



Bachat ka Doosra Naam

Annual Report 2013



Aik Dar Band Hazar Khulay

MCB ISLAMIC INCOME FUND

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

TABLE OF CONTENTS

1	Vision Mission & Core Values	02
2	Fund's Information	03
3	Report of the Director of the Management Company	04
4	Report of the Fund Manager	09
5	Trustee Report to the Unit Holders	10
6	Statement of Compliance with the Code of Corporate Governance	11
7	Review Report to the Unit Holders on the Statement of Compliance with the best Practices of the Code of Corporate Governance	13
8	Independent Auditors Report to the Unit Holders	14
9	Statement of Assets and Liabilities	17
10	Income Statement	18
11	Distribution Statement	19
12	Statement of Movement in Unit Holders' Fund	20
13	Cash Flow Statement	21
14	Notes to and Forming part of the Financial Statements	22
15	Pattern of holding as per Requirement of Code of Corporate Governance	40
16	Pattern of Units Holding by Size	41
17	Performance Table	42

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.

FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings and Investments Limited (Formerly: 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	Chairman Member Member
Human Resource Committee	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir 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 Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Bank Al Falah Limited Standard Chartered Bank Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited (Formerly: 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 YEAR ENDED JUNE 30, 2013

The Board of Directors of MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited), the Management Company of MCB Islamic Income Fund (MCB IIF), is pleased to present the Annual Report on the affairs of MCB IIF for the year ended June 30, 2013.

Economy and Money Market Overview

Though economic optimism generally prevailed throughout the year, the actual economic news released remained a mixed bag. Despite pressure on fiscal side and reserve position, some of the key macroeconomic indicators have depicted positive trend during the period.

In essence, easing inflation, along with smooth political transition in the later part of the year, managed to dilute the impact of higher fiscal deficit, reserve depletion and rupee depreciation on the economy. Hammered by poor law and order situation and energy crisis, the real GDP growth clocked in around 3.6 % in FY13, less than the targeted 4.3 % and far below the growth recorded by other developing countries in the region.

Thanks to the lower global commodity prices and the base effect by virtue of which inflation eased down to around 7.4 percent in FY13, nearly 3.6 percentage points lower than the previous fiscal year. With economy in the throes of weak GDP growth, lower inflationary pressures and excessive liquidity created to do unwarranted government borrowing from Central Bank developed a case for monetary easing. Consequently, policy makers reduced discount rate by a total of 3 percentage points during the year to 9 % at the end of the fiscal year.

The external account remained manageable, aided by a narrower trade and services gap. The current account deficit amounted to \$2.29 billion in FY13 compared to \$4.7 billion in the last year.

Against the backdrop of lower import bill, trade deficit narrowed down to around \$15 billion in FY13 from \$15.7 billion in the last year. The country's import bill nudged down by 1.6% to \$39.8 billion while exports stayed constant at the last year's level of around \$24.7 billion. At the same time, inflows of around \$1.8 billion under Coalition Support Fund helped reduce services deficit to \$1.13 billion from \$3.2 billion. At the same time, remittances totaled to \$13.9 billion from \$ 13.2 billion reported in FY12.

Juxtaposed the country's financial account registered a deficit of \$80 million, as opposed to surplus of \$1.28 billion in the previous year. In the face of higher FDIs, the financial account swung into the negative territory. FDI proceeds amounted to \$ 1.4 billion in FY13, nearly \$626 million higher than the previous year.

The lower current account deficit along with meager deficit in financial account and surplus of \$238 million in capital account summed to overall deficit of \$2.4 billion in FY13 as opposed to \$3.3 billion.

Although, the overall balance of payment deficit improved, foreign reserves depleted by around \$4.2 billion during the year to around \$11 billion at the end of the year largely on the account of timely loan repayments to IMF. Consequently, rupee depleted by 5 % to 98.4 against dollar towards the end of the year.

In the absence of structural reforms, the country's performance on fiscal side remained abysmal. Fiscal indiscipline continued to remain a cause of concern leading to the gaping 8.8% budgetary deficit as percentage of GDP. During the first three quarters the country's fiscal deficit stood at 4.4 % of GDP. Part of the deficit can also be attributed to the current governments first move to settle circular debt largely through borrowing from Central Bank.

The previous government's attempts at reform were a day late and a dollar short. The tax revenue collection target of Rs 2.5 trillion remained elusive as the government is expected to collect at total of Rs1.9 trillion in FY13. The collection through non-tax sources was also off the mark as the government failed to roll out 3G licenses in FY13.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

With the country nursing with wider revenue expenditure shortfall, thin external flows tilted the borrowing pressure towards domestic sources. The net financing to the government increased by Rs 460 billion during FY13 to Rs 1.6 trillion at the year end. The scheduled banks continued to bear a large part of the burden since the borrowing from the banking sector alone increased by Rs 389 billion to Rs 1.025 trillion at the year end.

Banking on Net domestic assets (NDA), money supply (M2) posted a double digit growth of 17.08% during the year. This can be gauged from the fact that NDA increased by Rs 1.5 trillion (data as of 28th June, 2013) during FY13 as opposed to Rs 1.2 trillion in FY12. While, Net foreign assets(NFA) fell by Rs 184 billion as opposed to decline of Rs 248 billion during the previous year.

Future outlook

To a large extent, trade deficit outlook hinges on global commodity prices. Increase in GST and imposition of additional tax measures as announced in FY14 budget will set the stage for higher inflation level going forward. However, nod from IMF on loan restructuring at the onset of FY14 will reduce pressure on reserves position.

Funds Performance

The net assets of the fund grew to a size of PKR 2.9 billion as on June 30, 2013, depicting a substantial growth of 95% YoY. The investment objective of the fund is to generate superior risk adjusted returns by investing in short, medium and long-term Shariah Compliant Fixed income instruments. The fund is benchmarked against an average of the most recently published three-month profit rates of three Islamic Banks rated A and above. During the period, the fund was able to yield an annualized return of 8.9% during the period under review which was significantly higher than the Fund's benchmark return of 6.3% during the same period.

The fund continued to deploy assets cautiously, without aggressively chasing available instruments, and has maintained a strong focus on the credit quality of the instruments. Considering the risk-return profile of government papers, the fund had highest allocation maintained in GoP Ijarah Sukuk (GIS) while also kept a decent exposure towards bank deposits.

The Fund yields for the period under review remained as follows:

Performance Information (%)	MCBIIF	Benchmark
Last twelve Months Return (Annualized)	8.9%	6.3%
Since Inception (CAGR)	9.6%	6.6%

During the year your fund earned net income of Rs 217.36 million. The Board in the meeting held on July 05, 2013 has declared final distribution amounting to Rs. 54.79 million (i.e. Rs. 1.8948 per unit).

During the year, units worth Rs.4.472 million (including Rs. 165.15 million worth of bonus units) were issued and units with a value of Rs. 3.073 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 101.89 per unit.

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the 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 it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were 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. These clarifications were forwarded by the Federal Board of

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

However, as per our legal counsel the stay granted to Collective Investment Schemes (CIS) remains intact and the constitution petitions filed by the CIS to challenge the Workers Welfare Fund contribution have not been affected SHC judgment.

In view of the afore mentioned developments and uncertainties created by the recent decision by Honorable Sindh High Court, the Management Company as a matter of abundant precaution has charged provision for WWF in these financial statements.

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Lahore Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence appropriate disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

1. Meetings of Human resource and remuneration committee (held on August 13, 2012 and April 04, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Dr.Syed Salaman Shah	Chairman	2	2	-
2.	Mr. Haroun Rashid	Member	1	1	1
3.	Mr. Nasim Beg	Member	2	2	-
4.	Mr. Ahmed Jehangir	Member	2	2	-
5.	Mr. Yasir Qadri	Member	2	2	-

2. Meetings of Audit Committee (held on August 13, 2012, October 24, 2012, February 1, 2013 and April 23, 2013)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member – Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	4	-
4.	Mr. Ali Munir*	Member	2	-	2

* Mr. Ali Munir ceased to be the member of Audit Committee w.e.f. October 25, 2012.

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2013

- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer	-	-	-
3.	Mr. Saqib Saleem	Company Secretary and Chief Operating Officer	4,916	-	31
4.	Umair Ahmed	Chief Financial Officer	-	-	-
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	2,059	27,497	845

External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2014. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2014.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited). The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Lahore Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2013

Fund Type and Category

MCB Islamic Income Funds is an Open-End Shariah Compliant (Islamic) Income Scheme.

Fund Benchmark

The benchmark for MCB IIF is an average of the most recently published three-month profit rates of three Islamic Banks rated A and above.

Investment Objective

To generate superior risk adjusted returns by investing in short, medium and long-term Shariah Compliant Fixed income instruments.

Investment Strategy

The Fund shall seek to provide the investors with a rate of return consistent with a broadly diversified portfolio of long, medium and short term, high quality Shariah Compliant fixed income instruments.

Manager's Review

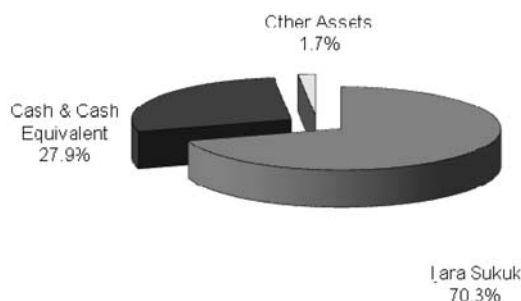
The fund grew significantly to a size of around PKR 2.95 billion by Jun'13 from PKR 1.5 billion last year, depicting a robust growth of 95%.

During the year, the fund generated an annualized return of 8.9% as against its benchmark return of 6.3%, an out-performance of 2.6% over its benchmark. The fund has gradually been building its exposure in GoP Ijarah Sukuk (GIS) at attractive levels and has kept an allocation of around 70.3% at year-end while 27.9% assets were kept in cash and bank deposits.

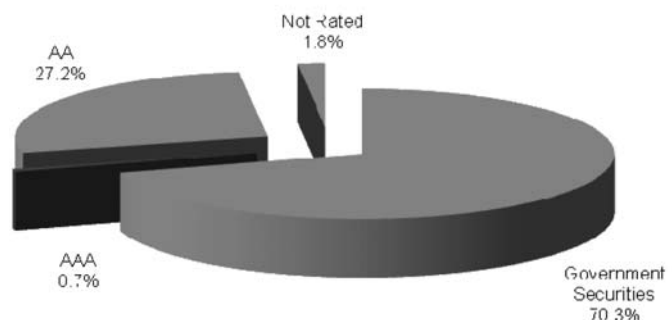
Given the attractive risk-return profile of government papers and its strong appetite in the market, the fund plans to keep a major portion of its assets in GIS to enhance returns instead of putting them in corporate Sukuk.

We believe that the well-timed accumulation of GIS should contribute towards healthy returns going forward, while the fund would remain cognizant of the changes in macroeconomic environment in order to deploy assets efficiently in Shariah compliant instruments.

Asset Allocation as on June 30, 2013 (% of total assets)



Asset Quality as on June 30, 2013 (% of total assets)



Uzma Khan, CFA, FRM
Fund Manager

Karachi: August 05, 2013

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



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

MCB ISLAMIC INCOME FUND

Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Islamic 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 year ended June 30, 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: October 10, 2013



REPORT TO THE SHARIAH ADVISOR FOR THE YEAR ENDED JUNE 30, 2013

REPORT OF THE SHARIAH ADVISOR

I, the Shariah Advisor of the Fund, am pleased to issue this report in accordance with the clause 9.2.5 of the Trust Deed of the MCB Islamic Income Fund (MCB-IIF). The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

In the capacity of the Shariah Advisor, we have prescribed criteria and procedure to be followed in ensuing Shariah Compliance in every investment.

It is the responsibility of M/s MCB-Arif Habib Savings and Investments Limited (*formerly: Arif Habib Investments Limited*), the Management Company of the Fund, to establish and maintain a system of internal controls and to ensure compliance with the Shariah guidelines. My responsibility is to express an opinion, based on my review of the representations made by the Management Company, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries to the Management Company's personnel and review of various documents prepared by the management company to comply with prescribed criteria. In the light of the above, we hereby certify that:

- We have reviewed and approved the modes of investments of MCB-IIF in the light of the Shariah guidelines.
- All the provisions of the scheme and investments made on account of MCB IIF by Management Company are Shariah Compliant and in accordance with the criteria established.
- On the basis of information provided by the Management Company, all the operations of MCB-IIF for period from July 01, 2012 to June 30, 2013 have been in compliance with the Shariah principles.

May Allah bless us with Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the hereafter, and forgive our mistakes.

Karachi: August 05, 2013



Dr Muhammad Zubair Usmani

Shariah Advisor

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of MCB Islamic Income Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

MCB Islamic Income Fund is an open end mutual fund and is listed at Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
3. All the directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings,. The minutes of the meetings were appropriately recorded and circulated.
9. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. During the period the two of the directors' have attended Directors' Training Program conducted by the Institute of Chartered Accountants of Pakistan.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013

10. The Board has approved the appointment of Chief Operating Officer and Company secretary, Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.
11. The Directors' Report of the fund for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, of which two are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the fund and the Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Management Company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE



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

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

Review report to the Unit holders of MCB Islamic Income Fund “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (“Statement of Compliance”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) (“the Management Company”) of the Fund to comply with the Listing Regulations of Lahore Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund’s compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company’s personnel and review of various documents prepared by the Management Company to comply with the Code.

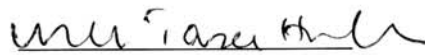
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company’s corporate governance procedures and risks.

Further, Listing Regulations 35 notified by the Lahore Stock Exchange Limited requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors. We have not carried out any procedures to determine whether the related party transactions were under taken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 June 2013.

Date: 05 August 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

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.

INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013



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

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

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **MCB Islamic Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2013, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2013, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

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.

**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2013**



KPMG Taseer Hadi & Co.

Other matters


The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of auditors who vide their report dated 17 September 2012 expressed unmodified opinion on the financial statements of the Fund for the year ended 30 June 2012.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: 05 August 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Assets			
Balances with banks	4	831,571	464,118
Investments	5	2,092,681	1,025,522
Profit and income receivable	6	50,418	19,989
Prepayments		102	101
Preliminary expenses and floatation costs	7	592	792
Total assets		2,975,364	1,510,522
Liabilities			
Payable against redemption of units		13,253	-
Payable to Management Company	8	5,069	2,380
Payable to Central Depository Company of Pakistan Limited - Trustee	9	276	171
Payable to Securities and Exchange Commission of Pakistan	10	1,931	534
Accrued expenses and other liabilities	11	8,345	665
Total liabilities		28,874	3,750
Net assets		2,946,490	1,506,772
Unit holders' fund		2,946,490	1,506,772
(Number of units)			
Number of units in issue		28,916,996	15,052,815
(Rupees)			
Net assets value per unit		101.89	100.10

The annexed notes from 1 to 20 form an integral part of these financial statements.


Chief Executive Officer

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


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Income			
Profit on bank deposits		68,202	24,807
Capital gain on sale of investments - net		4,621	760
Income from government securities		183,359	57,328
		<u>256,182</u>	<u>82,895</u>
Net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss'	5.2	(7,563)	(4,674)
Total income		<u>248,619</u>	<u>78,221</u>
Expenses			
Remuneration of Management Company	8.1	29,598	9,011
Remuneration of Central Depository Company of Pakistan Limited -Trustee	9	3,042	1,144
Annual fee - Securities and Exchange Commission of Pakistan	10	1,931	534
Provision for Workers' Welfare Fund	11.1	6,377	73
Amortisation of preliminary expenses and floatation costs	7.1	200	201
Auditors' remuneration	12	587	624
Brokerage and settlement charges		163	30
Fee, subscription and printing charges		573	354
Total expenses		<u>42,471</u>	<u>11,971</u>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		11,207	32,474
Net income for the year before taxation		<u>217,355</u>	<u>98,724</u>
Taxation	13	-	-
Net income for the year after taxation		<u>217,355</u>	<u>98,724</u>
Earnings per unit	14		

The annexed notes from 1 to 20 form an integral part of these financial statements.


Chief Executive Officer

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


Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Undistributed income brought forward:			
- Realised gains		6,165	458
- Unrealised losses		<u>(4,674)</u>	<u>-</u>
		1,491	458
Net income for the year		217,355	98,724
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement		1,373	-
Distributions:			
Final distribution for the year ended 30 June 2011 at the rate of Re. 0.2532 per unit declared on 4 July 2011			
- Issue of bonus units		-	(458)
Final distribution for the year ended 30 June 2012 at the rate of Rs. 2.3242 per unit declared on 25 June 2012			
- Issue of bonus units		-	(33,630)
- Cash distribution		-	(93)
Interim distributions during the year	18.1		
- Issue of bonus units		(165,153)	(63,212)
- Cash distribution		(274)	(298)
		(165,427)	(97,691)
Undistributed income carried forward		<u>54,792</u>	<u>1,491</u>
Undistributed income carried forward:			
- Realised gains		45,679	6,165
- Unrealised gains / (losses)		<u>9,113</u>	<u>(4,674)</u>
		54,792	1,491

The annexed notes from 1 to 20 form an integral part of these financial statements.


Chief Executive Officer

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


Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Net assets at beginning of the year		1,506,772	181,557
Issue of 42,575,517 units (2012: 17,519,167 units)		4,307,273	1,792,006
Issue of 1,649,901 bonus units (2012: 972,679 bonus units)		165,153	97,300
Redemption of 30,361,237 units (2012: 5,250,022 units)		(3,073,429)	(532,650)
		1,398,997	1,356,656
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:			
- amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement		(11,207)	(32,474)
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement		(1,373)	-
		(12,580)	(32,474)
Net income for the year (excluding net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)		220,297	102,638
Capital gain on sale of investments		4,621	760
Net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss'		(7,563)	(4,674)
		217,355	98,724
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement		1,373	-
Final distribution at the rate of Re. 0.2532 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]			
- Issue of bonus units		-	(458)
Final distribution at the rate of Rs. 2.3242 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]			
- Cash distribution		-	(93)
- Issue of bonus units		-	(33,630)
Interim distributions during the year	18.1		
- Cash distribution		(274)	(298)
- Issue of bonus units		(165,153)	(63,212)
		(165,427)	(97,691)
Net assets at end of the year		2,946,490	1,506,772
Net assets value per unit as at beginning of the year		100.10	100.25
Net assets value per unit as at end of the year		101.89	100.10

The annexed notes from 1 to 20 form an integral part of these financial statements.


Chief Executive Officer

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


Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	217,355	98,724
Adjustments for non-cash and other items:		
Net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss'	(7,563)	(4,674)
Amortisation of preliminary expenses and floatation costs	200	201
Provision for Workers' Welfare Fund	6,377	73
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	(11,207)	(32,474)
	<u>205,162</u>	<u>61,851</u>
Increase in assets		
Investments	(1,059,596)	(920,599)
Profit and income receivables	(30,429)	(17,498)
Prepayments	(1)	(101)
	<u>(1,090,026)</u>	<u>(938,198)</u>
Increase in liabilities		
Payable against redemption of units	13,253	-
Payable to Management Company	2,689	781
Payable to Central Depository Company of Pakistan Limited - Trustee	105	151
Payable to Securities and Exchange Commission of Pakistan	1,397	530
Accrued expenses and other liabilities	1,303	533
	<u>18,747</u>	<u>1,995</u>
Net cash used in operating activities	<u>(866,117)</u>	<u>(874,352)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	1,233,844	1,259,356
Dividend paid	(274)	(391)
Net cash generated from financing activities	<u>1,233,570</u>	<u>1,258,965</u>
Net increase in cash and cash equivalents during the year	<u>367,453</u>	<u>384,613</u>
Cash and cash equivalents at the beginning of the year	<u>464,118</u>	<u>79,505</u>
Cash and cash equivalents at the end of the year	<u><u>831,571</u></u>	<u><u>464,118</u></u>

The annexed notes from 1 to 20 form an integral part of these financial statements.


Chief Executive Officer

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


Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1 LEGAL STATUS AND NATURE OF BUSINESS

MCB Islamic Income Fund ("the Fund") was established under a trust deed executed between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 25 January 2011 and was executed on 7 March 2011.

Based on shareholders' resolutions of MCB-Asset Management Company (MCB-AMC) and Arif Habib Investments Limited (AHIL), 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). AHIL being a listed company is the surviving entity and in compliance of State Bank of Pakistan (SBP's) approval, it is a subsidiary of MCB Bank Limited. Subsequent to the completion of merger on 27 June 2011 the SECP extended the effective date of merger to 30 July 2011 through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011 under section 484(2) of the Companies Ordinance, 1984. However, during the year, on request of Management Company the SECP reviewed its aforementioned order and through a letter no. SCD/AMCW/Mis/540/2013 dated 17 May 2013 issued revised order under section 484(2) of the Companies Ordinance, 1984 to affirm the effective date of merger of MCB-AMC with AHIL as at 27 June 2011. The latest order also endorsed the steps / actions taken by Management Company from 27 June 2011 to date. Pursuant to approval of merger the name of the Management Company has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

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

The Fund is an open-end mutual fund and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering them to the Fund. The Fund is listed on the Lahore Stock Exchange. According to paragraph 19.3 of the Trust Deed, the first accounting period of the Fund shall commence from the date on which the trust property is first paid or transferred to the Trustee i.e. 1 May 2011. The Fund has been categorised as "Shariah Compliant (Islamic) Income" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

The objective of the Fund is to seek to generate superior risk adjusted returns by investing in short, medium and long-term high quality Shariah Compliant fixed income instruments.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' to the Management Company and 'AA-(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

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) , the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations, 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, 2008 and the said directives shall prevail.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

2.2 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund.

2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after 1 July 2013. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014).
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014).

2.4 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain financial assets are measured at fair value.

2.5 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.6 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

The Management Company has determined fair value of certain investments by using quotations from Financial Markets Association of Pakistan (Reuters). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgment (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Other assets

Judgment is also involved in assessing the realisability of the assets balances.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. At present, the Fund has no item to be reported in other comprehensive income. Hence, no such statement is prepared and net income for the current and comparative year is equal to total comprehensive income.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments as 'at fair value through profit or loss'

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative. Financial instruments as 'at fair value through profit or loss' are measured at fair value and changes therein are recognised in the Income Statement.

All derivatives in a net receivable position (positive fair value) are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

c) 'Available-for-sale'

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

d) Financial liabilities

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the financial assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

Basis of valuation of GoP Ijara sukuk certificates

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the market rates from Reuters page.

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the rates notified on Reuters page.

Securities under repurchase/ resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In case of an investment in an equity security, a significant or prolong decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non-performing investments in compliance with Circular 13 of 2009 issued by SECP.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that day. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable on units for which the distributors receive redemption applications during business hours on that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.4 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the "element of income / (loss) included in prices of units sold less those in units redeemed" is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in Income Statement and the remaining portion of element of income / (loss) and capital gains / (losses) is held in separate reserve account and at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from the last day after the close of the IPO period as per the Trust Deed of the Fund.

3.6 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.7 Net assets value per unit

The net assets value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

3.8 Taxation

Current

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income of that year as reduced by capital gains whether realised or unrealised, is distributed amongst the Fund's unit holders.

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions and debt securities (including government securities) is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as 'at fair which they value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

All expenses including Management fee, Trustee fee and Securities and Exchange Commission of Pakistan fee are recognised in the Income Statement on accrual basis.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

4 BALANCES WITH BANKS

2013 2012
(Rupees in '000)

In current account		10,690	11,858
In savings accounts	4.1	820,881	452,260
		<u>831,571</u>	<u>464,118</u>

4.1 These carry mark-up at rates ranging from 6% to 10.9% (2012: 6% to 11.60%) per annum.

5 INVESTMENTS

'At fair value through profit or loss'

- Government securities	5.1	<u>2,092,681</u>	<u>1,025,522</u>
-------------------------	-----	------------------	------------------

5.1 Government securities - 'at fair value through profit or loss' - held for trading

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2013			Market value	
		As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
<hr style="border-top: 1px dashed black;"/> <div>(Rupees in '000)</div> <hr style="border-top: 1px dashed black;"/>										
3 year (Tenor)										
15 November 2010		697,500	75,000	772,500	-	-	-	-	-	-
16 May 2011	9.43%	280,000	78,200	-	358,200	358,995	359,060	65	12.19	17.16
26 December 2011	9.22%	47,500	150,000	62,500	135,000	136,350	135,284	(1,066)	4.59	6.46
28 June 2012	8.92%	-	220,000	50,000	170,000	170,680	170,323	(357)	5.78	8.14
2 March 2012		-	25,000	25,000	-	-	-	-	-	-
18 September 2012	9.15%	-	1,429,000	30,000	1,399,000	1,404,454	1,398,440	(6,014)	47.46	66.83
30 April 2012	9.43%	-	30,000	3,500	26,500	26,765	26,569	(196)	0.90	1.27
7 March 2011	9.34%	-	3,000	3,000	-	3,000	3,005	5	0.10	0.14
						2,100,244	2,092,681	(7,563)		

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2012			Market value	
		As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
3 year (Tenor)										
15 November 2010	11.94%	-	777,000	79,500	697,500	701,005	697,849	(3,156)	46.31	68.05
16 May 2011	11.94%	100,000	374,000	194,000	280,000	281,691	280,140	(1,551)	18.59	27.32
26 December 2011	11.94%	-	47,500	-	47,500	47,500	47,533	33	3.15	4.64
29 December 2008		-	150,000	150,000	-	-	-	-	-	-
17 September 2009		-	15,000	15,000	-	-	-	-	-	-
						1,030,196	1,025,522	(4,674)		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

5.2	Net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss'		2013	2012
			(Rupees in '000)	
	Market value of investments	5.1	2,092,681	1,025,522
	Less: Carrying value of investments		2,100,244	1,030,196
			(7,563)	(4,674)
6	PROFIT AND INCOME RECEIVABLE			
	Profit accrued on savings deposits		8,504	4,973
	Income accrued on government securities		41,914	15,016
			50,418	19,989
7	PRELIMINARY EXPENSES AND FLOATATION COSTS			
	Opening balance		792	993
	Less: Amortisation for the year	7.1	200	201
	Closing balance		592	792
7.1	Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 19 June 2011 as per the requirements set out in the Trust Deed of the Fund.			
8	PAYABLE TO MANAGEMENT COMPANY			
	Management fee payable	8.1	2,820	1,455
	Front-end load payable		2,249	925
			5,069	2,380
8.1	Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and, thereafter, of an amount equal to two percent of such assets of the Fund. The Management Company has charged remuneration at the rate of 10% of the gross earnings of the Fund. This fee is subject to a minimum of 0.25% of the average daily net assets of the Fund not exceeding the maximum rate of remuneration permitted under the NBFC Regulations, 2008. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.			
9	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
	The Trustee (Central Depository Company of Pakistan Limited) is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net asset value of the Fund.			
	Based on the Trust Deed, the tariff structure applicable to the Fund is as follows:			
	Amount of funds under management (average NAV)	Tariff per annum		
	Upto Rs 1 billion	Rs 0.6 million or 0.17 percent per annum of NAV whichever is higher		
	Rs 1 billion to Rs 5 billion	Rs 1.7 million plus 0.085 percent per annum of NAV exceeding Rs 1 billion		
	Over Rs 5 billion	Rs 5.1 million plus 0.07 percent per annum of NAV exceeding Rs 5 billion		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

10 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

As per Schedule II of the NBFC Regulations, 2008, an income scheme is required to pay an amount equal to 0.075 percent of the average annual net assets of the scheme as annual fee to SECP.

11 ACCRUED EXPENSES AND OTHER LIABILITIES

	2013	2012
	(Rupees in '000)	
Provision for Workers' Welfare Fund	11.1 6,460	82
Zakat payable	1,300	2
Auditors' remuneration	350	474
Printing charges payable	200	103
Capital gain tax payable	34	2
Others	1	2
	<u>8,345</u>	<u>665</u>

- 11.1** 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 adjudication.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on 8 July 2010 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 the Court.

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

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, the Management Company as a matter of abundant precaution has decided to charge the entire provision for WWF amounting to Rs. 6.378 million (including Rs. 1.903 million pertaining from 26 August 2011 to 30 June 2012) in these financial statements.

12 AUDITORS' REMUNERATION

	2013	2012
	(Rupees in '000)	
Annual audit fee	250	225
Half yearly review fee	150	125
Other certifications	131	250
Out of pocket expenses	56	24
	<u>587</u>	<u>624</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

13. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

14. EARNINGS PER UNIT

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

15. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

Related parties / connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertakings and unit holders holding more than 10% units of the Fund.

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

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed respectively.

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

Details of transactions with related parties / connected persons and balances with them at year end are as follows:

15.1 Details of the transactions with related parties / connected persons:	2013 (Rupees in '000)	2012
Management Company		
Management fee for the year	29,598	9,011
Front-end load	48,067	20,797
Issue of Nil bonus units (2012: 105,733 bonus units)	-	10,577
Redemption of 105,733 units (2012: Nil)	111,841	-
Central Depository Company of Pakistan Limited - Trustee		
Trustee fee for the year	3,042	1,144
Adamjee Life Assurance Co. Limited (Amaanat Fund)		
Issue of 191,967 units (2012: Nil)	19,334	-
Issue of 533 bonus units (2012: Nil)	53	-
Redemption of 177,550 units (2012: Nil)	18,000	-
MCB Bank Limited		
Profit on bank deposits	699	318
Bank charges	21	7
Directors and executives of the Management Company		
Issue of 78,672 units (2012: 89,980 units)	8,120	9,341
Issue of 4,528 bonus units (2012: 6,040 units)	453	595
Redemption of 115,413 units (2012: 45,299 units)	11,670	4,626

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

15.2 Amounts outstanding as at year end

	2013 (Rupees in '000)	2012
Management Company		
Management fee payable	2,820	1,455
Front-end load payable	2,249	925
Units held: Nil (2012: 1,105,733 units)	-	110,684
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	276	171
Adamjee Life Assurance Co. Limited (Amaanat Fund)		
Units held: 14,950 (2012: Nil units)	1,523	-
MCB Bank Limited		
Balance in bank accounts	12,561	13,312
Profit receivable on bank deposits	74	-
Directors and executives of the Management Company		
Units held 31,031 units (2012: 63,244 units)	3,161	6,331

16 FINANCIAL RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by Investment Committee under policies approved by the Board of Directors.

The Fund primarily invests in short, medium and long-term Shariah Compliant Fixed income instruments.

The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

16.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rates. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present, is not exposed to currency risk as all transactions are carried out in Pak Rupees.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds floating debt securities that expose the Fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates.

As at 30 June 2013, the investment in debt securities exposed to interest rate risk is detailed in Note 5.1 to these financial statements.

Sensitivity analysis for variable rate instruments

Presently, the Fund holds GoP ijara sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in 6 months weighted average yield of ijara sukuks on 30 June 2013 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 4.6 million (2012: Rs. 1.265 million).

The composition of the Fund's investment portfolio and rates announced is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

Sensitivity analysis for fixed rate instruments

At present the Fund does not hold any fixed financial instruments which expose the Fund to fair value risk. The Fund maintain saving account with banks. However, it carries it at cost. Hence not exposed to fair value risk owing to fluctuation in interest

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2013, the Fund does not hold any investment exposed to price risk, accordingly there will be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e. government securities) for change in factors other than those arising from interest rate or currency risk.

16.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. Risk attributable to investments in GoP Ijara sukuk is limited as these are guaranteed by the Federal Government while bank balances are maintained with banks with a reasonably high credit rating. The Fund's policy is to enter into financial instrument contracts by following internal guidelines approved by the Investment Committee.

Exposure to credit risk

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial assets i.e. balances with banks, investments and profit and income receivable in Statement of Assets and Liabilities.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Balances with banks

As at 30 June 2013, the Fund kept surplus liquidity with banks having credit rating ranging from AAA to AA. The rating to respective banks are assigned by reputable credit rating agencies.

Investment in debt securities

Investment in GoP Ijara sukuk does not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan and the management does not expect to incur any credit loss on such investments.

Past due and impaired assets

No financial asset carried at amortised cost or cost were past due or impaired either as at 30 June 2013 or 30 June 2012. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment and follows the circulars issued by SECP for the purpose of making provision and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's most significant investment is made in GoP Ijara sukuk which are government guaranteed.

16.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Fund. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represents the continuous obligation of the Fund for redemption by its holders.

Management of liquidity risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. For the purpose of making redemptions, the Fund has the ability to borrow in the short term, however such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets up to 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by the Fund Manager on daily basis and by the Investment Committee on quarterly basis. The aim of the review is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the Management Company.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

	30 June 2013			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable against redemption of units	13,253	-	-	13,253
Payable to Management Company	5,069	-	-	5,069
Payable to Central Depository Company of Pakistan Limited - Trustee	276	-	-	276
Accrued expenses and other liabilities	1,851	-	-	1,851
	<u>20,449</u>	<u>-</u>	<u>-</u>	<u>20,449</u>

	30 June 2012			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable against redemption of units	-	-	-	-
Payable to Management Company	2,380	-	-	2,380
Payable to Central Depository Company of Pakistan Limited - Trustee	171	-	-	171
Accrued expenses and other liabilities	581	-	-	581
	<u>3,132</u>	<u>-</u>	<u>-</u>	<u>3,132</u>

The table above shows the undiscounted cashflows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

16.4 Financial instruments by category

As at 30 June 2013, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

	30 June 2013		Total
	Loans and receivables	Assets at fair value through profit or loss	
	----- (Rupees in '000) -----		
Assets			
Balances with banks	831,571	-	831,571
Investments	-	2,092,681	2,092,681
Profit and income receivable	50,418	-	50,418
	<u>881,989</u>	<u>2,092,681</u>	<u>2,974,670</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Liabilities			
Payable against redemption of units	-	13,253	13,253
Payable to Management Company	-	5,069	5,069
Payable to Central Depository Company of Pakistan Limited - Trustee	-	276	276
Accrued expenses and other liabilities	-	1,851	1,851
	-	20,449	20,449

Assets

	30 June 2012		
	Loans and receivables	Assets at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Balances with banks	464,118	-	464,118
Investments	-	1,025,522	1,025,522
Profit and income receivable	19,989	-	19,989
	484,107	1,025,522	1,509,629

Liabilities

	30 June 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Payable against redemption of units	-	-	-
Payable to Management Company	-	2,380	2,380
Payable to Central Depository Company of Pakistan Limited - Trustee	-	171	171
Accrued expenses and other liabilities	-	581	581
	-	3,132	3,132

Unit holders' fund risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holders' fund is to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments on the Statement of Assets and Liabilities are carried at fair value . The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

19 SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers, attendance at the meetings of the Board of Directors of the Management Company and members of the Investment Committee are as follows:

19.1 Pattern of unit holding:

As at 30 June 2013			
	Number of unit holders	Investment amount	Percentage investment
(Rupees in '000)			
Individuals	1,598	2,770,271	94.03%
Insurance companies	2	16,602	0.56%
Retirement funds	11	37,558	1.27%
Public limited companies	3	30,960	1.05%
Others	11	91,099	3.09%
	1,625	2,946,490	100%

As at 30 June 2012			
	Number of unit holders	Investment amount	Percentage investment
(Rupees in '000)			
Individuals	856	1,314,175	87.22%
Directors	1	110,683	7.35%
Retirement funds	6	17,464	1.16%
Public limited companies	1	25,198	1.67%
Others	3	39,252	2.60%
	867	1,506,772	100.00%

19.2 Top ten brokers / dealers by percentage of commission paid:

		2013 (Percentage)
1	Invest & Finance Securities Ltd	35.94%
2	JS Global Capital Ltd	26.91%
3	Invest Capital Markets Ltd	12.46%
4	Elixer Securities Pakistan (Pvt) Ltd.	8.15%
5	Vector Capital (Pvt) Ltd	6.13%
6	KASB Securitas Ltd	6.12%
7	Optimus Markets (Pvt) Ltd	2.45%
8	Global Securities Pakistan Limited	1.84%
		2012 (Percentage)
1	Invest Capital Market Limited	9.33%
2	Invisor Market (Private) Limited	21.07%
3	JS Global Capital Limited	26.39%
4	BMA Capital Management Limited	23.31%
5	KASB Securities Limited	3.25%
6	C&M Management (Private) Limited	16.65%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

19.3 Attendance at meetings of Board of Directors:

During the year, six board meetings were held on 16 July 2012, 15 August 2012, 4 October 2012, 24 October 2012, 4 February 2013 and 24 April 2013.

Information in respect of attendance by Directors in the meetings is given below:

Name of Directors	Designation	Number of Meetings			Meetings not attended
		Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	6	2	4	98th, 99th, 100th and 103rd
Mr. Nasim Beg	Executive Vice Chairman	6	5	1	102nd
Mr. Yasir Qadri	Chief Executive Officer	6	6	0	
Dr. Syed Salman Ali Shah	Director	6	5	1	103rd
Mr. Haroun Rashid	Director / Chairman Audit Committee	6	4	2	100th and 101st
Mr. Ahmed Jahangir	Director	6	6	0	
Mr. Samad A. Habib	Director	6	4	2	98th and 100th
Mr. Mirza Mehmood Ahmed	Director	6	3	3	98th, 99th and 101st
Mr. M. Saqib Saleem	Chief Operating Officer & Company Secretary	6	6	0	
Mr. Umair Ahmed	Chief Financial Officer	6	3	3	Appointed in 101st BOD meeting

19.4 Particulars of Investment Committee and Fund Manager:

Details of members of the Investment Committee of the Fund are as follows:

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	18 Years
Mr. Kashif Rafi	SVP - Head of Fixed Income Investments	MBA & CFA (Level I)	12 Years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	10 Years
Mr. Mohsin Pervaiz	VP - Investments	MBA & CFA (Level I)	12 Years
Ms. Uzma Khan	Fund Manager and Senior Research Analyst	MBA, CFA & FRM	8 Years

19.5 Other funds managed by the Fund Manager:

- Pakistan Stock Market Fund
- Pakistan International Element Islamic Asset Allocation Fund
- Pakistan Islamic Pension Fund

20 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 05 August 2013 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

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2013**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
ADAMJEE INSURANCE CO. LTD.	1	14,950
Public Sector Companies and Corporations	11	822,226
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	1	147,986
Individuals	1,598	27,187,734
Trust	14	744,100
	<u>1,625</u>	<u>28,916,996</u>

**PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2013**

No. of Unit Holders	Units Holdings	Total Units Held
699	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	1,088,465.96
279	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	2,112,905.25
146	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	1,771,003.36
111	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	2,024,601.72
68	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	1,552,597.12
66	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	1,877,593.18
33	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	1,052,555.24
35	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	1,328,493.22
11	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	461,643.92
35	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	1,692,564.99
18	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	939,260.52
13	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	750,558.79
7	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	436,823.09
12	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	813,817.79
7	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	514,791.63
10	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	772,409.13
4	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	325,262.12
5	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	437,490.73
3	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	278,770.18
23	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	2,230,746.11
4	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	406,176.08
5	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	537,404.00
2	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	226,664.09
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	115,855.18
4	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	487,095.96
4	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	548,203.32
2	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	284,000.17
5	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	739,293.25
1	(SHAREHOLDING FROM 175001.0000 TO 180000.0000)	178,235.60
1	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	188,724.42
2	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	388,110.56
1	(SHAREHOLDING FROM 195001.0000 TO 200000.0000)	195,639.43
2	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	405,918.95
1	(SHAREHOLDING FROM 205001.0000 TO 210000.0000)	205,449.84
1	(SHAREHOLDING FROM 255001.0000 TO 260000.0000)	255,062.84
1	(SHAREHOLDING FROM 260001.0000 TO 265000.0000)	261,310.89
1	(SHAREHOLDING FROM 270001.0000 TO 275000.0000)	272,696.68
1	(SHAREHOLDING FROM 310001.0000 TO 315000.0000)	312,306.45
1	(SHAREHOLDING FROM 445001.0000 TO 450000.0000)	446,494.50
1,625	Total :	28,916,996.26

PERFORMANCE TABLE

Performance Information	2013	2012	2011
Total Net Assets Value - Rs. in million	2,946.49	1,506.77	178.00
Net Assets value per unit - Rupees	101.89	100.10	100.25
Highest offer price per unit	104.81	106.14	100.25
Lowest offer price per unit	101.64	100.00	100.00
Highest Redemption price per unit	103.24	106.14	100.25
Lowest Redemption price per unit	100.11	100.00	100.00
Distribution per unit (annual) - Rs.	1.89	2.32	-
Distribution per unit (interim) - Rs.	6.85	7.71	0.25
Average Annual Return - %			
One year	8.91	10.40	7.80
Two year	5.06	-	NA
Three year	-	-	NA
Net Income / (loss) for the period - Rs. in million	217.36	98.724	0.46
Income Distribution - Rs. in million	220.22	97.231	0.46
Accumulated Capital (Reduction) / Growth - Rs. in million	(2.86)	1.493	-
Weighted average Portfolio Duration (Days) - 30 June 2013	496.40	386.9	492.750

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and

* The Comparative information is not comparable as the fund started operations with effect from May 01, 2011.

Please find us on



by typing: **Bachat Ka Doosra Naam**

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

8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.
UAN: (+92-21) 11-11-622-24 (11-11-MCB-AH), 111-468378 (111-INVEST)
Bachat Center: 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908
URL: www.mcbah.com, Email: info@mcbah.com