

Half Year Report
December 31, 2012
(Unaudited)



PAKISTAN INCOME 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	Bank Al Habib Limited Habib Metropolitan Bank Limited Bank Alfalah Limited Faysal Bank Limited NIB Bank Limited Summit Bank Limited Askari Bank Limited Habib Bank Limited Standard Chartered bank (Pakistan) 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 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.

The Net Asset of the Fund as at December 31, 2012 stood at Rs. 1274.73 million as compared to Rs 1300.76 million as at June 30 2012 registering a decrease of 2.00%.

The Net Asset Value (NAV) per unit as at December 31, 2012 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

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 7.2% as against its benchmark return of 11.9%, an under performance of 4.7%. 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 41.3% invested in Treasury Bills, 27.9% in TFCs, 8.3% in GoP Ijarah Sukuk and 13.7% in TDRs as they were offering attractive returns near Dec-end.

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 Shakra-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
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TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME 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 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

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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 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 9 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. 19.223 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



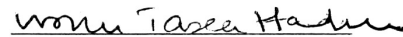
KPMG Taseer Hadi & Co.

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 and we do not express a conclusion on them.

Date: 04 February 2013

Karachi

A handwritten signature in black ink, appearing to read 'Moneeza Usman Butt'.

KPMG Taseer Hadi & Co.

Chartered Accountants

Moneeza Usman Butt

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2012

	Note	(Unaudited) 31 December 2012 (Rupees in '000)	(Audited) 30 June 2012
Assets			
Balances with banks		15,964	18,167
Receivable against sale of units		-	1,945
Investments	6	1,189,920	1,257,991
Advance against subscription of Term Finance Certificates	7	50,000	-
Dividend and profit receivable		15,538	19,956
Advances, deposits and prepayments		7,913	7,974
Total assets		1,279,335	1,306,033
Liabilities			
Payable to Arif Habib Investments Limited - Management Company		1,890	1,868
Payable to Central Depository Company of Pakistan Limited - Trustee		165	160
Accrued expenses and other liabilities		2,063	2,056
Payable to Securities and Exchange Commission of Pakistan - Annual fee		491	1,193
Total liabilities		4,609	5,277
Contingency	9		
Net assets		1,274,726	1,300,756
Unit holders' funds		1,274,726	1,300,756
(Number of units)			
Number of units in issue		24,463,609	24,993,755
(Rupees)			
Net asset value per unit		52.11	52.04

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 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		33,335	2,533	16,735	2,654
Income from term finance and sukuk certificates		27,136	42,055	11,254	26,270
Income from government securities		40,991	66,844	20,046	29,777
Income from term deposit receipts		1,297	-	611	-
Profit on bank deposits		2,165	3,099	940	2,018
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'		(249)	4,857	(5,951)	3,434
Reversal of provision against non-performing investment		208	-	83	-
Total income		104,883	119,388	43,718	64,153
Expenses					
Remuneration of Arif Habib Investments Limited -					
Management Company		9,811	13,032	4,875	6,406
Sindh sales tax on management fee		1,570	2,085	780	1,025
Remuneration of Central Depository Company of Pakistan Limited - Trustee		984	1,166	490	577
Annual fee - Securities and Exchange Commission of Pakistan		491	652	244	321
Securities transaction cost		304	261	154	162
Settlement and bank charges		221	196	100	119
Fees and subscriptions		105	129	36	64
Legal and professional charges		50	54	25	29
Auditors' remuneration		377	277	237	161
Printing and related costs		186	289	87	248
Provision against non-performing exposures	6.3	44,722	22,457	18,663	14,383
Total expenses		58,821	40,598	25,691	23,495
		46,062	78,790	18,027	40,658
Net element of (loss) / income and capital gains / (losses) included in prices of units issued less those in units redeemed		(394)	(1,761)	(253)	(1,219)
Net income for the period before taxation		45,668	77,029	17,774	39,439
Taxation	10	-	-	-	-
Net income for the period after taxation		45,668	77,029	17,774	39,439
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		45,668	77,029	17,774	39,439

Earnings per unit

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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 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	51,172	109,185	53,550	75,091
Net income for the period	45,668	77,029	17,774	39,439
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	(1,081)	(6,078)	(1,560)	(2,460)

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

- Issue of 348,090 bonus units

-	(3,504)	-	-	
-	(38,762)	-	-	
-		-	-	
-	(1,517)	-	-	
(25,995)	(24,283)	-	-	
(18,112)	-	(18,112)	-	
(44,107)	(68,066)	(18,112)	-	
51,652	112,070	51,652	112,070	

Undistributed income carried forward

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 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	1,300,756	1,813,580	1,314,718	1,710,615
Issue of 1,078,754 units (2011: 2,100,855 units) and 581,678 units (2011: 2,406,354 units) for the six months and quarter ended respectively	56,545	111,045	30,443	99,688
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	-	18,112	-
Issue of 745,993 bonus units for the year ended 30 June 2011	-	38,762	-	-
Redemption of 2,456,509 units (2011: 5,944,092 units) and 1,691,000 units (2011: 7,501,314 units) for the six months and quarter ended respectively	(128,637)	(313,533)	(88,462)	(166,100)
	(27,985)	(139,443)	(39,907)	(66,412)
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	394	1,761	253	1,219
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement	1,081	6,078	1,560	2,460
	1,475	7,839	1,813	3,679
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(1,081)	(6,078)	(1,560)	(2,460)
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)	12,582	69,639	6,990	33,351
Capital gain on sale of investments - net	33,335	2,533	16,735	2,654
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	(249)	4,857	(5,951)	3,434
	45,668	77,029	17,774	39,439
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	-	(3,504)	-	-
- Issue of 745,993 bonus units	-	(38,762)	-	-
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	-	(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)	-	(18,112)	-
	(44,107)	(68,066)	(18,112)	-
Net assets as at the end of the period	1,274,726	1,684,861	1,274,726	1,684,861

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 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) -----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	45,668	77,029	17,774	39,439
Adjustments for non cash and other items:				
Net unrealised (appreciation) / diminution in value of investments classified as 'at fair value through profit or loss'	249	(4,857)	5,951	(3,434)
Net element of (income) / loss and capital (gains) / losses prices of units issued less those in units redeemed	394	1,761	253	1,219
Provision against non performing exposures	44,722	22,457	18,663	14,383
	<u>91,033</u>	<u>96,390</u>	<u>42,641</u>	<u>51,607</u>
(Increase) / decrease in assets				
Receivable against sale of investment	-	(103,054)	-	(103,054)
Investments	23,100	201,319	463,830	156,884
Advance against subscription of Term Finance Certificates	(50,000)	-	(50,000)	-
Dividend and profit receivable	4,418	(4,125)	3,860	13,666
Advances, deposits and prepayments	61	34,254	7,569	(980)
	<u>(22,421)</u>	<u>128,394</u>	<u>425,259</u>	<u>66,516</u>
(Decrease) / increase in liabilities				
Payable to Arif Habib Investments Limited - Management Company	22	165	(27)	303
Payable to Central Depository Company of Pakistan Limited - Trustee	5	(2)	5	5
Payable against sale of investments	-	-	(493,839)	-
Accrued expenses and other liabilities	7	293	(571)	(123,888)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	(702)	(831)	244	321
	<u>(668)</u>	<u>(375)</u>	<u>(494,188)</u>	<u>(123,259)</u>
Net cash generated from / (used in) operating activities	<u>67,944</u>	<u>224,409</u>	<u>(26,288)</u>	<u>(5,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	-	(5,021)	-	(1,517)
Receipts from issuance of units	58,490	115,193	30,443	105,790
Payments on redemption of units	(128,637)	(314,922)	(88,462)	(170,932)
Net cash used in financing activities	<u>(70,147)</u>	<u>(204,750)</u>	<u>(58,019)</u>	<u>(66,659)</u>
Net (decrease) / increase in cash and cash equivalents during the period	<u>(2,203)</u>	<u>19,659</u>	<u>(84,307)</u>	<u>(71,795)</u>
Cash and cash equivalents at the beginning of the period	18,167	32,102	100,271	123,556
Cash and cash equivalents at end of the period	<u>15,964</u>	<u>51,761</u>	<u>15,964</u>	<u>51,761</u>

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

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 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 Securities and 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.

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

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.

		(Unaudited) 31 December 2012	(Audited) 30 June 2012
		(Rupees in '000)	
6. INVESTMENTS			
<i>Fixed income and other debt securities</i>			
<i>'At fair value through profit or loss'</i>			
Government securities	6.1	657,468	575,687
Term finance and sukuk certificates	6.2		
- Listed debt securities		216,674	267,446
- Unlisted debt securities		140,778	224,858
		357,452	492,304
Term deposit receipts	6.4	175,000	190,000
		1,189,920	1,257,991

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	15,000	23,000	15,000	23,000	22,916	23,321	405	1.83	1.96
22 July 2010	3 years	-	133,900	133,900	-	-	-	-	-	-
18 August 2011	5 years	-	400,000	400,000	-	-	-	-	-	-
18 August 2011	3 years	-	100,000	100,000	-	-	-	-	-	-
19 July 2012	3 years	-	350,000	350,000	-	-	-	-	-	-
19 July 2012	5 years	-	125,000	125,000	-	-	-	-	-	-
19 July 2012	10 years	-	100,000	100,000	-	-	-	-	-	-
						22,916	23,321	405		
Government of Pakistan Ijara Sukuk										
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	105,609	523	8.28	8.88
						105,086	105,609	523		
Market Treasury Bills										
Treasury bills - 3 months		365,000	3,514,100	3,369,100	510,000	503,444	503,590	146	39.51	42.32
Treasury bills - 6 months		-	1,437,000	1,412,000	25,000	24,947	24,948	1	1.96	2.10
Treasury bills - 12 months		-	4,078,000	4,078,000	-	-	-	-	-	-
						528,391	528,538	147		
						656,393	657,468	1,075		
Total Investment in Government Securities										

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											
Askari Bank Limited - I	13.24%	8,000	-	-	8,000	39,872	39,864	(8)	3.13	3.35	2.67
Askari Bank Limited - III	11.99%	6,000	-	-	6,000	31,687	33,090	1,403	2.60	2.78	1.00
Askari Bank Limited - IV (Face value of Rs. 1,000,000 each)	11.19%	52	-	-	52	53,652	55,937	2,285	4.39	4.70	0.00
Bank AL Habib Limited (7 February 2007)	13.65%	5,520	-	-	5,520	28,462	28,389	(73)	2.23	2.39	1.84
Escorts Investment Bank Limited (Note 6.2.1)	8.00%	3,016	-	-	3,016	2,000	2,207	207	0.17	0.19	3.02
Pace Pakistan Limited (Note 6.3)		10,000	-	-	10,000	27,938	-	(27,938)	-	-	3.33
TeleCard Limited (Note 6.3)		19,975	-	-	19,975	27,416	-	(27,416)	-	-	4.16
Trust Investment Bank Limited - III (Note 6.3)		10,000	-	-	10,000	11,361	4,375	(6,986)	0.34	0.37	8.33
United Bank Limited - III	12.13%	15,612	-	-	15,612	51,489	52,812	1,323	4.14	4.44	3.90
						273,877	216,674	(57,203)			
Unlisted debt securities											
Bank AL Habib Limited (30 June 2011)	15.00%	11,500	-	10,300	1,200	6,384	6,810	426	0.53	0.57	0.00
Bank Alfalah Limited (floating)	12.04%	5,000	500	1,000	4,500	23,700	23,522	(178)	1.85	1.98	0.45
Bank Alfalah Limited (fixed)		3,265	-	3,265	-	-	-	-	-	-	-
Engro Corporation Limited	12.14%	24,300	-	-	24,300	115,547	108,946	(6,601)	8.55	9.16	3.04
						145,631	139,278	(6,353)			
Unlisted Sukuk Bonds											
Maple Leaf Cement Factory Limited Sukuk - I (Note 6.3)		2,000	-	-	2,000	5,607	1,500	(4,107)	0.12	0.13	0.13
Maple Leaf Cement Factory Limited Sukuk - II		75	-	-	75	-	-	-	-	-	0.00
						5,607	1,500	(4,107)			
						425,115	140,778	(10,460)			

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.

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

- 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:

Name of the investee company

	Outstanding balance	Provision recognised during the period	Provision held upto 31 December 2012	Net carrying value
	----- (Rupees in '000) -----			
Maple Leaf Cement Factory Limited Sukuk - I (Note 6.3.1)	5,801	(2,935)	(4,301)	1,500
Pace Pakistan Limited (Note 6.3.2)	29,637	(27,159)	(29,637)	-
TeleCard Limited (Note 6.3.3)	27,436	(3,414)	(27,436)	-
Trust Investment Bank Limited - III (Note 6.3.4)	15,589	(11,214)	(11,214)	4,375
	78,463	(44,722)	(72,588)	5,875

- 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 security. During the period, the Fund has recognised further provision amounting to Rs. 2.935 million (Rs. 4.301 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 security. During the period, the Fund has recognised further provision amounting to Rs. 27.159 million (Rs. 29.637 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 security. During the period, the Fund has recognised further provision amounting to Rs. 3.414 million (Rs. 27.436 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.
- 6.3.4** During the period term finance certificate of Trust Investment Bank Limited has been classified as non performing debt security on default of coupon payment by the issuer due on 4 July 2012. 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 recognised provision amounting to Rs. 11.214 million against principal. The Fund has suspended further accrual of markup there against.

6.4 Term Deposit Receipts

This represent term deposits placed with Habib Metropolitan Bank carrying mark up rate at the rate of 9.80% (30 June 2012: 12.15% to 12.40%). The term deposit will mature on 21 January 2013 (30 June 2012: 6 July 2012 to 18 July 2012)

7. ADVANCE AGAINST SUBSCRIPTION OF TERM FINANCE CERTIFICATE

This represents advance provided against issue of term finance certificates of Bank Al Falah Limited - V in terms of investment agreement dated 24 December 2012. The advance is unsecured and carries mark up at the rate of 10.67% per annum (30 June 2012: Nil).

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

8. 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 December 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	Maple Leaf Cement Factory Limited - Sukuk I	5,801	4,301	1,500	0.12	0.12
Investment in debt securities	Maple Leaf Cement Factory Limited - Sukuk II	375	375	-	0.00	0.00
Investment in debt securities	Escorts Investment Bank Limited	2,207	-	2,207	0.17	0.17
Investment in debt securities	Pace Pakistan Limited	29,637	29,637	-	0.00	0.00
Investment in debt securities	TeleCard Limited	27,436	27,436	-	0.00	0.00
Investment in debt securities	Trust Investment Bank Limited	15,589	11,214	4,375	0.34	0.34

- 8.1** 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.

9. 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

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

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. 19.223 million. (NAV per unit: Re. 0.79).

10. 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.

11. 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.

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

12.1 Details of transactions with connected persons are as follows:

	Six months ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Arif Habib Investment Management Limited - Management Company				
Remuneration for the period	<u>9,811</u>	<u>13,032</u>	<u>4,875</u>	<u>6,406</u>
Sindh sales tax on management fee	<u>1,570</u>	<u>2,085</u>	<u>780</u>	<u>1,025</u>
MCB Bank Limited				
Bank Charges	<u>10</u>	<u>-</u>	<u>4</u>	<u>-</u>
Profit on bank deposits	<u>990</u>	<u>792</u>	<u>160</u>	<u>792</u>
Summit Bank Limited				
Profit on bank deposits	<u>40</u>	<u>250</u>	<u>23</u>	<u>111</u>
Other Related Parties				
Directors and executives of the Management Company				
Issue of NIL units (2011: 33,507 units) and NIL units (2011: 28,187 units) for the six months and quarter ended respectively	<u>-</u>	<u>1,766</u>	<u>-</u>	<u>1,486</u>
Issue of 1,272 bonus units (2011: 5,371 bonus units) and bonus 599 units (2011: NIL units) for the six months and quarter ended respectively	<u>66</u>	<u>280</u>	<u>31</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for the period	<u>984</u>	<u>1,166</u>	<u>490</u>	<u>577</u>
CDS charges	<u>3</u>	<u>-</u>	<u>1</u>	<u>-</u>
American Life Insurance Company (Pakistan) Limited **				
Issue of 360,627 units (2011: 305,035 units) and 171,895 units (2011: 163,185 units) for the six months and quarter ended respectively	<u>19,142</u>	<u>16,080</u>	<u>9,094</u>	<u>8,640</u>
Issue of 103,185 bonus units (2011: 37,902 bonus units) and 44,8225 units (2011: units) for the six months and quarter ended respectively	<u>5,370</u>	<u>3,962</u>	<u>2,333</u>	<u>-</u>

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

12.2 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	<u>1,890</u>	<u>1,868</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	<u>165</u>	<u>160</u>
Security deposit	<u>200</u>	<u>200</u>
Summit Bank Limited		
Bank balance	<u>1,089</u>	<u>454</u>
Profit receivable on bank accounts	<u>6</u>	<u>2</u>
MCB Bank Limited		
Bank balance	<u>3,606</u>	<u>3,178</u>
Profit receivable on bank accounts	<u>69</u>	<u>172</u>
Directors and executives of the Management Company		
Units held 37,741 (30 June 2012: 34,174)	<u>1,967</u>	<u>1,778</u>
American Life Insurance Company (Pakistan) Limited **		
Units held 3,173,483 (30 June 2012: 2,709,671)	<u>165,370</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 February 04, 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 (A subsidiary of MCB Bank Limited)

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