



**Bachat** ka Doosra Naam

# Quarterly Report

March 31, 2013  
(Unaudited)



Funds Under Management  
of  
Arif Habib Investments Limited

# **PAKISTAN INCOME FUND**

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## FUND'S INFORMATION

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	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)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
<b>Human Resource &amp; Remuneration Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem, ACA	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed, ACA	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S., Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	Bank Al Habib Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Faysal Bank Limited NIB Bank Limited Askari Bank Limited Habib Bank Limited Standard Chartered bank (Pakistan) Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan Income Fund's accounts review for the nine months ended March 31st 2013.

## ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, Mar'13 YoY CPI inflation of 6.57% was lowest since Aug'07, with 9M FY13 average CPI at 7.98%. CPI inflation may dip further in April and remain in the lower range for the next few months. However, with the base effect neutralizing CPI would start rising again expectedly towards the later part of the year. On the other hand, external current account had witnessed significant pressures during the past few months and changed its course during Feb'13 by posting a CA Deficit of US\$ 596 million - taking the 8M FY13 CAB to a deficit of US\$ 700 million. FX reserves continued to remain under pressure amid weaker financial account flows and heavy debt repayments including that of IMF during Mar'13- touching US\$ 12.37 billion mark, as of Mar' 22 2013. On the fiscal front, the government's reliance on domestic sources for fiscal funding has continued with YTD borrowing from banking system stood at an alarming level of PKR 937 billion by Mar'22 2013. With stressing its concerns on the external and fiscal accounts, the State Bank of Pakistan took comfort from declining inflationary trend and lowered its policy discount rate cumulatively by 250 bps to 9.5% during the period under review.

The short term money market rates remained in the higher range during most part of the period owing to relatively tight liquidity position in the system with few exceptions where the market witnessed floors also. SBP continued to inject sizeable amount through Open Market Operations to provide needed liquidity in the market. 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 246 bps to 9.51%, while longer tenure 10 year PKRV adjusted downwards by 139 bps to 11.89% during the period under review.

## FUND PERFORMANCE

During the quarter under review, the fund generated an annualized return of 6.7% as against its benchmark return of 11.1%, an under performance of 4.4%. Despite generating strong capital gains through PIB exposure ahead of monetary easing, the fund underperformed its benchmark due to mark-down/ provisioning made on some of its TFCs in the portfolio.

In order to capitalize on the declining interest rate scenario that lasted up to the end of HY13, fund increased its portfolio duration by increasing allocation in PIBs and longer tenure T-Bills. After realizing the capital gains, the fund gradually started to switch its exposure from PIBs to short-end papers. At period-end, the fund was 10% invested in PIBs as compared to 1% at the beginning of the period, 8.3% invested in GoP Ijarah Sukuk as compared to 15% at the beginning and 29.4% invested in TFCs vis-à-vis beginning allocation of 37.7%.

The Net Asset of the Fund as at March 31, 2013 stood at Rs. 1255.85 million as compared to Rs 1300.76 million as at June 30 2012 registering a decrease of 3.45%.

The Net Asset Value (NAV) per unit as at March 31, 2013 was Rs. 52.11 as compared to opening NAV of Rs. 52.04 per unit as at June 30, 2012 registering an increase of Rs. 0.07 per unit.

## Income Distribution

During the period, the Management Company has announced the following interim distribution:

Date of distribution	Per unit distribution
September 28, 2012	Rs.1.05
December 27, 2012	Rs.0.75
March 26, 2013	Rs.0.71

# **REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

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## **FUTURE OUTLOOK**

Going forward despite continued lower range of CPI inflation, further rate cut seems a distant possibility given deteriorating fiscal and external accounts, significant IMF repayments ahead and alarming monetary growth - while the potential return to the IMF may result in a cycle of monetary tightening by end of 2Q CY13. Government bond market, which remained active for last few months on the back of soft inflation numbers and expected monetary easing, has started to become relatively less active, especially on the longer end, with the anticipation of no rate cut and possible rate hikes in the next 2-4 months. In this backdrop, the activities are expected to be concentrated at short-end Treasury Bills going forward.

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: April 24, 2013

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES**  
**AS AT MARCH 31, 2013**

	<i>Note</i>	<b>(Unaudited) 31 March 2013</b>	<b>(Audited) 30 June 2012</b>
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks		364,573	18,167
Receivable against sale of units		-	1,945
Investments	6.	878,262	1,257,991
Dividend and profit receivable		9,513	19,956
Advances, deposits and prepayments		8,039	7,974
<b>Total assets</b>		<b>1,260,388</b>	<b>1,306,033</b>
<b>Liabilities</b>			
Payable against redemption of units		47	-
Payable to Arif Habib Investments Limited - Management Company		1,903	1,868
Payable to Central Depository Company of Pakistan Limited - Trustee		163	160
Accrued expenses and other liabilities		1,698	2,056
Payable to Securities and Exchange Commission of Pakistan - Annual fee		724	1,193
<b>Total liabilities</b>		<b>4,535</b>	<b>5,277</b>
<b>Contingency</b>	8.		
<b>Net assets</b>		<b>1,255,853</b>	<b>1,300,756</b>
<b>Unit holders' funds</b>		<b>1,255,853</b>	<b>1,300,756</b>
		<b>(Number of units)</b>	
<b>Number of units in issue</b>		<b>24,098,261</b>	<b>24,993,755</b>
		<b>(Rupees)</b>	
<b>Net asset value per unit</b>		<b>52.11</b>	<b>52.04</b>

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
\_\_\_\_\_  
Chief Executive Officer

For Arif Habib Investment Limited  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)**  
**FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	Note	Nine months ended		Quarter ended	
		31 March		31 March	
		2013	2012	2013	2012
		----- (Rupees in '000) -----			
<b>Income</b>					
Capital gain on sale of investments - net		30,556	3,834	(2,779)	1,301
Income from term finance and sukuk certificates		40,758	59,359	13,622	17,304
Income from government securities		59,074	89,469	18,083	22,625
Income from term deposit receipts		2,237	100	940	100
Profit on bank deposits		3,614	6,396	1,449	3,297
Net unrealised appreciation/(diminution) in fair value of investments classified as 'at fair value through profit or loss'		153	802	402	(4,055)
Reversal of provision against non-performing investment		416	-	208	-
<b>Total income</b>		<b>136,807</b>	<b>159,960</b>	<b>31,924</b>	<b>40,572</b>
<b>Expenses</b>					
Remuneration of Arif Habib Investments Limited - Management Company		14,477	18,901	4,666	5,869
Sindh sales tax on management fee		2,316	3,024	746	939
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,458	1,710	474	544
Annual fee - Securities and Exchange Commission of Pakistan		724	945	233	293
Securities transaction cost		368	361	64	100
Settlement and bank charges		313	320	92	124
Fees and subscriptions		159	191	54	62
Auditors' remuneration		551	460	174	183
Other Expenses		261	475	25	132
Provision against non-performing exposures	6.3	52,893	21,618	8,171	(839)
<b>Total expenses</b>		<b>73,521</b>	<b>48,006</b>	<b>14,700</b>	<b>7,408</b>
		<b>63,286</b>	<b>111,954</b>	<b>17,224</b>	<b>33,164</b>
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed		(582)	(13,455)	(188)	(11,694)
<b>Net income for the period before taxation</b>		<b>62,704</b>	<b>98,499</b>	<b>17,036</b>	<b>21,470</b>
Taxation	9.	-	-	-	-
<b>Net income for the period after taxation</b>		<b>62,704</b>	<b>98,499</b>	<b>17,036</b>	<b>21,470</b>
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>62,704</b>	<b>98,499</b>	<b>17,036</b>	<b>21,470</b>
<b>Earnings per unit</b>	10.				

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For Arif Habib Investment Limited  
(Management Company)

  
Chief Executive Officer

  
Director



**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	Nine months ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
Undistributed income brought forward	51,172	109,185	51,652	112,070
Total comprehensive income for the period	62,704	98,499	17,036	21,470
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	(1,827)	(6,650)	(746)	(572)

***Distributions to the unit holders of the Fund:***

***Final distribution:***

Final distribution for the year ended 30 June 2011 at the  
rate of Rs. 1.24 per unit -

Date of distribution: 4 July 2011

- Cash distribution
- Issue of 745,993 bonus units

***Interim distribution:***

Interim distribution at the rate of Rs 1.05 per unit  
for the quarter ended 30 September 2012 - Date of  
distribution: 29 September 2012 (30 September  
2011: Re. 0.80 per unit)

- Cash distribution
- Issue of 499,519 (2011: 465,114) bonus units

Interim distribution at the rate of Re. 0.75 per unit  
for the quarter ended 31 December 2012 - Date of  
distribution: 27 December 2012

- Cash distribution
- Issue of 348,090 bonus units

Interim distribution at the rate of Re. 0.71 per unit  
for the quarter ended 31 March 2013 - Date of  
distribution: 26 March 2013

- Cash distribution
- Issue of 324,564 bonus units

-	(3,504)	-	-
-	(38,762)	-	-
-	(1,517)	-	-
(25,995)	(24,283)	-	-
-	(2,599)	-	(2,599)
(18,112)	(40,227)	-	(40,227)
-	(2,087)	-	(2,087)
(16,893)	(27,315)	(16,893)	(27,315)
(61,000)	(140,294)	(16,893)	(72,228)
51,050	60,740	51,050	60,740

Undistributed income carried forward

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For Arif Habib Investment Limited  
(Management Company)



Chief Executive Officer



Director

# CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

	Nine months ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
	(Rupees in '000)			
Net assets at the beginning of the period	1,300,756	1,813,580	1,274,726	1,684,861
Issue of 1,512,515 units (2012: 2,935,133 units) and 433,761 units (2012: 834,278 units) for the nine months and quarter ended respectively	79,208	155,393	22,663	44,348
Issue of 499,519 bonus units for the quarter ended 30 September 2012 (2011: 465,114 units)	25,995	24,283	-	-
Issue of 348,090 bonus units for the quarter ended 31 December 2012	18,112	-	-	-
Issue of 324,617 bonus units for the quarter ended 31 March 2013	16,893	67,542	16,893	67,542
Issue of 745,993 bonus units for the year ended 30 June 2011	-	38,762	-	-
Redemption of 3,580,235 units (2012: 12,300,238 units) and 1,691,000 units (2012: 6,445,663 units) for the nine months and quarter ended respectively	(187,397)	(649,271)	(58,760)	(335,738)
	(47,189)	(363,291)	(19,204)	(223,848)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:				
- amount representing (income) / loss and capital (gains) / losses transferred to the Income Statement	582	13,455	188	11,694
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement	1,827	6,650	746	(572)
	2,409	20,105	934	11,122
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(1,827)	(6,650)	(746)	572
Net income for the period (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gains / (loss) on sale of investments)	31,996	93,863	19,414	24,224
Capital gain on sale of investments - net	30,556	3,834	(2,779)	1,301
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	153	802	402	(4,055)
	62,704	98,499	17,036	21,470
<b>Distributions to the unit holders of the Fund:</b>				
<b>Final distribution:</b>				
Final distribution for the year ended 30 June 2011 at the rate of Rs. 1.24 per unit -				
Date of distribution: 4 July 2011				
- Cash distribution	-	(3,504)	-	-
- Issue of 745,993 bonus units	-	(38,762)	-	-
<b>Interim distribution:</b>				
Interim distribution at the rate of Rs 1.05 per unit for the quarter ended 30 September 2012 - Date of distribution: 29 September 2012 (30 September 2011: Re. 0.80 per unit)				
- Cash distribution	-	(1,517)	-	-
- Issue of 499,519 (2011: 465,114) bonus units	(25,995)	(24,283)	-	-
Interim distribution at the rate of Re. 0.75 per unit for the quarter ended 31 December 2012 - Date of distribution: 27 December 2012				
- Issue of 348,090 bonus units	(18,112)	-	-	-
Interim distribution at the rate of Re. 0.71 per unit for the quarter ended 31 March 2013 - Date of distribution: 26 March 2013				
- Cash distribution	-	(4,686)	-	(4,686)
- Issue of 324,564 bonus units	(16,893)	(67,542)	(16,893)	(67,542)
	(61,000)	(140,294)	(16,893)	(72,228)
Net assets as at the end of the period	1,255,853	1,421,949	1,255,853	1,421,949

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

For Arif Habib Investment Limited  
(Management Company)



Chief Executive Officer



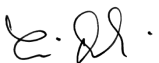
Director

# CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

	Nine months ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	<b>62,704</b>	98,499	<b>17,036</b>	21,470
<i>Adjustments for non cash and other items:</i>				
Net unrealised (appreciation) / diminution in value of investments classified as 'at fair value through profit or loss'	<b>(153)</b>	(802)	<b>(402)</b>	4,055
Net element of (income) / loss and capital (gains) / losses prices of units issued less those in units redeemed	<b>582</b>	13,455	<b>188</b>	11,694
Provision against non performing exposures	<b>52,477</b>	21,618	<b>7,963</b>	(839)
	<b>115,611</b>	132,770	<b>24,786</b>	36,380
<b>(Increase) / decrease in assets</b>				
Investments	<b>34,008</b>	674,255	<b>57,787</b>	472,936
Receivable against sale of units	-	5,623	-	108,677
Advance against subscription of Term Finance Certificates	-	-	<b>50,000</b>	-
Dividend and profit receivable	<b>10,443</b>	(6,720)	<b>6,025</b>	(2,151)
Advances, deposits and prepayments	<b>(65)</b>	34,254	<b>(126)</b>	(444)
	<b>44,385</b>	707,412	<b>113,685</b>	579,018
<b>(Decrease) / increase in liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	<b>35</b>	(530)	<b>13</b>	(695)
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>3</b>	(22)	<b>(2)</b>	(20)
Payable against sale of investments	-	976,906	-	976,906
Accrued expenses and other liabilities	<b>(358)</b>	(931)	<b>(365)</b>	(1,224)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	<b>(469)</b>	(538)	<b>233</b>	293
	<b>(789)</b>	974,885	<b>(121)</b>	975,260
<b>Net cash generated from / (used in) operating activities</b>	<b>159,207</b>	1,815,067	<b>138,350</b>	1,590,658
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	-	(9,707)	-	(4,686)
Receipts from issuance of units	<b>81,153</b>	155,393	<b>22,663</b>	44,348
Payments on redemption of units	<b>(187,350)</b>	(649,271)	<b>(58,713)</b>	(338,497)
<b>Net cash used in financing activities</b>	<b>(106,197)</b>	(503,585)	<b>(36,050)</b>	(298,835)
Net (decrease) / increase in cash and cash equivalents during the period	<b>53,010</b>	1,311,482	<b>102,300</b>	1,291,823
Cash and cash equivalents at the beginning of the period	<b>568,844</b>	32,102	<b>519,554</b>	51,761
<b>Cash and cash equivalents at end of the period</b>	<b>621,854</b>	1,343,584	<b>621,854</b>	1,343,584

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The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

  
\_\_\_\_\_  
Chief Executive Officer

For Arif Habib Investment Limited  
(Management Company)

  
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Director

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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## 1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited (Management Company) and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Exchange Commission of Pakistan (SECP) on 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). In conformity with Circular 7 of 2009 dated 6 March 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Income" category.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 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-Asset Management Company and Arif Habib Investments Limited, the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/ MCBAMCL & AHIL/271/2011 dated 10 June 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of the State Bank of Pakistan's approval it is a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the Honourable Sindh High Court. The Honourable Sindh High Court has held SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. No hearing since then has taken place. Irrespective of the final ruling, the Fund's assets and Net Asset Value (NAV) remain unaffected.

The Fund is an open-ended mutual fund and is listed on the Karachi Stock Exchange Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. This Fund is income scheme and the policy of the Fund is to invest in a mix of investment-grade debt securities, government securities, money market instruments and short-term reverse repurchase transactions.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' to the Management Company and A+(f) as stability rating to the Fund.

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

**2.1.1** This condensed interim financial information has been prepared in accordance with the requirement of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984, 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). In case where requirements differ, the provisions of / or directives issued under the Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

**2.1.2** This condensed interim financial information does not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the financial statements for the year ended 30 June 2012.

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

**2.1.4** The Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

**2.1.5** The comparatives in the condensed interim statement of assets and liabilities presented in this condensed interim financial information as at 31 March 2013 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2012, where as the comparative in condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, and condensed interim cash flow statement are extracted from unaudited condensed interim financial information for the period ended 31 March 2012.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

**3.2** Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund.

## 4. ESTIMATES AND JUDGEMENTS

**4.1** The preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

**4.2** In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2012.

## 5. FINANCIAL RISK MANAGEMENT

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the Fund as at and for the year ended 30 June 2012.

## 6. INVESTMENTS

		(Unaudited) 31 March 2013	(Audited) 30 June 2012
		(Rupees in '000)	
<i>Fixed income and other debt securities</i>			
<i>'At fair value through profit or loss'</i>			
Government securities	6.1	507,305	575,687
Term finance and sukuk certificates	6.2		
- Listed debt securities		294,521	298,928
- Unlisted debt securities		137,628	226,274
Less Provision	6.3	(61,192)	(32,898)
		370,957	492,304
Term Deposit Receipts	6.4	-	190,000
		<u>878,262</u>	<u>1,257,991</u>

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

## 6.1 Government securities - 'at fair value through profit or loss'

Issue date	Tenor	Face value				Balance as at 31 Mar 2013			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at 1 July 2012	Purchases during the period	Sales / matured during the period	Balance as at 31 Mar 2013	Carrying value	Market value	Appreciation/ (diminution)		
----- (Rupees in '000) -----										
<b>Pakistan Investment Bond</b>										
30 August 2008	5 years	15,000	23,000	15,000	23,000	22,916	23,182	266	1.85	2.64
22 July 2010	3 years	-	133,900	133,900	-	-	-	-	-	-
18 August 2011	5 years	-	400,000	400,000	-	-	-	-	-	-
18 August 2011	3 years	-	200,000	100,000	100,000	101,884	101,924	40	8.12	11.61
19 July 2012	3 years	-	500,000	500,000	-	-	-	-	-	-
19 July 2012	5 years	-	125,000	125,000	-	-	-	-	-	-
19 July 2012	10 years	-	100,000	100,000	-	-	-	-	-	-
						124,800	125,105	305		
<b>Government of Pakistan Ijara Sukuk</b>										
15 November 2010	3 years	200,000	100,000	300,000	-	-	-	-	-	-
28 June 2012	3 years	-	400,000	400,000	-	-	-	-	-	-
18 September 2012	3 years	-	340,000	235,000	105,000	105,086	105,147	61	8.37	11.97
						105,086	105,147	61		
<b>Market Treasury Bills</b>										
Treasury bills - 3 months		365,000	4,745,100	4,849,100	261,000	257,324	257,280	(43)	20.49	29.29
Treasury bills - 6 months		-	2,201,850	2,201,850	-	-	-	-	-	-
Treasury bills - 12 months		-	4,488,000	4,468,000	20,000	19,776	19,772	(4)	1.57	2.25
						277,100	277,053	(47)		
<b>Total Investment in Government Securities</b>						<b>506,987</b>	<b>507,305</b>	<b>318</b>		

## 6.2 Term finance and sukuk certificates - 'at fair value through profit or loss'

Certificate have a face value of Rs. 5,000 each unless stated otherwise

Name of the investee company	Profit / mark-up percentage	Number of certificates			As at 31 March 2013	Balance as at 31 March 2013			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value percentage in relation to the size of the issue
		As at 1 July 2012	Purchases during the period	Sales / matured during the period		Carrying cost	Market value / Carrying value	Appreciation/ (diminution)			
----- (Rupees in '000) -----											
<b>Listed debt securities</b>											
Askari Bank Limited - I		8,000	-	8,000	-	-	-	-	-	-	-
Askari Bank Limited - III	11.99%	6,000	5,000	-	11,000	57,662	57,002	(660)	4.54	6.49	1.83
Askari Bank Limited - VI											
(Face value of Rs. 1,000,000 each)	11.19%	52	-	-	52	53,642	56,319	2,678	4.48	6.41	0.03
Bank AL Habib Limited (7 February 2007)	11.28%	5,520	-	-	5,520	28,459	28,084	(374)	2.24	3.20	1.84
Bank AL Falah Limited-V	10.69%	-	11,531	-	11,531	57,655	57,655	-	4.59	6.56	1.15
Escorts Investment Bank Limited (Note 6.2.1)	8.00%	3,016	-	-	3,016	1,247	1,654	408	0.13	0.19	3.02
Pace Pakistan Limited (Note 6.3)		10,000	-	-	10,000	22,946	26,344	3,398	2.10	3.00	3.33
TeleCard Limited (Note 6.3)		19,975	-	-	19,975	25,336	25,876	540	2.06	2.95	4.16
Trust Investment Bank Limited - III (Note 6.3)		10,000	-	-	10,000	5,114	4,671	(443)	0.37	0.53	8.33
United Bank Limited - III	11.23%	15,612	-	1,000	14,612	36,039	36,915	876	2.94	4.20	3.65
						<b>288,098</b>	<b>294,521</b>	<b>6,422</b>			
<b>Unlisted debt securities</b>											
Bank AL Habib Limited (30 June 2011)	15.00%	11,500	-	10,500	1,000	5,320	5,609	289	0.45	0.64	0.17
Bank Alfalah Limited (floating)	12.04%	5,000	500	1,000	4,500	23,699	23,518	(181)	1.87	2.68	0.45
Bank Alfalah Limited (fixed)		3,265	-	3,265	-	-	-	-	-	-	-
Engro Fertilizers Limited	11.25%	24,300	-	1,200	23,100	109,841	102,853	(6,988)	8.19	11.71	2.89
						<b>138,859</b>	<b>131,980</b>	<b>(6,879)</b>			
<b>Unlisted Sukuk Bonds</b>											
Maple Leaf Cement Factory Limited Sukuk - I (Note 6.3)		2,000	-	-	2,000	5,357	5,648	291	0.45	0.64	0.13
Maple Leaf Cement Factory Limited Sukuk - II		75	-	75	-	-	-	-	-	-	-
						<b>5,357</b>	<b>5,648</b>	<b>291</b>			
						<b>144,216</b>	<b>137,628</b>	<b>(6,588)</b>	152.82		

**6.2.1** The above include Term Finance Certificates with fair value aggregating to Rs. 1.140 million (30 June 2012: Rs. 0.091 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of circular No. 11 dated October 23, 2007, issued by SECP.

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

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

**Name of the investee company**

	<b>Outstanding Face value</b>	<b>Market Value</b>	<b>Provision recognised during the period</b>	<b>Provision held upto 31 March 2013</b>	<b>Net carrying value</b>
			----- (Rupees in '000) -----		
Maple Leaf Cement Factory Limited Sukuk - I (Note 6.3.1)	<b>9,228</b>	5,648	(4,622)	(4,301)	1,347
Pace Pakistan Limited (Note 6.3.2)	<b>39,936</b>	26,344	(28,963)	(26,344)	-
TeleCard Limited (Note 6.3.3)	<b>34,502</b>	25,876	(2,882)	(25,876)	-
Trust Investment Bank Limited - III (Note 6.3.4)	<b>6,253</b>	4,671	(16,426)	(4,671)	-
	<b>89,919</b>	<b>62,539</b>	<b>(52,893)</b>	<b>(61,192)</b>	<b>1,347</b>

**6.3.1** Maple Leaf Cement Factory Limited - I defaulted in coupon payments in September 2011, December 2011, March 2012, and June 2012, however all these payments were received by September 30, 2012 including coupon due on September 03, 2012. Coupon due on December 03, 2012 and March 03, 2013 were timely paid by the issuer. The TFC will be reclassified as performing once all conditions mentioned in circular 33 of 2012 for reclassification are met. Accordingly the fund has suspended further accrual of markup there against. The Board of Directors have approved a discretionary provision of Rs. 4.301 million against principal amount outstanding as on March 31, 2013.

**6.3.2** Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non performing debt security. During the period, the Fund has recognised further provision amounting to Rs. 28.963 million (Rs. 26.344 million in aggregate) against outstanding principal in accordance with circular No.1 of 2009 read with circular No.33 & 35 of 2012 issued by the SECP and provisioning policy of the Fund. The Fund has also suspended further accrual of markup there against.

**6.3.3** Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non performing debt security. During the period, the Fund has recognised further provision amounting to Rs. 2.882 million (Rs. 25.876 million in aggregate) against outstanding principal in accordance with circular No.1 of 2009 read with circular No.33 & 35 of 2012 issued by the SECP and provisioning policy of the Fund. The Fund has also suspended further accrual of markup there against.

**6.3.4** During the period term finance certificate of Trust Investment Bank Limited has been classified as non performing debt security on October 18, 2012 after lapse of ninety days extension on default of coupon payment by the issuer due on 4 July 2012. In accordance with circular No.1 of 2009 read with circular No.33 & 35 of 2012 issued by the SECP and provisioning policy of the Fund. The Fund has recognised provision amounting to Rs. 16.426 million against principal. The Fund has also suspended further accrual of markup there against.

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

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

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
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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	Maple Leaf Cement Factory Limited - Sukuk I	5,648	4,301	1,347	0.11	0.11
Investment in debt securities	Escorts Investment Bank Limited	1,654	-	1,654	0.13	0.13
Investment in debt securities	Pace Pakistan Limited	26,344	26,344	-	0.00	0.00
Investment in debt securities	TeleCard Limited	25,876	25,876	-	0.00	0.00
Investment in debt securities	Trust Investment Bank Limited	4,671	4,671	-	0.00	0.00

**7.1** At the time of purchase, the above securities were in compliance of the circular (i.e. investment grade) and were subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupon due on respective dates.

**8. CONTINGENCY**

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

Subsequent to the year ended 30 June 2010, 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 14 December 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.

Subsequent to the year ended June 30, 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per our legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 31 March 2013 amounted to Rs. 19.562 million, including 1.254 million for the current period (NAV per unit Re. 0.81).



**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

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**9. TAXATION**

The Fund's income is exempt from Income Tax as per clause 99 of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the Fund by the year end to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Accordingly, no provision for taxation has been made in this condensed interim financial information.

**10. 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.

**11. CASH AND CASH EQUIVALENTS**

	<b>Un-audited March 31, 2013</b>	<b>Audited June 30, 2012</b>
	<b>(Rupees in '000)</b>	
Bank balances	<b>364,573</b>	18,167
Term Deposit Receipts	-	190,000
Treasury bills due within 3 months	<b>257,280</b>	360,677
	<b><u>621,854</u></b>	<u>568,844</u>

**12. TRANSACTIONS WITH CONNECTED PERSONS**

Connected persons / related parties of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertaking.

The transactions with related parties / connected persons are in the normal course of business and carried out on agreed terms / at contracted rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
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**12.1 Details of transactions with connected persons are as follows:**

**Arif Habib Investment Management Limited - Management Company**

Remuneration for the period

Sindh sales tax on management fee

**MCB Bank Limited**

Bank Charges

Profit on bank deposits

**Summit Bank Limited**

Profit on bank deposits

**Other Related Parties**

**Directors and executives of the Management Company**

Issue of 3,202 units (2012: 36,683 units) and 3,202 units (2012: 3,176 units) for the nine months and quarter ended respectively

Issue of 1,534 bonus units (2012: 10,764 bonus units) and bonus 935 units (2012: 5,393 units) for the nine months and quarter ended respectively

Redemption of 10,650 units (2012: 76,122 units) and 10,650 units (2012: 76,122 units) for the nine months and quarter ended respectively

**Central Depository Company of Pakistan Limited - Trustee**

Remuneration for the period

CDS charges

**American Life Insurance Company (Pakistan) Limited \*\***

Issue of 505,614 units (2012: 454,068 units) and 171,895 units (2012: 149,034 units) for the six months and quarter ended respectively

Issue of 148,125 bonus units (2012: 187,915 bonus units) and 44,8225 units (2012: 111,821 units) for the six months and quarter ended respectively

Nine months ended 31 March		Quarter ended 31 March	
2013	2012	2013	2012
----- (Rupees in '000) -----			
14,477	18,901	4,666	5,869
<u>2,316</u>	<u>3,024</u>	<u>746</u>	<u>939</u>
11	0	5	0
<u>1,147</u>	<u>2,092</u>	<u>317</u>	<u>2,092</u>
43	302	26	111
169	1,939	169	253
80	562	14	283
554	4,024	554	1,000
1,458	1,710	474	544
6	4	3	4
26,827	24,066	7,685	7,986
7,708	9,814	2,338	5,852

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	(Unaudited) 31 March 2013	(Audited) 30 June 2012
	(Rupees in '000)	
<b>12.2 Amounts outstanding as at period / year end:</b>		
<b>Arif Habib Investment Management Limited - Management Company</b>		
Payable to Management Company	<u>1,903</u>	<u>1,868</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	<u>163</u>	<u>160</u>
Security deposit	<u>486</u>	<u>486</u>
<b>Summit Bank Limited</b>		
Bank balance	<u>8</u>	<u>454</u>
Profit receivable on bank accounts	<u>-</u>	<u>2</u>
<b>MCB Bank Limited</b>		
Bank balance	<u>3,530</u>	<u>3,178</u>
Profit receivable on bank accounts	<u>27</u>	<u>172</u>
<b>Directors and executives of the Management Company</b>		
Units held 27,461 (30 June 2012: 34,174)	<u>1,431</u>	<u>1,778</u>
<b>American Life Insurance Company (Pakistan) Limited **</b>		
Units held 3,363,410 (30 June 2012: 2,709,671)	<u>175,280</u>	<u>141,011</u>

\*\* The above party has been identified as related party during the period based on its holding in the Fund.

**13. DATE OF AUTHORISATION**

This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on April 24, 2013.

  
\_\_\_\_\_  
Chief Executive Officer

For Arif Habib Investment Limited  
(Management Company)

  
\_\_\_\_\_  
Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

## **Arif Habib Investments Limited**

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