

Half Year Report

December 31, 2012
(Unaudited)



MCB
ISLAMIC INCOME FUND

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FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive Officer (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed 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 United Bank Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

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

Dear Investor,

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

ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, CPI inflation continued to maintain its downward trajectory amid lower food inflation and downward adjustments in gas prices with 1H FY13 CPI inflation averaging at 8.3%. Although current account balance remained comfortable during 1H FY13 with a decent surplus of US\$ 250 million courtesy release of two tranches of Coalition Support Fund proceeds by the US worth around US\$ 1.9 billion, weaker financial account coupled with sizeable repayments (including IMF) continued to put significant pressure on the FX reserves, which eventually came down to a level of around US\$ 13.5 billion. On the fiscal front, the government has continued to rely on domestic sources of funding with YTD GoP borrowing from banking system has risen to PKR 644 billion by Dec'28 2012. Despite highlighting concerns on the external and fiscal accounts, the State Bank of Pakistan took comfort from declining inflationary trend and lowered its policy discount rate cumulatively by 250 bps to 9.5% during the period under review.

In the money market, short term market rates remained largely on the higher side amid tight liquidity scenario in the system with few exceptions where the market witnessed floors also. The SBP continued to inject significant amount of liquidity in the system through OMOs during the period. Given a downward trajectory in YoY CPI inflation coupled with SBP monetary easing stance, the yield curve has adjusted significantly downwards during the period. 1 year PKRV adjusted downwards by 267 bps to 9.3%, while longer tenure 10 year PKRV adjusted downwards by 180 bps to 11.5% during the period under review.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 10.8% as against its benchmark return of 6.2%, a significant out performance by 4.6%.

During the period, the fund has gradually been increasing its exposure towards GoP Ijarah Sukuk, which stood at around 64% at quarter-end, on the back of decent yield as well as capital gains potential. The fund has kept its remaining exposure in cash and bank deposits at decent rates.

The Net Asset of the Fund as at December 31, 2012 stood at Rs. 2,915.50 million as compared to Rs 1,506.77 million as at June 30 2012 registering an increase of 93.49%

The Net Asset Value (NAV) per unit as at December 31, 2012 was Rs.100.2164 as compared to opening NAV of Rs. 100.0990 per unit as at June 30, 2012 registering an increase of Re. 0.1174 per unit

Income Distribution

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

MCB Islamic Income Fund

Date of distribution	Per unit distribution
September 27, 2012	3.1363
December 26, 2012	2.1461

FUTURE OUTLOOK

Despite receiving another tranche of CSF as well as continued lower range of CPI inflation, we believe that further rate cut would be difficult given deteriorating fiscal and external accounts, significant IMF repayments ahead and alarming monetary growth - while the potential return to the IMF would result in a cycle of monetary tightening by 2Q CY13 in our opinion. The Government bond market, which remained active for last few months on the back of soft inflation numbers and expected monetary easing, has started to become inactive or relatively less active with the anticipation of no rate cut and possible rate hikes in the next 4-6 months. In this backdrop, the activities are expected to be concentrated at short-end papers going forward.

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

ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

On behalf of Directors,

Yasir Qadri
Chief Executive Officer

February 04, 2013

TRUSTEE REPORT TO THE UNIT HOLDERS

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



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TRUSTEE REPORT TO THE UNIT HOLDERS

MCB ISLAMIC INCOME FUND

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

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

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


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

Karachi: February 22, 2013



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



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

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

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

Introduction

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

Scope of Review

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

Conclusion

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

Emphasis of matter

We draw attention to note 7 to the condensed interim financial information relating to Workers' Welfare Fund (WWF) which refers to the pending outcome of the litigation regarding contribution to WWF in Honourable Sind High Court. In view of the matter more fully discussed in the above note, provision against WWF amounting to Rs. 4.228 million in aggregate is not being maintained by the Fund. Our conclusion is not qualified in respect of this matter.

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

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



KPMG Taseer Hadi & Co.

Other matters

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

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

Date: 04 February 2013

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

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

	(Unaudited) 31 December 2012	(Audited) 30 June 2012
<i>Note</i>		
	(Rupees in '000)	
Assets		
Balances with bank	1,000,287	464,118
Investments	6 1,888,057	1,025,522
Profit receivable	55,896	19,989
Prepayments	20	101
Preliminary expenses and floatation costs	692	792
Total assets	<u>2,944,952</u>	<u>1,510,522</u>
Liabilities		
Payable against redemption of units	22,421	-
Payable to Arif Habib Investments Limited - Management Company	2,625	2,380
Payable to Central Depository Company of Pakistan Limited - Trustee	266	171
Accrued expenses and other liabilities	3,374	665
Payable to Securities and Exchange Commission of Pakistan - Annual fee	765	534
Total liabilities	<u>29,451</u>	<u>3,750</u>
Contingencies and commitments	7 -	-
Net assets	<u>2,915,501</u>	<u>1,506,772</u>
Unit holders' fund	<u>2,915,501</u>	<u>1,506,772</u>
	(Number of units)	
Number of units in issue	<u>29,092,059</u>	<u>15,052,815</u>
	(Rupees)	
Net asset value per unit	<u>100.22</u>	<u>100.10</u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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

	Note	Six months period ended		Quarter ended	
		31 December		31 December	
		2012	2011	2012	2011
		----- (Rupees in '000) -----			
Income					
Capital gain on sale of investment - net		4,439	1,459	3,204	862
Income from government securities		78,363	15,086	44,671	9,896
Profit on bank deposits		30,364	5,436	17,632	3,500
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'		7,526	-	(3,080)	-
Total income		120,692	21,981	62,427	14,258
Expenses					
Remuneration of Arif Habib Investments Limited - Management Company		11,565	2,084	6,345	1,368
Sindh sales tax on management fee		1,850	334	1,015	220
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,298	289	735	138
Annual fee - Securities and Exchange Commission of Pakistan		765	127	459	85
Settlement and bank charges		116	47	88	33
Fees and subscription		121	10	66	5
Auditors' remuneration		315	283	141	226
Amortisation of preliminary expenses and floatation costs		101	101	51	51
Printing and related charges		108	125	71	24
Provision for Workers' Welfare Fund		-	73	-	-
Total expenses		16,239	3,473	8,971	2,150
		104,453	18,508	53,456	12,108
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		12,263	16,077	4,907	14,232
Net income for the period before taxation		116,716	34,585	58,363	26,340
Taxation	8	-	-	-	-
Net income for the period after taxation		116,716	34,585	58,363	26,340
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		116,716	34,585	58,363	26,340
Earning per unit	9				

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Undistributed income brought forward	1,491	458	3,067	8,245
Net income for the period	116,716	34,585	58,363	26,340
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed	1,390	-	1,020	-

Distributions to the unit holders of the Fund:

Final distribution:

Final distribution at the rate of Re. 0.2532 per unit for the year ended 30 June 2011 [Date of Distribution: 04 July 2011] -
Issue of 4,585 bonus units

Interim distribution at the rate of Rs. 3.1363 per unit for the quarter ended 30 September 2012 [Date of Distribution: 27 September 2012]

- Cash distribution
- Issue of 569,652 bonus units

Interim distribution at the rate of Rs. 2.1461 per unit for the quarter ended 31 December 2012 [Date of Distribution: 26 December 2012]

- Cash distribution
- Issue of 560,121 bonus units

-	(458)	-	-
(125)	-	-	-
(57,022)	-	-	-
(86)	-	(86)	-
(56,067)	-	(56,067)	-
(113,300)	-	(56,153)	-
6,297	34,585	6,297	34,585

Undistributed income carried forward

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Net assets at the beginning of the period	1,506,772	181,557	1,882,149	291,007
Issue of 22,715,183 units (2011: 4,873,875 units) and 15,294,743 (2011: 3,617,188 units) for the six months and quarter ended respectively	2,300,995	505,673	1,593,628	377,655
Issue of 569,652 bonus units for the quarter ended 30 September 2012 (2011: 4,585 units)	57,022	459	-	-
Issue of 560,121 bonus units for the quarter ended 31 December 2012 (2011: Rs. NIL)	56,067	-	56,067	-
Redemption of 9,805,712 units (2011: 587,973 units) and 5,553,631 units (2011: 343,475 units) for the six months and quarter ended respectively	(996,508)	(60,937)	(613,646)	(35,969)
	1,417,576	445,195	1,036,049	341,686
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed				
- amount representing (income) / loss and realised capital (gains) / losses - transferred to the Income Statement	(12,263)	(16,077)	(4,907)	(14,232)
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement	(1,390)	-	(1,020)	-
	(13,653)	(16,077)	(5,927)	(14,232)
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	1,390	-	1,020	-
Net income for the period (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	104,751	33,126	58,239	25,478
Capital gain on sale of investments	4,439	1,459	3,204	862
Net unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss'	7,526	-	(3,080)	-
	116,716	34,585	58,363	26,340
Distributions to the unit holders of the Fund:				
<i>Final distribution:</i>				
Final distribution at the rate of Re. 0.2532 per unit for the year ended 30 June 2011 - Date of Distribution: 04 July 2011	-	(459)	-	-
- Issue of 4,585 bonus units				
<i>Interim distribution:</i>				
Interim distribution at the rate of Rs. 3.1363 per unit for the quarter ended 30 September 2012 - [Date of Distribution: 27 September 2012]	(125)	-	-	-
- Cash distribution	(57,022)	-	-	-
- Issue of 569,652 bonus units				
Interim distribution at the rate of Rs. 2.1461 per unit for the quarter ended 31 December 2012 [Date of Distribution: 26 December 2012]	(86)	-	(86)	-
- Cash distribution	(56,067)	-	(56,067)	-
- Issue of 560,121 bonus units				
	(113,300)	(459)	(56,153)	-
Net assets as at the end of the period	2,915,501	644,801	2,915,501	644,801

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For Arif Habib Investment Limited
(Management Company)


Chief Executive Officer


Director

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

	Six months period ended 31 December		Quarter ended 31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	116,716	34,585	58,363	26,340
<i>Adjustments for non-cash charges and other items:</i>				
Net unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(7,526)	-	3,080	-
Amortisation of preliminary expenses and floatation costs	101	101	51	51
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(12,263)	(16,077)	(4,907)	(14,232)
	97,028	18,609	56,587	12,159
Increase / (decrease) in assets				
Investments	(855,009)	(366,433)	(514,794)	(265,831)
Profit receivable	(35,908)	(5,172)	3,176	3,678
Prepayments	81	10	65	-
	(890,836)	(371,595)	(511,553)	(262,153)
Decrease / (increase) in liabilities				
Payable to Arif Habib Investments Limited - Management Company	245	4,052	(6,381)	3,978
Payable to the Central Depository Company of Pakistan Limited - Trustee	95	68	71	39
Accrued expenses and other liabilities	2,709	503	2,536	(13,633)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	231	123	(75)	85
	3,280	4,746	(3,849)	(9,531)
Net cash used in operating activities	(790,528)	(348,240)	(458,815)	(259,525)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividend paid	(211)	-	(86)	-
Receipts from issuance of units	2,300,995	505,673	1,594,003	377,655
Payments on redemption of units	(974,087)	(42,037)	(592,414)	(17,068)
Net cash from financing activities	1,326,697	463,636	1,001,503	360,587
Net increase in cash and cash equivalents during the period	536,169	115,396	542,688	101,062
Cash and cash equivalents at beginning of the period	464,118	79,505	457,599	93,839
Cash and cash equivalents at end of the period	<u>1,000,287</u>	<u>194,901</u>	<u>1,000,287</u>	<u>194,901</u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

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

1 LEGAL STATUS AND NATURE OF BUSINESS

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 on 25 January 2011 and was executed on 7 March 2011. In conformity with Circular 7 of 2009 dated 6 March 2009 issued by the SECP, certain amendments have been made in the Trust Deed of the Fund duly approved by the SECP, whereby the Fund has been assigned "Shariah Compliant (Islamic) Income" category.

Based on shareholders' resolutions of MCB-Asset Management Company Limited and Arif Habib Investments Limited, the two Companies have merged as of 27 June 2011 through operation of an order from the SECP issued under section 282L of the Companies Ordinance 1984 (Order through letter No.SCD/NBFC-II/MCBAMCL and AHIL / 271/ 2011 dated 10 June 2011). Arif Habib Investments being a listed Company, was the surviving entity and in compliance of SBP's approval, it became a subsidiary of MCB Bank Limited. However, subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30 July 2011 (through letter No.SCD/PR and DD/AMCW/MCB-AMCL and AHI/348/2011 dated 27 June 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the Honourable Sindh High Court (SHC). The Honourable SHC held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and Net Assets Value (NAV) remain unaffected.

The 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 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.

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

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.

2. BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 This condensed interim financial information has been prepared in accordance with the requirement of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). In case where requirements differ, the provisions of / or directives issued under the Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

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

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

- 2.1.3** This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.
- 2.1.4** This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors of the Fund. The Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.
- 2.1.5** The comparatives in the condensed interim statement of assets and liabilities presented in the condensed interim financial information as at 31 December 2012 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2012, where as the comparative in condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement are extracted from unaudited condensed interim financial information for the period ended 31 December 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

- 3.1** The accounting policies adopted for the preparation of this condensed interim financial information are same as those applied in the preparation of the financial statements of the Fund for the year ended 30 June 2012.
- 3.2** Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund.

4. ESTIMATES AND JUDGEMENTS

- 4.1** The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.
- 4.2** In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2012.

5. FINANCIAL RISK MANAGEMENT

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

		(Unaudited) 31 December 2012	(Audited) 30 June 2012
		(Rupees in '000)	
6.	INVESTMENTS		
	<i>'At fair value through profit or loss'</i>		
	- Government securities	6.1	1,888,057
			1,025,522

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

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

Issue date	Tenor	Face value				Balance as at 31 December 2012			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2012	Purchased during the period	Disposed / Matured during the period	As at 31 December 2012	Carrying Value	Market value	Appreciation / (diminution)		
-----Rupees in '000-----										
<i>Government of Pakistan Ijara Sukuk</i>										
15 November 2010	3 years	697,500	75,000	406,000	366,500	366,701	369,175	2,474	12.66	15,609.94
16 May 2011	3 years	280,000	78,200	-	358,200	358,995	361,710	2,715	12.41	15,294.29
26 December 2011	3 years	47,500	150,000	47,500	150,000	151,500	151,245	(255)	5.19	6,395.14
2 March 2012	3 years	-	25,000	-	25,000	24,987	25,272	285	0.87	1,068.58
18 September 2012	3 years	-	975,000	-	975,000	978,349	980,655	2,306	33.64	41,465.33
31 December 2012						1,880,532	1,888,057	7,525		
30 June 2012						1,030,196	1,025,522	(4,674)		

7. CONTINGENCIES AND COMMITMENTS

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

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on 14 December 2010, the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the High Court of Sindh. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in this condensed interim financial information and as matter of abundant caution has not reversed earlier provision amounting to Rs. 0.082 million. The aggregate unrecognised amount of WWF as at 31 December 2012 amounted to Rs. 4.228 million. (NAV per unit: Re. 0.15)

8. TAXATION

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

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

9. EARNINGS PER UNIT

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

10. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

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

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

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

10.1 Details of the transactions with connected persons are as follows:

	Six months period ended		Quarter ended	
	31 December		31 December	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Arif Habib Investments Limited - Management Company				
Remuneration for the period	<u>11,565</u>	<u>2,084</u>	<u>6,345</u>	<u>1,368</u>
Sindh sales tax on management fee	<u>1,850</u>	<u>334</u>	<u>1,015</u>	<u>220</u>
MCB Bank Limited				
Profit received on deposit accounts	<u>161</u>	<u>658</u>	<u>113</u>	<u>102</u>
Arif Habib Investments Limited				
Issue of bonus units NIL (2011: 2532units) and NIL units (2011: NIL units) for the six months and quarter ended respectively	<u>-</u>	<u>253</u>	<u>-</u>	<u>-</u>
Redemption of 1,105,733 units (2011: NIL units) and NIL units (2011: NIL units) for the six months and quarter ended respectively	<u>111,841</u>	<u>-</u>	<u>-</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee				
Remuneration for period	<u>1,298</u>	<u>289</u>	<u>735</u>	<u>138</u>
Other Related Parties - Directors and executives of the Management Company				
Issue of 49,214 units (2011: 62,640 units) and 6,081 units (2011: 43,818 units) for the six months and quarter ended respectively	<u>5,110</u>	<u>6,475</u>	<u>624</u>	<u>4,583</u>
Issue of 4,391 bonus units (2011: 17 bonus units) and bonus 2,049 units (2011: NIL units) for the six months and quarter ended respectively	<u>440</u>	<u>2</u>	<u>206</u>	<u>-</u>
Redemption of 66,587 units (2011: 12,032 units) and 40,780 units (2011: 10,514 units) for the six months and quarter ended respectively	<u>6,746</u>	<u>1,254</u>	<u>4,150</u>	<u>1,100</u>

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

10.2 Amounts outstanding as at period / year end:

	(Unaudited)	(Audited)
	31 December	June 30
	2012	2012
	(Rupees in '000)	
MCB Bank Limited		
Bank balance	<u>5,842</u>	<u>13,312</u>
Profit receivable on deposit accounts	<u>39</u>	<u>-</u>
Arif Habib Investment Management Limited - Management Company		
Payable to Management Company	<u>2,625</u>	<u>2,380</u>
Front end load payable	<u>2,118</u>	<u>925</u>
Central Depository Company of Pakistan Limited-Trustee		
Fee payable	<u>266</u>	<u>171</u>
Directors and executives of the Management Company		
Units held 54,194 units (June 2012: 37,870 units)	<u>5,431</u>	<u>3,791</u>

11. DATE OF AUTHORISATION

This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on February 04, 2013.



Chief Executive Officer

For Arif Habib Investment Limited
(Management Company)



Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

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

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

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