperformance is mainly attributed to price appreciation in the TFC portfolio, which constitutes 41.72% of net assets of the Fund. In addition, the Fund availed trading opportunities in the TFC and T-bill instruments, which contributed in enhancing the overall return. The Fund's weighted average portfolio credit quality was AA+ with average duration of 147 days at the end of September 09.

During this period, the funds under management decreased by 4.37% to Rs 2.27 billion on 30<sup>th</sup> September 2009 from Rs 2.37 billion (30<sup>th</sup> June, 09). As a policy, PIF distributes quarterly dividends in order to provide better periodic net-of-tax returns to investors. During this quarter, PIF has declared an interim dividend of Rs1.87 per unit.

#### **Asset allocation during First Quarter FY10**

Major asset class during July – September, 2009 was Government Securities followed by Term Finance Certificates, Reverse Repo and Bank deposits. PIF gradually increased its allocation in Treasury bills to 48.35% of net assets from 12.05% in the last quarter while maturing its TDR and COI placements which stood at 31.65% at the end of year ending 30<sup>th</sup> June 2009. Since the term placement rates offered in the market were almost in line with T-bill rates, the switch from TDRs/COIs to short term government papers provided liquidity in addition to increasing the overall credit quality of the Fund. These instruments carry potential for valuation gains if there is a decline in the interest rates. The Fund invested 41.72% of net assets in TFCs as compared to 45.84% (June 2009) after decreasing exposure in Banking, Leasing and Communication TFCs, which were offering comparatively lower credit spreads. PIF remained invested mostly in high quality TFCs with average rating of AA-. Bank deposits and other receivables stood at 3.41% of net assets. Short term placements under reverse repo transactions in government securities stood at 5.5% at the end of the quarter.

## PAKISTAN INCOME FUND

### Market Review

Interest rates have edged upwards in Q1 FY10 in longer tenors with a 23 bps and 31 bps rise in 6-month and 1 year T-bills, while in the 3 month tenors there was a decline of 11 bps. There was however a more substantial rise in the 10 year PIB yield which rose by 48 bps to 12.47% at Q1 end. Liquidity pressures emanating from an aggressive T-bill auction target in Q1 against maturities and deposit withdrawals as a result of the Ramadan-Eid season restrained the KIBOR from slipping down significantly while expectations of the Central Bank maintaining policy rate at 13% in September against previous anticipations of a cut, were paramount in pushing treasury yields higher. During Q1 FY10 2009, 6-month KIBOR moved slightly downwards by 11 bps to 12.65%, after touching a low of 11.87% on 27<sup>th</sup> July, 2009 and a high of 12.68% on 10<sup>th</sup> & 12<sup>th</sup> September 2009.

In addition to this, SBP announced a cut in the discount rate by 100 bps in August, which was less than originally anticipated. The State Bank of Pakistan (SBP) is viewing mixed inflationary signals going forward and continued stress on the fiscal accounts. What particularly concerns the Central Bank is that effectively a rising trend has been witnessed in the CPI since February 2009, which if continued, will push headline CPI higher in the months to come. September CPI recorded an increase of 10.12 percent.

On the positive side however, Non Food, Non Energy or core inflation fell to 11.9% YoY in September against 12.6% a month earlier and in SBP's view, slow economic activity is likely to keep fundamental drivers of core inflation under control. In this regard, SBP may opt for easing the discount rate by 100 bps to 12%, expectations of which may allow market interest rates to adjust downward. Moreover, the liquidity situation is likely to improve into Q2 FY10, driven by a build up of Net Foreign Assets (NFAs) of the banking system. A more favourable, Balance of Payments (BoP) position has allowed the NFAs to increase by PKR 127.48 bn July-Sept, consequently increasing the Monetary base (RM) by 7.43% against 3.11% in the corresponding period in FY09. However, risks to lower interest rates also emanate from the fiscal side as lack of clarity with respect the timing of foreign inflows may increase budgetary financing needs from the domestic economy and decrease the quantum of credit available in an already inactive credit market.

### Government Bonds

During the previous quarter, SBP conducted a PIB auction on 2<sup>nd</sup> September 2009 with the pre-auction targets of Rs 15.0 billion. Expectations of a further cut in discount rate, attracted major participation in 10-year bond; received a participation of Rs 17.17 billion, against which Rs 12.47 billion was accepted. The cut-off of 10-year bond was decreased by 13 bps to 12.50% from 12.63% (previous). However, a decline of 46 to 55 bps in longer tenor yields (15 to 30 yrs) was noted due to high demand by selective institutions. The Government had also borrowed Rs 14.396 billion from Islamic institutions by selling GIS Sukuk through auction at a cut-off of weighted average 6-month T-bill cut-off minus 5 bps.

## PAKISTAN INCOME FUND

### **Treasury Bills**

During last quarter, SBP conducted six regular T-bill auctions. The pre-auction target was Rs 325.0 billion against a T-bill maturity of Rs 173.67 billion in the same period. A cumulative amount of Rs 363.28 billion was accepted against total participation of Rs 771.01 billion. In anticipation of cut in discount rate, major participation was in the 1-year T-bill. The first auction (16<sup>th</sup>-July-09) witnessed a decrease of 70 bps in the cut-off of 1-year T-bill at 11.54%, while in the last auction (26<sup>th</sup>-September-09), cut-off of 1-year T-bill increased by 6 bps to 12.54%.

### **Corporate Bonds**

Corporate sector demand in TFCs reduced the credit spread over benchmark (6-month) KIBOR at quarter end. New issues from commercial banks are being offered at 2.5% over benchmark rate, which has pushed the prices of existing papers down where credit spreads have widened to almost 2.5% over 6 month KIBOR from 2% earlier. Later on, upward adjustment was witnessed in TFC prices issued by Communication, Leasing and Real Estate Companies with the resulting decrease in credit spreads from 11.00% to 8.40% in Communications and 8.56% to 6.20% in Leasing.

### **Future Outlook**

While declining core inflation and improvements in the external account have provided impetus to the case for further monetary easing, pressures from the fiscal side, particularly uncertainty with respect to the externally financed portion of the budget, will likely result in the SBP to adopt a more cautious stance in this respect. Along this view, Market yields will probably remain at higher levels for the time being. Thus, government securities will continue to provide good yields in the near term with the advantage of a valuation gain once interest rates do come down. This, to a large extent depends on SBP's decision to reduce the discount rate in its monetary policy statement in November, 2009.

## PAKISTAN INCOME FUND

### CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT 30<sup>TH</sup> SEPTEMBER 2009

	Note	Unaudited 30 <sup>th</sup> September 2009	Audited 30 <sup>th</sup> June 2009
(Rupees in '000)			
<b>ASSETS</b>			
Bank balances		27,336	145,616
Receivable against sale of investments		49,637	-
Receivable against sale of units		1,099	37,445
Investments	5	1,991,148	1,371,646
Loans and receivables		124,705	750,000
Dividend and profit receivable		32,395	67,317
Advances, deposits, prepayments and other receivables		57,529	6,940
<b>Total assets</b>		<b>2,283,849</b>	<b>2,378,964</b>
<b>LIABILITIES</b>			
Payable to the Management Company		96	3,095
Payable to Trustee		259	283
Annual fee - Securities and Exchange Commission of Pakistan		412	3,132
Dividend Payable		10,732	-
Payable on redemption of units		4,266	774
Accrued expenses and other liabilities		2,063	1,742
<b>Total liabilities</b>		<b>17,828</b>	<b>9,026</b>
<b>NET ASSETS</b>		<b>2,266,021</b>	<b>2,369,938</b>
<b>Unit Holders' Funds</b>		<b>2,266,021</b>	<b>2,369,938</b>
<b>Number of units</b>			
<b>Number of units in issue</b>		<b>44,324,359</b>	<b>44,669,101</b>
<b>Rupees</b>			
<b>Net asset value per unit</b>		<b>51.12</b>	<b>53.06</b>

The annexed notes 1 to 8 form an integral part of these condensed Interim financial statements.

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

Chief Executive

Director



## PAKISTAN INCOME FUND

### CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

	Note	2009 (Rupees in '000)	2008
<b>INCOME</b>			
Capital gain / (loss) on sale of investments-net		10,640	(6,267)
Income from Term Finance Certificates and Sukuk bonds		42,759	85,000
Income from Government Securities		17,007	-
Income from Continuous Funding System transactions		-	45,293
Income from Certificates of Investment, Term Deposit Receipts and Placements		9,662	41,914
Income from reverse repurchase transactions		778	-
Profit on bank accounts		4,717	18,868
Unrealised appreciation / (diminution) in the value of investments - net	5.1	21,810	(4,884)
Unrealised gain on revaluation of futures contracts-net		-	46
<b>Total Income</b>		<b>107,373</b>	<b>179,970</b>
<b>EXPENSES</b>			
Remuneration to Management Company		8,237	21,010
Remuneration to Trustee		801	1,653
Annual fee - Securities and Exchange Commission of Pakistan		412	1,401
Securities transaction cost		237	1,247
Settlement and bank charges		79	3,104
Fees and Subscription		165	477
Legal and Professional Charges		48	70
Auditors' Remuneration		146	195
Printing and related cost		46	102
<b>Total Expenses</b>		<b>10,171</b>	<b>29,259</b>
<b>Net income from operating activities</b>		<b>97,202</b>	<b>150,711</b>
Element of income and capital gains included in prices of units issued less those in units redeemed - net		1,594	5,868
<b>Net income for the period</b>		<b>98,796</b>	<b>156,579</b>

Earnings per unit (EPU) is not disclosed as the management is of the opinion that calculation of weighted average number of units is impracticable.

The annexed notes 1 to 8 form an integral part of these condensed Interim financial statements.

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

Chief Executive

Director

## PAKISTAN INCOME FUND

### CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED) FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

	2009	2008
	(Rupees in '000)	
Undistributed income brought forward	136,595	174,537
Final distribution for the year ended 30 <sup>th</sup> June 2009: Rs 2.35 per unit (Date of distribution: 6 <sup>th</sup> July 2009) (2008: Rs 1.45 per unit: 3 <sup>rd</sup> July 2008)		
- Cash Distribution	(4,581)	(10,281)
- Bonus units	(100,401)	(160,686)
Net income for the period	98,796	156,579
Interim distribution for the quarter ended 30 <sup>th</sup> September 2009: Rs 1.87 per unit, date: 30 <sup>th</sup> Sep 2009 (Sep 2008: Rs 1.30 per unit 30 <sup>th</sup> September 2008)		
- Cash Distribution	(10,732)	(19,400)
- Bonus units	(69,762)	(128,849)
Undistributed income carried forward	<u>49,915</u>	<u>11,900</u>

The annexed notes 1 to 8 form an integral part of these condensed Interim financial statements.

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

Chief Executive

Director

**PAKISTAN INCOME FUND**

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)  
FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009**

	2009	2008
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income for the period	98,796	156,579
<b>Adjustments</b>		
Unrealised (appreciation) / diminution on investments - net	(21,810)	4,884
Remuneration of Management Company	8,237	21,010
Remuneration of Trustee	801	1,653
Unrealised gain on revaluation of derivative - net	-	(46)
Net element of income and capital (gains) / losses included in prices of units issued less those in units redeemed	(1,594)	(5,868)
	<u>84,430</u>	<u>178,212</u>
<b>(Increase) / decrease in assets</b>		
Receivable against Continuous Funding System (CFS) transactions	-	854,623
Receivable against sale of Investments	(49,637)	149,903
Advances, deposits, prepayments and other receivables	(50,589)	48,527
Investments	(597,692)	211,101
Loans and receivables	625,295	(1,550,000)
Dividend and profit receivable	34,922	(7,650)
	<u>(37,701)</u>	<u>(293,496)</u>
<b>Increase / (decrease) in liabilities</b>		
Accrued expenses and other liabilities	321	7,977
Payable to the Management Company	6	(103)
Payable to Trustee	-	(9)
Annual fee - Securities and Exchange Commission of Pakistan	(2,720)	(7,974)
	<u>(2,393)</u>	<u>(109)</u>
Remuneration paid to Management Company	(11,242)	(19,302)
Remuneration paid to Trustee	(825)	(1,720)
Dividend Paid	(4,581)	(10,363)
	<u>27,688</u>	<u>(146,778)</u>
<b>Net cash inflow from/(used in) operating activities</b>		
	<u>27,688</u>	<u>(146,778)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
<b>Net payment from sale and repurchase of units</b>	(145,968)	(248,976)
<b>Net decrease in cash and cash equivalents during the period</b>	<u>(118,280)</u>	<u>(395,754)</u>
<b>Cash and cash equivalents at the beginning of the period</b>	145,616	1,168,583
<b>Cash and cash equivalents at the end of the period</b>	<u>27,336</u>	<u>772,829</u>

The annexed notes 1 to 8 form an integral part of these condensed Interim financial statements.

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

Chief Executive

Director

## PAKISTAN INCOME FUND

### CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS (UNAUDITED) FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

	2009	2008
	(Rupees in '000)	
Net assets at the beginning of the period	2,369,938	6,070,069
Issue of 24,745,206 units (2008: 109,534,938 units)	1,297,080	5,555,165
Redemption of 28,435,587 units (2008: 116,697,945 units)	<u>(1,482,886)</u>	<u>(5,907,724)</u>
	(185,806)	(352,559)
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(1,594)	(5,868)
Issue of 1,365,737 interim bonus units @ Rs 1.87 Per Unit for the quarter ended 30 <sup>th</sup> September 2009 (2009: 2,573,381 @ Rs 1.30 Per Unit).	69,762	128,849
Issue of 1,979,902 bonus units for the year ended 30 <sup>th</sup> June 2009 @ Rs 2.35 Per Unit. (2008: 3,211,792 bonus units @ Rs 1.45 Per Unit.)	100,401	160,686
Final distribution @ Rs 2.35 per unit for the year ended 30 <sup>th</sup> June 2009 announced on 6 <sup>th</sup> July 2009 (2008: @ Rs 1.45 per unit announced on 3 <sup>rd</sup> July 2008)		
Cash Distribution	(4,581)	(10,281)
Issue of bonus units	(100,401)	(160,686)
Net income for the period	98,796	156,579
Interim distribution @ Rs 1.87 per unit announced on 30 <sup>th</sup> September 2009 (2009: Rs 1.30 per unit)		
Cash Distribution	(10,732)	(19,400)
Issue of bonus units	(69,762)	(128,849)
	(86,680)	(162,637)
Net assets at the end of the period	<u>2,266,021</u>	<u>5,838,540</u>

The annexed notes 1 to 8 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

## PAKISTAN INCOME FUND

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE QUARTER ENDED 30<sup>TH</sup> SEPTEMBER 2009

#### 1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund (PIF) was established under a Trust Deed executed between Arif Habib Investments Limited (Formerly: Arif Habib Investment Management Limited), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23<sup>rd</sup> October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28<sup>th</sup> February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules. The registered office of the Management Company is situated at 2/1, R.Y.16, Old Queens Road, Karachi, Pakistan.

PIF is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

The Fund is allowed to invest in a mix of Continuous Funding System (CFS) transactions, investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

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

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

#### 2 BASIS OF PREPARATION

##### 2.1 Statement of compliance

These un-audited condensed interim 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 and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Regulations or the directives issued by the SECP prevail. These financial statements are presented in condensed form in accordance with International Accounting Standard, 34 "Interim Financial Reporting". These do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Fund as at and for the year ended 30<sup>th</sup> June 2009.

#### 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended 30<sup>th</sup> June 2009.

#### 4 RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the year ended 30<sup>th</sup> June 2009.

#### 5 INVESTMENTS

##### Investments at fair value through profit or loss

	Note	Unaudited 30 <sup>th</sup> September 2009	Audited 30 <sup>th</sup> June 2009
Term Finance Certificates	5.2	895,454	1,086,175
Government Securities	5.3	1,095,694	285,471
		<b>1,991,148</b>	<b>1,371,646</b>

##### 5.1 Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss - net

	Unaudited 30 <sup>th</sup> September 2009	Audited 30 <sup>th</sup> June 2009
Fair value of investments	1,991,148	1,371,646
Less: Cost of investments	(2,035,258)	(1,455,433)
	(44,110)	(83,787)
Less: Net unrealised appreciation in fair value of investments at fair value through profit or loss at the beginning of the period / year	83,787	(39,071)
Less: Realised on disposal during the period / year	(17,867)	38,157
	65,920	(914)
Net unrealised appreciation / (diminution) in the value of investment during the period / year	<b>21,810</b>	<b>(84,701)</b>

## PAKISTAN INCOME FUND

### 5.2 Term Finance Certificates 'At fair value through profit or loss'

Name of the investee company	Issue date	Number of certificates			Balance as at 30 <sup>th</sup> Sep 2009			Market value		Percentage in relation to the size of the issue
		Purchases during the period	Sales/Mature during the period	As at 30 <sup>th</sup> Sep 2009	Cost	Market Value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investments	
Certificate of Rs. 5000 each unless specified otherwise										
Askari Bank Limited	04 <sup>th</sup> February 2005	19,800	-	19,800	97,796	95,758	(2,038)	4.23	4.81	6.60
Bank AL Habbib Limited	07 <sup>th</sup> February 2007	17,320	-	17,320	61,538	60,385	(1,153)	2.66	3.03	4.11
Engro Chemical Pakistan Limited	18 <sup>th</sup> March 2008	44,900	3,500	48,400	234,580	212,960	(21,620)	9.40	10.70	6.05
Escorts Investment Bank Limited	15 <sup>th</sup> March 2007	3,016	-	3,016	12,707	12,234	(473)	0.54	0.61	3.02
KASB Securities Limited	27 <sup>th</sup> June 2007	6,000	3,000	9,000	38,969	38,219	(750)	1.69	1.92	9.00
Orix Leasing Pakistan Limited	25 <sup>th</sup> May 2007	31,000	-	27,000	19,716	18,586	(1,130)	0.82	0.93	0.80
Pakistan Mobile Communications Limited	01 <sup>st</sup> October 2007	38,250	-	29,250	137,084	137,640	556	6.07	6.91	4.18
Pakistan Mobile Communications Limited	28 <sup>th</sup> October 2008	17,035	-	17,035	84,749	78,574	(6,175)	3.47	3.95	1.50
State Pakistan Limited	09 <sup>th</sup> March 2006	4,000	-	4,000	7,497	7,131	(366)	0.31	0.36	5.00
Standard Chartered Bank (Pakistan) Limited	01 <sup>st</sup> February 2006	10,000	-	10,000	-	-	-	-	-	-
Telecard Limited	27 <sup>th</sup> May 2005	19,980	-	19,980	46,993	44,894	(2,099)	1.98	2.25	4.16
Trust Investment Bank Limited	15 <sup>th</sup> November 2005	7,500	-	7,500	11,250	11,014	(236)	0.49	0.55	3.75
Trust Investment Bank Limited	04 <sup>th</sup> July 2008	10,000	-	10,000	49,980	46,665	(3,315)	2.06	2.34	8.33
United Bank Limited	08 <sup>th</sup> September 2006	22,012	-	1,000	105,387	103,142	(2,245)	4.55	5.18	5.25
Worldcall Telecom Limited	28 <sup>th</sup> November 2006	7,000	-	7,000	29,435	28,252	(1,183)	1.25	1.42	10.00
					<b>937,681</b>	<b>895,454</b>	<b>(42,227)</b>			

5.2.1 The above includes Term Finance Certificates with fair value aggregating to Rs.410,713 (2008: Rs.43,091 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the fund's trades in terms of circular No. 11 dated 23<sup>rd</sup> October 2007, issued by SECP.

### 5.3 Investment in government securities - 'At fair value through profit or loss'

Issue date	Tenor	Face value in denomination of Rs. 100,000.....				Balance as at 30 <sup>th</sup> Sep 2009		Market value		
		As at 1 <sup>st</sup> July, 2009	Purchases during the period	Sales/Mature during the period	As at 30 <sup>th</sup> Sep 2009	Cost	Market Value	Appreciation / (Diminution)	as a percentage of net assets	as a percentage of total investments
Treasury Bills										
12 <sup>th</sup> February 2009	1 Year	100,000	375,000	-	50,000	425,000	406,914	(505)	17.93	20.41
12 <sup>th</sup> February 2009	6 Month	10,000	-	10,000	-	-	-	-	-	-
26 <sup>th</sup> February 2009	6 Month	-	100,000	100,000	-	-	-	-	-	-
26 <sup>th</sup> March 2009	1 Year	100,000	50,000	-	150,000	142,119	141,499	(620)	6.24	7.11
09 <sup>th</sup> April 2009	1 Year	50,000	-	-	50,000	47,011	46,950	(61)	2.07	2.36
23 <sup>rd</sup> April 2009	6 Month	-	100,000	100,000	-	-	-	-	-	-
07 <sup>th</sup> May 2009	6 Month	-	50,000	50,000	-	-	-	-	-	-
21 <sup>st</sup> May 2009	1 Year	50,000	-	50,000	-	-	-	-	-	-
13 <sup>th</sup> August 2009	1 Year	-	100,000	-	100,000	90,559	90,263	(296)	3.98	4.53
27 <sup>th</sup> August 2009	1 Year	-	200,000	-	200,000	180,106	179,751	(355)	7.93	9.03
10 <sup>th</sup> September 2009	6 Month	-	50,000	-	50,000	47,380	47,380	(24)	2.09	2.38
26 <sup>th</sup> September 2009	1 Year	-	100,000	-	100,000	89,142	89,110	(32)	3.93	4.48
26 <sup>th</sup> September 2009	6 Month	-	100,000	-	100,000	94,522	94,332	(10)	4.16	4.74
						<b>1,097,577</b>	<b>1,095,694</b>	<b>(1,883)</b>		

## PAKISTAN INCOME FUND

### 6 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (Formerly: Arif Habib Investment Management Limited), Arif Habib Limited, Arif Habib Securities Limited and Arif Habib Bank Limited being companies under common management, Central Depository Company Limited being the trustee, other collective investment schemes managed by the management company and directors and officers of the Management Company.

Remunerations to the Management Company and trustee are determined in accordance with the provisions of NBFC regulations and Trust Deed of the fund. All other transactions with the related parties / connected persons are carried on agreed terms.

#### 6.1 Details of the transaction with connected persons are as follows:

	Unaudited 30 <sup>th</sup> September 2009	Unaudited 30 <sup>th</sup> September 2008
	(Rupees in '000)	
<b>Management Company</b>		
Remuneration	8,237	21,010
Sales load	145	1,211
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	801	1,653
CDS charges	2	374
<b>Arif Habib Bank Limited</b>		
Investment in Term Deposit Receipt	-	600,000
Term Deposit Receipt - matured during the period	-	500,000
Income from Term Deposit Receipt	-	19,266
Profit on Bank Deposit	561	18,019
<b>Directors and Officers of the Management Company</b>		
Investment in the Fund 254,931 units (2008: 593,943 units)	13,294	30,153
Redemption from the Fund 200,242 units (2008: 527,749 units)	10,443	25,551
Bonus 17,970 units (2008: 26,769 units)	915	1,340
<b>Pakistan Stock Market Fund</b>		
Investment in the Fund nil units (2008: 4,981,072 unit )	-	250,000
Redemption from the Fund nil units (2008: 4,981,072 unit)	-	252,979

## PAKISTAN INCOME FUND

### 6.2 Balances with related parties

	Unaudited 30 <sup>th</sup> September 2009 (Rupees in '000)	Audited 30 <sup>th</sup> June 2009
<b>Management Company</b>		
Payable to Management Company	<u>96</u>	<u>3,095</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	<u>259</u>	<u>283</u>
Security Deposit	<u>200</u>	<u>200</u>
<b>Arif Habib Bank Limited</b>		
Bank Balance	<u>5,865</u>	<u>12,465</u>
Profit receivable on bank accounts	<u>165</u>	<u>101</u>
<b>Amounts due on account of Conversion / Transfer of units</b>		
(Payable) to Pakistan Income Enhancement Fund	<u>(903)</u>	<u>-</u>
Receivable from Pakistan International Element Islamic Fund	<u>10</u>	<u>-</u>
Receivable from / (Payable) to Pakistan Stock Market Fund	<u>173</u>	<u>(294)</u>
Receivable from Pakistan Cash Management Fund	<u>252</u>	<u>-</u>
<b>Directors and Officers of the Management Company</b>		
Unit held 261,294 units (2009: 145,153 units)	<u>13,347</u>	<u>7,702</u>

### 7. DATE OF AUTHORISATION

These condensed interim financial statements have been authorised for issue on 22<sup>nd</sup> October 2009 by the Board of Directors of the Management Company.

### 8. GENERAL

Figures have been rounded off to the nearest thousand Rupees unless specified other wise

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

Chief Executive

Director