

# MCB ISLAMIC INCOME FUND

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## **MCB ISLAMIC INCOME FUND 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	Chairman(subject to the approval of SECP)
Mr. Nasim Beg	Executive Vice Chairman
Mr. Yasir Qadri	Chief Executive (subject to the approval of SECP)
Syed Salman Ali Shah	Director (subject to the approval of SECP)
Mr. Haroun Rashid	Director (subject to the approval of SECP)
Mr. Ahmed Jahangir	Director (subject to the approval of SECP)
Mr. Samad A. Habib	Director
Mr. Mirza Mahmood Ahmad	Director (subject to the approval of SECP)

### **Company Secretary & CFO of the Management Company**

Mr. Muhammad Saqib Saleem

### **Audit Committee**

Mr. Nasim Beg  
Mr. Haroun Rashid  
Mr. Samad A. Habib  
Mr. Ali Munir

### **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 Alfalah Limited  
Standard Chartered Bank (Pakistan) Limited  
United Bank Limited

### **Auditors**

A.F. Ferguson & Co. - Chartered Accountants  
State Life Building No. 1-C,  
I.I. Chundrigar Road, Karachi-74000.

### **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 (Positive Outlook) –  
Management Quality Rating assigned by PACRA

# **MCB ISLAMIC INCOME FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

The Board of Directors of Arif Habib Investment 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 period ended 30th June, 2011.

## **Economy and Money Market Overview**

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US\$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US\$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US\$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US\$ 2.5 billion - taking the FX reserves to a record level of US\$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during the year in both primary as well as secondary markets.

## **Future outlook**

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates.

In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

## **Funds Performance**

The net assets of the fund grew to a size of PKR 178 million as on June 30, 2011 within just couple of week of its launch. 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 brief period since its inception, the fund was able to yield an annualized return of 7.7% during the period under review which was lower than the Fund's benchmark return of 8.5% during the same period.

# MCB ISLAMIC INCOME FUND

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

### FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year. 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 has been increasing its exposure significantly towards GoP Ijarah Sukuk (GIS) while also maintaining a decent exposure towards bank deposits.

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

Performance Information (%)	MCB IIF	Benchmark
Last twelve Months Return (Annualized)	N/A	N/A
Since Inception (CAGR)	7.7%	8.5%

During the period your fund earned net income of Rs 0.46 million. The Board in the meeting held on 4th July, 2011 has declared final distribution amounting to Rs. 0.46 million (i.e. Rs. 0.2532 per unit).

During the period, units worth Rs.0.18 million (including Rs. 0.46 million worth of bonus units) were issued and units with a value of Rs. Nil were redeemed. As on 30th June 2011 the NAV of the Fund was Rs. 100.25 per unit.

#### Update on Worker's Welfare Fund

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in embed of the said Ordinance. MUFAP on behalf CIS filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis.

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 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 view of the afore mentioned developments, the Management Company after the receipt of decision made of LHC firmly believes that there is no compelling reason to make further provision on account of WWF contribution. However, as matter of abundant caution and prudence the Management Company of the Fund has decided not reverse the provision already till the decision of Honorable Sind High Court.

#### 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:

- Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- Proper books of accounts of the Fund have been maintained during the period.
- Appropriate accounting policies have been adopted and consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- 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.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as going concern.

**MCB ISLAMIC INCOME FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

- 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 the 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. As per note 1 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011:

Before the said merger the and during the period from May 01, 2011 to June 30, 2011 25th BoD meetings of MCB Asset Management Company Limited was held on June 23, 2011. Information in respect of attendance by Directors in the meeting is given below:

S.#	Name of persons attending the meetings	Designation	Number of Meetings			
			No. of Meeting Held	Attendance Required	Attended	Leave Granted
1.	Mian Mohammad Mansha	Chairman	1	1	1	-
2.	Mr. U.A. Usmani	Director	1	1	1	-
3.	Mr. Ali Munir	Director	1	1	1	-
4.	Mr. Ahmed Jahangir	Director	1	1	1	-
5.	Mr. Haroun Rashid	Director	1	1	1	-
6.	Mr. Syed Waliullah Shah	Director	1	-	-	1
7.	Mr. Samir Saigol	Director	1	1	1	-
8.	Mr. Ismail Arif Rafi *	Director	1	-	-	1
9.	Mr. Yasir Qadri	Chief Executive	1	1	1	-

\* The above director was appointed during the year and only five meetings of the Board were held after his appointment

Pursuant to merger, The 88th BoD meeting of Arif Habib Investments Limited was held on June 27, 2011. Information in respect of attendance by Directors in the meetings is given below:

S.#	Name of persons attending the meetings	Designation	Number of Meetings			
			No. of Meeting Held	Attendance Required	Attended	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	1	1	1	-
2.	Mr. Nasim Beg **	Exe Vice Chairman	1	1	1	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	1	1	1	-
4.	Mr. Muhammad Kashif *	Former Director	1	1	-	1
5.	Syed Ajaz Ahmed *	Former Director	1	1	-	1
6.	Mr. Sirajuddin Cassim *	Former Director	1	1	-	1
7.	Mr. S. Gulrez Yazdani *	Former Director	1	1	1	-
8.	Mr. Samad A. Habib	Director	1	1	1	-
9.	Mian Mohammad Mansha ***	Chairman	1	1	1	-
10.	Mr. Yasir Qadri ***	Chief Executive	1	1	1	-
11.	Syed Salman Ali Shah ***	Director	1	1	1	-
12.	Mr. Haroun Rashid ***	Director	1	1	1	-
13.	Mr. Ahmed Jahangir ***	Director	1	1	1	-
14.	Mr. Mirza Mahmood Ahmad ***	Director	1	1	1	-

\* The above directors resigned in the 88th meeting held on 27th June, 2011.  
 \*\* Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.  
 \*\*\* Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

- m. During the period under review no trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children.

**MCB ISLAMIC INCOME FUND  
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**External Auditors**

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for ensuring year ending June 30, 2012. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountants as auditors of the fund for the year ending June 30, 2012.

**Acknowledgement**

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in 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: September 20, 2011**

# MCB ISLAMIC INCOME FUND REPORT OF THE FUND MANAGER FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011

## 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

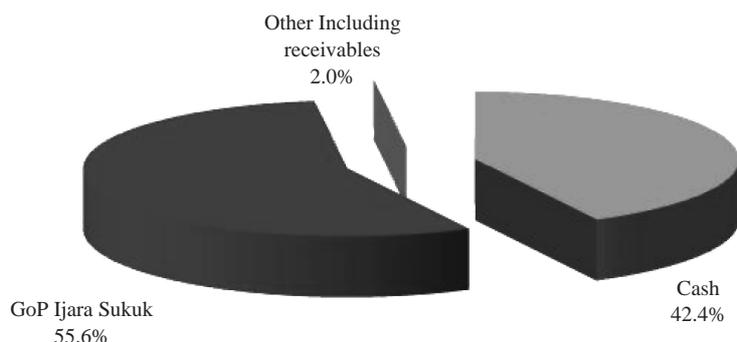
MCB IIF was launched on 16th June 2011 and therefore has a performance period of only half a month for the year under review (FY11).

During the first month of its launch, the fund generated an annualized return of 7.8%, a marginal under-performance of 0.7% 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 56% at year-end while 42% assets were kept in bank deposits.

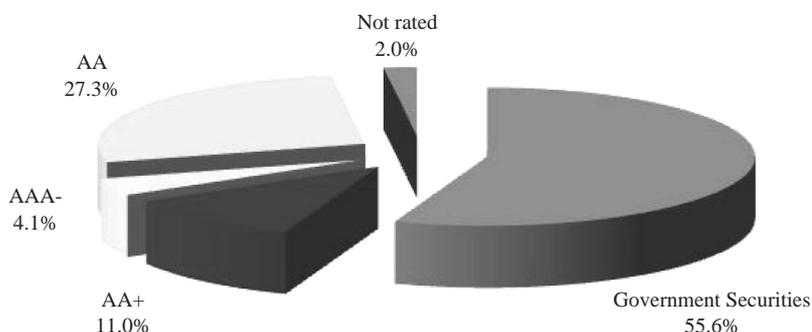
Given the attractive risk-return profile of government papers, the fund plans to keep a major portion of its assets in GIS to enhance returns instead of putting them in corporate Sukuk. Moreover, the net assets of fund have grown to a size of around PKR 178 million by the end of June 2011.

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, 2011 (% of total assets)**



**Asset Quality as on June 30, 2011(% of total assets)**




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Syed Akbar Ali, CFA  
Fund Manager

Karachi: September 20, 2011

# **MCB ISLAMIC INCOME FUND TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

## **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**

The MCB Islamic Income Fund (the Fund), an open-end fund was established under a trust deed dated March 7, 2011, executed between MCB Asset Management Company Limited (MCB AMC), as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

During the year MCB AMC merged with and into Arif Habib Investments Limited (AHIL). Based on interim relief granted by the Honorable High Court Sindh at Karachi against the order of the Securities & Exchange Commission of Pakistan regarding extension of effective date of merger vide its letter dated June 27, 2011, AHIL is continuing as the Management Company of the fund till the final resolution of the case.

In our opinion, the Management Company has in all material respects managed the Fund for the period from May 01, 2011 to June 30, 2011 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 26, 2011

# **MCB ISLAMIC INCOME FUND**

## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE**

### **FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of **MCB Islamic Income Fund** ("the Fund") to comply with the Code of Corporate Governance contained in Chapter XI 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 former management company, MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited) and 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 three independent non-executive directors out of a total of eight directors.
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 resident 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. As explained in note 1.2 to the financial statements of the Fund for the period from May 01, 2011 to June 30, 2011, due to amalgamation of MCB Asset Management Company Limited with and into Arif Habib Investments Limited the Board of Directors of the former Management Company stand dissolved on June 27th, 2011. Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed, directors of Arif Habib Investments Limited (post merger Management Company of the Fund) had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company.
5. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
6. The Board has developed a 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 (CEO) and Executive Vice Chairman has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
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, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated.
9. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
11. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer.
12. The Directors' Report of the Fund for this period has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The Directors, CEO 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 financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
15. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
17. 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.

**MCB ISLAMIC INCOME FUND  
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

18. The internal audit function of MCB Asset Management Company (now merged with and into Arif Habib Investments Limited) was outsourced to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi. However, as M/s Ford Rhodes Sidat Hyder & Co was acting as statutory auditors of Arif Habib Investments Limited (post merger Management Company of the Fund), they had resigned on the date of amalgamation. The Management Company has an in-house effective internal audit function and the internal auditors are suitably qualified and experienced for the purpose and are well conversant with the policies and procedures of the Fund
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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
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 IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

**For and on behalf of the board**

**Yasir Qadri  
Chief Executive**

**Karachi: September 20, 2011**

# **MCB ISLAMIC INCOME FUND REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Arif Habib Investments Limited (the Management Company) for and on behalf of MCB Islamic Income Fund to comply with the requirements of Chapter XI of the Listing Regulations of the Lahore Stock Exchange 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 the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of Listing Regulation No. 35 requires the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length prices 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 the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from May 01, 2011 to June 30, 2011.

**A.F. Ferguson & Co.**  
**Chartered Accountants**  
**Karachi**  
**Dated: 25th October 2011**

# **MCB ISLAMIC INCOME FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

We have audited the accompanying financial statements of MCB Islamic Income Fund, which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period from May 01, 2011 to June 30, 2011 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 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.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 June 30, 2011 and of its financial performance, cash flows and transactions for the period from May 01, 2011 to June 30, 2011 in accordance with the approved accounting standards as applicable in Pakistan.

## **Other matters**

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Ferguson & Co.**  
**Chartered Accountants**  
**Engagement Partner: Salman Hussain**

**Dated: 25th October 2011**  
**Karachi**

# **FINANCIAL STATEMENTS**

**MCB ISLAMIC INCOME FUND  
STATEMENT OF ASSETS AND LIABILITIES  
AS AT JUNE 30, 2011**

	Note	June 30, 2011
		(Rupees in '000)
<b>ASSETS</b>		
Bank balances	4	79,505
Investment in government securities	5	100,250
Profit and other receivables	6	2,491
Preliminary expenses and floatation costs	7	993
<b>Total assets</b>		<b>183,239</b>
<b>LIABILITIES</b>		
Payable to the Management Company	8	1,599
Payable to the Trustee	9	20
Payable to Securities and Exchange Commission of Pakistan	10	4
Accrued expenses and other liabilities	11	59
<b>Total liabilities</b>		<b>1,682</b>
<b>NET ASSETS</b>		<b>181,557</b>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<b>181,557</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	13	
		(Number of Units)
<b>NUMBER OF UNITS IN ISSUE</b>	14	<b>1,810,991</b>
		(Rupees)
<b>NET ASSET VALUE PER UNIT</b>		<b>100.25</b>
<b>FACE VALUE PER UNIT</b>		<b>100.00</b>

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

**MCB ISLAMIC INCOME FUND  
INCOME STATEMENT  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

	Note	For the period from May 01, 2011 to June 30, 2011 (Rupees in '000)
<b>INCOME</b>		
Profit on bank deposits		465
Income from government securities		111
<b>Total Income</b>		<b>576</b>
<b>EXPENSES</b>		
Remuneration of the Management Company		51
Remuneration of the Trustee		20
Annual fee - Securities and Exchange Commission of Pakistan		4
Auditors' remuneration	15	50
Amortisation of preliminary expenses and floatation costs	7	7
Other expenses		23
<b>Total expenses</b>		<b>155</b>
<b>Net income from operating activities</b>		<b>421</b>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		46
Provision for Workers' Welfare Fund	12	(9)
<b>Net income for the period before taxation</b>		<b>458</b>
Taxation	16	-
<b>Net income for the period after taxation</b>		<b>458</b>
Other comprehensive income for the period		-
<b>Total comprehensive income for the period</b>		<b>458</b>
Earnings per unit (EPU)	17	<b>0.28</b>

The annexed notes 1 to 29 form an integral part of these financial statements.

**For Arif Habib Investments Limited  
(Mangement Company)**

Chief Executive

Director

**MCB ISLAMIC INCOME FUND  
DISTRIBUTION STATEMENT  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

<b>For the period from May 01, 2011 to June 30, 2011</b>
--

(Rupees in '000)

Net income for the period after taxation	458
<b>Undistributed income carried forward</b>	<u>458</u>
<b>Undistributed income comprising :</b>	
Realised income	458
Unrealised income	-
	<u>458</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

**For Arif Habib Investments Limited  
(Mangement Company)**

Chief Executive

Director

**MCB ISLAMIC INCOME FUND  
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

	<b>For the period from May 01, 2011 to June 30, 2011</b>
	<b>(Rupees in '000)</b>
<b>Net assets at the beginning of the period</b>	-
Issue of 1,780,843 units	181,145
Redemption of Nil units	-
	181,145
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	(46)
Net income for the period after taxation	458
<b>Net assets at the end of the period</b>	<b>181,557</b>

The annexed notes 1 to 29 form an integral part of these financial statements.

**For Arif Habib Investments Limited  
(Mangement Company)**

Chief Executive

Director

**MCB ISLAMIC INCOME FUND  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

	Note	<b>For the period from May 01, 2011 to June 30, 2011</b>
<b>(Rupees in '000)</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period before taxation		458
<b>Adjustments :</b>		
Element of (income) / losses and capital (gains) / losses included in prices of units issued less those in units redeemed		(46)
Amortisation of preliminary expenses and floatation costs		7
		<u>419</u>
<b>(Increase) / decrease in assets</b>		
Investments		(100,250)
Profit and other receivables		(2,491)
		<u>(102,741)</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to the Management Company		599
Payable to the Trustee		20
Payable to Securities and Exchange Commission of Pakistan		4
Accrued expenses and other liabilities		59
		<u>682</u>
<b>Net cash outflow on operating activities</b>		<u>(101,640)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from issue of units		181,145
Payments on redemption of units		-
<b>Net cash inflow from financing activities</b>		<u>181,145</u>
<b>Net increase in cash and cash equivalents during the period</b>		<u>79,505</u>
Cash and cash equivalents at the beginning of the period		-
<b>Cash and cash equivalents at the end of the period</b>	18	<u><u>79,505</u></u>

The annexed notes 1 to 29 form an integral part of these financial statements.

**For Arif Habib Investments Limited  
(Mangement Company)**

Chief Executive

Director

# **MCB ISLAMIC INCOME FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

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

**1.1** MCB Islamic Income Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as an investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on June 19, 2011. It was constituted under a Trust Deed dated March 7, 2011 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 as the Trustee, also incorporated under the Companies Ordinance, 1984.

**1.2** Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th 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 June 10, 2011 ). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to 30th July 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 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 Sindh High Court (SHC) has 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 NAV remain unaffected.

The Management Company of the Fund has been licensed to act as 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.

**1.3** The Fund has been categorized as an Open-End Shariah Compliant (Islamic) Scheme and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

**1.4** 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 May 01, 2011.

**1.5** The principal activity of the Fund is to 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.

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

**1.7** The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' (positive outlook) to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund which is expected to be completed in the year 2012.

#### **2. BASIS OF PREPARATION**

##### **2.1 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail.

##### **2.2 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective**

The following revised standard has been published and is mandatory for accounting periods beginning on or after July 1, 2011:

# **MCB ISLAMIC INCOME FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### **2.3 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies related to classification and valuation of investments (note 3.2 and 5).

#### **2.4 Accounting Convention**

These financial statements have been prepared under the historical cost convention except for certain investments which are carried at fair value in accordance with the criteria laid down in the International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

#### **2.5 Functional and presentation currency**

These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### **3.1 Cash and cash equivalents**

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried in the Statement of Assets and Liabilities at cost.

#### **3.2 Financial assets**

##### **3.2.1 Classification**

The Fund classifies its financial assets in the following categories: (a) at fair value through profit or loss and (b) loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition.

##### **(a) Financial assets 'at fair value through profit or loss'**

Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

##### **(b) Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

# **MCB ISLAMIC INCOME FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

#### **3.2.2 Regular way contracts**

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

#### **3.2.3 Initial recognition and measurement**

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

#### **3.2.4 Subsequent measurement**

##### **a) Financial assets 'at fair value through profit or loss'**

Subsequent to initial recognition, instruments classified as 'financial assets at fair value through profit or loss' are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in the income statement.

##### **b) Loans and receivables**

Subsequent to initial recognition financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

#### **3.2.5 Impairment**

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Provision for non-performing exposures is made in accordance with the criteria specified in circular 1 dated January 6, 2009 and circular 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

#### **3.2.6 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

#### **3.3 Financial liabilities**

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

#### **3.4 Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is 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 asset and settle the liability simultaneously.

# **MCB ISLAMIC INCOME FUND**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

#### **3.5 Derivatives**

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured at its fair value. Derivatives with positive market value (unrealised gain) are included in other assets and derivatives with negative market value (unrealised loss) are included in other liabilities. The resultant gains and losses are included in the income statement.

#### **3.6 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from June 19, 2011, as per the requirements of the Trust Deed of the Fund and NBFC regulation, 2008.

#### **3.7 Issue and redemption of units**

Units issued are recorded at the offer price as per constitutive documents, determined by the Management Company for the applications received by the distributors during business hours of that date. The offer price represents the net asset value per unit as of the close of the business day when the funds are realised, plus the allowance of any front-end load, any provision for transaction costs and any provision for duties and charges, if applicable.

Units redeemed are recorded at the redemption price as per constitutive documents, applicable to units for which the distributors receive redemption applications during business hours of 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.

#### **3.8 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) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution income of per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders.

The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

#### **3.9 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.

#### **3.10 Taxation**

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 for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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 it is no longer probable that the related tax benefit will be realised. 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.

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**3.11 Proposed distributions**

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

**3.12 Revenue recognition**

- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Income on issue and repurchase of units is recognised when units are issued and redeemed at the transaction date.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.

**3.13 Net asset value per unit**

The Net Asset 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 circulation at the period end.

**4. BANK BALANCES**

	Note	<b>June 30, 2011</b>
		<b>(Rupees in '000)</b>
Saving accounts	4.1	<u>79,505</u>

**4.1** These saving accounts carry profit at rates ranging from 5% to 13.2% per annum.

**5. INVESTMENTS IN GOVERNMENT SECURITIES**

	Note	<b>June 30, 2011</b>
		<b>(Rupees in '000)</b>
Ijara sukuk	5.1	<u>100,250</u>

**5.1** The Ijara Sukuk carry a profit rate of 13.45% and are maturing on May 16, 2014.

**6. PROFIT AND OTHER RECEIVABLE**

	<b>June 30, 2011</b>
	<b>(Rupees in '000)</b>
Profit accrued on saving deposits	795
Income on Ijara sukuk	<u>1,696</u>
	<u>2,491</u>

**7. PRELIMINARY EXPENSES AND FLOATATION COSTS**

Preliminary expenses and floatation costs incurred	1,000
Less: amortisation for the period	<u>7</u>
Balance as at June 30, 2011	<u>993</u>

**7.1** Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from June 19, 2011 as per the requirements set out in the Trust Deed of the Fund and NBFC regulation, 2008.

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

<b>8. PAYABLE TO MANAGEMENT COMPANY</b>		<b>Note</b>	<b>June 30, 2011</b>
			<b>(Rupees in '000)</b>
Remuneration of Management Company		8.1	51
Preliminary Expenses And Floatation Costs			1,000
Sales load payable			145
Others			403
			<u>1,599</u>

**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 Regulation. The remuneration is paid to the Management Company on a monthly basis in arrears.

<b>9. PAYABLE TO THE TRUSTEE</b>		<b>Note</b>	<b>June 30, 2011</b>
			<b>(Rupees in '000)</b>
Trustee Fee		9.1	<u>20</u>

**9.1** The Trustee 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 as at June 30, 2011 is as follows:

<b>Net Assets</b>	<b>Tariff per annum</b>
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.

<b>10. ANNUAL FEE PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>		<b>Note</b>	<b>June 30, 2011</b>
			<b>(Rupees in '000)</b>
Annual fee		10.1	<u>4</u>

**10.1** Under the provision of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (The NBFC Regulations), the Fund is required to pay as annual fee to the SECP, an amount equal to the 0.075 percent of the average annual net assets of the Fund.

<b>11. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			<b>June 30, 2011</b>
			<b>(Rupees in '000)</b>
Auditors' remuneration payable			50
Provision for Workers' Welfare Fund			9
			<u>59</u>

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

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

**MCB ISLAMIC INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

Subsequently 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 December 14, 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 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. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has made the provision for WWF amounting to Rs. 0.009 million in these financial statements.

**13. CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments outstanding as at June 30, 2011.

**14. NUMBER OF UNITS IN ISSUE**

	<b>For the period from May 01, 2011 to June 30, 2011</b>
	<b>(Rupees in '000)</b>
Units issued	1,810,991
Add: Bonus units issued	-
Less: Units redeemed	-
Total units in issue at the end of the period	<u>1,810,991</u>

**15. AUDITORS' REMUNERATION**

Audit fee	50
	<u>50</u>

**16. TAXATION**

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 90 percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company has distributed subsequently the required minimum percentage of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

**17. EARNINGS PER UNIT**

	<b>June 30, 2011</b>
	<b>(Rupees in '000)</b>
Net income for the period after taxation	<u>458</u>
	<b>Number of units</b>
Weighted average number of units outstanding	<u>1,629,191</u>
Earning per unit (basic and diluted)	<u>0.28</u>

**18. CASH AND CASH EQUIVALENTS**

Bank balances	<u>79,505</u>
---------------	---------------

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**19. FINANCIAL INSTRUMENTS BY CATEGORY**

----- As at June 30, 2011 -----		
Loans and receivables	Assets at fair value through profit or loss	Total

----- (Rupees in '000) -----

**Financial Assets**

Bank balances	79,505	-	79,505
Investments	-	100,250	100,250
Profit and other receivables	2,491	-	2,491
	<u>81,996</u>	<u>100,250</u>	<u>182,246</u>

----- As at June 30, 2011 -----		
Laibilities at fair value through profit or loss	Amortised cost	Total

----- (Rupees in '000) -----

**Financial Liabilities**

Payable to the Management Company	-	1,599	1,599
Payable to the Trustee	-	20	20
Accrued expenses and other liabilities	-	50	50
	<u>-</u>	<u>1,669</u>	<u>1,669</u>

**20. TRANSACTIONS WITH CONNECTED PERSONS**

**20.1** Connected persons of the Fund include MCB Asset Management Company Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee of the fund, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

**20.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

**20.3** Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

**20.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC regulations and the Trust Deed.

**20.5** Details of the transactions with connected persons are as follows:

<b>For the period from                      May 01,                      2011 to                      June 30, 2011</b>
---

(Rupees in '000)

**Management Company**

Remuneration for the period	51
Preliminary expenses and floatation cost paid by the Management Company on behalf of the Fund	1,000
Sales load	145
Issue of 1,000,000 units	100,000

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

For the  
period from  
May 01,  
2011 to  
June 30, 2011  
(Rupees in '000)

**MCB Bank Limited**

Profit on bank deposits 178

**Central Depository Company of Pakistan Limited**

Remuneration for the period 20

**20.6 Amount outstanding at the period end**

June 30, 2011  
(Rupees in '000)

**Management Company**

Outstanding 1,000,000 units 100,253

Remuneration payable 51

Preliminary expenses and Formation cost payable 1,000

Sales load payable 145

Others 403

**MCB Bank Limited**

Balance in saving account 22,843

Profit receivable on bank deposits 508

**Central Depository Company of Pakistan Limited**

Remuneration payable 20

**21. PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER**

Details of members of the investment committee of the Fund are as follow:

Name	Designation	Experience in years	Qualification
1 Mr. Yasir Qadri	Chief Executive	16	MBA
2 Mr. Kashif Rafi	Fund Manager - Fixed Income	10	MBA and CFA Level 1
3 Mr. Muhammad Asim	Fund Manager - Equity Funds	8	MBA & CFA
4 Mr. Mohsin Pervez	Senior Research Analyst	10	MBA
5 Mr. Syed Akbar Ali	Senior Research Analyst	6	MBA & CFA

**21.1** Syed Akbar Ali is the Fund Manager. Other Funds being managed by the fund manager are as follow:

- a) Pakistan Stock Market Fund
- b) Pakistan International Element Islamic Fund
- c) Pakistan Islamic Pension Fund

**22. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID**

Percentage  
100.00%

1 BMA Capital Management Company Limited

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**23. PATTERN OF UNIT HOLDING**

----- As at June 30, 2011 -----				
Category	Number of Unit Holders	Number of Unit Held	Net asset value of the amount invested	Percentage of total investment
----- (Rupees in '000) -----				
Individuals	161	474,048	47,525	26.18
Associated companies / Directors	1	1,000,000	100,253	55.22
Retirement funds	6	86,943	8,716	4.80
Public Limited companies	1	150,000	15,038	8.28
Others	1	100,000	10,025	5.52
	<u>170</u>	<u>1,810,991</u>	<u>181,557</u>	<u>100.00</u>

**24. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY**

As noted previously, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011.

Before the said merger and subsequent to the establishment of the Fund, the 25th BoD meeting of MCB Asset Management Company Limited was held on June 23, 2011. Information in respect of attendance by Directors in the meeting is given below:

Sr. No.	Name of persons attending the meetings	Number of Meetings		
		Held	Attended	Leave Granted
1	Mr. Mian Mohammad Mansha	1	1	-
2	Mr. U.A. Usmani	1	1	-
3	Mr. Ali Munir	1	1	-
4	Mr. Ahmed Jahangir	1	1	-
5	Mr. Haroun Rashid	1	1	-
6	Mr. Syed Waliullah Shah	1	-	1
7	Mr. Samir Saigol	1	1	-
8	Mr. Ismail Arif Rafi	1	-	1
9	Mr. Yasir Qadri (Chief Executive Officer)	1	1	-
10	Mr. Saqib Saleem (CFO & Company Secretary)	1	1	-

Pursuant to merger, the 88th BoD meeting of Arif Habib Investments Limited was held on June 27, 2011. Information in respect of attendance by Directors in the meetings is given below:

Sr. No.	Name of persons attending the meetings	Number of Meetings		
		Held	Attended	Leave Granted
1	Mr. Mian Mohammad Mansha	1	1	-
2	Mr. Haroun Rashid	1	1	-
3	Mr. Ahmed Jahangir	1	1	-
4	Mr. Muhammad Shafi Malik *	1	1	-
5	Mr. Nasim Beg	1	1	-
6	Mr. Muhammad Akmal Jameel *	1	1	-
7	Mr. Muhammad Kashif *	1	-	1
8	Mr. Syed Ajaz Ahmed *	1	-	1
9	Mr. Sirajuddin Cassim *	1	-	1
10	Mr. S. Gulrez Yazdani *	1	1	-
11	Mr. Samad A. Habib	1	1	-
12	Mr. Salman Ali Shah	1	1	-
13	Mr. Mirza Mahmood Ahmad	1	1	-
14	Mr. Yasir Qadri (Chief Executive Officer)	1	1	-
15	Mr. Saqib Saleem (CFO & Company Secretary)	1	1	-

\* The above directors retired in the 88th meeting held on June 27, 2001

**MCB ISLAMIC INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**25. FINANCIAL RISK MANAGEMENT**

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

**25.1 Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

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

**25.1.1 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 and as its operations are geographically restricted to Pakistan and all transactions are carried out in Pakistani Rupees.

**25.1.2 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.

**a) Sensitivity analysis for variable rate instruments**

Presently, the Fund holds GoP Ijarah Sukuk exposing the Fund to cashflow interest rate risk. In case of 100 basis points increase/ decrease in 6 months weighted average yield of market treasury bills on June 30, 2011 with all other variables held constant, the net assets of the Fund and net income for the period would have been higher / lower by Rs 0.008 million.

**b) Sensitivity analysis for fixed rate instruments**

As at June 30, 2011, the Fund does not hold any fixed rate instruments and is not exposed to fair value / interest rate risk.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off balance sheet instruments is based on settlement date.

The Fund's MROR sensitivity related to financial assets and financial liabilities as at June 30, 2011 can be determined from the following:

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

----- As at June 30, 2011 -----						
Yield / effective interest rate	Total	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	
		Up to three months	More than three months and up to one year	More than one year		
----- (Rupees in '000) -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	5% to 13.15%	79,505	79,505	-	-	-
Investments	13.45%	100,250	100,250	-	-	-
Profit and other receivable		2,491	-	-	-	2,491
<b>Sub Total</b>		<b>182,246</b>	<b>179,755</b>	<b>-</b>	<b>-</b>	<b>2,491</b>
<b>Financial liabilities</b>						
Payable to the Management Company		1,599	-	-	-	1,599
Payable to the Trustee		20	-	-	-	20
Payable to Securities and Exchange Commission of Pakistan		4	-	-	-	4
Accrued expenses and other liabilities		50	-	-	-	50
<b>Sub Total</b>		<b>1,673</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,673</b>
<b>On balance sheet gap</b>		<b>180,573</b>	<b>179,755</b>	<b>-</b>	<b>-</b>	<b>818</b>
<b>Off balance sheet financial instruments</b>						
<b>Off balance sheet gap</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total interest rate sensitivity gap</b>		<b>180,573</b>	<b>179,755</b>	<b>-</b>	<b>-</b>	<b>818</b>
<b>Cumulative interest rate sensitivity gap</b>			<b>179,755</b>	<b>179,755</b>	<b>179,755</b>	<b>180,573</b>

**25.1.3 Price Risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. At present, the Fund is not exposed to price risk as there are no investments in marketable securities.

**25.2 Credit risk and management of credit risk**

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund is exposed to counterparty credit risks on balances with banks and profit and other receivables. The credit risk on bank balances is limited because the counter parties are financial institutions with reasonably high credit ratings. The Fund's policy is to enter into financial instrument contracts by following internal guidelines approved by the investment committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company.

The analysis below summarises the credit quality of the Fund's Bank balances as at June 30, 2011.

**Bank balances by category**

	2011	
	Rupees in '000	Percentage
A 1+	76,491	100%
A-1+	10	-

**MCB ISLAMIC INCOME FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

**Concentration of credit risk**

Investment in Ijara Sukuk does not carry any credit risk as it is guaranteed by Government of Pakistan.

**25.3 Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any significant redemptions during the period.

The following table analyses the Fund's 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.

----- June 30, 2011 -----			
Total	Upto three months	More than three months and upto one year	More than one year
----- (Rupees in '000) -----			

**Financial Liabilities**

Payable to the Management Company	1,599	1,599	-	-
Payable to the Trustee	20	20	-	-
Payable to Securities and Exchange Commission of Pakistan	4	4	-	-
Accrued expenses and other liabilities	50	50	-	-
	<u>1,673</u>	<u>1,673</u>	<u>-</u>	<u>-</u>

**25.4 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing at the close of trading on the year end date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

The amendment in IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

**MCB ISLAMIC INCOME FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM MAY 01, 2011 TO JUNE 30, 2011**

----- As at June 30, 2011 -----			
Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----			

**ASSETS**

Investment in securities - financial assets at fair value through profit or loss	-	100,250	-	100,250
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**26. UNIT HOLDERS' FUND RISK MANAGEMENT**

The Fund is represented by redeemable units. They are entitled to distribution and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies as stated in note 25, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests. In addition, the Fund can also support liquidity by short-term borrowings or disposal of investments where necessary.

**27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Management Company in their meeting held on July 04, 2011 have approved distribution at the rate of 0.2532%. The financial statements of the Fund for the year ended June 30, 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2012.

**28. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the Management Company.

**29. GENERAL**

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

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

Chief Executive

Director

**MCB ISLAMIC INCOME FUND  
PATTERN OF HOLDING AS PER REQUIREMENT OF  
CODE OF CORPORATE GOVERNANCE  
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
<b>Associated Company, Undertakings, and Related Parties</b>		
Arif Habib Investments Limited	1	1,000,000
<b>Trust</b>	6	86,943
<b>Corporate</b>	1	150,000
<b>Individuals</b>	161	474,048
<b>Others</b>	1	100,000
	<u>170</u>	<u>1,810,991</u>

**MCB ISLAMIC INCOME FUND  
PATTERN OF UNIT HOLDING (SIZE)  
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
153	1 - 10000	133,268
15	10001 - 100000	527,723
1	100001 - 1000000	150,000
1	1000001 - onwards	1,000,000
<u>170</u>		<u>1,810,991</u>

## MCB ISLAMIC INCOME FUND PERFORMANCE TABLE

Performance Information	2011
Total Net Assets Value – Rs. in million	181.56
Net Assets value per unit – Rupees	100.25
Highest offer price per unit	100.25
Lowest offer price per unit	100.00
Highest Redemption price per unit	100.25
Lowest Redemption price per unit	100.00
Distribution per unit (annual) – Rs.	0.25
Net Assets Value before distribution	100.25
Net Assets Value after distribution	100.00
<b>Average Annual Return - %</b>	
One year	7.80
Two year (inception date Mar 11, 2008)	NA
Three year	NA
Net Income / (loss) for the period – Rs. in million	0.46
Income Distribution – Rs. in million	0.46
Accumulated Capital Growth – Rs. in million	-
Weighted average Portfolio Duration (Days) – 30 June 2011	493

### Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.