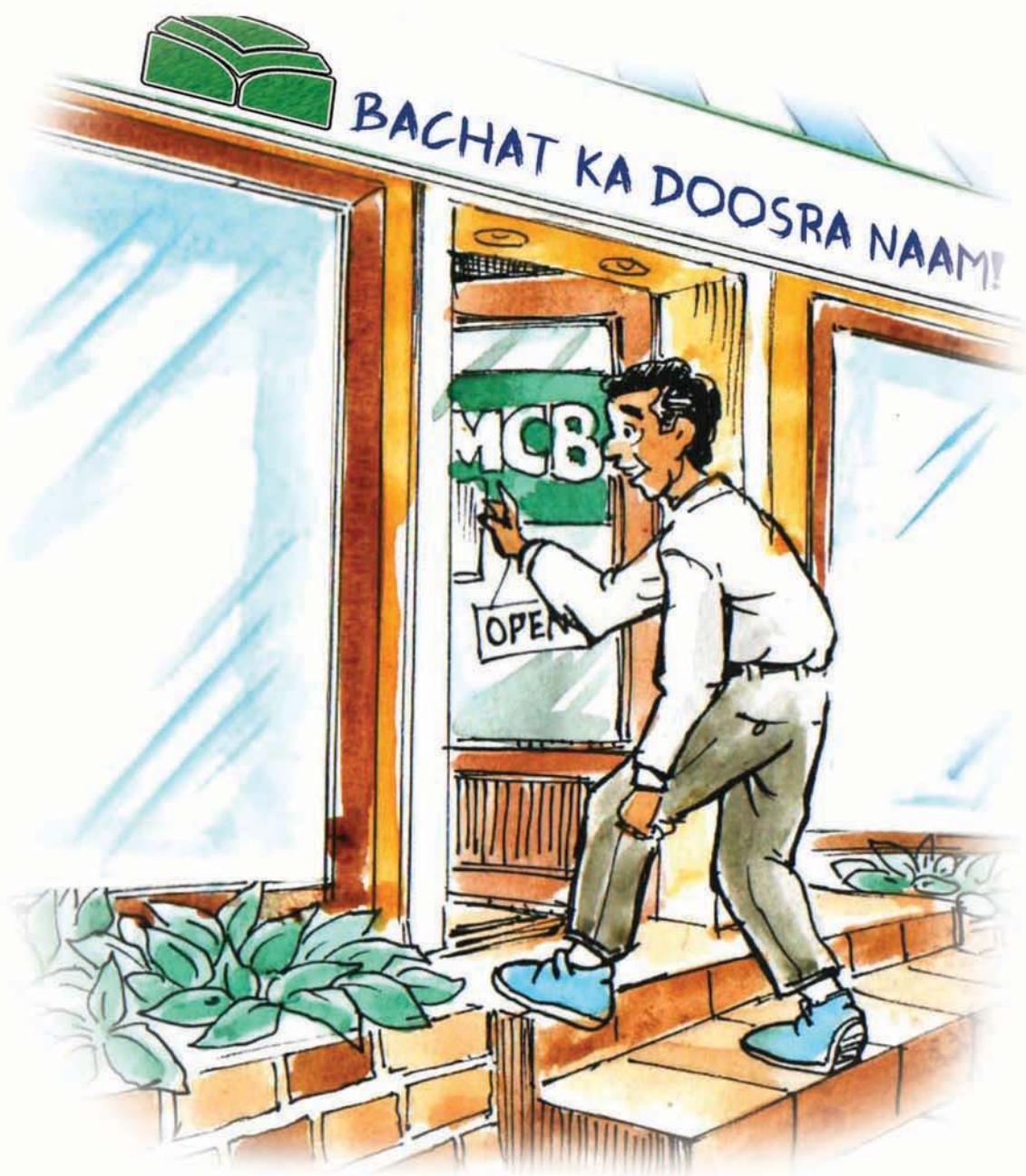




Bachat ka Doosra Naam

Quarterly Report
September 30, 2012
(Unaudited)



Funds Under Management
of
Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)

**PAKISTAN
INCOME ENHANCEMENT FUND**

CONTENTS

Fund's Information	80
Report of the Directors of the Management Company	81
Condensed Interim Statement of Assets and Liabilities	82
Condensed Interim Income Statement (Un-audited)	83
Condensed Interim Distribution Statement (Un-audited)	84
Condensed Interim Statement of Movement in Unit Holders' Funds (Un-audited)	85
Condensed Interim Cash Flow Statement (Un-audited)	86
Notes to and forming part of the Condensed Interim Financial Statements (Un-audited)	87

FUND'S INFORMATION

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

REPORT TO THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2012

Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan Income Enhancement Fund's accounts review for the first quarter ended September 30th 2012.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, CPI inflation continued to maintain its downward trajectory amid lower food inflation and gas prices with 1Q FY13 CPI inflation averaging at 9.2%. Although current account balance remained comfortable during 2MFY13 with a sizeable surplus of US\$ 919 million courtesy release of coalition support fund proceeds by the US, weaker financial and capital account coupled with sizeable repayments (including IMF) continued to put pressure on the FX reserves, which eventually came down to below US\$ 14.5 billion. On the fiscal front, the government has continued to rely on domestic sources of funding with YTD GoP borrowing from banking system has risen to PKR 173 billion by Sep'28 2012. Taking comfort from benign CPI inflation and release of CSF payments by the US as well as the need to stimulate real economic engine & private investments in the country, the State Bank of Pakistan lowered its policy discount rate by 150 bps to 10.5% in its Aug'12 monetary policy statement.

In the money market, short term market rates remained largely on the higher side amid tight liquidity scenario in the system with few exceptions where the market witnessed floors also. The SBP has continued to inject significant amount of liquidity in the system through OMOs during the quarter. Given a downward trajectory in YoY CPI inflation coupled with SBP monetary easing stance, the yield curve has adjusted significantly downwards during the period. 1 year PKRV adjusted downwards by 198 bps to 10.0%, while longer tenure 10 year PKRV adjusted downwards by 182 bps to 11.5% during the quarter under review.

FUND PERFORMANCE

During the quarter under review, the fund generated an annualized return of 3.3% as against its benchmark return of 16.8%. This significant under-performance of the fund was due to mark-down/ provisioning made on some of its TFCs in the portfolio.

The fund has increased its exposure during the period towards GoP Ijarah Sukuk to around 10% on the back of decent yield as well as capital gains potential. The fund has reduced its exposure in TFCs to around 35% as it diverted a sizeable portion of the fund towards PIBs and longer tenure T-Bills to take advantage of the monetary easing by the SBP. At quarter-end, the fund had around 39% exposure in T-Bills/ PIBs.

The Net Asset of the Fund as at September 30, 2012 stood at Rs. 814.267 million as compared to Rs 991.307 million as at June 30, 2012 registering a decrease of 177.04%.

The Net Asset Value (NAV) per unit as at September 30, 2012 was Rs. 51.56 as compared to opening NAV of Rs.51.83 per unit as at June 30, 2012 registering a decrease of Rs. 0.27 per unit.

Income Distribution

During the Quarter The Management Company has announced the following interim distribution

Date of distribution	Per unit distribution
July 25, 2012	0.3000
August 25, 2012	0.2640
September 25, 2012	0.1314

FUTURE OUTLOOK

Taking comfort from lower CPI inflation trajectory, the Central bank has decided to lower its policy discount rate further by 50 bps to 10.0% in its Oct'12 monetary policy statement. Going forward, we believe that the sustainability of external account, in addition of lower inflation, would be a key factor in shaping up interest rate direction. The Government bond market, however, is likely to remain active going forward as single digit range of YoY CPI Inflation for at least next few months would keep market players' expectations of downward yield curve adjustment intact.

In a fast changing interest rate environment, the fund would continue to maintain its focus on the credit quality of the portfolio while exploiting attractive opportunities in the market.

ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

On behalf of Directors,

Yasir Qadri
Chief Executive Officer
Dated: October 25, 2012

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2012


	Note	Unaudited September 30, 2012	Audited June 30, 2012
Rupees in '000			
ASSETS			
Balances with banks		131,458	113,366
Investments	4	866,863	657,538
Term deposit receipts		-	205,000
Receivable against sale of units		-	2,096
Income and profit receivable		14,541	18,260
Deposits and prepayments and other receivables		1,727	1,810
Preliminary expenses and floatation cost		181	231
Total assets		1,014,770	998,301
LIABILITIES			
Payable to Arif Habib Investments Limited-Management Company		1,300	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee		119	141
Payable to Securities and Exchange Commission of Pakistan		173	993
Payable against purchase of investments		197,535	-
Payable against redemption of units		-	3,100
Accrued expenses and other liabilities		1,376	1,276
Total liabilities		200,503	6,994
NET ASSETS			
		814,267	991,307
Unit holders' fund (as per statement attached)		814,267	991,307
CONTINGENCY			
	5		
Number of units			
NUMBER OF UNITS IN ISSUE		15,792,377	19,125,741
Rupees			
NET ASSET VALUE PER UNIT	3.1	51.56	51.83

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.



Chief Executive Officer

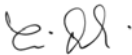

For Arif Habib Investments Limited
(Management Company)



Director

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)


FOR THE QUARTER ENDED SEPTEMBER 30, 2012

Note	September 30	
	2012	2011
	(Rupees in '000)	
INCOME		
Capital gain / (loss) on sale of investments - net	17,962	2,432
Profit on bank deposits, term deposit receipts and commercial paper	2,007	2,363
Income from investments in government securities	12,264	31,758
Income from margin trading system	-	37
Income from term finance certificates and sukuk bonds	13,450	19,208
Total income	45,683	55,798
Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets at 'fair value through profit or loss'	8,570	(1,856)
Total Income	54,253	53,942
EXPENSES		
Remuneration of Arif Habib Investments Limited - Management Company	3,449	5,839
Sindh sales tax on remuneration of the Management Company	552	934
Remuneration of Central Depository Company of Pakistan Limited -Trustee	391	551
Annual fee - Securities and Exchange Commission of Pakistan	173	292
Securities transaction cost	-	127
Brokerage and settlement charges	282	264
Amortization of preliminary expenses and floatation costs	50	50
Auditors' remuneration	126	95
Printing of annual accounts	57	31
Fees and subscription fees	44	46
Professional Charges	18	18
Total Expenses before provision for non-performing exposure	5,142	8,247
Provision for non-performing exposure	4.3 41,363	6,602
Net Income from operating activities	7,748	39,093
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	73	(181)
Net Income for the period before taxation	7,821	38,912
Taxation	-	-
Net income for the period after taxation	7,821	38,912
Other comprehensive income/ (loss) for the period	-	-
Total comprehensive income/ (loss) for the period	7,821	38,912
Earnings per unit	3.2	
The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.		
<div><div> Chief Executive Officer</div><div>For Arif Habib Investments Limited (Management Company)</div><div> Director</div></div>		

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.


 Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)

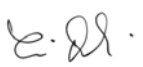

 Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

	Note	September 30	
		2012	2011
		----- Rupees in '000 -----	
Undistributed income brought forward		34,904	68,060
Final Distribution:			
(2011: Re 0.3309 per unit)			
-Bonus units		-	(9,130)
-Cash distribution		-	(1,169)
		34,904	57,761
Net element of income losses			
included in the prices of units issued less those in units redeemed		(6,100)	(6,372)
Net income for the period		7,821	38,912
Interim Distribution for the quarter ended September 30, 2012			
Issue of 230,193 bonus units (2011: 589,049 units)			
- Issue of bonus units	7	(11,890)	(3,398)
- Cash Distribution	7	(204)	(30,594)
Undistributed income carried forward		24,531	56,309

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.


 Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)


 Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**


	Note	September 30	
		2012	2011
		----- Rupees in '000 -----	
Net assets at beginning of the period		991,307	1,624,412
Issue of 589,457 units (2011: 3,008,985 units)		30,502	156,750
Redemption of 4,153,014 units (2011: 6,887,214 units)		(215,086)	359,196
		(184,584)	(202,446)
Final Distribution			
(2011: 176,049 bonus units)			
Bonus units		-	(9,130)
Cash Distribution		-	(1,169)
		(184,584)	(212,745)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed transferred to income statement - net		(6,100)	(6,372)
- Amount representing (losses)/ gain transferred to income statement		(73)	181
- Amount representing loss and capital losses that form part of unitholders' fund transferred to distribution statement		6,100	6,372
Capital gain / (loss) on sale of investments - net		17,962	2,432
Unrealised (diminution) / appreciation in value of investments at market value through profit or loss - net		(8,570)	(1,856)
Other net income for the period		(1,571)	38,336
		7,821	38,912
Interim Distribution for the quarter ended September 30, 2012			
Issue of 230,193 bonus units (2011: 589,049 bonus units)			
- Bonus Distribution	8	(11,890)	(30,594)
- Cash Distribution	8	(204)	(3,398)
Final Distribution			
(2011: 176,049 bonus units)			
Bonus units		-	9,130
Issue of 230,193 bonus units (2011: 589,049 bonus units)		11,890	30,594
- Bonus Distribution		(204)	5,732
Net assets as at		814,267	1,456,492

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2012


	September 30	
	2012	2011
	----- (Rupees) '000' -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period before taxation	7,821	38,912
Adjustments for non-cash charges and other items:		
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(73)	181
Amortization of preliminary expenses	50	50
Net unrealised (diminution) / appreciation on re - measurement of investments classified as 'financial assets at fair value through profit or loss'	(8,570)	1,856
Provision for non-performing assets	41,363	6,602
	40,591	47,601
(Increase)/ decrease in assets		
Investments - net	(242,118)	68,184
Receivable against sale of units	205,000	13,745
Receivable against sale of investments	2,096	678
Balance Receivable under margin trading system	-	7,707
Income receivable	3,719	(21,202)
Prepayments	83	98
	(31,220)	69,210
(Decrease) / increase in liabilities		
Payable to the Management Company	(184)	30
Payable to the Trustee	(22)	(3)
Annual fee payable to the Securities and Exchange Commission of Pakistan	(820)	(1,110)
Payable against purchase of investments	197,535	73,342
Payable against redemption of units	(3,100)	1,253
Accrued expenses and other liabilities	100	627
	193,509	74,139
Net cash generated from / (used in) from operating activities	202,880	190,950
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts against issue of units	30,502	156,750
Payment against redemption of units	(215,086)	(359,196)
	(184,584)	(202,446)
Dividend paid	(204)	(4,567)
Net cash used in financing activities	(184,788)	(207,013)
Net increase in cash and cash equivalents during the period	18,092	(16,063)
Cash and cash equivalents at beginning of the period	113,366	32,062
Cash and cash equivalents at end of the period	131,458	15,999

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.



Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)



Director

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund (the Fund) was established through a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on July 14, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on June 26, 2008 in accordance with Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

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

The Fund is an open-ended mutual fund listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. Unit holders are divided into plan "A" and plan "B". The unit holders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend. The Fund has been categorised as Aggressive Fixed Income scheme by the Board of Directors of the Asset Management Company.

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

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

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

2 BASIS OF PREPARATION

2.1 This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

2.2 This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the Fund's functional and presentation currency and has been rounded off to the nearest thousand rupees.

The directors of the Management Company declare that these condensed interim financial information give a true and fair view of the Fund.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2012.

3.1 Net Asset Value per unit

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

3.2 Earnings per unit

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

	Note	(Un-audited) September 30, 2012	(Audited) June 30, 2012
		----- Rupees in '000 -----	
4 INVESTMENTS			
At fair value through profit or loss			
- Government securities	4.1	501,895	218,211
- Debt securities	4.2		
- Listed Debt securities	4.2.1	187,751	214,924
- Unlisted Debt securities	4.2.2	177,217	224,403
		<u>866,863</u>	<u>657,538</u>

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

4.1 Government Securities

Issue date	Tenor	Face value				Balance as at September 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2012	Purchases during the period	Sales / Matured during the period	Balance as at September 30, 2012	Cost	Market value	Appreciation / (Diminution)		
Rupees in '000										
Market Treasury Bills										
Treasury bills - 3 months	3 Months	125,000	1,240,000	1,365,000	-	-	-	-	-	-
Treasury bills - 6 months	6 Months	-	500,000	500,000	-	-	-	-	-	-
Treasury bills - 12 months	12 Months	-	2,395,000	2,195,000	200,000	197,535	197,538	3	24.26	22.79
						197,535	197,538	3	24.26	22.79
Pakistan Investment Bonds										
Pakistan Investment Bonds	3 Years	-	514,600	364,600	150,000	146,677	152,730	6,053	18.76	17.62
Pakistan Investment Bonds	5 Years	58,000	150,000	158,000	50,000	48,928	51,207	2,279	6.29	5.91
Pakistan Investment Bonds	10 Years	-	175,000	175,000	-	-	-	-	25.05	23.53
						195,605	203,937	8,332	25.05	23.53
Government Ijara Sukuk										
Government Ijara Sukuk - 8	3 Years	13,200	-	13,200	-	-	-	-	-	-
Government Ijara Sukuk - 9	3 Years	25,000	-	25,000	-	-	-	-	-	-
Government Ijara Sukuk - 12	3 Years	-	2,000,000	2,000,000	-	-	-	-	-	-
Government Ijara Sukuk - 13	3 Years	-	100,000	-	100,000	100,000	100,420	420	12.33	11.58
						100,000	100,420	420	12.33	11.58
Total as at September 30, 2012						493,140	501,895	8,755		
Total as at June 30, 2012						218,679	218,211	(468)		

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

4.2 Debt Securities

Name of the investee company	Issue date	Balance as at July 1, 2012	Purchases during the year	Sales / matured during the year	As at September 30, 2012	Balance as at September 30, 2012			Market Value		Percentage in relation to the size of issue
						Carrying Value	Market value	Appreciation / (diminution)	As a percentage of total investments	As a percentage of net assets	
Number of certificates (Rupees in '000)											
Certificates having a face value of Rs. 5,000 each unless stated otherwise											
Listed											
Bank AL-Habib Limited	7-Feb-07	5,000	-	-	5,000	25,783	25,248	(535)	0.02	3.10	1.67
Askari Bank Limited	31-Oct-05	6,000	-	-	6,000	30,010	30,096	86	0.03	3.70	2.01
PACE Pakistan Limited	15-Feb-08	15,000	-	-	15,000	41,906	44,455	2,549	0.04	5.46	2.96
Askari Bank Limited	18-Nov-09	1,000	-	-	1,000	5,282	5,282	-	0.00	0.65	0.18
Askari Bank Limited	4-Feb-05	425	-	-	425	2,118	2,116	(2)	0.00	0.26	0.14
Escorts Investment Bank Limited	15-Mar-07	6,000	-	-	6,000	3,979	4,392	413	0.01	0.54	0.88
NIB Bank Limited	5-Mar-08	12,399	-	-	12,399	61,617	62,041	424	0.03	7.62	2.07
Askari Bank Limited	23-Dec-11	45	-	-	45	46,430	47,793	1,363	0.04	5.87	4.78
						217,125	221,423	4,298			
Unlisted											
Engro Fertilizer Limited	18-Mar-08	23,100	-	-	23,100	109,841	103,950	(5,891)	0.11	12.77	2.60
Bank Alfalah Limited (Floating)	2-Dec-09	9,000	-	-	9,000	47,428	47,514	86	0.05	5.84	0.95
Bank Al Falah Limited (Fixed)	2-Dec-09	470	-	470	-	-	-	-	0.02	-	0.00
Jahangir Siddiqui & Company Limited	4-Jul-07	3,250	-	-	3,250	16,151	16,324	173	0.08	2.00	0.54
Bank AL Habib Limited	30-Jun-11	4,900	-	4,900	-	-	-	-	0.03	-	0.00
						173,420	167,788	(5,632)			
Sukuk Bonds - Unlisted											
Eden Housing Limited	31-Mar-08	10,415	-	-	10,415	16,124	16,936	812	0.02	2.08	0.68
Pak Elektron Limited	28-Sep-07	8,000	-	-	8,000	15,907	15,907	-	0.01	1.95	1.33
						32,031	32,843	812			
Total as at September 30, 2012						422,575	422,054	(521)			
Total as at June 30, 2012						456,217	439,327	(16,890)			

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

	Unaudited September 30, 2012	Audited June 30, 2012
	------(Rupees in '000)-----	
4.2.1 Market value of listed debt securities	221,423	226,130
Less: Provision against listed debt securities	33,672	11,206
	187,751	214,924
4.2.2 Market value of unlisted debt securities	200,631	236,410
Less: Provision against unlisted debt securities	23,414	12,007
	177,217	224,403

4.3 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT

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

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme' in circular no. 7 of 2009, the Fund is required not to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 31 March 2012, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
		----- (Rupees in '000) -----			%	%
Investment in debt securities	PACE Pakistan Limited	44,455	33,672	10,783	1.32	1.06
Investment in debt securities	Eden Housing Limited	16,936	16,936	-	-	-
Investment in debt securities	Pak Elektron Limited	15,907	6,479	9,428	1.16	0.93

- 4.3.1** At the time of purchase, the said securities were in compliance of the circular (i.e. investment grade) and were subsequently downgraded to non investment grade by MUFAP.

5 CONTINGENCY

Contribution to workers welfare fund

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

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

During the year ended 30 June 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

In view of the afore mentioned developments and based on legal counsel, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honourable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds.

The aggregate unrecognised amount of WWF as at September 30, 2012 amounted to Rs.12.621 million. If the same were made the NAV of the fund would have been lower by Rs.0.80 per unit.

6 TAXATION

The income of the Fund is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the Management Company, on behalf of the Scheme, intends to distribute at least 90 percent of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

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

7 INTERIM DISTRIBUTIONS

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

Date	Rate Per Unit	Bonus *	
		Units	Amount ---Rupees in '000---
July 25, 2012	Re. 0.3000	103,147	5,346
August 25, 2012	Re. 0.2640	87,090	4,488
September 25, 2012	Re. 0.1314	39,955	2,056
		230,193	11,890

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

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

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

8 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

Performance fee payable to the Management Company is determined in accordance with the provisions of the Non Banking Finance Companies and Notified Entities Regulation, 2008 and constitutive documents of the Fund.

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

Details of the transactions with the connected persons are as follows:

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

8.1 Transactions during the period

	September 30	
	2012	2011
	----- Rupees in '000 -----	
Management Company		
Performance fee for the period	3,449	5,839
Front-end Load for the period	75	643
Summit Bank Limited		
Profit on bank deposits	12	90
MCB Bank Limited		
Profit on bank deposits	640	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period	391	551
CDS charges	3	10
Directors / officers and employees of the management company		
Issue of Nil units (2011: 139,366 units)	-	7,263
Redemption of 36,698 units (2011: 179,267 units)	1,893	9,343
Issue of 406 bonus units (2011: 17,902 units)	21	929
Mr. Najeeb Butt (10% or more holding)		
Bonus distribution of 26,079 units	1,347	8,868

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

Unaudited September 30, 2012	Audited June 30, 2012
----- Rupees in '000 -----	

8.2 Balances outstanding as at period end

Management Company

Management fee payable	1,213	1,469
Front end load payable	87	15

Summit Bank Limited

Bank balance at the end of the period / year	404	429
Profit receivable	4	2

MCB Bank Limited

Bank balance at the end of the period / year	12,185	775
Profit receivable	761	121

Central Depository Company of Pakistan Limited - Trustee

Remuneration payable	119	141
Security deposit	200	200

Key management personnel

Units held 667 units (2012: 77,106 units)	34	3,996
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Mr. Najeeb Butt (10% or more holding)

Units held 1,954,690 units (2012: 1,928,611 units)	100,785	99,960
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9 DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on October 25, 2012 by the Board of Directors of the Management Company.

10 GENERAL

10.1 Figures have been rounded off to the nearest thousand rupees.

10.2 Corresponding figures have been rearranged and reclassified wherever necessary, for the purpose of comparison.



Chief Executive Officer

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



Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

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