

**PAKISTAN
ISLAMIC
PENSION
FUND**



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Asset Manager Rating
'AM2' Positive Outlook (by PACRA)



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FUND'S INFORMATION

Pension Fund Manager

Arif Habib Investments Limited
Arif Habib Centre, 23 M. T. Khan Road,
Karachi-74000.

Board of Directors of the Pension Fund Manager

Mr. Muhammad Shafi Malik	Chairman
Mr. Nasim Beg	Chief Executive
Mr. Muhammad Akmal Jameel	Director
Mr. Sirajuddin Cassim	Director
Mr. Muhammad Kashif Habib	Director
Mr. S. Gulrez Yazdani	Director
Syed Ajaz Ahmed	Director

Company Secretary & CFO of the Pension Fund Manager

Mr. Zeeshan

Audit Committee

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

Trustee

MCB Financial Services Limited (MCBFSL)
3rd Floor, Adamjee House,
I.I. Chundrigar Road, Karachi.

Bankers

- Bank AL Habib Limited
- Summit Bank Limited (formerly :Arif Habib Bank Limited)
- Deutsche Bank A.G.
- Standard Chartered Bank (Pakistan) Limited
- The Bank Of Punjab

Auditors

A. F. Ferguson & Co. - Chartered Accountants
State Life Building No. 1-C,
I. I. Chundrigar Road, Karachi-74000

Legal Adviser

Bawaney & Partners
404, 4th Floor, Beaumont Plaza,
Beaumont Road, Civil Lines, Karachi-75530

Registrar

Gangjees Registrar Services (Pvt.) Limited.
Room No. 516, 5th Floor, Clifton Centre,
Kehkashan, Clifton, Karachi.

REPORT OF THE DIRECTORS OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2010

The Board of Directors of Arif Habib Investments Limited, the Fund Manager of Pakistan Islamic Pension Fund (PIPF), is pleased to present its annual Report together with the audited Financial Statements for the year ended June 30, 2010.

Fund Objective

The objective of the Fund is to provide a flexible retirement savings plan for individuals with customized investment choices in Shariah compliant assets.

Fund Profile

The Pakistan Islamic Pension Fund (PIPF), under the Voluntary Pension System (VPS) was launched on November 02, 2007.

PIPF is a flexible savings cum investment plan under Voluntary Pension Scheme (VPS) which facilitates all individuals who are Pakistani nationals, to save for their retirement in a systematic way, topping up their savings with investment returns at their desired investment exposure and granting them special tax benefits, with numerous valuable options before, at and after retirement while maintaining compliance with Shariah. The scheme can be used as a replacement for any existing Provident, Pension or Gratuity funds, or can be entered into alongside these funds. Systematic transitions of the existing Provident/Gratuity/Pension schemes to the VPS are also possible in a manner that allows maximum tax credit to the concerned.

VPS carries clear advantages over existing saving funds. Most obvious ones are individualized asset allocation, double tax advantages and minimal administration cost, avoiding complications associated with Defined Benefit Schemes.

PIPF is a long only scheme and is not allowed to undertake leveraged investments.

Explanation With Regards To Auditor's Qualified Opinion

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honorable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response Central Depository Company of Pakistan on behalf of funds under its trusteeship along with a few investors filed another petition in this regard with the honorable High Court of Sindh. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained legal opinions from couple of renowned law firms to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinions, among other things, stated that funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letters suggest that provisioning was neither required nor necessary. Further, the opinions suggest that the petition filed with the High Court of Sindh be withdrawn.

External Auditors' based on a different legal advice are of the view that provision for WWF should be made in the financial statements. The management has not made any provision in respect of WWF and maintains that based on letter issued by Ministry of Labour and Manpower, funds are not establishments and as a result are not liable to pay contribution to WWF.

Fund Performance during the year ended June 30, 2010

Equity sub-fund

The net assets of the sub-fund as at June 30, 2010 stood at Rs 31.78 million as compared to Rs 23.42 million at the beginning of the year, registering a positive change of 35.70%.

The Net Asset Value (NAV) per unit of the sub-fund was Rs 89.83 as compared to Rs 73.01 at the beginning of the year, registering an increase of Rs 16.82 per unit.

Debt sub-fund

The net assets of the sub-fund as at June 30, 2010 stood at Rs 41.69 million as compared to Rs 35.35 million at the beginning of the year, registering a positive change of 17.93%.

The Net Asset Value (NAV) per unit of the sub-fund was Rs 124.66 as compared to Rs 111.77 at the beginning of the year, registering an increase of Rs 12.89 per unit.

Money Market sub-fund

The net assets of the sub-fund as at June 30, 2010 stood at Rs 36.33 million as compared to Rs 33.47 million at the beginning of the year, registering a positive change of 8.55%.

The Net Asset Value (NAV) per unit of the sub-fund was Rs 117.23 as compared to Rs 109.43 as at the beginning of the year, registering an increase of Rs 7.80 per unit.

Earning per Unit (EPU)

EPU of the sub funds for the year ended June 30, 2010 are as follows:

Sub-Fund	E P U
	(Rs)
Equity	14.39
Debt	11.38
Money Market	7.47

External Auditors

The outgoing Auditors A.F. Ferguson & Co. Chartered Accountants stand retired and as recommended by the Audit Committee, the Board of Directors of the Management Company has appointed M. Yousuf Adil Saleem & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2011.

Future Outlook

The fiscal year 2011 has started on a disastrous note for the country with one of the worst ever floods, which have resulted in unprecedented human suffering and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3,200 kilometer long Indus River. The scale of damage appears quite large with initial estimates of around Rs 500 billion. As a result, most of the economic targets are set to be revised for FY 2011 with possible contraction in GDP growth, higher inflation and increase in budget deficit. Most notably, government borrowing will increase in the wake of urgency for relief and rehabilitation needed for 20 million (almost 10% of the population) affectees across the country.

Agriculture sector is severely impacted with approximate losses of nearly Rs 250 billion on account of severe damages to standing crops of cotton, rice and sugar cane; loss of 500,000 metric tonnes of wheat stock; and loss of two hundred thousand heads of livestock. In addition, floods have made it difficult to achieve wheat cultivation target for the year 2011, which may lead to lower wheat output during the year. Against the earlier growth target of 3.8% for FY2011, agriculture sector growth is likely to be in red for the year. Similarly, manufacturing and services growth, which were earlier projected at 4.9% and 4.7%, are expected to be scaled down due to weak demand conditions in the economy along with the supply side problem due to the heavy destruction of infrastructure (roads, bridges) in the flood affected areas. With commodity prices on the rise once again in international markets (partly due to flood damages in Pakistan) and Pakistan facing domestic shortages, inflation is expected to rise even further in coming months. As a result, monetary policy will continue to have a tightening stance in the remaining months of the year.

One other major negative consequence will be the deterioration in balance of trade as the country will become net importer of sugar, cotton and wheat and will be left with little rice to export (Pakistan is the third largest exporter of rice in the world-US\$2 billion export in 2010). This additional burden will have its impact on balance of payments and current account deficit, leading to additional downward pressure on the Rupee.

Economic and budgetary targets set for FY11 by the government are in the process of being revised in the wake of extraordinary circumstances. While, Pakistan needs higher donors' support at this crucial juncture, it also will require additional long term funding for rebuilding its basic infrastructure (roads, bridges, irrigation canals and electricity distribution) lost in the floods. Given the weak external position, in our view, Pakistan will enter into another multiyear arrangement with the IMF after the expiry of present IMF program by the end of FY11.

Market Outlook

Given the severity of economic damage due to these massive floods, the equity market has responded by retreating almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the cheapest emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the coming year, which is likely to impact the top line growth and earnings across various sectors.

The market has started the year with low volumes as capital gain tax has been finally introduced on short term gains (less than one year holding period) on stocks and mutual funds. However, efforts are in place for the introduction of leverage product, which should enable the market to attract some domestic inflows, which have largely shrunk during the past year. Overall, the market is expected to witness lower trading volumes during the year.

What the market will be hoping for is effective earlier response of the government to the rehabilitation and rebuilding of country's infrastructure. Delays in international support and weak response of the government to the crises will have far reaching negative consequences on the economy.

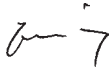
Interest rates are also expected to remain sticky upwards as expectations of continuing double digit inflation (around 12%) and higher government borrowings may not allow SBP to ease its monetary policy in the near term especially in the aftermath of the worst flood in the history of Pakistan, which has resulted in high level damages to the infrastructure, properties, livestock and crop.

Acknowledgement

The Board of Directors of the Pension Fund Manager 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, MCB Financial Services Limited (formerly: Muslim Commercial Financial Services (Pvt.) Limited) (the Trustee of the Fund) for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Pension Fund Manager for the growth and meticulous management of the Fund.

For and on behalf of the Board

Karachi
August 03, 2010


Nasim Beg
Chief Executive

REPORT OF THE FUND MANAGER FOR THE PERIOD ENDED JUNE 30, 2010

Fund Objective

The objective of the fund is to provide a flexible retirement savings plan for individuals with customized investment choices in Shariah compliant assets.

Voluntary Pension System Features

The Pakistan Islamic Pension Fund (PIPF), under the Voluntary Pension Scheme (VPS) was launched on November 02, 2007.

PIPF is a flexible savings cum investment plan which facilitates all individuals who are Pakistani nationals, to save for their retirement in a systematic way, topping up their savings with investment returns at their desired investment exposure and granting them special tax benefits, with numerous valuable options before, at and after retirement while maintaining compliance with Shariah. The scheme can be used as a replacement for any existing provident, pension or gratuity funds, or can be entered into alongside these funds. Systematic transition of the existing Provident/Gratuity/Pension schemes to the VPS is also possible in a manner that allows maximum tax credit to the concerned.

VPS carries clear advantages over existing saving funds. Most obvious ones are double tax savings, individualized asset allocation, minimal administration, avoiding complications associated with defined benefit schemes.

PIPF is a long only scheme and is not allowed to undertake leveraged investments.

Investment Philosophy

The investment philosophy for each asset class is based on independent, fundamental analysis of the sector and the company for the equity class. For the debt and money market asset classes we assess the trend and volatility in the interest rates. For equity, individual stock selection is on the basis of growth and value considerations while the debt and money market individual security selection is based on credit quality and valuation considerations.

The concept behind the VPS is disciplined savings towards retirement- which in essence means all investments are for the very long-term, a twenty to thirty year period or longer. Participants need not worry about short-term adverse movements in interest rates and as to how the equity market is performing in the short-term.

Fund Strategy, Asset Allocation & return during FY10

Equity sub-fund

The equity sub-Fund delivered a return of 23.04% in FY10 as compared to KMI 30 Index return of 36.87%. Most of the portfolio holding underperformed the Index, with major negative contributors including Packages, PSO, PAEL, ICI and SITC. On the other hand, Unilever, Hubco, FFC, OGDC and POL were the major outperformers in the sub-fund.

The sub-fund maintained an average monthly exposure of 91.63%, with Oil and Gas, Chemical and general industries (Packages & Tripak Films) on average constituting 60% of the portfolio. Net assets of the sub fund as of June 30, 2010 have reached Rs 32.6 billion. Following are the major activities carried by the Fund during the year.

- **Oil & Gas:** The sector exposure was initially increased to 30% in the first quarter (by adding PSO), before being gradually brought down to close the year at 15.63% (by offloading PSO and OGDC and trimming PPL from the portfolio). Nevertheless, the sub-Fund remained on average 25% invested in this sector. OGDC was offloaded in January as the stock became overvalued and PSO was offloaded in June amidst concerns over increased turnover tax as proposed in the Budget for FY2011. However, during the second half of the fiscal year, OGDC stock price rose 31%, whereas PSO, POL and PPL prices reduced 12%, 3% and 1% respectively. Exit from OGDC and subsequent outperformance of the stock led to lower relative performance of the sub Fund.
- **Chemical Sector:** average sector exposure remained above 25%, with beginning and ending exposures at 29.72% and 23.57% respectively. Engro was sold off early in the year as the stock became Shariah non-compliant. Exposure in ICI and FFC were reduced by realizing profit in these scrips. FFBL and Sitara Chemicals were added in the portfolio due to attractive valuations. While the fertilizer stocks added about 5% return for the sub-Fund, Sitara Chemicals and ICI have been major underperformers.

- General Industries (Packages and Tripak Films): Exposure in Packages has remained high throughout the year, with year-end exposure at 8.85%. The scrip has been a major underperformer during the year, with the share price falling 23%. Despite this underperformance, high allocation has been maintained considering long term growth as the company starts reaping benefits of the expansion last year. The sub-fund also added Tripak Films (2.96%) in the portfolio in the last quarter.
- Pharmaceuticals: Exposure in this sector was built gradually during the year to 9.48%. Searle Pharma and Ferozsons was added in the portfolio considering the growth in the sector (both volumetric and margin improvement).
- Automobile and Parts: Overall allocation increased from 8.09% (only in Pak Suzuki) to 10.36%. During the year, exposure was diversified, by reducing allocation in Pak Suzuki and adding AgriAutos.
- Besides the above, other major activities included booking profits in PTCL, Hubco and Unilever (completely offloaded). New exposures were built in Meezan Bank, PAEL and Thal Limited.

Debt sub-fund

Debt sub-fund yielded a return of 11.53% during FY10. Exposure in GIS Sukuk was further enhanced to 78% (from 45% at the beginning). Moreover, due to attractive yield, the sub Fund also took exposure in PEL sukuk (credit rating: A+), with year-end exposure at 4% of net assets. Remaining assets were in bank deposits. The net assets of Debt Sub Fund have reached Rs 41.69 million.

Money Market sub-fund

The sub-fund had an annualized return of 7.08%. No major activity was carried out in the fund. At year end, the sub fund was 28% invested in GOP Ijarah Sukuk while remaining was in bank deposits. Net assets of Money Market sub-fund are Rs 36.33 million at the year end.

Stock market review

The KSE 100 Index gained 35.74% in FY10 and closed at 9721.91. Most of the gains in equities occurred in the 1st quarter (July-September 2009 : 30.53%). The index further increased during the second half, making a high of 10,669.88 on April 19 before closing the year with clipped gains. Economic indicators have started to stabilize during the year after the turbulent 2009 leading to improving investors' confidence.

Foreign portfolio investment shot up to \$ 569 million in FY10. Foreign participation was mainly driven by attractive valuations of the market as compared to the regional players. On the flip side it was largely tilted towards index heavy weights. Out of the major sector listed on KSE, oil & gas, chemical sector (particularly fertilizer stocks) and auto stocks outperformed the market while cement, refineries and insurance sector were the underperformer. OGDC (largest oil and gas exploration company) and MCB (largest private sector bank) contributed 52 % of index gain (OGDC 45%, MCB 7.0%).

During FY10, KSE100 performance was one of the best among regional indices with MSCI frontier market index (which includes Pakistan) in this time period declining by 3.59%. Average daily volume during the year was 161 million shares (Rs 6.97 billion) versus 105.6 million (Rs 4.43 billion) a year earlier. During the year eight equity offerings worth Rs 4.3 billion were made at local bourses as compared to 4 equity offerings a year earlier.

Financial Year 2010 in Review

A moderate recovery in the economy has been witnessed despite one of the most serious economic crises in the country's history. GDP growth has begun to seep back into the country; however the biggest concern remains whether this recovery is sustainable. An energy and water shortage, along with the internal security situation and inability to deal with structural issues especially circular debt, poses a considerable hurdle for a more broad based revival of the economy. On the other hand, shortfall in the inflow of external assistance, including from the FoDP combined with the delays in the Coalition Support Fund, has led to high borrowings by the government in the domestic credit market which has resulted in the 'crowding out' of credit to the private sector. An increase in global commodity prices, mainly food has exerted an upward pressure on the domestic inflation where commodities have witnessed a decent increase. Consequently, the State Bank has been unable to use expansionary monetary policy which could potentially add to already significant inflation.

The Real Sector

According to initial estimates, GDP grew by 4.1% during FY10 as against a revised figure of 1.2% a year earlier. The positive outturn for

economic growth came in spite of massive costs such as internal security situation and the severe energy shortfall. Large Scale Manufacturing (LSM) posted a growth of 4.71% during Jul-May FY10 against a -8.2% in the same period in FY09. Some major contributors towards this positive LSM growth were pharmaceuticals, automobiles and the fertilizer sector. However, the growth overall is not broad based and is largely biased towards consumer durable goods and major index constituents namely Textile and food processing continue to display negative growth. Similarly, services sector displayed a decent rebound of 4.6% as against previous year's growth of 1.6%. However, agriculture sector growth slows down to 2% as water shortages led to reduced wheat output in the preceding year.

The Monetary Sector

Money supply (M2) has grown as compared to the previous year, but the increase continues to be explained by government borrowing from the banking system which has further increased. Improvement in external balance of payment position has increased the net foreign assets of the banking system during July-Jun FY10 which rose by Rs 89.07 billion after witnessing a decline of Rs 188.4 billion during the same period of FY09. Net domestic assets on the other hand witnessed a rise of Rs 530.7 billion, however lower as compared to the previous years Rs 590.2 billion. While government borrowing for budgetary support has increased, borrowing for commodity operations till now has been significantly lower. The Discount rate, after peaking in November 2008 has eased to 13.0% (as of end July) in response to a gradual fall in both headline as well as core inflation. Nevertheless, based on the inflationary environment and continued government borrowing, a further easing in the discount rate for at least FY11 does not seem likely. Treasury yields at this point also reflect heightened concerns regarding inflation and government debt situation.

Prices

CPI Inflation, after dipping to a low of 8.9% YoY in October 2009 mainly due to the base effect, has rebounded to 12.3% YoY as of July 2010, with food inflation at 12.5% and non-food inflation at 12.0%. Core inflation (Non Food Non Energy), on the other hand has been tame at 10.3%. This increase in inflation is mainly due to structural adjustments i.e. electricity and gas subsidy elimination. It would thus not be incorrect to say that this latest round of inflation is due to short term factors; however, it still has raised inflation future expectations which could keep inflation at elevated levels for some time.

The Fiscal Sector

Pakistan is witnessing a low Tax/GDP ratio amidst mounting public debt and significant expenditure requirements. The total tax collection stood at Rs 1136.6 billion in July-May 2009-10 against a collection of Rs 900.9 billion in the same period last year. Hopefully, the implementation of Value Added Tax (VAT) from October 01, 2010 would further strengthen the tax base and tax/GDP ratio under a flat tax rate. However, at the same time, evidence from other countries has shown that VAT implementation is not without significant costs especially in the first year of imposition. At the same time the government continues to face significant expenditure requirements due to continued war on terror and development needs.

The External Sector

The external sector witnessed an overall improvement during 2010, mainly due to narrowing of the current account deficit. This decline in CAD to US\$ 3.06 billion was contributed by the improvement in all its components; trade in goods, services, and income and current transfers during FY10. The goods trade deficit declined by 11% while remittances have posted a growth of 14%. Foreign Direct Investment (FDI) in the country declined by 41% during the FY10 due to unstable domestic security situation. On the positive side, Foreign Portfolio Investment (FPI) has rebounded considerably, but these investments are short term and volatile in nature. Pakistan's foreign exchange reserves increased significantly from US\$12.4 billion to over US\$ 16.0 billion from July 2009 – Jun 2010. Improvements in the SBP's reserves during the period were mainly due to inflows from International financial Institutions (IFIs) and lower current account deficit. Due to improvements in the overall external account and stable reserve position, Pakistan's currency against the US dollar depreciated by 5% during FY10 compared to a decline of 18.8% in the corresponding period last year.

The year ahead

The fiscal year 2011 has started on a disastrous note for the country with one of the worst ever floods, which have resulted in unprecedented human suffering and vast scale damages to housing/properties, roads/electricity infrastructure, crops and livestock in Pakistan's economic and agriculture heartland along the 3,200 kilometre long Indus River. The scale of damage appears quite large with initial estimates of around Rs 500 billion. As a result, most of the economic targets are set to be revised for FY 2011 with possible contraction in GDP growth, higher inflation and increase in budget deficit. Most notably, government borrowing will increase in the wake of urgency for relief and rehabilitation needed for 20 million (almost 10% of the population) affectees across the country.

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Economic and budgetary targets set for FY11 by the government are in the process of being revised in the wake of extraordinary circumstances. While, Pakistan needs higher donors' support at this crucial juncture, it also will require additional long term funding for rebuilding its basic infrastructure (roads, bridges, irrigation canals and electricity distribution) lost in the floods. Given the weak external position, in our view, Pakistan will enter into another multiyear arrangement with the IMF after the expiry of present IMF program by the end of FY11.

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MCB FINANCIAL SERVICES LIMITED

[FORMERLY MUSLIM COMMERCIAL FINANCIAL SERVICES LIMITED]

REPORT OF THE TRUSTEE TO THE PARTICIPANTS

PAKISTAN ISLAMIC PENSION FUND

Report of the Trustee Pursuant to Rule 31 (h) of Voluntary Pension System Rules, 2005

Pakistan Islamic Pension Fund was established under a Trust Deed executed between Arif Habib Investments Limited, as the Pension Fund Manager and MCB Financial Services Limited (formerly: Muslim Commercial Financial Services Limited), as the Trustee. The trust deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 24th July, 2007.

1. In our opinion, Arif Habib Investments Limited, the Pension Fund Manager of Pakistan Islamic Pension Fund has in all material respects managed the Fund during the year ended 30th June 2010 in accordance with the provisions of the following:
 - (i) investment policy prescribed by the Commission and borrowing limitations set out in the trust deed, are complied with;
 - (ii) the methods adopted by the Pension Fund Manager in calculating the values of units of each sub-fund of the pension fund, were adequate and in accordance with the provisions of the trust deed, or as specified by the Commission;
 - (iii) the issue, redemption and cancellation of units, were as per the provisions of the trust deed and the VPS Rules; and
 - (iv) any other matter required under the trust deed of the pension fund and the VPS Rules.

For the purpose of information, the attention of unit holders is drawn towards auditor's report wherein they have stated that provision for Workers' Welfare Fund has not been made in the accounts.

Khawaja Anwar Hussain
Chief Executive Officer

MCB Financial Services Limited (formerly: Muslim
Commercial Financial Services Limited)

Karachi: August 24, 2010

REPORT OF THE SHARIAH ADVISOR FOR THE YEAR ENDED JUNE 30, 2010

I, the Shariah Advisor of the Pakistan Islamic Pension Fund (the Fund) and its three sub funds (Equity sub-fund, Debt sub-fund & Money Market sub-fund), am please to issue this report in accordance with the clause 4.19 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of M/s Arif Habib Investments Limited, the pension fund manager of the Fund, to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. My responsibility is to express an opinion, based on my review of the representations made by the management, to the extent where such compliance can be objectively verified. For Equity sub-fund, I have advised a criteria for screening equities in the local stock market, on the basis of the following; (1) Nature of business, (2) Interest bearing debt in relation to the total assets, (3) Illiquid assets in relation to the total assets, (4) Investment in non-Shariah complaint activities to total assets (5) Income from non-complaint investment to Gross revenues and (6) Net liquid assets per share vs. share price.

For Debt & Money Market sub funds, I have prescribed a criteria and procedures to be followed in ensuring Shariah compliance in every investment.

As part of my mandate as Shariah Advisor, I have reviewed the following, during the period;

- The modes of investment of the Fund's property and its compliance with the Shariah guidelines.
- Shariah compliance of new investment avenues proposed by AHI.

In the light of the above scope, I hereby certify that all the provisions of the scheme and investments made by the Fund (including all three sub funds) for the period ended 30th June 2010 are in compliance with the Shariah principles.

The pension fund manager has been directed to set aside as charity, amount earned as interest from conventional banks. In addition, there are investments made by the PIPF where Investee companies have earned a part of their income from non-complaint sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund.

During the year an amount of Rupees 55,888 (consists of Rupees 33,749 and Rupees 22,139 for PIPF Equity and Money Market Sub-Fund respectively) was transferred to the charity account.

May Allah bless us with Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Karachi
Dated: 30th July 2010

Dr Ejaz Samadani
Shariah Advisor

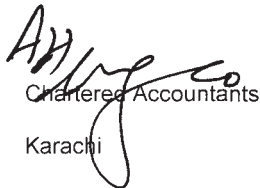
SHARIAH COMPLIANCE AUDITORS' REPORT TO THE PENSION FUND MANAGER

We have audited the compliance of the investments made by the Pakistan Islamic Pension Fund with the Shariah guidelines prescribed by the Shariah Advisor of the Fund for the period from July 1, 2009 to June 30, 2010.

It is the responsibility of the Pension Fund Manager to appoint a Shariah Advisor and establish and maintain a system of internal control to ensure compliance with the Shariah guidelines advised by the Shariah Advisor of the Fund. Our responsibility is to carry out procedures to enable us to report on the compliance of investments made by the Fund with the Shariah guidelines, as prescribed by the Shariah Advisor.

We conducted our audit in accordance with the International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund has complied, in all material respects, with the Shariah guidelines, as prescribed by the Shariah Advisor. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, investments made by the Fund during the period from July 1, 2009 to June 30, 2010 were, in all material respects, in compliance with the shariah compliant avenues as approved by the Shariah Advisor of the Fund.


Chartered Accountants
Karachi

Dated: August 3, 2010

AUDITORS' REPORT TO THE PARTICIPANTS OF PAKISTAN ISLAMIC PENSION FUND

We have audited the annexed financial statements comprising:

- i) Balance Sheet;
- ii) Income Statement;
- iii) Cash Flow Statement;
- iv) Statement of Movement in Participants' Sub-Funds;
- v) Statement of Investments by Category;
- vi) Statement of Investment Portfolio;
- vii) Statement of Other Investments;
- viii) Contribution Table;
- ix) Statement of Number of Units in Issue; and
- x) Financial Performance Table

of **Pakistan Islamic Pension Fund** as at June 30, 2010 and for the year ended June 30, 2010 together with the notes forming part thereof for the year then ended.

It is the responsibility of the Pension Fund Manager to establish and maintain a system of internal control and prepare and present the financial statements of the Islamic Pension Fund in conformity with the International Accounting Standards notified under sub-section (3) of section 234 of the Companies Ordinance, 1984, and technical releases issued by the Institute of Chartered Accountants of Pakistan from time to time and the requirements of the Voluntary Pension System Rules, 2005 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- a) the financial statements prepared for the year have been properly drawn up in accordance with the relevant provisions of the Trust Deed and the Voluntary Pension System Rules, 2005 including the guidelines thereunder;
- b) a true and fair view is given of the balance sheet of the Islamic Pension Fund as at June 30, 2010 and of the transactions of the Islamic Pension Fund for the year ended June 30, 2010 in accordance with the approved accounting standards as applicable in Pakistan except for the effects of the matter described below:
 - 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 the West Pakistan Shops and Establishment Ordinance, 1969 applies. On the basis of an independent legal advice, in our opinion this levy has now become applicable on the Fund as well. However, no provision in respect of Workers Welfare Fund (WWF) has been made by the pension fund manager for the reasons explained in note 15 to the financial statements. Had the management recognised this provision the liability towards WWF at June 30, 2010 would have amounted to Rs 213,868 and accordingly the net income after taxation for the year ended and net assets of the Fund at June 30, 2010 would have been lower by Rs 213,868;

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- c) the allocation and reallocation of units of the sub-funds for all the participants have been made according to the Voluntary Pension System Rules, 2005;
- d) the cost and expenses debited to the Islamic Pension Fund and apportionment of expenses between sub-funds are as specified in the constitutive documents of the Islamic Pension Fund;
- e) proper books and records have been kept by the Islamic Pension Fund and the financial statements prepared are in agreement with the Islamic Pension Fund's books and records;
- f) we were able to obtain all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of the audit; and
- g) No Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.



Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: August 3, 2010

Karachi

BALANCE SHEET AS AT JUNE 30, 2010

-----2010-----						
Note	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	2009	
-----Rupees-----						
Assets						
Balances with banks	4	2,947,288	6,106,524	11,294,178	20,347,990	43,463,250
Investments - (as per Statement of Investment by category)		27,755,450	34,352,301	24,362,000	86,469,751	47,653,566
Dividend receivable		85,400	-	-	85,400	169,550
Profit receivable		4,673	1,198,220	652,750	1,855,643	1,012,876
Formation cost		10,129	10,129	10,129	30,387	180,249
Deposits and other receivables	5	1,186,094	201,000	201,000	1,588,094	303,000
Taxation refundable		-	-	-	-	1,742
Total assets		31,989,034	41,868,174	36,520,057	110,377,265	92,784,233
Liabilities						
Payable to Pension Fund Manager		38,739	50,226	44,396	133,361	111,347
Payable to Trustee		5,146	6,672	5,897	17,715	14,845
Payable to Auditors		86,551	108,696	99,754	295,001	220,001
Annual fee payable to the Securities and Exchange Commission of Pakistan		9,999	12,601	11,579	34,179	29,096
Other liabilities	6	67,674	-	28,002	95,676	163,646
Taxation payable		-	162	167	329	-
Total Liabilities		208,109	178,357	189,795	576,261	538,935
Net Assets		31,780,925	41,689,817	36,330,262	109,801,004	92,245,298
Participants Sub-Funds (as per statement of movement in participants sub-funds)		31,780,925	41,689,817	36,330,262		
Number of Units in issue		353,786	334,436	309,914		
Net Asset Value		89.83	124.66	117.23		

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


Chief Executive

For Arif Habib Investments Limited
(Pension Fund Manager)


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

-----2010-----					
Note	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	2009
-----Rupees-----					
Income					
Capital Gain / (loss) on sale of Investments	5,420,156	-	-	5,420,156	(1,956,177)
Dividend Income	1,666,364	-	-	1,666,364	1,229,065
Income from Government Ijarah Sukuk	-	3,598,583	1,272,082	4,870,665	2,537,961
Profit on deposit accounts with bank	15,323	469,102	1,725,640	2,210,065	3,698,183
Income from Certificate of Investment	-	-	34,236	34,236	-
Income from Term Deposit Receipt	-	-	34,722	34,722	-
Income from Term Finance Certificate - Sukuk	-	148,533	-	148,533	-
Impairment loss on financial assets classified as "available for sale"	13 (1,123,677)	-	-	(1,123,677)	(7,670,953)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed	(453,717)	349,167	63,251	(41,299)	(14,966)
Total Income / (loss)	5,524,449	4,565,385	3,129,931	13,219,765	(2,176,887)
Expenses					
Remuneration of Pension Fund Manager	8 449,980	567,033	521,057	1,538,070	1,309,296
Remuneration of Trustee	9 59,890	75,473	69,356	204,719	174,573
Annual fee - Securities and Exchange Commission of Pakistan (SECP)	10 10,000	12,601	11,579	34,180	29,096
Auditors' remuneration	12 117,157	149,424	137,954	404,535	474,194
Custody and settlement charges	11,506	6,087	6,000	23,593	21,397
Securities transaction cost	47,482	-	-	47,482	9,970
Fees and subscription	-	-	-	-	60,000
Bank charges	1,654	3,953	1,496	7,103	5,068
Amortisation of formation cost	49,954	49,954	49,954	149,862	149,862
Legal and professional charges	23,410	29,562	27,379	80,351	184,999
Total Expenses	771,033	894,087	824,775	2,489,895	2,418,455
Net Income / (loss) before taxation	4,753,416	3,671,298	2,305,156	10,729,870	(4,595,342)
Provision for taxation - current	2.11 (76)	(21,081)	(15,333)	(36,490)	-
- prior year	-	-	-	-	2,510
Net income / (loss) after taxation	4,753,340	3,650,217	2,289,823	10,693,380	(4,592,832)
Other comprehensive income					
Unrealised gain during the year in the value of investments classified as available for sale - net	13 121,881	835,153	162,000	1,119,034	2,263,577
Total comprehensive income / (loss) for the year	4,875,221	4,485,370	2,451,823	11,812,414	(2,329,255)
Earnings per unit	14 14.39	11.38	7.47		

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

**For Arif Habib Investments Limited
(Pension Fund Manager)**


Chief Executive


Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	-----2010-----				
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	2009
	-----Rupees-----				
Cash Flow From Operating Activities					
Net income / (loss) before taxation	4,753,416	3,671,298	2,305,156	10,729,870	(4,595,342)
Adjustments for non cash items:					
Amortisation of formation cost	49,954	49,954	49,954	149,862	149,862
Capital Gain / (loss) on sale of Investments	(5,420,156)	-	-	(5,420,156)	1,956,177
Impairment loss on financial assets classified as "available for sale"	1,123,677	-	-	1,123,677	7,670,953
Element of loss / (income) and capital losses / (gains) in prices of units issued less those in units redeemed	453,717	(349,167)	(63,251)	41,299	14,966
	(3,792,808)	(299,213)	(13,297)	(4,105,318)	9,791,958
(Increase) / decrease in assets					
Investments	(1,683,524)	(17,517,148)	(14,200,000)	(33,400,672)	(39,108,308)
Dividend receivable	84,150	-	-	84,150	(79,050)
Profit receivable	(3,929)	(580,646)	(258,192)	(842,767)	(235,811)
Deposits and other receivables	(1,085,094)	(100,000)	(100,000)	(1,285,094)	-
	(2,688,397)	(18,197,794)	(14,558,192)	(35,444,383)	(39,423,169)
Increase / (Decrease) in liabilities					
Payable to Pension Fund Manager	10,464	7,765	3,785	22,014	(1,570)
Payable to Trustee	1,376	1,012	482	2,870	(210)
Annual fee - Securities and Exchange Commission of Pakistan	2,596	1,572	915	5,083	4,739
Payable to auditors	35,203	22,701	17,096	75,000	(42,499)
Other liabilities	7,988	(49,978)	(25,980)	(67,970)	158,959
	57,627	(16,928)	(3,702)	36,997	119,419
Tax paid	2,045	(21,149)	(15,315)	(34,419)	-
Cash used in operating activities	(1,668,117)	(14,863,786)	(12,285,350)	(28,817,253)	(34,107,134)
Cash Flow From Financing Activities					
Receipt of contribution	3,280,888	2,451,597	696,401	6,428,886	3,007,017
Payment against redemptions	(219,804)	(252,855)	(254,234)	(726,893)	(12,222)
Reallocation of units between sub-funds	(27,465)	1,733	25,732	-	-
Cash generated from financing activities	3,033,619	2,200,475	467,899	5,701,993	2,994,795
Net increase / (decrease) in cash and cash equivalents	1,365,502	(12,663,311)	(11,817,451)	(23,115,260)	(31,112,339)
Cash and cash equivalents at the beginning of the period	1,581,786	18,769,835	23,111,629	43,463,250	74,575,589
Cash and cash equivalents at the end of the year	2,947,288	6,106,524	11,294,178	20,347,990	43,463,250

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


Chief Executive

For Arif Habib Investments Limited
(Pension Fund Manager)


Director

STATEMENT OF MOVEMENT IN PARTICIPANTS' SUB-FUNDS FOR THE YEAR ENDED JUNE 30, 2010

-----2010-----					
Note	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	2009
-----Rupees-----					
Net assets at the beginning of the year	23,418,368	35,353,139	33,473,791	92,245,298	92,017,792
Amount received on issue of units	3,280,888	2,451,597	696,401	6,428,886	2,554,017
Amount paid on redemption of units	(219,804)	(252,855)	(254,234)	(726,893)	(12,222)
Amount (paid) / received on reallocation of units	(27,465)	1,733	25,732	-	-
	3,033,619	2,200,475	467,899	5,701,993	2,541,795
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed - net					
-amount representing loss / (income) and realised losses / (capital gains) - net	453,717	(349,167)	(63,251)	41,299	14,966
-amount representing unrealised (appreciation) / diminution in fair value of investments	(185,198)	(37,197)	(2,478)	(224,873)	153,054
	268,519	(386,364)	(65,729)	(183,574)	168,020
Net unrealised gain during the year in the market value of investments classified as available for sale	121,881	835,153	162,000	1,119,034	2,263,577
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised appreciation / (diminution)	185,198	37,197	2,478	224,873	(153,054)
Capital gain / (loss) on sale of investments	5,420,156	-	-	5,420,156	(1,956,177)
Other net (loss) / income	(666,816)	3,650,217	2,289,823	5,273,224	(2,636,655)
Net income / (loss) after taxation for the year	4,753,340	3,650,217	2,289,823	10,693,380	(4,592,832)
Net assets at the end of the year	31,780,925	41,689,817	36,330,262	109,801,004	92,245,298

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


Chief Executive

For Arif Habib Investments Limited
(Pension Fund Manager)


Director

**STATEMENT OF INVESTMENTS BY CATEGORY
AS AT JUNE 30, 2010**

	2010				
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	2009
	Rupees				
Available for sale investments (As per Statement of Investment Portfolio)					
Listed equity securities	27,755,450	-	-	27,755,450	21,653,566
Government Ijarah - Sukuk	-	32,619,532	10,162,000	42,781,532	26,000,000
Sukuk Certificates	-	1,732,769	-	1,732,769	-
Certificate of Investments	-	-	7,100,000	7,100,000	-
Term Deposit Receipts	-	-	7,100,000	7,100,000	-
Investments at market value	27,755,450	34,352,301	24,362,000	86,469,751	47,653,566

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


Chief Executive

**For Arif Habib Investments Limited
(Pension Fund Manager)**


Director

STATEMENT OF INVESTMENT PORTFOLIO AS AT JUNE 30, 2010

PIPF EQUITY SUB- FUND LISTED SHARES - AVAILABLE FOR SALE

Name of the Investee company						---Balance as at June 30, 2010---			Market value as a % of net assets of the sub fund	% of paid up capital of the investee company
	As at July 1, 2009	Purchases during the year	Bonus / Right issue during the year	Sales during the year	As at June 30, 2010	Cost less impairment	Market value	Appreciation / (Diminution)		
	(-----Number of shares-----)					-----Rupees-----				
OIL & GAS PRODUCERS										
Oil & Gas Development Company Limited	23,500	-	-	23,500	-	-	-	-	-	-
Pakistan Oilfields Limited	10,080	6,825	-	5,639	11,266	2,197,410	2,432,329	(234,919)	7.65	0.0048
Pakistan Petroleum Limited	12,430	8,614	2,486	9,760	13,770	2,317,210	2,535,332	(218,122)	7.98	0.0014
Pakistan State Oil Company Limited	-	5,500	-	5,500	-	-	-	-	-	-
National Refinery Limited	-	6,000	-	6,000	-	-	-	-	-	-
						4,514,620	4,967,661	(453,041)	16	
CHEMICALS										
Engro Corporation Limited	17,700	-	-	17,700	-	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	97,500	-	-	97,500	2,242,400	2,538,900	(296,500)	7.99	0.0104
Fauji Fertilizer Company Limited	31,350	-	-	13,650	17,700	1,530,896	1,824,339	(293,443)	5.74	0.0026
ICI Pakistan Limited	16,000	8,200	-	8,055	16,145	2,483,709	1,914,151	569,558	6.02	0.0116
Sitara Chemicals Industries Limited	-	9,000	-	-	9,000	1,505,610	1,214,370	291,240	3.82	0.0000
						7,762,615	7,491,760	270,855	24	
CONSTRUCTION AND MATERIALS										
Attock Cement Pakistan Limited	10,300	-	-	10,300	-	-	-	-	-	-
GENERAL INDUSTRIALS										
Tri-pack Films Limited	-	9,658	-	-	9,658	1,015,265	941,945	73,320	2.96	0.0032
Packages Limited	12,830	10,900	-	-	23,730	3,581,248	2,812,005	769,243	8.85	0.0281
						4,596,514	3,753,950	842,564	12	
INDUSTRIAL ENGINEERING										
Millat Tractors Limited	-	5,300	-	5,300	-	-	-	-	-	-
AUTOMOBILE AND PARTS										
Pak Suzuki Motor Company Limited	27,900	-	-	9,236	18,664	1,267,285	1,479,495	(212,210)	4.66	0.0227
Agriauto Industries	-	26,287	-	-	26,287	1,922,040	1,813,803	108,237	5.71	0.1825
						3,189,325	3,293,298	(103,973)	10	
FOOD PRODUCERS										
Unilever Pakistan Limited	500	337	-	837	-	-	-	-	-	-
HOUSEHOLD GOODS										
Pak Elektron Limited	-	63,657	7,652	-	71,309	1,090,605	845,012	245,593	2.66	0.0668
						1,090,605	845,012	245,593	3	
PERSONAL GOODS										
Thal Limited	-	10,000	-	-	10,000	901,331	949,400	(48,069)	2.99	0.0391
						901,331	949,400	(48,069)	3	
PHARMA AND BIO TECH										
Searle Pakistan Limited	-	41,400	-	-	41,400	2,242,085	2,442,600	(200,515)	7.69	0.1352
Ferozsons Laboratories Limited	-	5,507	-	-	5,507	655,726	571,406	84,320	1.80	0.0264
						2,897,811	3,014,006	(116,195)	9	
FIXED LINE TELECOMMUNICATION										
Pakistan Telecommunication Company Limited 'A'	74,600	27,200	-	53,000	48,800	1,144,032	868,640	275,392	2.73	0.0013
						1,144,032	868,640	275,392	3	
ELECTRICITY										
The Hub Power Company Limited	68,000	74,700	-	84,700	58,000	2,023,439	1,853,680	169,759	5.83	0.0050
						2,023,439	1,853,680	169,759	6	
BANKS										
Meezan Bank Limited	-	47,000	2,350	-	49,350	754,181	718,043	36,138	2.26	0.0071
						754,181	718,043	36,138	2	
Total for Equity Sub-Fund						28,874,472	27,755,450	1,119,022	87	

----- Total -----
2010 2009
-----Rupees-----
27,755,450 **21,653,566**

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

For Arif Habib Investments Limited
(Pension Fund Manager)


Chief Executive


Director

STATEMENT OF OTHER INVESTMENTS AS AT JUNE 30, 2010

AVAILABLE-FOR-SALE

Name of Investments	Face value			As at June 30, 2010			% of net	
	As at July 1, 2009	Purchases during the	Sales / Matured during the	As at June 30, 2010	Cost	Market value		Appreciation/ (Diminution)
----- Rupees -----								
PIPF DEBT SUB-FUND								
Government Ijarah Sukuk	16,000,000	16,000,000	-	32,000,000	32,000,325	32,619,532	619,207	78.24
	16,000,000	16,000,000	-	32,000,000	32,000,325	32,619,532	619,207	78.24
PIPF MONEY MARKET SUB-FUND								
Government Ijarah Sukuk	10,000,000	-	-	10,000,000	10,000,000	10,162,000	162,000	27.97
	10,000,000	-	-	10,000,000	10,000,000	10,162,000	162,000	27.97
Total	26,000,000	16,000,000	-	42,000,000	42,000,325	42,781,532		
							Total	
							2010	2009
							----- Rupees -----	
Market Value					-	42,781,532	26,000,000	

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

For Arif Habib Investments Limited
(Pension Fund Manager)


Chief Executive


Director

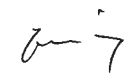
STATEMENT OF OTHER INVESTMENTS AS AT JUNE 30, 2010

PIPF DEBT SUB-FUND

Name of the Investee Company	Number of certificates				As at June 30, 2010			Market value as a % of net assets of the sub-fund	Market value as a % of total Investments	Percentage in relation to the
	As at July 1, 2009	Purchases during the	Sales during	As at June 30, 2010	Cost	Market	Appreciation/ (diminution)			
Pakistan Electron Limited - SUKUK (28-09-2007)	-	550	-	550	1,516,823	1,732,769	215,946	4.1563	5.0441	0.1473
					----- Rupees -----					
					1,516,823	1,732,769	215,946			
								-----Total-----		
								2010	2009	
								-----Rupees-----		
Market Value								1,732,769	-	

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

**For Arif Habib Investments Limited
(Pension Fund Manager)**


Chief Executive


Director

CONTRIBUTION TABLE AS AT JUNE 30, 2010

Contributions net of front end fee	2010						Total	2009
	PIPF Equity Sub-Fund		PIPF Debt Sub-Fund		PIPF Money Market Sub-Fund			
	Units	Rupees	Units	Rupees	Units	Rupees		
-----Rupees-----								
Opening	320,765	31,759,870	316,295	31,760,331	305,892	30,635,569	94,155,770	91,613,975
Individuals - issue of units	35,606	3,280,888	20,307	2,451,597	6,094	696,401	6,428,886	2,554,017
- redemption of units	(2,282)	(219,804)	(2,180)	(252,855)	(2,291)	(254,234)	(726,893)	(12,222)
- reallocation of units	(303)	(27,465)	14	1,733	219	25,732	-	-
	33,021	3,033,619	18,141	2,200,475	4,022	467,899	5,701,993	2,541,795
Total	353,786	34,793,489	334,436	33,960,806	309,914	31,103,468	99,857,763	94,155,770

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


 Chief Executive

For Arif Habib Investments Limited
(Pension Fund Manager)


 Director

**STATEMENT OF NUMBER OF UNITS IN ISSUE
FOR THE YEAR ENDED JUNE 30, 2010**

	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund
Total Units outstanding at the beginning of the year	320,765	316,295	305,892
Add: Units issued during the year	35,606	20,307	6,094
Less: Units redeemed during the year	(2,282)	(2,180)	(2,291)
Add / Less: Units reallocated during the year	(303)	14	219
Total units in issue at the end of the year	353,786	334,436	309,914

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


Chief Executive

**For Arif Habib Investments Limited
(Pension Fund Manager)**


Director

FINANCIAL PERFORMANCE TABLE FOR THE YEAR ENDED JUNE 30, 2010

	PIPF								
	Equity Sub-Fund			Debt Sub-Fund			Money Market Sub-Fund		
	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change
	-----Rupees-----			-----Rupees-----			-----Rupees-----		
Net income / (loss)	4,753,340	(9,010,585)	(152.75)	3,650,217	2,509,362	45.46	2,289,823	1,908,391	19.99
Realised capital gains / (losses)	5,420,156	(1,956,177)	(377.08)	-	-	-	-	-	-
Unrealised gains / (losses)	121,881	2,263,577	(94.62)	835,153	-	100.00	162,000	-	100.00
Impairment loss on AFS securities	(1,123,677)	(7,670,953)	(85.35)	-	-	-	-	-	-
Dividend income / profit income	1,681,687	1,433,145	17.34	4,216,218	3,293,195	28.03	3,066,680	2,738,869	11.97
Net assets value per unit	89.83	73.01	23.04	124.66	111.77	11.53	117.23	109.43	7.13
Earnings / (loss) per unit	14.39	(28.09)	(151.23)	11.38	7.93	43.48	7.47	6.24	19.77
Transactions in securities									
Purchases	26,970,096	17,929,720	50.42	18,161,039	16,000,000	13.51	14,200,000	10,000,000	42.00
Sales	25,309,386	4,821,411	424.94	-	-	-	-	-	-
Total contribution received	3,280,888	808,352	305.87	2,451,597	1,220,310	100.90	696,401	525,355	32.56

Highest and lowest issue price of units during the year

PIPF Equity Sub-Fund		PIPF Debt Sub-Fund		PIPF Money Market Sub-Fund	
Lowest Issue price	Highest Issue price	Lowest Issue price	Highest Issue price	Lowest Issue price	Highest Issue price
75.30	101.40	111.80	124.70	109.50	117.20

-----Rupees-----

For Arif Habib Investments Limited
(Pension Fund Manager)


Chief Executive


Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1 LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan Islamic Pension Fund (PIPF) was established under a Trust Deed executed between Arif Habib Investments Limited as Pension Fund Manager and Muslim Commercial Financial Services (Pvt.) Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on July 24, 2007 and was executed on September 5, 2007 under the Voluntary Pension System Rules, 2005 (VPS Rules). PIPF is an open-ended pension fund consisting of three sub-funds namely PIPF Equity Sub-Fund, PIPF Debt Sub-Fund and PIPF Money Market Sub-Fund. Units are offered for public subscription on a continuous basis. The number of units of any Sub-Fund purchased out of contributions depends on the Allocation Scheme selected by the respective Participant out of the allocation schemes offered by the Pension Fund Manager.

The Pension Fund Manager of the Fund has been licensed to act as a Pension Fund Manager under VPS Rules through a certificate of registration issued by the SECP. During the current year the registered office of the Pension Fund Manager has been shifted to Arif Habib Centre, 23 M.T. Khan Road, Karachi, Pakistan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1.3 to these financial statements.

2.1 Basis of preparation

2.1.1 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 provisions of the Companies Ordinance, 1984, the requirements of the Trust Deed, the Voluntary Pension System Rules, 2005 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the Voluntary Pension System Rules, 2005 or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the Voluntary Pension System Rules, 2005 or the requirements of the said directives prevail.

2.1.2 Accounting convention

These financial statements have been 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 Standards (IAS)39: 'Financial Instruments': Recognition and Measurement'.

2.1.3 Change in accounting policy and disclosure arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

International Accounting Standards 1 (IAS 1) Revised, 'Presentation of Financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Fund has applied IAS 1 (Revised) with effect from July 01, 2009 and has chosen to present all non-owner changes in equity in one performance statement - Statement of comprehensive income (income statement). Accordingly, items of income and expenses representing other comprehensive income have been presented in the 'Income statement'. Comparative information has been represented to reflect these changes. As the change in accounting policy only impacts presentation aspects, there is no impact on the values of the net assets of the Fund for either the current or any of the prior periods and hence restated balance sheet has not been presented.

2.1.4 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

- (a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.

- (b) IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of fair value measurement hierarchy. The adoption of this amendment has resulted in additional disclosures but did not have an impact on the Fund's financial position or performance.
- (c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. The adoption of this amendment did not have any effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.1.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Fund's accounting periods beginning on or after July 1, 2010:

- (a) IAS 7(Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.
- (b) IAS 24 related party Disclosures (revised) (effective from January 01, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.1.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 2.2).

2.2 Financial assets

2.2.1 The management of the Fund classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the 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, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of balances with banks, deposits and other receivables and dividend and profit receivable.

c) Available for sale

These are non-derivatives that are either designated in this category or not classified in any of the other categories.

2.2.2 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.

2.2.3 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.

2.2.4 Subsequent measurement

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:

a) Basis of valuation of Sukuk Certificates

Investments of the Debt Sub-Fund in sukuk certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investments in sukuk certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investments in sukuk certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

b) Basis of valuation of Government Ijarah Sukuks

The investment of the Debt Sub-fund and Money market Sub-fund in Government Ijarah Sukuks is categorised in the 'available for sale' category and are carried at fair value.

c) Basis of valuation of Equity Securities

The investment of the Equity Sub-Fund in equity securities is categorised in the 'available for sale' category and is valued on the basis of quoted market prices available at the stock exchange.

Net gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from the difference in value determined in accordance with the above mentioned criteria compared to the carrying amount in respect of available for sale financial assets are recognised in other comprehensive income until the available for sale financial assets are derecognised. At this time, the cumulative gain or loss previously recognised directly in other comprehensive income is reclassified from other comprehensive income to income statement as a reclassification adjustment.

Loans and receivables are carried at amortised cost.

2.2.5 Impairment

The carrying amounts of the Fund's assets are assessed at each balance sheet 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. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such 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 the income statement. Impairment losses recognised on equity financial assets recognised in the income statement are not reversed through the income statement.

For loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2.2.6 Derecognition

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

2.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Balance Sheet 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.

2.2.8 Reclassification

The Fund may choose to reclassify a non-derivative trading financial asset in equity securities out of the 'held for trading' category to the 'available for sale' category if the financial asset is no longer held for the purpose of selling it in the near term. Such reclassifications are made only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. Reclassifications are made at fair value as of the reclassification date which then becomes the new cost and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made.

2.3 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 the Pension Fund Manager, payable to the Trustee and other liabilities.

2.4 Derivatives

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

2.5 Formation cost

Formation cost represents expenditure incurred prior to the commencement of operations of the Fund. This is being amortised over a period of three years in accordance with the requirements set out in the Trust Deed of the Fund.

2.6 Issue, allocation, reallocation and redemption of units

Contribution received from a Participant is allocated to the sub-funds on the basis of the allocation scheme selected by the Participant out of the allocation schemes offered by the Pension Fund Manager. Units issued in respect of a sub-fund are recorded at the offer price of that sub-fund, determined by the Pension Fund Manager for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit of the sub-fund as of the close of the business day plus the allowable sales load and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Pension Fund Manager.

The Pension Fund Manager makes reallocation of the sub-fund units between the sub-funds at least once a year to ensure that the allocations of the sub-fund units of all the Participants are according to the allocation schemes selected by the Participants.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Participant's Sub-Funds in a separate reserve account. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

2.8 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 estimate.

2.9 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the Balance Sheet, is calculated by dividing the net assets of the Fund by the number of units of the sub-fund in circulation at the year end.

2.10 Earnings per unit

Earning Per Unit (EPU) for the year ended June 30, 2010 in respect of each sub-fund has been calculated by dividing the net income after taxation of a sub-fund by weighted average number of units of the sub-fund in circulation during the year.

2.11 Taxation

The income of Pakistan Islamic Pension Fund is exempt from tax under clause 57(3)(viii) of Part I of the Second Schedule to the Income Tax Ordinance, 2001. In view of the amendments made in the Finance Act, 2009, the Fund is required to pay minimum tax at the rate of 0.5 percent of turnover under section 113 of the Income Tax Ordinance, 2001. Accordingly, the management has charged provision in respect of minimum tax during the current year.

2.12 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.

Dividend income is recognised when the right to receive the payment is established.

Profit on bank deposits is recognised on an accrual basis.

Profit on investment is recognised on an accrual basis.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise of balances with banks.

2.14 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

2.15 Functional and presentation currency

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

4 BALANCES WITH BANKS

	-----As at June 30, 2010-----				As at June 30, 2009
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	
	----- Rupees -----				
Current accounts	2,747,708	859,528	282,814	3,890,050	3,017,508
Deposit accounts	199,580	5,246,996	11,011,364	16,457,940	40,445,742
	<u>2,947,288</u>	<u>6,106,524</u>	<u>11,294,178</u>	<u>20,347,990</u>	<u>43,463,250</u>

Deposit accounts carry a rate of return ranging from 5.4% to 9%. (2009: 5% to 10.75%) per annum.

5 DEPOSITS AND OTHER RECEIVABLES

	-----As at June 30, 2010-----				As at June 30, 2009
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	
	----- Rupees -----				
Security Deposit - CDC	200,000	200,000	200,000	600,000	300,000
Other receivables	1,000	1,000	1,000	3,000	3,000
Receivable against investments	985,094	-	-	985,094	-
	<u>1,186,094</u>	<u>201,000</u>	<u>201,000</u>	<u>1,588,094</u>	<u>303,000</u>

6 OTHER LIABILITIES

	-----As at June 30, 2010-----				As at June 30, 2009
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	
	----- Rupees -----				
Donation / charity payable	64,920	-	28,002	92,922	37,034
Professional charges payable	-	-	-	-	126,612
Others	2,754	-	-	2,754	-
	<u>67,674</u>	<u>-</u>	<u>28,002</u>	<u>95,676</u>	<u>163,646</u>

7 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2010

8 REMUNERATION OF THE PENSION FUND MANAGER

This represents remuneration of the Pension Fund Manager at the rate of 1.5 percent of the average amount of net assets of each sub-fund calculated during the year for determining the prices of units of the sub-funds.

9 REMUNERATION OF THE TRUSTEE

This represents remuneration of the Trustee based on the tariff as specified in the Trust Deed, calculated on the basis of the net asset value of each sub-fund computed each day for determining the prices of units of the sub-funds.

10 ANNUAL FEE - SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee to the Securities and Exchange Commission of Pakistan at the rate of one thirtieth of one percent of average annual net assets of each sub-fund.

11 BASIS OF ALLOCATION OF EXPENSES TO EACH SUB-FUND

Remuneration to the Pension Fund Manager, Trustee and annual fee to the Securities and Exchange Commission of Pakistan is allocated to each sub-fund on the basis of the net assets of the sub-fund.

- Expenses specifically incurred by a sub-fund, such as custody and settlement charges, fees and subscription and bank charges are charged to that sub-fund.
- Auditors' remuneration and legal and professional charges are allocated on the basis of the net assets of each sub-fund.
- Amortisation of formation cost is charged equally to the sub-funds.

12 AUDITORS' REMUNERATION

	As at June 30, 2010				June 30, 2009
	PIPF Equity Sub Fund	PIPF Debt Sub Fund	PIPF Money Market Sub Fund	Total	
	----- Rupees -----				
Audit fee	64,252	81,128	74,621	220,001	210,000
Half yearly review fee	22,857	29,772	27,373	80,002	80,000
Other certifications and services	24,838	31,399	28,763	85,000	140,500
Out of pocket expenses	5,210	7,125	7,197	19,532	43,694
	<u>117,157</u>	<u>149,424</u>	<u>137,954</u>	<u>404,535</u>	<u>474,194</u>

13 NET UNREALISED APPRECIATION / (DIMINUTION) IN MARKET VALUE OF INVESTMENTS CLASSIFIED AS 'AVAILABLE FOR SALE'

	As at June 30, 2010				June 30, 2009
	PIPF Equity Sub Fund	PIPF Debt Sub Fund	PIPF Money Market Sub Fund	Total	
	----- Rupees -----				
Market value of investments	27,755,450	34,352,301	10,162,000	72,269,751	47,653,566
Cost less impairment	(28,874,472)	(33,517,148)	(10,000,000)	(72,391,620)	(55,086,820)
	(1,119,022)	835,153	162,000	(121,869)	(7,433,254)
Add: Impairment loss on financial assets classified as 'available for sale'	1,123,677	-	-	1,123,677	7,670,953
Less: Reclassification of impairment on sale of impaired securities	-	-	-	-	(354,925)
	1,123,677	-	-	1,123,677	7,316,028
	4,655	835,153	162,000	1,001,808	(117,226)
Less: Net unrealised diminution in value of investments at the beginning of the year	117,226	-	-	117,226	2,380,803
	121,881	835,153	162,000	1,119,034	2,263,577

13.1 As at June 30, 2010, the management has carried out a scrip wise analysis of impairment in respect of equity securities classified as available for sale and has determined that an impairment loss amounting to Rs 1,123,677 for the year ended June 30, 2010 be charged to the income statement.

14 EARNINGS PER UNIT

Earnings / (loss) per unit (EPU) for the year ended June 30, 2010 in respect of each sub-fund has been calculated by dividing the net income / (loss) after taxation of a sub-fund by the weighted average number of units of the sub-fund in circulation during the year, which are given below:

	For the year ended June 30, 2010		
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund
Weighted average number of units	330,293.3839	320,671.6173	306,445.5287
Net income after taxation	4,753,340	3,650,217	2,289,823
Earnings per unit	14.39	11.38	7.47

15 CONTRIBUTION TO 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. The Mutual Funds Association of Pakistan (MUFAP), on behalf of its members filed a constitutional petition in the High Court of Sindh (SHC) praying it to declare that the funds are not establishments and as a result are not liable to pay contribution to the WWF. The honourable court has rejected the petition on technical grounds stating that MUFAP is not the aggrieved party in this case and required the aggrieved parties to approach the courts for the said petition. In response Central Depository Company of Pakistan on behalf of funds under its trusteeship along with a few investors filed another petition in this regard with the honourable High Court of Sindh. However, subsequent to filing of the petition, the Ministry of Labour and Manpower issued a letter which states that funds are not liable for WWF.

The MUFAP, on behalf of its member AMCs, obtained a legal opinion to assess the implications of the letter issued by the Ministry of Labour and Manpower. The legal opinion, among other things, stated that funds are not required to provide for contribution to WWF and earlier provisioning, if any, can be reversed and the terms of the letter suggests that provisioning was neither required nor necessary. Further, the opinion suggests that the petition filed with the High Court of Sindh be withdrawn.

The pension fund manager has not made any provision in respect of WWF and still maintains that funds are not establishments and as a result are not liable to pay contribution to WWF.

16 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Arif Habib Investments Limited (AHI) being the Pension Fund Manager and Arif Habib Securities Limited being the holding company of AHI, Arif Habib Limited, Thatta Cement Limited being companies under common control. Arif Habib Bank Limited and Pak Arab Fertilizer being companies under common directorship and MCB Financial Services Limited being the Trustee, other collective investment schemes managed by the Pension Fund Manager as Management Company and directors and executives of the Pension Fund Manager.

The transactions with connected persons are in the normal course of business and are carried out on agreed terms.

Remuneration payable to the Pension Fund Manager and the Trustee is determined in accordance with the provisions of the VPS Rules and the Trust Deed respectively.

16.1 Transactions during the year

	For the year ended June 30, 2010				For the year ended June 30, 2009
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	
----- Rupees -----					
Arif Habib Investments Ltd - Pension Fund Manager					
Remuneration	449,980	567,033	521,057	1,538,070	1,309,296
Sales load	19,151	9,570	1,797	30,518	35,038
MCB Financial Services Limited - Trustee					
Remuneration	59,890	75,473	69,356	204,719	174,573
CDC participant fee	-	-	-	-	60,000
Directors and Officers					
Issue of PIPF Equity sub - fund 20,363 units (2009: 2,257 units)	1,864,168	-	-	1,864,168	163,901
Issue of PIPF Debt sub - fund 11,914 units (2009: 1,618 units)	-	1,419,001	-	1,419,001	180,400
Issue of PIPF Money Market sub - fund 4,625 units (2009: 990 units)	-	-	524,730	524,730	108,083
Redemption of PIPF Equity sub - fund 1,489 units (2009: 4 units)	146,249	-	-	146,249	320
Redemption of PIPF Debt sub - fund 1,489 units (2009: Nil units)	-	181,671	-	181,671	-
Redemption of PIPF Money Market sub - fund 525 units (2009: Nil units)	-	-	60,257	60,257	-

16.2 Amounts outstanding as at year end

	As at June 30, 2010				June 30, 2009
	PIPF Equity Sub-Fund	PIPF Debt Sub-Fund	PIPF Money Market Sub-Fund	Total	
----- Rupees -----					
Arif Habib Investments Ltd - Pension Fund Manager					
Remuneration payable	38,739	50,226	44,396	133,361	111,347
Investment in seed capital 300,000 units (2009: 300,000 units)	26,949,000	37,398,000	35,169,000	99,516,000	88,264,000
MCB Financial Services Limited - Trustee					
Remuneration payable	5,146	6,672	5,897	17,715	14,845
Arif Habib Bank Limited					
Balance	6,278,223	6,736,225	2,104,703	15,119,151	2,859,269
Directors and Officers					
Balance as at June 30, 2010					
Investment In PIPF Equity sub - fund 21,127 units (2009 : 2,253 units)	1,897,804	-	-	1,897,804	164,486
Investment In PIPF Debt sub - fund 12,033 units (2009 : 1,617 units)	-	1,500,059	-	1,500,059	180,783
Investment In PIPF Money Market sub - fund 5,089 units (2009 : 990 units)	-	-	596,634	596,634	108,312

17 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in equity securities of listed companies, deposits in scheduled Islamic Banks and Sukuks issued by the Government. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

17.1 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 Pension Fund Manager manages market risk by monitoring exposure on marketable securities by following the internal risk management

policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan and the Voluntary Pension System Rules.

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

17.1.1 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.

17.1.2 Interest rate risk

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

Sensitivity Analysis of variable rate instruments

- a) Presently, the Fund holds KIBOR based profit bearing Ijarah Sukuk exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, 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. 48 (2009: Rs Nil).
- b) As at June 30, 2010, the Fund holds Government Ijarah Sukuks which are classified as 'Available for Sale' exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in rates announced by the Financial Markets Association of Pakistan on June 30, 2010, with all other variables held constant, the net income for the year and net assets would be higher / lower by Rs. 115,561 (2009: Rs. 69,096).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Reuters are expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 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 and for off-balance sheet instruments is based on the settlement date.

Total	PIPF EQUITY SUB FUND				PIPF DEBT SUB FUND				PIPF MONEY MARKET SUB FUND			
	June 30, 2010				June 30, 2010				June 30, 2010			
	Exposed to Yield/Interest rate risk			Not exposed to Yield/Interest rate risk	--Exposed to Yield/Interest rate risk--			Not exposed to Yield/Interest rate risk	--Exposed to Yield/Interest rate risk--			Not exposed to Yield/Interest rate risk
Upto three months	More than three months and upto one year	More than one year	Upto three months		More than three months and upto one year	More than one year	Upto three months		More than three months and upto one year	More than one year		
	(Rupees)											
On-balance sheet financial instruments												
Financial Assets												
Balances with banks	20,347,990	199,580	-	2,747,708	5,246,996	-	859,528	11,011,364	-	-	282,814	
Investments	86,469,751	-	-	27,755,450	-	34,352,301	-	14,200,000	-	10,162,000	-	
Dividend receivable	85,400	-	-	85,400	-	-	-	-	-	-	-	
Profit receivable	1,855,643	-	-	4,673	-	-	1,198,220	-	-	-	652,750	
Deposits and other receivables	1,588,094	-	-	1,186,094	-	-	201,000	-	-	-	201,000	
	<u>110,346,878</u>	<u>199,580</u>	<u>-</u>	<u>31,779,325</u>	<u>5,246,996</u>	<u>34,352,301</u>	<u>2,258,748</u>	<u>25,211,364</u>	<u>-</u>	<u>10,162,000</u>	<u>1,136,564</u>	
Financial Liabilities												
Payable to Pension Fund Manager	133,361	-	-	38,739	-	-	50,226	-	-	-	44,396	
Payable to Trustee	17,715	-	-	5,146	-	-	6,672	-	-	-	5,897	
Payable to Auditors	295,001	-	-	86,551	-	-	108,696	-	-	-	99,754	
Other liabilities	95,676	-	-	67,674	-	-	-	-	-	-	28,002	
	<u>541,753</u>	<u>-</u>	<u>-</u>	<u>198,110</u>	<u>-</u>	<u>-</u>	<u>165,594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,049</u>	
On-balance sheet gap	<u>109,805,125</u>	<u>199,580</u>	<u>-</u>	<u>31,581,215</u>	<u>5,246,996</u>	<u>34,352,301</u>	<u>2,093,154</u>	<u>25,211,364</u>	<u>-</u>	<u>10,162,000</u>	<u>958,515</u>	
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-	

Total	PIPF EQUITY SUB FUND				PIPF DEBT SUB FUND				PIPF MONEY MARKET SUB FUND				
	June 30, 2009				June 30, 2009				June 30, 2009				
	Exposed to Yield/Interest rate risk			Not exposed to Yield/Interest rate risk	--Exposed to Yield/Interest rate risk--			Not exposed to Yield/Interest rate risk	--Exposed to Yield/Interest rate risk--			Not exposed to Yield/Interest rate risk	
Upto three months	More than three months and upto one year	More than one year	Upto three months		More than three months and upto one year	More than one year	Upto three months		More than three months and upto one year	More than one year			
	(Rupees)												
On-balance sheet financial instruments													
Financial Assets													
Balances with banks	43,463,250	191,441	-	-	1,390,345	17,662,408	-	-	1,107,427	22,591,893	-	-	519,736
Investments	47,653,566	-	-	-	21,653,566	16,000,000	-	-	-	10,000,000	-	-	-
Dividend receivable	169,550	-	-	-	169,550	-	-	-	-	-	-	-	-
Deposits and other receivables	303,000	-	-	-	101,000	-	-	-	101,000	-	-	-	101,000
Profit receivable	1,012,876	-	-	-	744	-	-	-	617,574	-	-	-	394,558
	92,602,242	191,441	-	-	23,315,205	33,662,408	-	-	1,826,001	32,591,893	-	-	1,015,294
Financial Liabilities													
Payable to Pension Fund Manager	111,347	-	-	-	28,275	-	-	-	42,461	-	-	-	40,611
Payable to Trustee	14,845	-	-	-	3,770	-	-	-	5,660	-	-	-	5,415
Payable to Auditors	220,001	-	-	-	51,348	-	-	-	85,995	-	-	-	82,658
Other liabilities	163,646	-	-	-	59,686	-	-	-	49,978	-	-	-	53,982
	509,839	-	-	-	143,079	-	-	-	184,094	-	-	-	182,666
On-balance sheet gap	92,092,403	191,441	-	-	23,172,126	33,662,408	-	-	1,641,907	32,591,893	-	-	832,628
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-	-	-

17.1.3 Price Risk

The Equity Sub-Fund is exposed to equity price risk because of equity securities held by the Equity Sub-Fund and classified on the balance sheet as available for sale. To manage its price risk arising from investment in equity securities, the Equity Sub-Fund's investment policy limits investments in listed shares of one company to not more than 10% of its net assets. Moreover, the sector limits have been restricted to 25% of the net assets of the Sub-Fund and investment in listed securities of a particular company have also been restricted to 10% of paid-up capital of investee company.

In case of 5% increase in KSE 100 index on June 30, 2010, other components of equity would increase by Rs. 1,219,267 (2009: Rs. 1,019,770) as a result of gains / losses on equity securities classified as available for sale. In case of 5% decrease in KSE 100 index on June 30, 2010, other components of equity would decrease by Rs. 1,222,265, (2009: Rs. 1,019,770) as a result of gains / losses on equity securities classified as available for sale.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Sub-Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Sub-Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Sub-Fund's net assets of future movements in the level of KSE 100 index.

17.2 Credit risk

Credit risk represents the risk of loss if counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counter party credit risks on balances with banks and profit receivable. The credit risk on these funds is limited because the counterparties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the Board) 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 rating quality of the Fund's financial assets as at June 30, 2010 and June 30, 2009:

Bank Balances by rating category

Arif Habib Bank Limited
Bank Al-Habib Limited

2010
A
AA+

Bank Balances by rating category

Al-Baraka Islamic Bank Limited	2010
Bank Islami Limited	A
Bank Alfalah Limited	AA
United Bank Limited	AA+
Meezan Bank Limited	AA-
Standard Chartered Bank (Pakistan) Limited	AAA
	2009
Arif Habib Bank Limited	A
Bank Al-Habib Limited	AA+
Al-Baraka Islamic Bank Limited	A
Bank Islami Limited	A-
Bank Alfalah Limited	AA
United Bank Limited	AA+
Meezan Bank Limited	A+
Standard Chartered Bank (Pakistan) Limited	AAA
Dawood Islamic Bank Limited	A-

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets. None of these assets are impaired nor past due.

Concentration of credit risk

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

17.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. The Pension Fund Manager manages liquidity risk by continuously analyzing the maturities of financial assets and financial liabilities. Since the Unit Holders of the Funds are invested with a long term objective, possibility of a significant redemption pressure is limited.

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.

	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND		
	June 30, 2010			June 30, 2010			June 30, 2010		
	Upto three months	Over three months and upto one year	Over one year	Upto three months	Over three months and upto one year	Over one year	Upto three months	Over three months and upto one year	Over one year
Total									
Liabilities	(Rupees)								
Payable to Pension Fund Manager	133,361	38,739	-	50,226	-	-	44,396	-	-
Payable to Trustee	17,715	5,146	-	6,672	-	-	5,897	-	-
Payable to Auditors	295,001	86,551	-	108,696	-	-	99,754	-	-
Other liabilities	95,676	67,674	-	-	-	-	28,002	-	-
	541,753	198,110	-	165,594	-	-	178,049	-	-
	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND		
	June 30, 2009			June 30, 2009			June 30, 2009		
	Upto three months	Over three months and upto one year	Over one year	Upto three months	Over three months and upto one year	Over one year	Upto three months	Over three months and upto one year	Over one year
Total									
Liabilities	(Rupees)								
Payable to Pension Fund Manager	111,347	28,275	-	42,461	-	-	40,611	-	-
Payable to Trustee	14,845	3,770	-	5,660	-	-	5,415	-	-
Payable to Auditors	220,001	51,348	-	85,995	-	-	82,658	-	-
Other Liabilities	163,646	59,686	-	49,978	-	-	53,982	-	-
	509,839	143,079	-	184,094	-	-	182,666	-	-

17.4 Financial instruments by category

Total	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND			
	June 30, 2010			June 30, 2010			June 30, 2010			
	Loans and receivables	Available for sale investments	Sub total	Loans and receivables	Available for sale investments	Sub total	Loans and receivables	Available for sale investments	Sub total	
(Rupees)										
Assets										
Balances with banks	20,347,990	2,947,288	-	2,947,288	6,106,524	-	6,106,524	11,294,178	-	11,294,178
Investments	86,469,751	-	27,755,450	27,755,450	-	34,352,301	34,352,301	14,200,000	10,162,000	24,362,000
Dividend receivable	85,400	85,400	-	85,400	-	-	-	-	-	-
Profit receivable	1,855,643	4,673	-	4,673	1,198,220	-	1,198,220	652,750	-	652,750
Deposits and other receivables	1,588,094	1,186,094	-	1,186,094	201,000	-	201,000	201,000	-	201,000
	89,998,888	1,276,167	27,755,450	29,031,617	1,399,220	34,352,301	35,751,521	15,053,750	10,162,000	25,215,750

Total	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND			
	June 30, 2010			June 30, 2010			June 30, 2010			
	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	
(Rupees)										
Liabilities										
Payable to Pension Fund Manager	133,361	-	38,739	38,739	-	50,226	50,226	-	44,396	44,396
Payable to Trustee	17,715	-	5,146	5,146	-	6,672	6,672	-	5,897	5,897
Payable to Auditors	295,001	-	86,551	86,551	-	108,696	108,696	-	99,754	99,754
Other liabilities	95,676	-	67,674	67,674	-	-	-	-	28,002	28,002
	541,753	-	198,110	198,110	-	165,594	165,594	-	178,049	178,049

Total	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND			
	June 30, 2009			June 30, 2009			June 30, 2009			
	Loans and receivables	Available for sale investments	Sub total	Loans and receivables	Available for sale investments	Sub total	Loans and receivables	Available for sale investments	Sub total	
(Rupees)										
Assets										
Balances with banks	43,463,250	1,581,786	-	1,581,786	18,769,835	-	18,769,835	23,111,629	-	23,111,629
Investments	47,653,566	-	21,653,566	21,653,566	-	16,000,000	16,000,000	-	10,000,000	10,000,000
Dividend receivable	169,550	169,550	-	169,550	-	-	-	-	-	-
Profit receivable	1,012,876	744	-	744	617,574	-	617,574	394,558	-	394,558
Deposits and other receivables	303,000	101,000	-	101,000	101,000	-	101,000	101,000	-	101,000
	92,602,242	1,853,080	21,653,566	23,506,646	19,488,409	16,000,000	35,488,409	23,607,187	10,000,000	33,607,187

Total	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND			
	June 30, 2009			June 30, 2009			June 30, 2009			
	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	Liabilities at fair value through profit or loss	Other financial liabilities	Sub total	
(Rupees)										
Liabilities										
Payable to Pension Fund Manager	111,347	-	28,275	28,275	-	42,461	42,461	-	40,611	40,611
Payable to Trustee	14,845	-	3,770	3,770	-	5,660	5,660	-	5,415	5,415
Payable to Auditors	220,001	-	51,348	51,348	-	85,995	85,995	-	82,658	82,658
Other liabilities	163,646	-	59,686	59,686	-	49,978	49,978	-	53,982	53,982
	509,839	-	143,079	143,079	-	184,094	184,094	-	182,666	182,666

17.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective January 1, 2009, the Fund adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) level 3).

ASSETS	Total	PIPF EQUITY SUB-FUND			PIPF DEBT SUB-FUND			PIPF MONEY MARKET SUB-FUND		
		June 30, 2010			June 30, 2010			June 30, 2010		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
		Rupees								
Investment in securities - Available for sale	72,269,751	27,755,450	-	-	32,619,532	1,732,769	-	10,162,000	-	-

18 CAPITAL RISK MANAGEMENT

The Fund's capital is represented by redeemable units of the sub-funds. They are entitled to payment of a proportionate share based on the sub-fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in Participants' sub-funds. In accordance with the risk management policies stated in note 17, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption. Since the Unit Holders of the Funds are invested with a long term objective, possibility of a significant redemption pressure is limited, such liquidity being augmented (by short-term borrowings or disposal of investments where necessary). During the year no such borrowing was exercised.

Capital includes 300,000 units each relating to core investors of the three sub-funds of the Fund. These units were issued as initial subscription in the form of the seed capital subscribed upto September 13, 2007 with the restriction that these units are not redeemable or transferable for a period of three years from the date of subscription.

All units, including the core units, and fractions thereof represent an undivided share in the pertinent sub-funds of the fund and rank pari passu as to their rights in the net assets and earnings of such sub-fund and are not tradable or transferable. Each participant has a beneficial interest in the sub-fund proportionate to the units held by such participant in such sub-fund.

19 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Pension Fund Manager on August 03, 2010.

20 CORRESPONDING FIGURES

During the current year, there were no major reclassifications except as required due to the change in accounting policy as more fully explained in note 2.1.3 to these financial statements

21 GENERAL

Figures have been rounded off to the nearest Rupees.

**For Arif Habib Investments Limited
(Pension Fund Manager)**


Chief Executive


Director

