



**Bachat** ka Doosra Naam

**Quarterly Report**  
March 31, 2013  
(Unaudited)



Funds Under Management  
of  
Arif Habib Investments Limited

**MCB  
ISLAMIC INCOME FUND**

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## FUND'S INFORMATION

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<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(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)
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
<b>Human Resource &amp; Remuneration Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jehangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem, ACA	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed, ACA	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited Bank Al-Falah Limited Standard Chartered Bank Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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Dear Investor,

On behalf of the Board of Directors, I am pleased to present **MCB Islamic Income Fund's** accounts review for the nine months ended March 31st 2013.

## **ECONOMY AND MONEY MARKET OVERVIEW**

On the macroeconomic front, Mar'13 YoY CPI inflation of 6.57% was lowest since Aug'07, with 9M FY13 average CPI at 7.98%. CPI inflation may dip further in April and remain in the lower range for the next few months. However, with the base effect neutralizing CPI would start rising again expectedly towards the later part of the year. On the other hand, external current account had witnessed significant pressures during the past few months and changed its course during Feb'13 by posting a CA Deficit of US\$ 596 million - taking the 8M FY13 CAB to a deficit of US\$ 700 million. FX reserves continued to remain under pressure amid weaker financial account flows and heavy debt repayments including that of IMF during Mar'13- touching US\$ 12.37 billion mark, as of Mar' 22 2013. On the fiscal front, the government's reliance on domestic sources for fiscal funding has continued with YTD borrowing from banking system stood at an alarming level of PKR 937 billion by Mar'22 2013. With stressing its 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.

The short term money market rates remained in the higher range during most part of the period owing to relatively tight liquidity position in the system with few exceptions where the market witnessed floors also. SBP continued to inject sizeable amount through Open Market Operations to provide needed liquidity in the market. 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 246 bps to 9.51%, while longer tenure 10 year PKRV adjusted downwards by 139 bps to 11.89% during the period under review.

## **FUND PERFORMANCE**

During the quarter under review, the fund generated an annualized return of 9.6% as against its benchmark return of 6.2%, a significant out performance by 3.4%.

During the period, the fund largely maintained its exposure towards GoP Ijarah Sukuk, which stood at around 68% at period 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 March 31, 2013 stood at Rs.3.3623 billion as compared to Rs.1.5067 billion as at June 30, 2012 registering an increase of 123.16%.

The Net Asset Value (NAV) per unit as at March 31, 2013 was Rs. 100.28 as compared to opening NAV of Rs.100.10 per unit as at June 30, 2012 registering an increase of Rs. 0.18 per unit.

## **Income Distribution**

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

<b>Date of distribution</b>	<b>Per unit distribution</b>
	Rs.
September 27, 2012	3.1363
December 26, 2012	2.1461
March 26, 2013	1.5687

# REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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## FUTURE OUTLOOK

Going forward despite continued lower range of CPI inflation, further rate cut seems a distant possibility given deteriorating fiscal and external accounts, significant IMF repayments ahead and alarming monetary growth - while the potential return to the IMF may result in a cycle of monetary tightening by end of 2Q CY13. 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 relatively less active, especially on the longer end, with the anticipation of no rate cut and possible rate hikes in the next 2-4 months. In this backdrop, the activities are expected to be concentrated at short-end Treasury Bills 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

Dated: April 24, 2013

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

	<i>Note</i>	<b>(Unaudited) 31 March 2013</b>	<b>(Audited) 30 June 2012</b>
<b>(Rupees in '000)</b>			
<b>Assets</b>			
Balances with bank		1,028,789	464,118
Investments	6.	2,292,899	1,025,522
Profit receivable		47,123	19,989
Prepayments		161	101
Preliminary expenses and floatation costs		643	792
<b>Total assets</b>		<b>3,369,615</b>	<b>1,510,522</b>
<b>Liabilities</b>			
Payable to Arif Habib Investments Limited - Management Company		4,048	2,380
Payable to Central Depository Company of Pakistan Limited - Trustee		315	171
Payable to Securities and Exchange Commission of Pakistan - Annual fee		1,351	534
Accrued expenses and other liabilities		1,597	665
<b>Total liabilities</b>		<b>7,311</b>	<b>3,750</b>
<b>Contingency</b>	8.	-	-
<b>Net assets</b>		<b>3,362,304</b>	<b>1,506,772</b>
<b>Unit holders' fund</b>		<b>3,362,304</b>	<b>1,506,772</b>
<b>(Number of units)</b>			
<b>Number of units in issue</b>		<b>33,528,183</b>	<b>15,052,815</b>
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>100.28</b>	<b>100.10</b>

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

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

For Arif Habib Investment Limited  
(Management Company)

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	Note	Nine months period ended		Quarter ended	
		31 March		31 March	
		2013	2012	2013	2012
----- (Rupees in '000) -----					
<b>Income</b>					
Capital gain on sale of investment - net		4,527	1,210	88	(249)
Income from government securities		131,370	32,088	53,007	17,002
Profit on bank deposits		49,523	12,355	19,159	6,919
Net unrealised (diminution) in fair value of investments classified as 'at fair value through profit or loss'		(3,161)	-	(10,687)	-
<b>Total income</b>		<b>182,259</b>	<b>45,653</b>	<b>61,567</b>	<b>23,672</b>
<b>Expenses</b>					
Remuneration of Arif Habib Investments Limited - Management Company		18,500	4,467	6,935	2,383
Sindh sales tax on management fee		2,960	715	1,110	381
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,173	660	875	371
Annual fee - Securities and Exchange Commission of Pakistan		1,351	292	586	165
Settlement and bank charges		151	62	35	15
Fees and subscription		180	15	59	5
Auditors remuneration		495	453	180	170
Amortisation of preliminary expenses and floatation costs		150	151	49	50
Printing and related charges		157	160	49	35
<b>Total expenses</b>		<b>26,117</b>	<b>6,975</b>	<b>9,878</b>	<b>3,575</b>
<b>Net operating income for the period</b>		<b>156,142</b>	<b>38,678</b>	<b>51,689</b>	<b>20,097</b>
Net element of income and capital gains included in prices of units issued less those in units redeemed		15,370	27,874	3,107	11,797
Provision for Workers' Welfare Fund		-	73	-	-
<b>Net income for the period before taxation</b>		<b>171,512</b>	<b>66,479</b>	<b>54,796</b>	<b>31,894</b>
Taxation	7.	-	-	-	-
<b>Net income for the period after taxation</b>		<b>171,512</b>	<b>66,479</b>	<b>54,796</b>	<b>31,894</b>
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>171,512</b>	<b>66,479</b>	<b>54,796</b>	<b>31,894</b>
<b>Earning per unit</b>	9.				

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

For Arif Habib Investment Limited  
(Management Company)



Chief Executive Officer



Director



**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	Nine months period ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
Undistributed income brought forward	1,491	458	6,297	34,585
Total comprehensive income for the period	171,512	66,479	54,796	31,894
Net element of income and capital gains included in the prices of units issued less those in units redeemed	1,829	-	439	-

**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

- 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

- 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

- Bonus units

Interim distribution at the rate of Rs. 1.5687 per unit for the quarter ended 31 March 2013 (Date of Distribution: 26 March 2013)

- Cash distribution

- Bonus units

-	(458)	-	-
(125)	-	-	-
(57,022)	-	-	-
(86)	(248)	-	(248)
(56,067)	(49,680)	-	(49,680)
(63)	(50)	(63)	(50)
(52,064)	(13,532)	(52,064)	(13,532)
(165,427)	(63,968)	(52,127)	(63,510)
9,405	2,969	9,405	2,969

Undistributed income carried forward

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



Chief Executive Officer

For Arif Habib Investment Limited  
(Management Company)



Director

# CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

	Nine months period ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
	----- (Rupees in '000) -----			
Net assets at the beginning of the period	1,506,772	181,557	2,915,501	644,800
Issue of 34,453,764 units (2012: 10,541,023 units) and 11,738,581 (2012: 5,667,147 units) for the nine months and quarter ended respectively	3,485,758	1,086,594	1,184,763	580,921
Issue of Nil bonus units for the year ended 30 June 2012 (2011: 4,585 units)	-	458	-	-
Issue of 569,652 bonus units for the period ended 30 September 2012 (2011: Nil units)	57,022	-	-	-
Issue of 560,121 bonus units for the period ended 31 December 2012 (2011: 496,802 units)	56,067	49,680	-	49,680
Issue of 520,127 bonus units for the period ended 31 March 2013 (2012: 135,004 units)	52,064	13,532	52,064	13,532
Redemption of 17,628,296 units (2012: 2,409,455 units) and 7,822,584 units (2012: 1,821,482 units) for the nine months and quarter ended respectively	(1,786,094)	(245,594)	(789,586)	(184,656)
	1,864,817	904,670	447,241	459,477
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed				
- amount representing (income) and realised capital (gains) transferred to the Income Statement	(15,370)	(27,874)	(3,107)	(11,797)
- amount representing unrealized capital (gains) - transferred to the Distributed Statement	(1,829)	-	(439)	-
	(17,199)	(27,874)	(3,546)	(11,797)
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 / (loss) on sale of investments)	170,146	65,269	65,395	32,143
Capital gain / (loss) on sale of investments	4,527	1,210	88	(249)
Net unrealised (diminution) in value of investments classified as 'at fair value through profit or loss'	(3,161)	-	(10,687)	-
	171,512	66,479	54,796	31,894
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	1,829	-	439	-
<b>Distributions to the unit holders of the Fund:</b>				
<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				
- Cash distribution	-	-	-	-
- Bonus units	-	(458)	-	-
<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				
- Cash distribution	(125)	-	-	-
- Bonus units	(57,022)	-	-	-
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	(86)	(248)	-	(248)
- Bonus units	(56,067)	(49,680)	-	(49,680)
Interim distribution at the rate of Rs. 1.5687 per unit for the quarter ended 31 March 2013 [Date of Distribution: 26 March 2013]				
- Cash distribution	(63)	(50)	(63)	(50)
- Bonus units	(52,064)	(13,532)	(52,064)	(13,532)
	(165,427)	(63,968)	(52,127)	(63,510)
Net assets as at the end of the period	3,362,304	1,060,864	3,362,304	1,060,864

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

**For Arif Habib Investment Limited  
(Management Company)**

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

  
\_\_\_\_\_  
Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

	Nine months period ended 31 March		Quarter ended 31 March	
	2013	2012	2013	2012
----- (Rupees in '000) -----				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Total comprehensive income for the period	171,512	66,479	54,796	31,894
<i>Adjustments for non-cash charges and other items:</i>				
Net unrealised / diminution in fair value of investments classified as 'at fair value through profit or loss'	3,161	-	10,687	-
Amortisation of preliminary expenses and floatation costs	150	151	49	50
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed	(15,370)	(27,874)	(3,107)	(11,797)
	<b>159,453</b>	<b>38,756</b>	<b>62,425</b>	<b>20,147</b>
<b>(Decrease) / Increase in assets</b>				
Investments	(1,270,539)	(650,995)	(415,530)	(284,562)
Profit receivable	(27,134)	(32,756)	8,774	(27,584)
Prepayments	(60)	10	(141)	-
	<b>(1,297,733)</b>	<b>(683,741)</b>	<b>(406,897)</b>	<b>(312,146)</b>
<b>Decrease / (increase) in liabilities</b>				
Payable to Arif Habib Investments Limited - Management Company	1,668	1,376	1,423	(2,676)
Payable to the Central Depository Company of Pakistan Limited - Trustee	144	123	49	55
Accrued expenses and other liabilities	932	562	(1,777)	59
Advance against issue of units	-	-	-	(18,901)
Payable to Securities and Exchange Commission of Pakistan - Annual fee	817	288	586	165
	<b>3,561</b>	<b>2,349</b>	<b>281</b>	<b>(21,298)</b>
<b>Net cash used in operating activities</b>	<b>(1,134,719)</b>	<b>(642,636)</b>	<b>(344,191)</b>	<b>(313,297)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	(274)	(248)	(63)	(248)
Receipts from issuance of units	3,485,758	1,086,594	1,184,763	580,921
Payments on redemption of units	(1,786,094)	(245,594)	(812,007)	(184,656)
<b>Net cash from financing activities</b>	<b>1,699,390</b>	<b>840,752</b>	<b>372,693</b>	<b>396,017</b>
Net increase in cash and cash equivalents during the period	<b>564,671</b>	198,116	<b>28,502</b>	82,720
Cash and cash equivalents at beginning of the period	<b>464,118</b>	79,505	<b>1,000,287</b>	194,901
<b>Cash and cash equivalents at end of the period</b>	<b>1,028,789</b>	<b>277,621</b>	<b>1,028,789</b>	<b>277,621</b>

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

  
\_\_\_\_\_  
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 NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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## 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 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.

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.

**2.1.3** This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

**2.1.4** 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 statement of assets and liabilities presented in the condensed interim financial information as at 31 March 2013 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 moment in unit holders' fund and condensed interim cash flow statement are extracted from unaudited condensed interim financial information for the period ended 31 March 2012.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**3.1** The accounting policies adopted for the preparation of these condensed interim financial statements are the 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 except where changes affected presentation and disclosures in this condensed interim financial information.

**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.

**6. INVESTMENTS**

**(Unaudited)**      (Audited)  
**31 March**      30 June  
**2013**      2012  
**(Rupees in '000)**

*'At fair value through profit or loss' - held for trading*  
- Government securities

6.1      **2,292,899**      **1,025,522**

**6.1 'At fair value through profit or loss' - held for trading - Investment in government securities**

Issue date	Tenor	Face value				Balance as at 31 March 2013			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 March 2013	Carrying Value	Market value	Appreciation / (diminution)		
-----Rupees in '000-----										
15 November 2010	3 years	697,500	75,000	406,000	366,500	366,701	367,343	642	10.93	16.02
16 May 2011	3 years	280,000	78,200	-	358,200	358,995	359,669	674	10.70	15.69
26 December 2011	3 years	47,500	150,000	47,500	150,000	151,500	150,675	(825)	4.48	6.57
2 March 2012	3 years	-	25,000	-	25,000	24,987	25,115	128	0.75	1.10
18 September 2012	3 years	-	1,455,000	100,000	1,355,000	1,360,577	1,356,897	(3,680)	40.36	59.18
30 April 2013	3 years	-	30,000	-	30,000	30,300	30,189	(111)	0.90	1.32
07 March 2011	3 years	-	3,000	-	3,000	3,000	3,012	12	0.09	0.13
<b>31 March 2013</b>						<u><b>2,296,060</b></u>	<u><b>2,292,899</b></u>	<u><b>(3,161)</b></u>		
30 June 2012						<u>1,030,196</u>	<u>1,025,522</u>	<u>(4,674)</u>		

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013

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### 7. 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.

### 8. CONTINGENCY

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, 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) 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 the year ended June 30, 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 Full bench of three members 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 by SHC judgment and hence provision against WWF amounting to Rs. 5.324 million as at 31 March 2013 (including Rs 3.43 million for the current period) has not been recognised by the Management Company in this condensed interim financial information. However, as a matter of abundant caution, the Management Company has not reversed the earlier provision of Rs. 0.082 million.(NAV per unit : Re 0.16)

### 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.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

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:**

	<b>Nine months period ended</b>		<b>Quarter ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	----- (Rupees in '000) -----			
<b>Arif Habib Investments Limited - Management Company</b>				
Remuneration for the period	<u>18,500</u>	<u>4,467</u>	<u>6,935</u>	<u>2,383</u>
Sindh sales tax on management fee	<u>2,960</u>	<u>715</u>	<u>1,110</u>	<u>381</u>
<b>MCB Bank Limited</b>				
Markup Income	<u>487</u>	<u>299</u>	<u>287</u>	<u>65</u>
<b>Arif Habib Investments Limited</b>				
Issue of bonus units NIL (2012: 80,617 units) and NIL units (2012: 78,085 units) for the nine months and quarter ended respectively	<u>-</u>	<u>8,065</u>	<u>-</u>	<u>7,812</u>
Redemption of 1,105,733 units (2012: NIL units) and NIL units (2012: NIL units) for the nine months and quarter ended respectively	<u>111,841</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration for period	<u>2,173</u>	<u>660</u>	<u>875</u>	<u>371</u>
<b>Other Related Parties - Directors and executives of the Management Company</b>				
Issue of 66,444 units (2012: 78,170 units) and 17,230 units (2012: 15,530 units) for the nine months and quarter ended respectively	<u>6,859</u>	<u>8,139</u>	<u>1,749</u>	<u>1,664</u>
Issue of 4,528 bonus units (2012: 5,058 bonus units) and bonus units 137 (2012: 5,041 units) for the nine months and quarter ended respectively	<u>453</u>	<u>506</u>	<u>13</u>	<u>504</u>
Redemption of 94,821 units (2012: 20,434 units) and units 28,234 (2012: 8,402 units) for the six months and quarter ended respectively	<u>9,587</u>	<u>2,102</u>	<u>2,841</u>	<u>848</u>

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2013**

<b>10.2 Amounts outstanding as at period / year end</b>	<b>(Unaudited) 31 March 2013 (Rupees in '000)</b>	<b>(Audited) June 30 2012</b>
<b>MCB Bank Limited</b>		
Bank balance	<u>2,614</u>	<u>13,312</u>
Profit receivable on deposit accounts	<u>65</u>	<u>-</u>
 <b>Arif Habib Investment Management Limited - Management Company</b>		
Payable to Management Company	<u>2,946</u>	<u>2,380</u>
Front end load payable	<u>1,102</u>	<u>925</u>
Units held Nil units (June 2012: 1,105,733 units)	<u>-</u>	<u>110,717</u>
 <b>Central Depository Company of Pakistan Limited-Trustee</b>		
Fee payable	<u>315</u>	<u>171</u>
 <b>Directors and executives of the Management Company</b>		
Units held 39,396 units (June 2012: 63,244 units)	<u>3,948</u>	<u>6,333</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 April 24, 2013.

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

For Arif Habib Investment Limited  
(Management Company)

  
 \_\_\_\_\_  
 Director



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## **Arif Habib Investments Limited**

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