

Half Year Report
December 31, 2012
(Unaudited)



**PAKISTAN
INCOME ENHANCEMENT FUND**

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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	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jehangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & Chief Operating Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer	Mr. Umair Ahmed	
Trustee	Central Despository 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	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan Income Enhancement Fund's accounts review for the half year ended December 31st 2012.

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, CPI inflation continued to maintain its downward trajectory amid lower food inflation and downward adjustments in gas prices with 1H FY13 CPI inflation averaging at 8.3%. Although current account balance remained comfortable during 1H FY13 with a decent surplus of US\$ 250 million courtesy release of two tranches of Coalition Support Fund proceeds by the US worth around US\$ 1.9 billion, weaker financial account coupled with sizeable repayments (including IMF) continued to put significant pressure on the FX reserves, which eventually came down to a level of around US\$ 13.5 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 644 billion by Dec'28 2012. Despite highlighting 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.

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 continued to inject significant amount of liquidity in the system through OMOs during the period. 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 267 bps to 9.3%, while longer tenure 10 year PKRV adjusted downwards by 180 bps to 11.5% during the period under review.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 4.6% as against its benchmark return of 14.1%. 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.

The fund remained significantly invested in PIBs and longer tenure T-Bills almost throughout the period with a focus on keeping its portfolio duration at a higher level in order to capitalize on the declining interest rates scenario. 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 26.8% invested in Treasury Bills, 35.8% in TFCs, 6.2% in GoP Ijarah Sukuk and 20.1% in cash and bank deposits as they were offering attractive returns near Dec-end.

The Net Asset of the Fund as at December 31, 2012 stood at Rs.614.11 million as compared to Rs 991.31 million as at June 30, 2012 registering a decrease of 38.05%.

The Net Asset Value (NAV) per unit as at December 31, 2012 was Rs. 51.36 as compared to opening NAV of Rs.51.83 per unit as at June 30, 2012 registering a decrease of Rs. 0.47 per unit.

Income Distribution

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

Date of distribution	Per unit distribution
	Rs.
July 25, 2012	0.3000
August 25, 2012	0.2640
September 25, 2012	0.1314
October 25, 2012	0.1314
November 25, 2012	0.4500
December 25, 2012	0.3700

FUTURE OUTLOOK

Despite receiving another tranche of CSF as well as continued lower range of CPI inflation, we believe that further rate cut would be difficult given deteriorating fiscal and external accounts, significant IMF repayments ahead and alarming monetary growth - while the potential return to the IMF would result in a cycle of monetary tightening by 2Q CY13 in our opinion. The 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 inactive or relatively less active with the anticipation of no rate cut and possible rate hikes in the next 4-6 months. In this backdrop, the activities are expected to be concentrated at short-end papers 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
February 04, 2013

TRUSTEE REPORT TO THE UNIT HOLDERS

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



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TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME ENHANCEMENT FUND

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

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Income Enhancement Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2012 in accordance with the provisions of the following:

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

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

Karachi: February 22, 2013



AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Report on review of Condensed Interim Financial Information to the Unit Holders

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Income Enhancement Fund** ("the Fund") as at 31 December 2012 and the related condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, condensed interim cash flow statement and notes to the accounts for the six months period then ended (here-in-after referred to as the "condensed interim financial information"). Management Company is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six months period ended 31 December 2012 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

Emphasis of matter

We draw attention to note 7 to the condensed interim financial information relating to Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 12.825 million in aggregate is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.

AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION



KPMG Taseer Hadi & Co.

Other matters

The figures for the quarter ended 31 December 2012 and 31 December 2011 in the condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and condensed interim cash flow statement have not been reviewed by us and we do not express a conclusion on them.

The financial statements of the Fund for the year ended 30 June 2012 and condensed interim financial information of the Fund for the six months period ended 31 December 2011 were audited and reviewed respectively by another firm of auditors who expressed unmodified opinion with emphasis of matter paragraph on the financial statements of the Fund for the year ended 30 June 2012 and unmodified conclusion with emphasis of matter paragraph on the condensed interim financial information of the Fund for the six months period ended 31 December 2011 vide their audit and review reports dated 17 September 2012 and 27 January 2012 respectively. The emphasis pertains to non provision of Workers' Welfare Fund for reason explained in the emphasis of matter paragraph above.

Date: 04 February 2013

Karachi

KPMG Taseer Hadi & Co.

Chartered Accountants

Moneeza Usman Butt

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

AS AT DECEMBER 31, 2012

	(Unaudited)	(Audited)
Note	31 December	30 June
	2012	2012
	(Rupees in '000)	
Assets		
Balances with bank	130,246	113,366
Receivable against sale of units	-	2,096
Investments	6 475,162	862,538
Dividend and profit receivable	9,448	18,260
Deposits and prepayments	1,727	1,810
Preliminary and floatation cost	131	231
Total assets	616,714	998,301
Liabilities		
Payable against redemption of units	-	3,100
Payable to Arif Habib Investments Limited - Management Company	915	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee	89	141
Accrued expenses and other liabilities	1,304	1,276
Payable to Securities and Exchange Commission of Pakistan - Annual fee	294	993
Total liabilities	2,602	6,994
Contingency	7	
Net assets	614,112	991,307
Unit holders' funds	614,112	991,307
	(Number of units)	
Number of units in issue	11,958,134	19,125,741
	(Rupees)	
Net asset value per unit	51.36	51.83

The annexed notes 1 to 12 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 HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Note	Six months period ended		Quarter ended	
		31 December		31 December	
		2012	2011	2012	2011
		----- (Rupees in '000) -----			
Income					
Capital gain on sale of investments - net		28,370	3,157	10,408	725
Income from term finance and sukuk certificates		24,253	35,397	10,803	16,189
Income from government securities		20,182	52,810	7,918	21,052
Income from term deposit receipts and commercial papers		506	899	-	314
Income from margin trading system		-	35	-	(2)
Profit on bank deposits		2,457	3,755	956	1,977
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'		3,216	(3,719)	(5,354)	4,739
Total income		78,984	92,334	24,731	44,994
Expenses					
Remuneration of Arif Habib Investments Limited - Management Company		5,889	10,846	2,440	5,007
Sindh sales tax on management fee		942	1,735	390	801
Remuneration of Central Depository Company of Pakistan Limited - Trustee		668	1,042	277	491
Annual fee - Securities and Exchange Commission of Pakistan		294	542	121	250
Securities transaction cost		257	276	135	149
Settlement and bank charges		225	467	65	203
Fees and subscriptions		98	74	54	28
Legal and professional charges		35	38	17	20
Auditors' remuneration		243	340	117	245
Amortization of preliminary and floatation costs		101	101	51	51
Printing and related costs		106	184	49	153
Provision against non-performing exposures	6.3	54,582	2,441	13,219	2,441
Total expenses		63,440	18,086	16,935	9,839
		15,544	74,248	7,796	35,155
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		2,410	(2,078)	2,337	(1,897)
Net income for the period before taxation		17,954	72,170	10,133	33,258
Taxation	8	-	-	-	-
Net income for the period after taxation		17,954	72,170	10,133	33,258
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		17,954	72,170	10,133	33,258
Earnings per unit	9				

The annexed notes 1 to 12 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 HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Undistributed income brought forward	34,904	68,060	24,531	56,309
Net income for the period	17,954	72,170	10,133	33,258
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	(13,116)	(10,422)	(7,016)	(4,050)

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 27,591 bonus units

Interim distribution:

- Cash distribution
- Issue of 456,098 (2011: 1,245,793) bonus units and
225,905 (2011: 513,286) bonus units for the six
months and quarter ended respectively

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-	(1,169)	-	-
-	(9,130)	-	-
(242)	(6,437)	(38)	(3,039)
(23,410)	(57,074)	(11,520)	(26,480)
(23,652)	(73,810)	(11,558)	(29,519)
16,090	55,998	16,090	55,998

Undistributed income carried forward

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Net assets at the beginning of the period	991,307	1,624,412	814,267	1,456,492
Issue of 1,995,444 units (2011: 6,617,164 units) and 1,405,987 units (2011: 3,608,179 units) for the six months and quarter ended respectively	102,208	345,334	71,706	188,585
Issue of 456,098 bonus units (2011: 1,245,793 bonus units) and 225,905 bonus units (2011: 513,286 bonus units) for the six months and quarter ended respectively	23,410	57,074	11,520	26,480
Issue of 27,591 bonus units for the year ended 30 June 2011	-	9,130	-	-
Redemption of 9,619,149 units (2011: 13,493,691 units) and 13,772,162 units (2011: 6,604,477 units) for the six months and quarter ended respectively	(494,705)	(704,195)	(279,619)	(344,999)
	(369,087)	(292,657)	(196,393)	(129,934)
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	(2,410)	2,078	(2,337)	1,896
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement	13,116	10,422	7,016	4,050
	10,706	12,500	4,679	5,946
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(13,116)	(10,422)	(7,016)	(4,050)
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)	(13,632)	72,732	5,079	27,794
Capital gain on sale of investments - net	28,370	3,157	10,408	725
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	3,216	(3,719)	(5,354)	4,739
	17,954	72,170	10,133	33,258
Distributions to the unit holders of the Fund:				
<i>Final distribution:</i>				
Final distribution for the year ended 30 June 2011 at the rate of Re. 0.3309 per unit -				
Date of distribution: 4 July 2011				
- Cash distribution	-	(1,169)	-	-
- Issue of 27,591 bonus units	-	(9,130)	-	-
<i>Interim distribution:</i>				
- Cash distribution	(242)	(6,437)	(38)	(3,039)
Issue of 456,098 (2011: 1,245,793) bonus units and 225,905 (2011: 513,286) bonus units for the six months and quarter ended respectively	(23,410)	(57,074)	(11,520)	(26,480)
	(23,652)	(73,810)	(11,558)	(29,519)
Net assets as at the end of the period	614,112	1,332,193	614,112	1,332,193

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

	Six months period ended		Quarter ended	
	31 December		31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	17,954	72,170	10,133	33,258
Adjustments for non cash and other items:				
Net unrealised (appreciation) / diminution in value of investments classified as 'at fair value through profit or loss'	(3,216)	3,719	5,354	(4,739)
Net element of (income) / loss and capital (gains) / losses prices of units issued less those in units redeemed	(2,410)	2,078	(2,337)	1,897
Amortization of preliminary expenses and flotation cost	101	101	51	51
Provision against non performing exposures	54,582	2,441	13,219	2,441
	67,011	80,509	26,420	32,908
Decrease / (increase) in assets				
Investments	336,010	400,972	373,128	332,110
Dividend and profit receivable	8,812	19,356	5,093	32,851
Deposits and prepayments	82	(968)	(1)	(1,066)
	344,904	419,360	378,220	363,895
(Decrease) / increase in liabilities				
Payable against purchase of investments	-	-	(197,535)	(73,342)
Payable to Arif Habib Investments Limited - Management Company	(569)	(745)	(385)	(775)
Payable to Central Depository Company of Pakistan Limited - Trustee	(52)	(17)	(30)	(14)
Accrued expenses and other liabilities	28	1,378	(72)	751
Payable to Securities and Exchange Commission of Pakistan - Annual fee	(699)	(860)	121	250
	(1,292)	(244)	(197,901)	(73,130)
Net cash generated from operating activities	410,623	499,625	206,739	323,673
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	(242)	(7,606)	(38)	(3,039)
Receipts from issuance of units	104,304	344,323	71,706	533,024
Payments on redemption of units	(497,805)	(706,492)	(279,619)	(707,745)
Net cash used in financing activities	(393,743)	(369,775)	(207,951)	(177,760)
Net increase / (decrease) in cash and cash equivalents during the period	16,880	129,850	(1,212)	145,913
Cash and cash equivalents at beginning of the period	113,366	32,062	131,458	15,999
Cash and cash equivalents at end of the period	130,246	161,912	130,246	161,912
The annexed notes 1 to 12 form an integral part of this condensed interim financial information.				

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 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 14 July 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with 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 "Aggressive Fixed Income" category.

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 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). 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 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 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 Net Assets Value (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.

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 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 This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors of the Fund. 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.

2.1.5 The comparatives in the condensed interim statement of assets and liabilities presented in this condensed interim financial information as at 31 December 2012 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 December 2011.

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

Fixed income and other debt securities

'At fair value through profit or loss'

- Government securities

6.1

(Unaudited) 31 December 2012	(Audited) 30 June 2012
(Rupees in '000)	

243,302

218,211

- Term finance and sukuk certificates

6.2

Listed debt securities

103,153

214,924

Unlisted debt securities

128,707

224,403

231,860

439,327

Term deposit receipts

-

205,000

475,162

862,538

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

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

Issue date	Tenor	Face value				Balance as at 31 December 2012			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 December 2012	Carrying value	Market value	Appreciation/ (diminution)		
----- (Rupees in '000) -----										
Pakistan Investment Bond										
30 August 2008	5 years	8,000	-	8,000	-	-	-	-	-	-
22 July 2010	5 years	50,000	-	50,000	-	-	-	-	-	-
22 July 2010	3 years	-	219,000	189,600	29,400	29,720	29,721	1	4.84	6.25
18 August 2011	5 years	-	175,000	175,000	-	-	-	-	-	-
18 August 2011	3 years	-	100,000	100,000	-	-	-	-	-	-
19 July 2012	3 years	-	300,000	300,000	-	-	-	-	-	-
19 July 2012	5 years	-	125,000	125,000	-	-	-	-	-	-
19 July 2012	10 years	-	200,000	200,000	-	-	-	-	-	-
						29,720	29,721	1		
Government of Pakistan Ijara Sukuk										
16 May 2011	3 years	13,200	-	13,200	-	-	-	-	-	-
26 December 2011	3 years	25,000	-	25,000	-	-	-	-	-	-
28 June 2012	3 years	-	200,000	200,000	-	-	-	-	-	-
18 September 2012	3 years	-	225,000	185,000	40,000	40,034	40,232	198	6.55	8.47
						40,034	40,232	198		
Market Treasury Bills										
Treasury bills - 3 months		125,000	1,762,000	1,747,000	140,000	138,223	138,259	36	22.51	29.10
Treasury bills - 6 months		-	1,187,000	1,187,000	-	-	-	-	-	-
Treasury bills - 12 months		-	2,945,400	2,910,000	35,400	35,086	35,090	4	5.71	7.38
						173,309	173,349	40		
Total Investment in Government Securities						243,063	243,302	239		

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			Balance as at 31 December 2012			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	As at 31 December 2012	Carrying cost	Market value / Carrying value				Appreciation/ (diminution)
----- (Rupees in '000) -----											
Listed debt securities											
Bank AL Habib Limited I	13.65%	5,000	-	-	5,000	25,783	25,715	(68)	4.19	5.41	1.67
Askari Bank Limited II		6,000	-	6,000	-	-	-	-	-	-	-
PACE Pakistan Limited (Note 6.3)		15,000	-	-	15,000	41,906	-	(41,906)	-	-	0.00
Askari Bank Limited III	11.99%	1,000	-	-	1,000	5,281	5,516	235	0.90	1.16	0.33
Askari Bank Limited I	13.24%	425	-	-	425	2,118	2,118	-	0.34	0.45	0.00
Escorts Investment Bank Limited	8.00%	6,000	-	-	6,000	3,979	4,390	411	0.71	0.92	0.60
NIB Bank Limited	11.89%	12,399	-	9,000	3,399	16,888	17,007	119	2.77	3.58	0.00
Askari Bank Limited IV											
(Face value of Rs. 1,000,000 each)	11.19%	45	-	-	45	46,421	48,407	1,986	7.88	10.19	0.01
						142,376	103,153	(39,223)			
Unlisted debt securities											
Engro Fertilizer Limited	12.14%	23,100	-	9,200	13,900	66,095	62,318	(3,777)	10.15	13.12	13.90
Bank Alfalah Limited (Floating)	12.04%	9,000	-	-	9,000	47,419	47,043	(376)	7.66	9.90	0.90
Bank Alfalah Limited (Fixed)		470	-	470	-	-	-	-	-	-	-
Jahangir Siddiqui & Company Limited	13.70%	3,250	-	-	3,250	16,151	16,261	110	2.65	3.42	0.20
Bank AL Habib Limited III		4,900	-	4,900	-	-	-	-	-	-	-
						129,665	125,622	(4,043)			
Sukuk Bonds - Unlisted											
Eden Housing Limited - Sukuk (Note 6.3)		10,415	-	-	10,415	13,195	-	(13,195)	-	-	0.65
Pak Elektron Limited - Sukuk (Note 6.3)		8,000	-	-	8,000	15,907	3,085	(12,822)	0.50	0.65	2.67
						29,102	3,085	(26,017)			
						158,767	128,707	(30,060)			

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:

	Outstanding balance	Provision recognised during the period	Provision held upto 31 December 2012	Net carrying value
----- (Rupees in '000) -----				
PACE Pakistan Limited (Note 6.3.1)	44,455	(40,738)	(44,455)	-
Eden Housing Limited (Note 6.3.2)	14,982	(4,442)	(14,982)	-
Pak Elektron Limited (Note 6.3.3)	15,907	(9,402)	(12,822)	3,085
	75,344	(54,582)	(72,259)	3,085

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012

- 6.3.1** Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non performing debt securities. During the period, the Fund has recognised further provision amounting to Rs. 40.738 million (Rs. 44.455 million in aggregate) against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.
- 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 securities. During the period, the Fund has recognised further provision amounting to Rs. 4.442 million (Rs. 14.982 million in aggregate) against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has 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 securities. During the period, the Fund has recognised further provision amounting to Rs. 9.402 million (Rs. 12.822 million in aggregate) against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

7. CONTINGENCY

Provision for Worker's 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 Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an 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 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the High Court of Sindh. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information. The aggregate unrecognised amount of WWF as at 31 December 2012 amounted to Rs. 12.825 million. (NAV per unit: Rs. 1.07)

8. 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 unrealized 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.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

9. 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.

10. INTERIM DISTRIBUTIONS

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

Date	Rate per unit	Bonus *		Cash Distribution**	Total
		Units	Amount		
25 July 2012	Re. 0.3000	103,143	5,346	88	5,434
25 August 2012	Re. 0.2640	87,090	4,488	77	4,565
25 September 2012	Re. 0.1314	39,955	2,056	38	2,094
25 October 2012	Re. 0.1314	31,479	1,604	39	1,643
25 November 2012	Re. 0.4500	108,182	5,517	-	5,517
25 December 2012	Re. 0.3700	86,249	4,399	-	4,399
		456,098	23,410	242	23,652

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

11. 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)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

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

	Six months ended		Quarter ended	
	31 December	31 December	31 December	31 December
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Arif Habib Investment Management Limited - Management Company				
Remuneration for the period	<u>5,889</u>	<u>10,846</u>	<u>2,440</u>	<u>5,007</u>
Sindh sales tax on management fee	<u>942</u>	<u>1,735</u>	<u>390</u>	<u>801</u>
MCB Bank Limited				
Bank charges	<u>5</u>	<u>-</u>	<u>5</u>	<u>-</u>
Profit on bank deposits	<u>803</u>	<u>1,145</u>	<u>163</u>	<u>-</u>
Summit Bank Limited				
Profit on bank deposits	<u>27</u>	<u>193</u>	<u>15</u>	<u>103</u>
Other Related Parties				
Directors and executives of the Management Company				
Issue of NIL units (2011: 102,644 units) and NIL units (2011: 60,254 units) for the six months and quarter ended respectively	<u>-</u>	<u>5,388</u>	<u>-</u>	<u>3,178</u>
Issue of 432 bonus units (2011: 7,964 bonus units) and bonus 26 units (2011: 3,747 units) for the six months and quarter ended respectively	<u>22</u>	<u>414</u>	<u>1</u>	<u>195</u>
Redemption of 37,365 units (2011: 86,313 units) and 667 units (2011: 13,910 units) for the six months and quarter ended respectively	<u>1,927</u>	<u>4,533</u>	<u>34</u>	<u>755</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	<u>668</u>	<u>1,042</u>	<u>277</u>	<u>491</u>
CDS charges	<u>6</u>	<u>13</u>	<u>3</u>	<u>3</u>
Mr. Najeeb Butt (10% or more holding) **				
Issue of 62,754 bonus units (2011: 7,964 bonus units) and 37,106 units (2011: 3,747 units) for the six months and quarter ended respectively	<u>3,217</u>	<u>4,818</u>	<u>1,870</u>	<u>2,151</u>

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2012**

11.2 Amounts outstanding as at period / year end

	(Unaudited) 31 December 2012 (Rupees in '000)	(Audited) 30 June 2012
Arif Habib Investment Management Limited - Management Company		
Payable to Management Company	906	1,469
Front end load payable	9	15
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	89	141
Security deposit	200	200
Summit Bank Limited		
Bank balance	1,045	429
Profit receivable on bank accounts	6	2
MCB Bank Limited		
Bank balance	13,024	775
Profit receivable on bank accounts	81	121
Directors and executives of the Management Company		
Units held 819 units (30 June 2012: 77,106 units)	42	3,996
Mr. Najeeb Butt (10% or more holding) **		
Units held 1,991,365 (30 June 2012: 1,928,611)	102,277	99,960

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

12. 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 February 04, 2013.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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

8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

UAN: (+92-21) 11-11-622-24 (11-11-MCB-AH), 111-468378 (111-INVEST), Peshawar 091-5852961,
Bachat Center: 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908, URL: www.mcbah.com