



**Bachat** ka Doosra Naam

## **Half Year Report** **December 31, 2013** **(Unaudited)**



**Funds Under Management**  
**of**  
**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Limited)*

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## **Vision**

To become synonymous with Savings.

## **Mission**

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

## **Core Values**

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

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## FUND'S INFORMATION

<b>Management Company</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman Executive Vice Chairman Chief Executive Officer Director Director Director Director Director
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	Habib Metropolitan Bank Limited MCB Bank Limited Bank Al Falah Limited Faysal Bank Limited Allied Bank Limited Standard Chartered Bank (Pakistan) Limited Deutsche Bank AG	
<b>Auditors</b>	M. Yousuf Adil Saleem & Co. Chartered Accountants Cavish Court, A-35, Block 7 & 8, KCHSU, Sharae Faisal, Karachi-75350	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED DECEMBER 31, 2013**

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**Dear Investor,**

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

### **ECONOMY AND MONEY MARKET OVERVIEW**

Amid implementation of fiscal reforms and volatile food prices, inflation remained volatile with CPI averaging around 8.9% during the 1HFY13. The current account balance remained in pressure posting a deficit of \$1.58 billion during 1HY14 as opposed to deficit of \$0.083 billion reported in corresponding period last year. Last year's saving grace came in the form of proceeds under Coalition Support Funds (CSF) where the country received USD 1.806bn in 1HFY14.

During the period under review, the country successfully managed to enter into a three-year \$6.6 billion loan program with IMF. Out of total financing of around \$2.2 billion scheduled for FY14 under IMF Extended Fund Facility (EFF), the country received two tranches of around \$540 million each in 1HFY14. While out of total \$3 billion repayments to IMF due in FY14, the government repaid around \$1.89 billion to IMF in the 1HFY14.

In the face of inflows from IMF under EFF program and the multilateral agencies, loan repayments and trade deficit have reduced reserve balance to around \$ 8.3 billion as on 10-Jan-13, from \$11 billion at the start of the FY14. The country also received \$322 million under umbrella of CSF during 1HFY14.

Consequently, the local currency remained under pressure and volatile with the currency touching a record low Rs108.6 against dollar in the interbank market during 2QFY14. However, later SBP intervened in the market and as a result local currency recovered by closing at around Rs105.45 as on 31-Dec-13.

Keeping in view higher inflationary and vulnerable foreign reserves position, the government had twice announced 50 bps hike in the discount rate in the monetary policy held in September and November, bringing the discount rate to 10% from 9% at the start of the fiscal year. A combination of higher power tariffs and gas prices will likely keep inflationary pressure on the higher side during the year.

The money market started on a liquid note, with short term rates remaining on the lower side during the first three months of FY14, mainly due to lower participation rate in T-bill auctions. However, later market started experiencing liquidity crunch, causing market to witness significant number of ceilings in the month of December.

Given an upward trajectory in YOY CPI inflation coupled with SBP tightening stance, the yield curve has adjusted significantly upwards during the period. 1 year PKRV adjusted upwards by 128 bps to 10.22%.

M2 has expanded by 5.47% during the 1HFY14 (till 27th December) as opposed to expansion of 7.01% during the same period last year. While borrowing from SBP increased by Rs 590.9 billion as opposed to net retirement of around Rs 134.4 billion during the same period last year.

### **FUND PERFORMANCE**

During the period under review, the fund generated an annualized return of 6.7% as against its benchmark return of 8.35%, an under performance of 1.6%. Despite keeping funds in well accumulated securities the fund unperformed its benchmark due to hefty provisions been made in this quarter against workers welfare fund liability.

The fund remained invested in TFCs and T-Bills almost throughout the period with a focus on keeping its portfolio duration at a not so higher level, in order to safeguard its investors from inclining interest rate scenario. At period-end, the fund was 26.7% invested in Treasury Bills, 36.9% in TFCs and 14.9% in PIBs.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED DECEMBER 31, 2013

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The Net Asset of the Fund as at December 31, 2013 stood at Rs.992 million as compared to Rs.1,092 million as at June 30 2013 registering a decrease of 9.16%.

The Net Asset Value (NAV) per unit as at December 31, 2013 was Rs.51.90 as compared to opening NAV of Rs.53.16 per unit as at June 30, 2013 registering a decrease of Rs.1.26 per unit.

### **Income Distribution**

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

<b>Date of distribution</b>	<b>Rs. Per unit distribution</b>
September 27, 2013	0.86
December 27, 2013	1.00

### **FUTURE OUTLOOK**

Foreign reserves are expected to remain under pressure as Pakistan is scheduled to pay more than \$2.1 billion to external official creditors during the next two quarters. However, the government expects reserve position to improve towards the end of the ongoing fiscal year on the back of significant improvement in foreign direct investments and pledges made by multilateral agencies.

### **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.

For and on behalf of the board



**Yasir Qadri**

Chief Executive Officer

Karachi: February 06, 2014

# 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  
URL: www.cdcpakistan.com  
Email: info@cdcpak.com



## 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 MCB-Arif Habib Savings and Investments Limited (formerly 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, 2013 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 13, 2014



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

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**M. Yousuf Adil Saleem & Co**  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

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Web: [www.deloitte.com](http://www.deloitte.com)

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

### Introduction

We have reviewed the accompanying condensed interim balance sheet of Pakistan Income Fund (the Fund) as at December 31, 2013, and the related condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holder's fund together with the notes forming part thereof (here-in-after referred to as the 'interim financial information'), for the six month period ended December 31, 2013. The Management Company (MCB Arif Habib Savings and Investments Limited) is responsible for the preparation and presentation of this 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. The figures of the condensed interim income statement, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund for the quarters ended December 31, 2013 and 2012 have not been reviewed, as we are required to review only the cumulative figures for the six month period ended December 31, 2013.

### 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 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 interim financial information as of and for the six month period ended December 31, 2013 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



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

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**Deloitte**

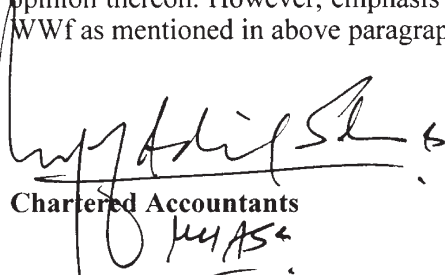
**M. Yousuf Adil Saleem & Co**  
Chartered Accountants

**Emphasis of matter**

We draw attention to note 9 to the accompanying condensed interim financial information which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honourable Sindh High Court. Our opinion is not qualified in respect of this matter.

**Other matter**

The financial statements of the Fund for the year ended June 30, 2013 were audited by another firm of Chartered Accountants who vide their report dated August 05, 2013 issued an unqualified opinion thereon. However, emphasis of matter paragraph has been given on the matter relating to WWf as mentioned in above paragraph.



Chartered Accountants

**Engagement Partner**  
Mushtaq Ali Hirani

**Dated: 06 FEB 2014**  
**Karachi**

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

	(Unaudited) December 31, 2013	(Audited) June 30, 2013
<i>Note</i>	----- (Rupees in '000) -----	
<b>Assets</b>		
Balances with banks	192,138	504,706
Investments	5      768,490	571,077
Advance against subscription of term finance certificates	6      27,083	-
Receivable against sale of investments	-	5,039
Profit receivable	16,690	17,057
Advances, deposits and prepayments	8,365	8,448
<b>Total assets</b>	<b>1,012,766</b>	<b>1,106,327</b>
<b>Liabilities</b>		
Payable to Management Company	1,547	1,810
Payable to Central Depository Company of Pakistan Limited - Trustee	144	155
Payable to Securities and Exchange Commission of Pakistan - annual fee	388	956
Payable on redemption of units	47	47
Accrued expenses and other liabilities	7      18,645	11,462
<b>Total liabilities</b>	<b>20,771</b>	<b>14,430</b>
<b>Net assets</b>	<b>991,995</b>	<b>1,091,897</b>
<b>Unit holders' funds (as per statement attached)</b>	<b>991,995</b>	<b>1,091,897</b>
<b>Contingencies and commitments</b>	8	
	(Number of units)	
<b>Number of units in issue</b>	<b>19,115,252</b>	<b>20,541,603</b>
	----- (Rupees) -----	
<b>Net asset value per unit</b>	<b>51.90</b>	<b>53.16</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

	Note	Half year ended December 31,		Quarter ended December 31,	
		2013	2012	2013	2012
----- (Rupees in '000) -----					
<b>Income</b>					
Capital (loss) / gain on sale of investments - net		(1,224)	33,335	227	16,735
Income from term finance and sukuk certificates		23,681	27,136	12,173	11,254
Income from government securities		27,024	40,991	13,877	20,046
Profit on bank deposits		3,606	3,462	1,440	1,551
		<b>53,087</b>	104,924	<b>27,717</b>	49,586
Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	5.5	(428)	(249)	(560)	(5,951)
Reversal / (charge) of provision against non-performing debt securities		41	(44,514)	41	(18,580)
<b>Total income</b>		<b>52,700</b>	60,161	<b>27,198</b>	25,055
<b>Expenses</b>					
Remuneration of Management Company		7,759	9,811	3,797	4,875
Sales tax and Federal Excise Duty on management fee	7.1	2,681	1,570	1,311	780
Remuneration of Central Depository Company of Pakistan Limited - Trustee		869	984	430	490
Annual fee - Securities and Exchange Commission of Pakistan		388	491	190	244
Securities transaction cost		69	304	20	154
Settlement and bank charges		165	221	53	100
Fees and subscription		111	105	55	36
Legal and professional		20	50	10	25
Auditors' remuneration		287	377	161	237
Printing and related costs		144	186	72	87
<b>Total expenses</b>		<b>12,493</b>	14,099	<b>6,099</b>	7,028
		<b>40,207</b>	46,062	<b>21,099</b>	18,027
Net element of loss and capital losses included in prices of units issued less those in units redeemed		(801)	(394)	(330)	(253)
Provision for Workers' Welfare Fund	9	(5,847)	-	(4,409)	-
<b>Net income for the period before taxation</b>		<b>33,559</b>	45,668	<b>16,360</b>	17,774
Taxation	10	-	-	-	-
<b>Net income for the period after taxation</b>		<b>33,559</b>	45,668	<b>16,360</b>	17,774
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>33,559</b>	45,668	<b>16,360</b>	17,774
<b>Earnings per unit</b>	11				

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
Undistributed income brought forward	64,923	51,172	39,894	53,550

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

Final bonus distribution for the year ended June 30, 2013 at Rs. 1.16 per unit (Date of distribution July 4, 2013)	(23,828)	-	-	-
Interim distribution of bonus units for the quarter ended September 30, 2013 at Rs 0.86 per unit (Date of distribution September 27, 2013)	(16,635)	-	-	-
Interim distribution of bonus units for the half year ended December 31, 2013 at Rs 1.9286 per unit (Date of distribution December 26, 2013)	(18,827)	-	(18,827)	-
Interim distribution of bonus units for the quarter ended September 30, 2012 at Rs 1.05 per unit (Date of distribution September 28, 2012)	-	(25,995)	-	-
Interim distribution of bonus units for the half year ended December 31, 2012 at Rs 0.75 per unit (Date of distribution December 27, 2012)	-	(18,112)	-	(18,112)
	<b>(59,290)</b>	<b>(44,107)</b>	<b>(18,827)</b>	<b>(18,112)</b>
Net element of loss and capital losses included in the prices of units issued less those in units redeemed	(2,853)	(1,081)	(1,088)	(1,560)
Net income for the period	33,559	45,668	16,360	17,774
Undistributed income carried forward	<b>36,339</b>	<b>51,652</b>	<b>36,339</b>	<b>51,652</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
	------(Rupees in '000)-----			
<b>Net assets at beginning of the period</b>	<b>1,091,897</b>	1,300,756	<b>1,022,738</b>	1,314,718
Issue of 1,729,648 units (2012: 1,078,754 units) and 833,810 units (2012: 581,678 units) for the half year and quarter ended respectively	<b>90,758</b>	56,545	<b>43,708</b>	30,443
Redemption of 4,297,229 units (2012: 2,456,509 units) and 1,745,273 units (2012: 1,691,000 units) for the half year and quarter ended respectively	<b>(225,020)</b>	(128,637)	<b>(91,141)</b>	(88,462)
Issue of 1,141,230 (2012: 847,609) bonus units and 363,104 (2012: 348,090 units) during the half year and quarter respectively	<b>59,290</b>	(44,107)	<b>(18,827)</b>	(18,112)
	<b>(74,972)</b>	(116,199)	<b>(66,260)</b>	(76,131)
Element of loss and capital losses included in prices of units issued less those in units redeemed				
- amount representing loss transferred to - income statement	<b>801</b>	394	<b>330</b>	253
- amount representing loss that forms part of unit holders'- fund transferred to distribution statement	<b>2,853</b>	1,081	<b>1,088</b>	1,560
	<b>3,654</b>	1,475	<b>1,418</b>	1,813
Element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing unrealised income	<b>(2,853)</b>	(1,081)	<b>(1,088)</b>	(1,560)
Net income for the period transferred from the distribution statement				
Capital (loss) / gain on sale of investments - net	<b>(1,224)</b>	33,335	<b>227</b>	16,735
Net unrealised diminution in fair value of investments classified investments classified as 'at fair value through profit or loss'	<b>(428)</b>	(249)	<b>(560)</b>	(5,951)
Other net income for the period	<b>35,211</b>	12,582	<b>16,693</b>	6,990
Distributions made during the period (Refer distribution statement)	<b>(59,290)</b>	<b>44,107</b>	<b>18,827</b>	<b>18,112</b>
	<b>(25,731)</b>	89,775	<b>35,187</b>	35,886
<b>Net assets as at end of the period</b>	<b>991,995</b>	<b>1,274,726</b>	<b>991,995</b>	<b>1,274,726</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
----- (Rupees in '000) -----				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	33,559	45,668	16,360	17,774
<i>Adjustments</i>				
Net unrealised diminution in value of investments classified as 'at fair value through profit or loss'	428	249	560	5,951
Net element of loss and capital losses prices of units issued less those in units redeemed	801	394	330	253
(Reversal) / charge of provision against non-performing debt securities	(41)	44,514	(41)	18,580
	<b>34,747</b>	<b>90,825</b>	<b>17,209</b>	<b>42,558</b>
<b>Working capital changes</b>				
<i>(Increase) / decrease in assets</i>				
Investments	(197,797)	25,253	(101,707)	463,913
Advance against subscription of term finance certificates	(27,083)	(50,000)	-	(50,000)
Receivable against sale of investments	5,038	-	(1)	-
Profit receivable	367	4,418	(6,950)	3,860
Advances, deposits and prepayments	82	61	56	7,569
	<b>(219,393)</b>	<b>(20,268)</b>	<b>(108,602)</b>	<b>425,342</b>
<i>Increase / (decrease) in liabilities</i>				
Payable to Management Company	1,178	22	1,683	(27)
Payable to Central Depository Company of Pakistan Limited - Trustee	(11)	5	2	5
Payable against sale of investments	-	-	(1,410)	(493,839)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	(568)	(702)	190	244
Accrued expenses and other liabilities	5,741	7	3,129	(571)
	<b>6,340</b>	<b>(668)</b>	<b>3,594</b>	<b>(494,188)</b>
<b>Net cash (used in) / generated from operating activities</b>	<b>(178,306)</b>	<b>69,889</b>	<b>(87,799)</b>	<b>(26,288)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts from issuance of units	90,758	56,545	43,708	30,443
Payments on redemption of units	(225,020)	(128,637)	(91,141)	(88,462)
<b>Net cash used in financing activities</b>	<b>(134,262)</b>	<b>(72,092)</b>	<b>(47,433)</b>	<b>(58,019)</b>
Net decrease in cash and cash equivalents during the period	<b>(312,568)</b>	<b>(2,203)</b>	<b>(135,232)</b>	<b>(84,307)</b>
Cash and cash equivalents at beginning of the period	<b>504,706</b>	<b>18,167</b>	<b>327,370</b>	<b>100,271</b>
<b>Cash and cash equivalents at end of the period</b>	<b>192,138</b>	<b>15,964</b>	<b>192,138</b>	<b>15,964</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

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

MCB-Arif Habib Savings and Investments Limited  
(formerly: Arif Habib Investments Limited)  
(Management Company)

  
\_\_\_\_\_  
Director

## **NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

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### **1. LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1** 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 Security 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).
- 1.2** Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited effective from 27 June 2011.
- 1.3** 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.
- 1.4** The Fund is an open-ended mutual fund and is listed on the Karachi 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. The Fund has been categorized as a "Income Scheme" by the Board of Directors of Asset Management Company in pursuant to Circular 7 of 2009 dated March 6, 2009 issued by the SECP.
- 1.5** The Fund primarily invests in money market and other short-term instruments which includes short-term corporate debt and government securities, repurchase agreements and spread transactions. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.
- 1.6** The Pakistan Credit Rating Agency (PACRA) Limited has assigned Management quality rating of AM2 dated March 21, 2013 to the Management Company and "A+(f)" as stability rating dated January 08, 2013 to the Fund.
- 1.7** 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. STATEMENT OF COMPLIANCE**

- 2.1** This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard 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 NBC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). In case where requirements differ, the provisions of or 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) shall prevail.
- 2.2** This condensed interim financial information comprise of condensed interim statement of assets and liabilities, condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement together with the notes forming part thereof. The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of the International Accounting Standard 34, 'Interim Financial Reporting'. It does not include all the information and disclosures made in the annual published financial statement and should be read in conjunction with the financial statements of the Fund for the year ended June 30, 2013. Comparative information of the condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' fund for the quarters ended December 31, 2013 and December 31, 2012 are un-audited and have been included to facilitate comparison.
- 2.3** This condensed interim financial information is Un-audited. However, limited scope review has been performed by the statutory auditors in accordance with the requirements of clause (xxi) of the Code of Corporate Governance and this condensed interim financial information are being circulated to the unit holders as required under the NBFC Regulations.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

2.4 This condensed interim financial information 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, unless otherwise specified.

2.5 The directors of the asset management company declare that this condensed interim financial information give a true and fair view of the Fund.

### 3. SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 The accounting policies and methods of computation adopted in preparation of this condensed interim financial information are same as those applied in preparation of financial statements of the Fund for the year ended June 30, 2013.

3.2 The preparation of condensed interim financial information requires management to make judgments, 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. In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2013.

3.3 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 and therefore not stated in this condensed interim financial information.

### 4. FINANCIAL RISK MANAGEMENT

The Fund's risk management policies are consistent with that disclosed in the financial statements of the Fund as at and for the year ended June 30, 2013.

### 5. INVESTMENTS

		(Unaudited) December 31, 2013	(Audited) June 30, 2013
		---- (Rupees in '000) ----	
<b>'At fair value through profit or loss'</b>			
Government securities	5.1	421,506	153,998
Investment in debt securities			
- Listed	5.2	221,167	279,243
- Unlisted	5.2	125,817	137,836
		346,984	417,079
		768,490	571,077



**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

5.1 *Government securities - 'at fair value through profit or loss'*

Issue date	Face value			Balance at December 31, 2013			Market value as a percentage of net assets	Market value as a percentage of total investments	
	Balance at July 1, 2013	Purchases during the period	Disposed off during the period	Matured during the period	Balance at December 31, 2013	Carrying value			Market value
Pakistan Investment Bond - 5 years	23,000	-	23,000	-	-	-	-	-	
Pakistan Investment Bond - 3 years	25,000	250,000	125,000	-	150,000	153,151	150,932	(2,219)	
Government of Pakistan Jara Sukuk (Sep 18, 2012)	105,000	-	105,000	-	-	-	-	-	
Treasury bills - 12 months	-	1,103,000	830,000	273,000	-	-	-	-	
Treasury bills - 6 months	-	164,500	164,500	-	-	-	-	-	
Treasury bills - 3 months	-	1,300,000	775,000	250,000	275,000	270,706	270,574	(132)	
<b>Total as at December 31, 2013</b>						<b>423,857</b>	<b>421,506</b>	<b>(2,351)</b>	<b>42</b>
Total as at June 30, 2013						153,578	153,998	420	14,10

5.2 *Investment in debt securities - (Term Finance Certificates of Rs. 5000 each, unless otherwise specified)*

Name of investee company	Number of Certificates				Balance as at December 31, 2013			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2013	Purchased during the year	Matured during the year	Disposed during the year	As at December 31, 2013	Carrying value	Market value		
<b>Listed</b>									
<b>Commercial banks</b>									
Askari Bank Limited (18-11-09)	11,000	-	-	-	11,000	55,423	55,731	308	5.62
Askari Bank Limited (23-12-11)*	52	-	10	10	42	44,723	44,005	(718)	4.44
Bank Al Falah Limited (20-02-13)	20,131	-	6,750	6,750	13,381	67,940	68,347	407	6.89
Bank Al-Habib Limited (07-02-07)	5,520	-	-	-	5,520	27,837	27,672	(165)	2.79
United Bank Limited (08-09-06)	14,612	-	-	-	14,612	24,546	24,306	(240)	2.45
						<b>220,469</b>	<b>220,061</b>	<b>(408)</b>	<b>22.19</b>
<b>Financial services</b>									
Escorts Investment Bank Limited (15-03-07)	3,016	-	-	-	3,016	901	1,106	205	0.11
Trust Investment Bank (04-07-08)	10,000	-	-	-	10,000	-	-	-	-
						<b>901</b>	<b>1,106</b>	<b>205</b>	<b>0.11</b>
<b>Real state investment and services</b>									
Pace (Pakistan) Limited (15-02-08)	10,000	-	-	-	10,000	-	-	-	-
<b>Fixed line telecommunication</b>									
Telecard Limited (27-05-05)	19,975	-	-	-	19,975	-	-	-	-
Total listed securities						<b>221,370</b>	<b>221,167</b>	<b>(203)</b>	<b>22.30</b>
									<b>28.77</b>

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

5.2 Investment in debt securities - (Term Finance Certificates of Rs. 5000 each, unless otherwise specified)

Name of investee company	Number of Certificates					Balance as at December 31, 2013			Market value as a percentage of total investment	
	As at July 1, 2013	Purchased during the year	Matured during the year	Disposed during the year	As at December 31, 2013	Carrying value	Market value	Appreciation / (diminution)		Market value as a percentage of net assets
<b>Listed</b>									%	
<b>Unlisted</b>									%	
<b>Commercial banks</b>										
Bank Al-Habib Limited (30-06-11) Fixed	1,000	-	-	-	1,000	5,637	5,379	(258)	0.54	0.70
Bank Alfalah Limited (02-12-09) Floating	4,500	-	-	-	4,500	23,613	23,736	123	2.39	3.09
						29,250	29,115	(135)	2.93	3.79
<b>Chemicals and fertilizers</b>										
Engro Fertilizer Limited - private placement (18-03-08)	23,100	-	3,000	-	20,100	94,219	96,480	2,261	9.73	12.55
<b>Construction and materials</b>										
Maple Leaf Cement Factory Limited - Sukuk (03-12-07)	500	-	-	-	500	222	222	-	0.02	0.03
Total unlisted securities						123,691	125,817	2,126	12.68	16.37
<b>Total as at December 31, 2013</b>						345,061	346,984	1,923	34.98	45.14
Total as at June 30, 2013						411,554	415,502	3,948	41.89	54.07

\*Nominal value of these Term Finance Certificates is Rs. 100,000 per unit

5.3 Movement in provision against debt securities

	Rupees in '000
<b>Listed TFCs</b>	
Pace (Pakistan) Limited (15-02-08)	36,348
Telecard Limited (27-05-05)	28,589
Trust Investment Bank (04-07-08)	18,743
<b>UnListed</b>	
Maple Leaf Cement Factory Limited - Sukuk (03-12-07)	1,075
<b>Total</b>	84,755
	41
	84,714

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

### 5.4 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 2013, the Fund is non-compliant with the above mentioned requirement in respect of the following investments. The securities were in compliance of the circular (i.e. investment grade) at the time of purchase and were subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupon due on respective dates.

Name of non-compliant investment	Type of investment	Value of investment before provision (Rupees in '000)	Provision held, if any	Value of investment after provision	Percentage of net assets %	Percentage of gross assets %
Maple Leaf Cement Factory Limited -	Sukuk	1,297	(1,075)	222	0.02	0.02
Escorts Investment Bank Limited	Term Finance certificates	1,106	-	1,106	0.11	0.11
Pace Pakistan Limited	Term Finance Certificates	36,348	(36,348)	-	0.00	0.00
TeleCard Limited	Term Finance Certificates	28,548	(28,548)	-	0.00	0.00
Trust Investment Bank Limited	Term Finance certificates	18,743	(18,743)	-	0.00	0.00
				Note	(Un-Audited) December 31 2013	(Audited) June 30 2013
<b>5.5</b>	<b>Net unrealised appreciation in value of investments at fair value through profit or loss</b>					
	Market value of investments			5.1 & 5.2	768,490	569,500
	Less: Cost of investments			5.1 & 5.2	768,918	565,132
					<u>(428)</u>	<u>4,368</u>

### 6. ADVANCE AGAINST SUBSCRIPTION OF TERM FINANCE CERTIFICATES

This represents advance paid against term finance certificates of Pakistan Mobile Communications Limited. It carries markup at the rate of 6-monthly KIBOR plus 2% per annum.

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

7. ACCRUED EXPENSES AND OTHER LIABILITIES		(Unaudited) December 31, 2013	(Audited) June 30, 2013
	Note	---- (Rupees in '000) ----	
Provision for Workers' Welfare Fund		15,713	9,866
FED payable on Management Company	7.1	1,602	162
Auditors' remuneration		252	370
Legal and professional charges		170	150
Brokerage payable		2	30
Zakat payable		155	147
Capital gain tax payable		5	1
Other payables		746	736
		<b>18,645</b>	<b>11,462</b>

**7.1 FEDERAL EXCISE DUTY ON REMUNERATION OF MANAGEMENT COMPANY**

The Finance Act 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies .In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the eighteenth amendment . The SHC in its short order dated 4 September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in this condensed interim financial information aggregating to Rs. 1.602 million as at 31 December 2013. In case, the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED and related taxes were not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.08 per unit as at 31 December 2013.

**8. CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments as at December 31, 2013 and June 30, 2013.

**9. PROVISION FOR WORKERS' WELFARE FUND**

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance), whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, all Collective Investment Schemes (CISs) / mutual funds 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 Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

In 2011, a single judge of the Lahore High Court (LHC) issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down.

However in 2013, the Larger Bench of the SHC issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any constitutional or legal infirmity.

However, as per advice of legal council the stay granted to CIS remains intact and constitution petitions filed by CIS to challenge the WWF contribution have not been effected by the SHC judgement. In view of the aforementioned developments and uncertainties created by recent decision of SHC, out of total provision of Rs. 20.97 million, the management company as a matter of abundant caution has charged provision for WWF amounting to Rs. 15.71 million till December 31, 2013. The unrecognised liability as at December 31, 2013 amounted to Rs. 5.26 million. (NAV per unit Rs. 0.275).

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

### 10. TAXATION

The Fund's income is exempt from Income Tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance) 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. 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 Ordinance. As the management intends to distribute at least 90% of income earned during current year to the unit holders, therefore, no provision for taxation has been recorded 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, the 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 undertakings.

Remuneration to the Management Company and the Trustee are determined in accordance with the provisions of the Non-Banking Finance Companies & Notified Entities Regulations, 2008 and the Trust Deed of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

#### 12.1 Details of transactions with connected persons are as follows:

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
----- (Rupees in '000) -----				
<b>MCB-Arif Habib Savings and Investment Limited (formerly: Arif Habib Investments Limited)</b>				
Remuneration for the period including indirect taxes	10,440	11,381	5,108	5,655
<b>MCB Bank Limited</b>				
Bank Charges	3	10	2	4
Profit on bank deposits	415	990	280	160
<b>Summit Bank Limited</b>				
Profit on bank deposits	-	40	-	23
<b>Other related parties</b>				
<b>Directors and executives of the Management Company</b>				
Issue of 195 units (2012: Nil units) and NIL units (2012: Nil units) for the six months and quarter ended respectively	10	-	-	-
Issue of 1041 bonus units (2012: 1272 bonus units) and bonus 16 units (2012: 599 units) for the six months and quarter ended respectively	54	66	1	31
Redemption of 27,877 units (2012: NIL units) and 24,559 units (2012: NIL units) for the six months and quarter ended respectively	1,461	-	1,288	-

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

	Half year ended December 31,		Quarter ended December 31,	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration for the period	869	984	430	490
CDS charges	6	3	4	1
 <b>American Life Insurance Company (Pakistan) Limited</b>				
Issue of NIL units (2012: 360,627 units) and NIL units (2012: 171,895 units) for the six months and quarter ended respectively	-	19,142	-	9,094
Issue of NIL units (2012: 103,185 bonus units) and NIL units (2012: 448,225 units) for the six months and quarter ended respectively	-	5,370	-	2,333
			(Unaudited) December 31 2013	(Audited) June 30 2013
			----- (Rupees in '000) -----	
<b>12.2 Amounts outstanding as at period / year end:</b>				
<b>MCB-Arif Habib Savings and Investment Limited (formerly: Arif Habib Investments Limited)</b>				
Management fee payable			1,275	1,497
Sindh sales tax payable on management fee			204	240
Front-end load payable			68	74
 <b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration payable			144	155
Security deposit			200	200
 <b>Summit Bank Limited</b>				
Bank balance			8	8
 <b>MCB Bank Limited</b>				
Bank balance			5,211	5,072
Profit receivable on bank accounts			57	47
 <b>Directors and executives of the Management Company</b>				
Units held 819 (30 June 2013: 27,461)			43	1,460

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by typing: **Bachat Ka Doosra Naam**

**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Limited)*

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**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013**

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**13. RECLASSIFICATION**

Following reclassification have been made in this condensed interim financial information in order to give better and more appropriate presentation:

	<b>From</b>	<b>To</b>	<b>June 30, 2013 (Rupees in '000)</b>
Federal Excise Duty payable on management fee	Payable to Management Company	Accrued expenses and other liabilities	162

**14. DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorised for issue on 06 February, 2014 by the Board of Directors of the Management Company.

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

**MCB-Arif Habib Savings and Investments Limited**  
 (formerly: Arif Habib Investments Limited)  
 (Management Company)

  
 \_\_\_\_\_  
 Director