



Bachat ka Doosra Naam

**Annual Report
2013**



Aam Key Aam Guthliyon key Daam

PAKISTAN

**INCOME
FUND**

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

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Vision

To become synonymous with Savings.

Mission

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

Core Values

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

FUND'S INFORMATION

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

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

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

Economy and Money Market Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

Future outlook

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

Fund's Performance

The net assets of the fund declined significantly by 16% on a YoY basis to around PKR 1.092 billion as on June 30, 2013. The investment objective of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk. The fund is benchmarked against a composite benchmark based on 75% of 6M KIBOR + 25% of 3M PKRV. The fund, through active management and carefully selected trading positions was able to yield an annualized return of 7.2% during the period under review which was lower than the Fund's benchmark return of 11.0% during the same period. The under-performance was due to provisioning of certain non-performing TFCs/ Sukuks during the period.

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year's. The fund continued to deploy assets cautiously, without aggressively chasing, and has maintained a strong focus on the credit quality of the instruments. Considering the risk-return profile of government papers, the fund increased its exposure significantly towards government papers while maintaining decent allocations towards TFCs especially of financial sector. Although the fund maintained decent exposure towards government papers throughout the year, it managed its portfolio's duration actively to take advantage of the fast changing interest rate scenario.

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

Performance Information (%)	PIF	Benchmark
Last twelve Months Return(Annualized)	7.2%	11.0%
Since Inception (CAGR)	10.2%	9.2%

During the year your fund earned net income of Rs 83.833 million. The Board in the meeting held on July 4, 2013 has declared final distribution amounting to Rs. 23.828 million (i.e. Rs. 1.1600 per unit). In addition to final distribution, the Board / Chief Executive Officer on behalf of the board have approved following interim distribution during the year ended June 30, 2013.

Date of distribution	Distribution PKR / Unit
27 September 2012	Re. 1.0500 per unit
26 December 2012	Re. 0.7500 per unit
26 March 2013	Re. 0.7100 per unit

During the period, units worth Rs. 277.981 million (including Rs. 61.000 million worth of bonus units) were issued and units with a value of Rs. 514.005 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 53.16 per unit.

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

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

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

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

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

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, Out of total provision of Rs. 20.182 million, the Management Company as a matter of abundant precaution has charged provision for WWF amounting Rs.9.866 million in these financial statements. The unrecognized liability amounted to Rs. 10.316 million. However the auditors of the Fund because of pending adjudication of the Constitutional petition in Honourable Sindh High Court, included a emphasis of matter paragraph in auditor' report highlighting the said issue.

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 Karachi Stock Exchange.

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.

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

- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- 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 disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

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

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

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

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

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

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

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1	Mr. Nasim Beg	Executive Vice Chairman	-	-	1,103
2	Mr. Yasir Qadri	Chief Executive Officer	-	-	27
3	Mr. Saqib Saleem	Company Secretary & Chief Operating Officer	-	-	-
4	Umair Ahmed	Chief Financial officer	-	-	-
5	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	3,202	-	44


External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under the trust deed, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants (who have given consent to such appointment) as auditors for the year ending June 30, 2014.

Acknowledgement

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

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

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

Fund Type and Category

Pakistan Income Fund (PIF) is an open-end Income scheme.

Fund Benchmark

The benchmark for PIF is 75% of 6M KIBOR + 25% of 3M PKRV.

Investment Objective

The objective of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

Investment Strategy

Pakistan Income Fund (PIF) is an open end fund, which invests in corporate securities, Government securities; money market placements, TDRs and short maturity reverse repurchase transactions. The overall duration of the portfolio is kept below 2 year, in order to keep interest rate risk at a relatively low and manageable level. PIF is a long only fund and cannot undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

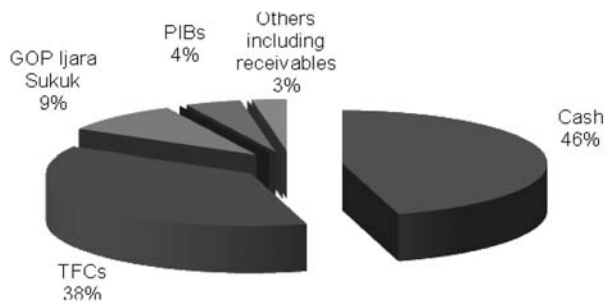
Manager's Review

The fund was able to generate an annualized return of 7.2% during the year under review, which was lower than the fund's benchmark return of 11.0% during the same period.

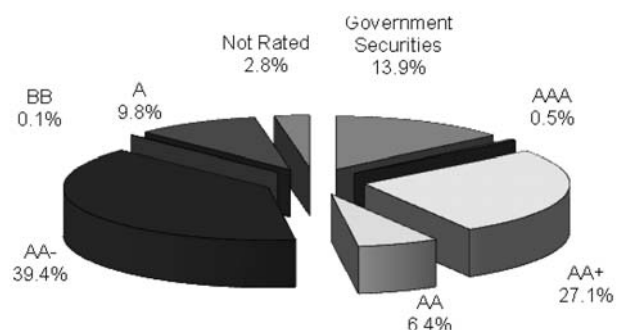
The fund remained focused towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the fund continued to emphasize on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs. At year-end, the fund had around 14% exposure in Government papers, 38% in TFCs and 0% in TDRs.

The net assets of the fund stood at PKR 1.092 billion by the end of June 2013, which was down by around 16% due to redemption pressures during the period under review.

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



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



Mr. Saad Ahmed
Fund Manager

Karachi: August 05, 2013

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



**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahra-e-Faisal
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URL: www.cdcPakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME FUND

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

We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Income Fund (the Fund) are of the opinion that MCB – Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 in accordance with the provisions of the following:

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


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

Karachi: October 10, 2013



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

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of Pakistan Income Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi 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.

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

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

Category	Names
Independent Directors	<ol style="list-style-type: none"> 1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	<ol style="list-style-type: none"> 1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	<ol style="list-style-type: none"> 1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib


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

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

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

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

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: August 05, 2013

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



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

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Internet www.kpmg.com.pk

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

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

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

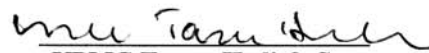
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks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

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

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

Date: 05 August 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

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

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



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

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

Management Company's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

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

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



KPMG Taseer Hadi & Co.

Emphasis of matter


We draw attention to note 11.1 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honourable High Court of Sindh. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

Date: 05 August 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

FINANCIAL STATEMENTS

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2013**

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Assets			
Balances with banks	4	504,706	18,167
Receivable against sale of units		-	1,945
Receivable against sale of investments		5,039	-
Investments	5	571,077	1,067,991
Term deposit receipt		-	190,000
Income and profit receivable	6	17,057	19,956
Advance, deposits and other receivables	7	8,448	7,974
Total assets		1,106,327	1,306,033
Liabilities			
Payable on redemption of units		47	-
Payable to Management Company	8	1,971	1,868
Payable to Central Depository Company of Pakistan Limited - Trustee	9	155	160
Payable to Securities and Exchange Commission of Pakistan	10	956	1,193
Accrued expenses and other liabilities	11	11,301	2,056
Total liabilities		14,430	5,277
Net assets		1,091,897	1,300,756
Unit holders' fund		1,091,897	1,300,756
(Number of units)			
Number of units in issue		20,541,603	24,993,755
(Rupees)			
Net assets value per unit		53.16	52.04

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



Chief Executive Officer

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



Director

**INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	<i>Note</i>	2013 (Rupees in '000)	2012
Income			
Capital gain on sale of investments - net		34,003	4,115
Income from term finance and sukuk certificates		52,684	79,180
Income from government securities		75,497	108,887
Income from term deposit receipts		2,237	3,263
Profit on bank deposits		6,134	8,035
		<u>170,555</u>	<u>203,480</u>
Net unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	5.8	4,368	922
Reversal of provision against non-performing investment	5.4	3,600	-
Total income		<u>178,523</u>	<u>204,402</u>
Expenses			
Remuneration of Management Company	8.1	22,339	23,862
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9	1,933	2,203
Annual fee - Securities and Exchange Commission of Pakistan	10	956	1,193
Provision for Workers' Welfare Fund	11.1	9,866	-
Legal, professional and other charges		400	488
Settlement and bank charges		425	421
Fees and subscription		215	94
Auditors' remuneration	12	663	610
Printing and related costs		132	320
Provision against non-performing exposures	5.4	53,429	28,944
Total expenses		<u>90,358</u>	<u>61,953</u>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(4,332)	(8,155)
Net income for the year before taxation		<u>83,833</u>	<u>134,294</u>
Taxation	13	-	-
Net income for the year after taxation		<u>83,833</u>	<u>134,294</u>
Earnings per unit	14		

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



Chief Executive Officer

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



Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
Undistributed income brought forward:		
- Realised gains	100,812	132,476
- Unrealised losses	<u>(49,640)</u>	<u>(23,291)</u>
	51,172	109,185
Net income for the year	83,833	134,294
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(9,082)	(17,829)
Distributions:		
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]		
- Cash distribution	-	(3,504)
- Issue of bonus units	-	(38,765)
Final distribution at the rate of Rs. 1.40 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]		
- Cash distribution	-	-
- Issue of bonus units	-	(34,181)
Interim distributions during the year	<i>18.1</i>	
- Cash distributions	-	(6,203)
- Issue of bonus units	<u>(61,000)</u>	<u>(91,825)</u>
	(61,000)	(174,478)
Undistributed income carried forward	<u>64,923</u>	<u>51,172</u>
Undistributed income carried forward:		
- Realised gains	78,823	100,812
- Unrealised losses	<u>(13,900)</u>	<u>(49,640)</u>
	<u>64,923</u>	<u>51,172</u>

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



Chief Executive Officer

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



Director

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

	Note 2013	2012
	(Rupees in '000)	
Net assets at beginning of the year	1,300,756	1,813,580
Issue of 4,120,384 units (2012: 4,076,672 units)	216,981	215,533
Issue of 1,172,225 bonus units (2012: 3,158,932 bonus units)	61,000	164,771
Redemption of 9,744,761 units (2012: 16,331,887 units)	(514,005)	(861,099)
	(236,024)	(480,795)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement	4,332	8,155
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement	9,082	17,829
	13,414	25,984
Net income for the year (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	45,462	129,257
Capital gain on sale of investments - net	34,003	4,115
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	4,368	922
	83,833	134,294
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(9,082)	(17,829)
Final distribution at the rate of Rs. 1.10 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]		
- Cash distribution	-	(3,504)
- Issue of bonus units	-	(38,765)
Final distribution at the rate of Rs. 1.40 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]		
- Cash distribution	-	-
- Issue of bonus units	-	(34,181)
Interim distributions during the year	18.1	
- Cash distributions	-	(6,203)
- Issue of bonus units	(61,000)	(91,825)
	(61,000)	(174,478)
Net assets at end of the year	1,091,897	1,300,756
	(Rupees)	
Net assets value per unit as at beginning of the year	52.04	53.20
Net assets value per unit as at end of the year	53.16	52.04

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



Chief Executive Officer

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



Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	83,833	134,294
Adjustments for non-cash and other items:		
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	(4,368)	(922)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	4,332	8,155
Provision for Workers' Welfare Fund	9,866	-
Provision against non-performing exposures	53,429	28,510
	<u>147,092</u>	<u>170,037</u>
Decrease / (increase) in assets		
Investments	442,814	620,866
Term deposit receipt	190,000	(190,000)
Income and profit receivable	2,899	4,379
Advance, deposits and other receivables	(474)	34,171
	<u>635,239</u>	<u>469,416</u>
(Decrease) / increase in liabilities		
Payable to Management Company	103	(470)
Payable to Central Depository Company of Pakistan Limited - Trustee	(5)	(36)
Payable to Securities and Exchange Commission of Pakistan	(237)	(290)
Accrued expenses and other liabilities	(621)	243
	<u>(760)</u>	<u>(553)</u>
Net cash generated from operating activities	<u>781,571</u>	<u>638,900</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(9,707)
Net payments from sale and redemption of units	(295,032)	(643,128)
Net cash used in financing activities	<u>(295,032)</u>	<u>(652,835)</u>
Net increase / (decrease) in cash and cash equivalents during the year	486,539	(13,935)
Cash and cash equivalents at beginning of the year	18,167	32,102
Cash and cash equivalents at end of the year	<u>504,706</u>	<u>18,167</u>

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



Chief Executive Officer

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



Director

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

1 LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited (Management Company) and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.

Based on shareholders' resolutions of MCB-Asset Management Company (MCB-AMC) and Arif Habib Investments Limited (AHIL), the two companies have merged as of 27 June 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance, 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated 10 June 2011). AHIL being a listed company is the surviving entity and in compliance of State Bank of Pakistan (SBP's) approval, it is a subsidiary of MCB Bank Limited. Subsequent to the completion of merger on 27 June 2011 the SECP extended the effective date of merger to 30 July 2011 through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated 27 June 2011 under section 484(2) of the Companies Ordinance, 1984. However, during the year, on request of Management Company the SECP reviewed its aforementioned order and through a letter no. SCD/AMCW/Mis/540/2013 dated 17 May 2013 issued revised order under section 484(2) of the Companies Ordinance, 1984 to affirm the effective date of merger of MCB-AMC with AHIL as at 27 June 2011. The latest order also endorsed the steps / actions taken by Management Company from 27 June 2011 to date. Pursuant to approval of merger the name of the Management Company has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Fund is an open-ended mutual fund and is listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund has been categorised as "Income" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' to the Management Company and 'A+(f)' as stability rating to the Fund.

This Fund is income scheme and the policy of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

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

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

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

2.4 Basis of measurement

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

2.5 Functional and presentation currency

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

2.6 Critical accounting estimates and judgments

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

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

Investments stated at fair value and derivative financial instruments

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

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

Other assets

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

Financial instruments as 'at fair value through profit or loss' are measured at fair value and changes therein are recognised in the Income Statement.

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

b) **Loans and receivables**

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

c) **'Available-for-sale'**

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

d) **Financial liabilities**

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

Recognition

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

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

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

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

Measurement

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

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

Fair value measurement principles

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009, Circular 3 of 2010, Circular 33 of 2012 and Circular 35 of 2012. The Circulars also specify the criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP.

Basis of valuation of government securities and GoP Ijara sukuk certificates

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

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

Securities under repurchase/ resale agreements

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

Impairment

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement.

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

Derecognition

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

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

Offsetting of financial instruments

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

3.2 Unit holders' fund

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

3.3 Issue and redemption of units

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

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

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

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

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

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

3.5 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.

3.6 Net assets value per unit

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

3.7 Taxation

Current

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

Deferred

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

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

3.8 Revenue recognition

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

3.9 Expenses

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

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

3.10 Cash and cash equivalents

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

3.11 Other assets

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

3.12 Dividend distributions and appropriations

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

4 BALANCES WITH BANKS

2013 2012
(Rupees in '000)

In current accounts		8	3,816
In deposit accounts	4.1	504,698	14,351
		<u>504,706</u>	<u>18,167</u>

4.1 These carry mark-up at the rate ranging from 6% to 11% per annum (2012: 5% to 11% per annum).

5 INVESTMENTS

Fixed income and other debt securities
'At fair value through profit or loss'

Government securities	5.1	153,998	575,687
Term finance and sukuk certificates			
- Listed debt securities	5.2	279,243	267,446
- Unlisted debt securities	5.3	137,836	224,858
		417,079	492,304
		<u>571,077</u>	<u>1,067,991</u>

5.1 Government securities

Pakistan Investment Bonds	5.1.1	49,040	14,910
Treasury Bills	5.1.2	-	360,677
GoP Ijara sukuk	5.1.3	104,958	200,100
		<u>153,998</u>	<u>575,687</u>

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

5.1.1 Pakistan Investment Bonds

Issue date	Face value			As at 30 June 2013	Balance as at 30 June 2013			Market value	
	As at 1 July 2012	Purchases during the year	Sales / matured during the year		Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)									
10 years (Tenor)									
19 July 2012	-	1,250,000	1,250,000	-	-	-	-	-	-
5 years (Tenor)									
20 August 2008	15,000	23,000	15,000	23,000	22,916	23,078	162	2.11	4.04
18 August 2011	-	400,000	400,000	-	-	-	-	-	-
19 July 2012	-	150,000	150,000	-	-	-	-	-	-
					22,916	23,078	162		
3 years (Tenor)									
22 July 2010	-	458,800	458,800	-	-	-	-	-	-
18 August 2011	-	200,000	200,000	-	-	-	-	-	-
19 July 2012	-	625,000	600,000	25,000	25,576	25,962	386	2.38	4.55
					25,576	25,962	386		
					48,492	49,040	548		

Issue date	Face value			As at 30 June 2012	Balance as at 30 June 2012			Market value	
	As at 1 July 2011	Purchases during the year	Sales / matured during the year		Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)									
5 years (Tenor)									
20 August 2008	-	15,000	-	15,000	14,867	14,910	43	1.15	1.40

5.1.2 Treasury Bills

Issue date	Face value			As at 30 June 2013	Balance as at 30 June 2013			Market value	
	As at 1 July 2012	Purchases during the year	Sales / matured during the year		Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)									
1 year (Tenor)									
20 October 2011	-	500,000	500,000	-	-	-	-	-	-
12 July 2012	-	1,650,000	1,650,000	-	-	-	-	-	-
20 September 2012	-	250,000	250,000	-	-	-	-	-	-
17 November 2011	-	538,000	538,000	-	-	-	-	-	-
1 November 2012	-	290,000	290,000	-	-	-	-	-	-
1 December 2012	-	150,000	150,000	-	-	-	-	-	-
4 October 2012	-	185,000	185,000	-	-	-	-	-	-
16 May 2013	-	770,000	770,000	-	-	-	-	-	-
17 May 2012	-	20,000	20,000	-	-	-	-	-	-
26 July 2012	-	600,000	600,000	-	-	-	-	-	-
30 May 2013	-	250,000	250,000	-	-	-	-	-	-
3 Nov 2011	-	200,000	200,000	-	-	-	-	-	-
18 Oct 2012	-	500,000	500,000	-	-	-	-	-	-
6 months (Tenor)									
26 July 2012	-	250,000	250,000	-	-	-	-	-	-
9 August 2012	-	250,000	250,000	-	-	-	-	-	-
18 October 2012	-	250,000	250,000	-	-	-	-	-	-
12 July 2012	-	250,000	250,000	-	-	-	-	-	-
13 December 2012	-	187,000	187,000	-	-	-	-	-	-
10 January 2013	-	250,000	250,000	-	-	-	-	-	-
24 January 2013	-	250,000	250,000	-	-	-	-	-	-
23 August 2012	-	14,850	14,850	-	-	-	-	-	-
21 February 2013	-	250,000	250,000	-	-	-	-	-	-
29 November 2012	-	30,000	30,000	-	-	-	-	-	-
16 May 2013	-	250,000	250,000	-	-	-	-	-	-
30 May 2013	-	250,000	250,000	-	-	-	-	-	-
1 Nov 2012	-	250,000	250,000	-	-	-	-	-	-
3 months (Tenor)									
28 June 2012	-	922,100	922,100	-	-	-	-	-	-
26 July 2012	-	250,000	250,000	-	-	-	-	-	-
12 July 2012	-	90,000	90,000	-	-	-	-	-	-
9 August 2012	-	250,000	250,000	-	-	-	-	-	-
14 June 2012	-	275,000	275,000	-	-	-	-	-	-
28 June 2012	-	250,000	250,000	-	-	-	-	-	-
12 July 2012	-	225,000	225,000	-	-	-	-	-	-
1 November 2012	-	250,000	250,000	-	-	-	-	-	-
6 September 2012	-	325,000	325,000	-	-	-	-	-	-
29 November 2012	-	490,000	490,000	-	-	-	-	-	-
13 December 2012	-	187,000	187,000	-	-	-	-	-	-
2 May 2012	-	405,000	405,000	-	-	-	-	-	-
4 April 2013	-	340,000	340,000	-	-	-	-	-	-
16 May 2013	-	250,000	250,000	-	-	-	-	-	-
7 March 2013	-	554,500	554,500	-	-	-	-	-	-
21 March 2013	-	300,000	300,000	-	-	-	-	-	-
10 January 2013	-	250,000	250,000	-	-	-	-	-	-
24 January 2013	-	470,000	470,000	-	-	-	-	-	-
07 February 2013	-	36,000	36,000	-	-	-	-	-	-
21 February 2013	-	210,000	210,000	-	-	-	-	-	-
10 January 2013	-	250,000	250,000	-	-	-	-	-	-
19 April 2012	30,000	-	30,000	-	-	-	-	-	-
17 May 2012	335,000	-	335,000	-	-	-	-	-	-

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

Issue date	Face value			Balance as at 30 June 2012			Market value		
	As at 1 July 2011	Purchases during the year	Sales / matured during the year	As at 30 June 2012	Cost	Market value	Appreciation / (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----									
1 year (Tenor)									
14 July 2011	-	33,000	33,000	-	-	-	-	-	-
6 October 2011	-	286,000	286,000	-	-	-	-	-	-
26 January 2012	-	200,000	200,000	-	-	-	-	-	-
24 February 2012	-	150,000	150,000	-	-	-	-	-	-
22 September 2011	-	100,000	100,000	-	-	-	-	-	-
20 October 2011	-	89,000	89,000	-	-	-	-	-	-
21 April 2011	170,000	-	170,000	-	-	-	-	-	-
25 August 2011	-	110,000	110,000	-	-	-	-	-	-
11 August 2011	-	175,000	175,000	-	-	-	-	-	-
3 November 2011	-	125,000	125,000	-	-	-	-	-	-
17 November 2011	-	275,000	275,000	-	-	-	-	-	-
16 June 2011	-	50,000	50,000	-	-	-	-	-	-
6 October 2011	-	122,000	122,000	-	-	-	-	-	-
16 June 2011	-	500,000	500,000	-	-	-	-	-	-
11 August 2011	-	250,000	250,000	-	-	-	-	-	-
26 January 2012	-	187,500	187,500	-	-	-	-	-	-
6 months (Tenor)									
7 April 2011	15,000	-	15,000	-	-	-	-	-	-
21 April 2011	168,000	-	168,000	-	-	-	-	-	-
5 May 2011	298,000	-	298,000	-	-	-	-	-	-
5 May 2011	-	425,000	425,000	-	-	-	-	-	-
19 May 2011	-	250,000	250,000	-	-	-	-	-	-
17 November 2011	-	275,000	275,000	-	-	-	-	-	-
28 July 2011	-	225,000	225,000	-	-	-	-	-	-
25 August 2011	-	100,000	100,000	-	-	-	-	-	-
28 July 2011	-	325,000	325,000	-	-	-	-	-	-
11 August 2011	-	150,000	150,000	-	-	-	-	-	-
8 September 2011	-	50,000	50,000	-	-	-	-	-	-
3 months (Tenor)									
21 April 2011	5,000	-	5,000	-	-	-	-	-	-
5 May 2011	230,000	-	230,000	-	-	-	-	-	-
19 May 2011	272,000	-	272,000	-	-	-	-	-	-
16 June 2011	40,000	-	40,000	-	-	-	-	-	-
17 November 2011	-	100,000	100,000	-	-	-	-	-	-
20 October 2011	-	10,000	10,000	-	-	-	-	-	-
26 January 2012	-	100,000	100,000	-	-	-	-	-	-
17 November 2011	-	100,000	100,000	-	-	-	-	-	-
1 December 2011	-	322,000	322,000	-	-	-	-	-	-
23 February 2012	-	187,500	187,500	-	-	-	-	-	-
8 March 2012	-	70,000	70,000	-	-	-	-	-	-
22 March 2012	-	1,100,000	1,100,000	-	-	-	-	-	-
5 April 2012	-	200,000	200,000	-	-	-	-	-	-
19 April 2012	-	530,000	500,000	30,000	29,895	29,892	(3)	3.79	2.80
3 May 2012	-	425,000	425,000	-	-	-	-	-	-
17 May 2012	-	540,000	205,000	335,000	330,843	330,785	(58)	41.98	30.97
					360,738	360,677	(61)		
1 month (Tenor)									
28 July 2011	-	130,000	130,000	-	-	-	-	-	-
					360,738	360,677	(61)		

5.1.3 GoP Ijara sukuk

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2013			Market value	
		As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
18 September 2012	9.15%	200,000	840,000	935,000	105,000	105,086	104,958	(128)	9.612	18.379
----- (Rupees in '000) -----										
Issue date	Profit rate (%)	As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
15 November 2010	11.94%	-	200,000	-	200,000	201,577	200,100	(1,477)	15.383	18.736

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

5.2 Listed debt securities - term finance certificates

2013
2012
(Rupees in '000)

Listed debt securities	5.2.1	361,346	299,004
Less: Provision as on July 1			
Pace Pakistan Limited	5.2.1.1	7,490	-
Telecard Limited	5.2.1.2	24,068	4,405
		31,558	4,405
Less: Provision charged during the year			
Pace Pakistan Limited	5.2.1.1	28,858	7,490
Telecard Limited	5.2.1.2	4,521	19,663
Trust Investment Bank Limited - III	5.2.1.3	17,166	-
		50,545	27,153
		279,243	267,446

5.2.1 Name of the investee company	Issue date	Profit / mark-up percentage	Face value				Balance as at 30 June 2013			Market value		Face value percentage in relation to the size of the issue
			As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Carrying cost	Market value / Carrying value	(Diminution) / Appreciation	as a percentage of net assets	as a percentage of total investments	
(Rupees in '000)												
Certificates have a face value of Rs. 5,000 each unless stated otherwise.												
Listed debt securities												
Askari Bank Limited - I	4 February 2005		8,000	-	8,000	-	-	-	-	-	-	-
Askari Bank Limited - III	18 November 2009	12.09%	6,000	5,000	-	11,000	57,645	55,434	(2,211)	5.08	9.71	1.83
Askari Bank Limited IV *	23 December 2011	11.19%	52	-	-	52	53,631	55,381	1,750	5.07	9.70	0.01
Bank Al-Falah Limited	20 February 2013	10.69%	-	20,131	-	20,131	101,098	102,232	1,134	9.36	17.90	0.00
Bank AL Habib Limited	7 February 2007	11.28%	5,520	-	-	5,520	28,459	27,841	(618)	2.55	4.88	1.84
Escorts Investment Bank Limited	15 March 2007	8.00%	3,016	-	-	3,016	1,247	1,654	407	0.15	0.29	3.02
Pace Pakistan Limited (refer note 5.2.1.1)	15 February 2008		10,000	-	-	10,000	32,950	36,348	3,398	3.33	6.36	3.33
Telecard Limited (refer note 5.2.1.2)	27 May 2005		19,975	-	-	19,975	27,498	28,589	1,091	2.62	5.01	4.16
Trust Investment Bank Limited - III (refer note 5.2.1.3)	4 July 2008		10,000	-	-	10,000	17,609	17,166	(443)	1.57	3.01	8.33
United Bank Limited - III	8-Sep-06	11.23%	15,612	-	1,000	14,612	36,039	36,701	662	3.36	6.43	3.65
							356,176	361,346	5,170			

* Face value of term finance certificate is Rs. 1,000,000 each

Name of the investee company	Issue date	Profit / mark-up percentage	Face value				Balance as at 30 June 2012			Market value		Face value percentage in relation to the size of the issue
			As at 1 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Carrying cost	Market value / Carrying value	(Diminution) / Appreciation	as a percentage of net assets	as a percentage of total investments	
(Rupees in '000)												
Certificates have a face value of Rs. 5,000 each unless stated otherwise.												
Listed debt securities												
Askari Bank Limited - I	4 February 2005	13.33%	14,000	-	6,000	8,000	39,473	39,880	407	3.65	6.98	2.67
Askari Bank Limited - III	18 November 2009	14.52%	6,000	-	-	6,000	30,075	31,693	1,618	2.90	5.55	1.00
Askari Bank Limited IV *	23 December 2011	13.79%	-	65	13	52	51,990	53,652	1,662	4.91	9.39	0.01
Bank AL Habib Limited (7 February 2007)	7 February 2007	13.78%	5,520	-	-	5,520	27,545	28,470	925	2.61	4.99	1.84
Escorts Investment Bank Limited	15 March 2007	8.00%	3,016	-	-	3,016	3,810	2,753	(1,057)	0.25	0.48	3.02
KASB Securities Limited	27 June 2007		8,500	-	8,500	-	-	-	-	-	-	-
Pace Pakistan Limited (refer note 5.2.1.1)	15 February 2008		10,000	-	-	10,000	42,602	32,950	(9,652)	3.02	5.77	3.33
Telecard Limited (refer note 5.2.1.2)	27 May 2005		19,975	-	-	19,975	36,704	27,536	(9,168)	2.52	4.82	4.16
Trust Investment Bank Limited - III	4 July 2008	13.80%	10,000	-	-	10,000	18,743	17,606	(1,137)	1.61	3.08	8.33
United Bank Limited - III	8-Sep-06	13.63%	15,612	-	-	15,612	65,171	64,464	(707)	5.90	11.29	3.90
Worldcall Telecom Limited	28 November 2006		7,000	-	7,000	-	-	-	-	-	-	-
United Bank Limited IV	14 February 2008		-	6,000	6,000	-	-	-	-	-	-	-
							316,113	299,004	(17,109)			

* Face value of term finance certificate is Rs. 1,000,000 each

5.2.1.1 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. During the year, the Fund has recognised further provision amounting to Rs. 28.858 million against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

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

5.2.1.2 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. The Fund has recognised further provision amounting to Rs. 4.521 million against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

5.2.1.3 During the year, term finance certificate of Trust Investment Bank Limited has been classified as non-performing debt security on default of coupon payment due on 4 July 2012. In accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company, the Fund has recognised provision amounting to Rs. 17.166 million against principal. The Fund has suspended further accrual of markup there against.

	2013	2012
5.3 Unlisted debt securities - term finance certificates and sukuk certificates	(Rupees in '000)	
Un-Listed debt securities	5.3.1	138,911
Less: Provision of Maple Leaf Cement Factory Limited		226,649
On 1 July		-
Charged during the year	5.3.1.1	1,791
Reversal during the year	5.3.1.1	-
		1,791
		137,836
		224,858

5.3.1 Name of the investee company	Issue date	Profit / mark-up percentage	Face value				Balance as at 30 June 2013			Market value		Face value percentage in relation to the size of the issue
			As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Carrying cost	Market value / Carrying value	(Diminution) / Appreciation	as a percentage of net assets	as a percentage of total investments	
----- (Rupees in '000) -----												
Unlisted debt securities												
Bank AL Habib Limited	30 June 2011	15.00%	11,500	-	10,500	1,000	5,320	5,638	318	0.52	0.99	0.00
Bank Alfalah Limited (floating)	2 December 2009	12.08%	5,000	500	1,000	4,500	23,695	23,618	(77)	2.16	4.14	0.45
Bank Alfalah Limited (fixed)	2 December 2009		3,265	-	3,265	-	-	-	-	-	-	-
Engro Corporation Limited	18 March 2008	11.25%	24,300	-	1,200	23,100	109,841	108,281	(1,560)	9.92	18.96	2.89
							138,856	137,537	(1,319)			
Unlisted sukuk certificates												
Maple Leaf Cement Factory Limited I (refer note 5.3.1.1)	3 December 2007		2,000	-	1,500	500	1,277	1,374	97	0.13	0.24	0.03
Maple Leaf Cement Factory Limited II (refer note 5.3.1.1)	30 September 2010		75	-	75	-	-	-	-	-	-	-
							1,277	1,374	97			
							140,133	138,911	(1,222)			
----- (Rupees in '000) -----												
Unlisted debt securities												
Bank AL Habib Limited	30 June 2011	15.00%	-	15,000	3,500	11,500	59,021	61,190	2,169	5.60	10.71	0.00
Bank Alfalah Limited (floating)	2 December 2009	14.51%	7,000	-	2,000	5,000	24,975	26,349	1,374	2.41	4.61	0.50
Bank Alfalah Limited (fixed)	2 December 2009	15.00%	-	6,000	2,735	3,265	16,341	17,082	741	1.56	2.99	0.00
Engro Corporation Limited	18 March 2008	13.63%	29,400	-	5,100	24,300	117,072	115,547	(1,525)	10.58	20.23	3.04
							217,409	220,168	2,759			
Unlisted sukuk certificates												
Maple Leaf Cement Factory Limited I (refer note 5.3.1.1)	3 December 2007		2,000	-	-	2,000	6,985	6,106	(879)	0.56	1.07	0.13
Maple Leaf Cement Factory Limited II (refer note 5.3.1.1)	30 September 2010		75	-	-	75	375	375	-	0.03	0.07	0.00
							7,360	6,481	(879)			
							224,769	226,649	1,880			

5.3.1.1 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified said investment as non-performing debt securities. During the year, the Fund has recognised net reversal of provision amounting to Rs. 0.716 million in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

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FOR THE YEAR ENDED JUNE 30, 2013**

5.4 Movement in provision against debt securities

	2013		
	Listed debt securities	Unlisted debt securities	Total
	----- (Rupees in '000) -----		
Opening balance	27,153	-	27,153
Add : Charge for the year	50,545	2,884	53,429
Less: Reversal of provision (refer 5.3.1.1)	-	(3,600)	(3,600)
Charge for the year - net	50,545	(716)	49,829
Closing balance	77,698	(716)	76,982

5.5 The term finance certificates with Nil (2012: Rs. 0.091 million) fair value which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated 23 October 2007, issued by the SECP.

5.6 Significant terms and conditions of Term Finance and Sukuk Certificates outstanding are as follows:

Name of security	Mark-up rate (per annum)	Issue date	Maturity date
Askari Bank Limited - I	6 months KIBOR + 1.5%	04 February 2005	04 February 2013
Askari Bank Limited - III	6 months KIBOR + 2.5%	18 November 2009	18 November 2019
Askari Bank Limited - IV	6 months KIBOR + 1.75%	23 December 2011	23 December 2021
Bank Al-Falah (20 February 2013)	6 months KIBOR + 1.25%	20 February 2013	20 February 2021
Bank AL Habib Limited	6 months KIBOR + 1.95%	07 February 2007	07 February 2015
Escorts Investment Bank Limited	8%	15 March 2007	15 September 2014
Pace Pakistan Limited	6 months KIBOR + 2%	15 February 2008	15 February 2017
Telecard Limited	6 months KIBOR + 3.75%	27 May 2005	27 May 2015
Trust Investment Bank Limited - III	6 months KIBOR + 1.85%	04 July 2008	04 July 2013
United Bank Limited	6 months KIBOR + 1.7%	08 September 2006	08 September 2014
Bank AL Habib Limited	6 months KIBOR	30 June 2011	30 June 2021
Bank Alfalah Limited (floating)	6 months KIBOR + 2.5%	02 December 2009	02 December 2017
Bank Alfalah Limited (fixed)	15%	2 December 2009	2 December 2017
Engro Corporation Limited	6 months KIBOR + 1.7%	18 March 2008	18 March 2018
Maple Leaf Cement Factory Limited	3 month KIBOR+1.0%	03 December 2007	03 December 2018
Maple Leaf Cement Factory Limited	3 month KIBOR+1.0%	30 September 2010	31 March 2012

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

5.7 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 30 June 2013, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment*	Name of company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
----- (Rupees in '000) -----						
Investment in debt securities	Maple Leaf Cement Factory Limited - Sukkuk I	1,374	1,075	299	0.03	0.03
Investment in debt securities	Pace Pakistan Limited	36,348	36,348	-	-	-
Investment in debt securities	Telecard Limited	28,589	28,589	-	-	-
Investment in debt securities	Escorts Investment Bank	1,654	-	1,654	0.15	0.15
Investment in debt securities	Trust Investment Bank Limited - III	17,166	17,166	-	-	-

5.7.1 At the time of purchase, the above investments were in compliance of the said Circular (i.e. investment grade) and were subsequently downgraded to D due to default in payments of principal and mark-up due on respective coupon dates.

5.8 Net unrealised appreciation in fair value of investments classified 'at fair value through profit or loss' - held for trading	2013	2012
	(Rupees in '000)	
Fair value of investments	654,255	1,067,991
Less: Cost of investments	<u>(649,887)</u>	<u>(1,067,069)</u>
	<u>4,368</u>	<u>922</u>

6 INCOME AND PROFIT RECEIVABLE

Income accrued on term finance and sukuk certificates	11,278	13,718
Income accrued on government securities	4,927	3,707
Profit receivable on bank deposits	852	333
Income accrued on term deposit receipts	-	2,198
	<u>17,057</u>	<u>19,956</u>

7 ADVANCE, DEPOSITS AND OTHER RECEIVABLES

Advance tax		3,927	3,927
Deposits with			
- National Clearing Company of Pakistan Limited	7.1	2,625	2,625
- Central Depository Company of Pakistan Limited	7.2	200	200
Margin against term finance certificates	7.3	1,603	1,140
Prepayments		93	82
		<u>8,448</u>	<u>7,974</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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- 7.1 This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS).
- 7.2 This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.
- 7.3 This represents the margin with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated 23 October 2007, issued by the SECP.

8 PAYABLE TO MANAGEMENT COMPANY

		2013	2012
		(Rupees in '000)	
Management fee payable	8.1	1,898	1,856
Front-end load payable		73	12
		1,971	1,868

- 8.1 Under the provisions of the NBFC 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 and, in any case, it shall not exceed the limit prescribed by the NBFC Regulations, 2008. During the year, the Management Company has charged its remuneration at the rate of 1.50% (2012: 1.50%) of the average annual net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusive of all government levies.

9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure as amended by the Trustee of the Fund vide letter no. CDC/T&C-SII/DH/1637/2010 dated 18 December 2010, is applicable based on net assets of the Fund.

Amount of funds under management (Average NAV)	Tariff per annum
Up to Rs. 1 billion	Rs. 0.6 million or 0.17% p.a. of NAV, whichever is higher
Rs. 1 billion to Rs 5 billion	Rs. 1.7 million plus 0.085% p.a. of NAV exceeding Rs. 1 billion
Over Rs. 5 billion	Rs. 5.1 million plus 0.07% p.a. of NAV exceeding Rs. 5 billion

10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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11. ACCRUED EXPENSES AND OTHER LIABILITIES	2013	2012
	(Rupees in '000)	
Provision for Workers' Welfare Fund	<i>11.1</i> 9,866	-
Auditors' remuneration	370	335
Legal and professional charges	150	146
Brokerage payable	30	935
Zakat payable	147	105
Capital gain tax payable	1	169
Others	737	366
	<u>11,301</u>	<u>2,056</u>

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

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on 8 July 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on 14 December 2010 the Ministry filed its response against the Constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

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

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, out of total provision of Rs. 20.182 million, the Management Company as a matter of abundant precaution has charged provision for WWF amounting Rs. 9.866 million in these financial statements. The unrecognized liability amounted to Rs.10.316 million. (NAV per unit Re. 0.502)

12. AUDITORS' REMUNERATION	2013	2012
	(Rupees in '000)	
Annual audit fee	270	270
Half yearly review fee	150	150
Other certifications	210	155
Out of pocket expenses	33	35
	<u>663</u>	<u>610</u>

13. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance

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

Companies and Notified Entities Regulations, 2008, the fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

14. EARNINGS PER UNIT

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

15. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

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

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

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

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

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

15.1 Details of the transactions with related parties / connected persons:	2013	2012
	(Rupees in '000)	
Management Company		
Management fee for the year	22,339	27,680
Front end load	1,466	155
Central Depository Company of Pakistan Limited		
Trustee fee for the year	1,933	2,203
CDS charges for the year	9	5
MCB Bank Limited		
Profit on bank deposits	1,471	2,911
Bank charges	14	3
Summit Bank Limited		
Profit on bank deposits	3	303
Bank charges	-	1
Directors and executives of the Management Company		
Issue of 3,202 units (2012: 41,987 units)	169	2,222
Issue of 1,534 bonus units (2012: 11,661 units)	80	608
Redemption of 10,650 units (2012: 164,091 units)	554	8,664
Arif Habib Limited		
Brokerage *	-	18

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

*The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

15.2 Amounts outstanding as at the year end	2013	2012
	(Rupees in '000)	
Management Company		
Management fee payable	1,898	1,856
Front-end load payable	73	12
Central Depository Company of Pakistan Limited - Trustee		
Payable to Central Depository Company of Pakistan Limited - Trustee	155	160
Security deposit	200	200
MCB Bank Limited		
Bank balance	5,072	3,178
Profit receivable on bank deposits	47	172
Summit Bank Limited		
Bank balance	8	454
Profit receivable on bank deposits	-	2
Directors and executives of the Management Company		
Units held 27,461 (2012: 34,174 units)	1,460	1,778

16 FINANCIAL RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund primarily invests in debt and fixed income instrument without taking excessive risk with an objective of optimizing the return to unit holders. The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

16.1 Market risk

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

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

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

Currency risk

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

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

Interest rate risk

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

As at 30 June 2013, the investment in debt securities exposed to interest rate risk is detailed in Note 5.2 and 5.3 to these financial statements.

Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on 30 June 2013, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 1.292 million (2012: Rs. 4.644 million). The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

Sensitivity analysis for fixed rate instruments

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan or Mutual Funds Association of Pakistan on 30 June 2013, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 0.22 million (2012: Rs. 4.81 million). The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan and Mutual Funds Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other price risk

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

16.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. However, for testing an investment for impairment the management does not consider the value of collaterals or other credit enhancements. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

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

Exposure to credit risk

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial assets i.e. balances with banks including term deposit, deposits with clearing and settlement companies, receivable against sale of units, investment in debt securities and other receivables in Statement of Assets and Liabilities. The credit exposure arises from investment in debt securities (before impairment) as detailed in Note 5.2 and 5.3 to these financial statements.

Settlement risk

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

Balances with banks including term deposit receipts

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

Investment in fixed income securities

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

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 including subsequent circulars issued by the SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery appears to be unlikely from customary measures like restructuring or negotiation.

The analysis below summarises the credit quality of the Fund's investment in term finance and sukuk certificates as at 30 June:

Debt securities by rating category	2013	2012
	(Percentage)	
AA+, AA, AA-	73.57%	83.46%
A, A+	25.96%	-
BBB+, BBB	-	3.35%
Non-investment grade	0.40%	0.52%
Non performing	0.07%	12.67%
	100%	100%

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

Receivable against sale of units

This represents amount held under distribution accounts maintained by the Management Company for receipt of subscription money from unit holders. The amount has been cleared subsequently by the Management Company.

Advance, deposits and other receivables

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with to such parties.

Past due and impaired assets

None of the above financial assets were considered to be past due or impaired in 2013 and 2012 except for the exposures and the provisions there against as provided in Note 5.2, 5.3 and 5.4 to these financial statements. For those assets that are not past due it is believed that the risk of default is minimal and the capital repayments will be made in accordance with the agreed terms and conditions. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

16.3 Liquidity risk

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

Management of liquidity risk

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

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

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

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	30 June 2013			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable on redemption of units	47	-	-	47
Payable to Management Company	1,971	-	-	1,971
Payable to Central Depository Company of Pakistan Limited - Trustee	155	-	-	155
Accrued expenses and other liabilities	1,287	-	-	1,287
	<u>3,460</u>	<u>-</u>	<u>-</u>	<u>3,460</u>

	30 June 2012			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable on redemption of units	-	-	-	-
Payable to Management Company	1,868	-	-	1,868
Payable to Central Depository Company of Pakistan Limited - Trustee	160	-	-	160
Accrued expenses and other liabilities	1,782	-	-	1,779
	<u>3,810</u>	<u>-</u>	<u>-</u>	<u>3,807</u>

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

16.4 Financial instruments by category

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

	30 June 2013		
	Loans and receivables	Assets at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Assets			
Balances with banks	504,706	-	504,706
Receivable against sale of units	-	-	-
Receivable against sale of investments	5,039	-	5,039
Investments	-	571,077	571,077
Term deposit receipt	-	-	-
Income and profit receivable	17,057	-	17,057
Deposits and other receivables	4,428	-	4,428
	<u>531,230</u>	<u>571,077</u>	<u>1,102,307</u>

	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable against redemption of units	-	47	47
Payable to Management Company	-	1,971	1,971
Payable to Central Depository Company of Pakistan Limited- Trustee	-	155	155
Accrued expenses and other liabilities	-	1,287	1,287
	<u>-</u>	<u>3,460</u>	<u>3,460</u>

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30 June 2013

**Level 2 Level 3
(Rupees in '000)**

Fixed income and other debt securities

At fair value through profit or loss' - Held for trading

263,653 307,424

30 June 2012

Fixed income and other debt securities

At fair value through profit or loss' - Held for trading

664,018 403,973

18 DISTRIBUTIONS BY THE FUND

18.1 Distributions during the year

<i>Date of distributions</i>	For the year ended 30 June 2013				
	Distribution per unit	Bonus Units	Amount	Cash	Total
	----- (Rupees in '000) -----				
27 September 2012	1.05	499,440	25,995	-	25,995
26 December 2012	0.75	348,033	18,112	-	18,112
26 March 2013	0.71	324,565	16,893	-	16,893
		<u><u>1,172,038</u></u>	<u><u>61,000</u></u>	<u><u>-</u></u>	<u><u>61,000</u></u>

<i>Date of distributions</i>	For the year ended 30 June 2012				
	Distribution per unit	Bonus Units	Amount	Cash	Total
	----- (Rupees in '000) -----				
29 September 2011	0.8	465,054	24,282	1,517	25,799
26 January 2012	1.37	766,805	40,230	2,599	42,829
28 March 2012	1.1	523,299	27,313	2,087	29,400
		<u><u>1,755,158</u></u>	<u><u>91,825</u></u>	<u><u>6,203</u></u>	<u><u>98,028</u></u>

The Board of Directors on 22 September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund, in the form of cash or bonus units or in any other form on monthly / quarterly basis. However, the final distributions to the Fund is recommended and approved by the Board of Directors of the Management Company.

18.2 Non-adjusting event after the balance sheet date

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 1.16 per unit for the year ended 30 June 2013 in their meeting held on 4 July 2013. The financial statements for the year ended 30 June 2013 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2014.

19 SUPPLEMENTARY NON FINANCIAL INFORMATION

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

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

19.1 Pattern of unit holding:

		As at 30 June 2013		
		Number of unit holders	Investment amount	Percentage investment
		----- (Rupees in '000) -----		
Individuals	999	524,812	48.06%	
Directors	3	1,287	0.12%	
Insurance companies	3	87,957	8.06%	
Banks / DFIs	19	90,412	8.28%	
Retirement funds	56	343,058	31.42%	
Others	24	44,371	4.06%	
	1,104	1,091,897	100.00%	
		As at 30 June 2012		
		Number of unit holders	Investment amount	Percentage investment
		----- (Rupees in '000) -----		
Individuals	1,095	523,153	40.22%	
Directors	2	1,201	0.09%	
Insurance companies	6	271,613	20.88%	
Banks / DFIs	17	83,770	6.44%	
Retirement funds	64	350,191	26.92%	
Others	50	70,828	5.45%	
	1,234	1,300,756	100.00%	

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

		2013 (Percentage)
1	Invest & Finance Securities (Private) Limited	30.08
2	Invest Capital Investment Bank Limited	23.20
3	Elixir Securities Pakistan (Private) Limited	9.82
4	KASB Securities Limited	8.36
5	JS Global Capital Limited	7.71
6	Vector Capital Markets Limited	7.34
7	Optimus Markets (Private) Limited	5.79
8	ICON Securities (Private) Limited	2.51
9	Invest One Markets Limited	2.14
10	BMA Capital Management Limited	2.03
		2012 (Percentage)
1	BMA Capital Management Limited	28.33%
2	Invest Capital Investment Bank Limited	15.51%
3	JS Global Capital Limited	13.49%
4	KASB Securities Limited	12.32%
5	Elixir Securities Pakistan (Private) Limited	6.48%
6	Arif Habib Investments Limited	4.78%
7	Invisor Securities (Private) Limited	4.68%
8	Invest & Finance Securities (Private) Limited	4.17%
9	Invest One Markets Limited	3.49%
10	ICON Securities (Private) Limited	2.64%

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

19.3 Attendance at meetings of Board of Directors:

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

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

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

19.4 Particulars of Investment Committee and Fund Manager:

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

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

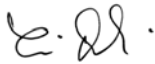
19.5 Other fund managed by the Fund Manager:

Pakistan Income Enhancement Fund under the management of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited).

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 05 August 2013 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Director

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

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
ADAMJEE LIFE ASSURANCE CO. LTD - NUIL Fund		
Directors		
Nasim Beg	3	24,212
Public Sector Companies and Corporations	23	834,741
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	22	2,321,233
Individuals	999	9,873,165
Trust	54	3,713,086
Unitholders holding 5 percent or more Voting interest in the listed company		
NATIONAL REFINERY EXECUTIVE STAFF POST RETIREMENT MEDICAL	1	1,606,199
NRL MANAGEMENT STAFF PENSION FUND	1	1,134,585
NATIONAL INSURANCE COMPANY LIMITED	1	1,034,381
	<u>1,104</u>	<u>20,541,603</u>

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

No. of Unit Holders	Units Holdings	Total Units Held
753	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	601,184.31
91	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	644,935.99
45	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	531,178.27
40	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	694,997.99
26	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	593,563.64
17	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	471,717.62
14	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	456,917.85
10	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	367,589.83
15	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	642,716.37
9	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	430,703.63
4	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	211,320.79
6	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	340,148.58
2	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	124,558.51
6	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	405,835.11
8	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	582,188.57
3	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	229,081.35
2	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	163,848.29
4	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	345,627.30
3	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	280,127.13
3	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	291,883.15
2	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	204,284.85
1	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	108,856.64
2	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	224,768.37
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	118,183.88
2	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	247,163.45
1	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	126,533.96
4	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	525,099.43
1	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	136,333.75
3	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	428,828.67
2	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	294,029.44
1	(SHAREHOLDING FROM 150001.0000 TO 155000.0000)	152,565.79
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	157,838.89
1	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	165,976.21
2	(SHAREHOLDING FROM 170001.0000 TO 175000.0000)	343,899.59
2	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	403,754.16
1	(SHAREHOLDING FROM 205001.0000 TO 210000.0000)	205,653.86
1	(SHAREHOLDING FROM 210001.0000 TO 215000.0000)	210,712.43
2	(SHAREHOLDING FROM 215001.0000 TO 220000.0000)	435,091.25
1	(SHAREHOLDING FROM 220001.0000 TO 225000.0000)	222,032.01
1	(SHAREHOLDING FROM 225001.0000 TO 230000.0000)	228,656.97
1	(SHAREHOLDING FROM 250001.0000 TO 255000.0000)	250,328.22
1	(SHAREHOLDING FROM 265001.0000 TO 270000.0000)	266,020.64
2	(SHAREHOLDING FROM 270001.0000 TO 275000.0000)	540,567.59
1	(SHAREHOLDING FROM 480001.0000 TO 485000.0000)	483,064.99
1	(SHAREHOLDING FROM 580001.0000 TO 585000.0000)	583,082.62
1	(SHAREHOLDING FROM 610001.0000 TO 615000.0000)	613,293.71
1	(SHAREHOLDING FROM 675001.0000 TO 680000.0000)	679,684.39
1	(SHAREHOLDING FROM 1030001.0000 TO 1035000.0000)	1,034,380.84
1	(SHAREHOLDING FROM 1130001.0000 TO 1135000.0000)	1,134,585.26
1	(SHAREHOLDING FROM 1605001.0000 TO 1610000.0000)	1,606,206.45
1,104	Total :	20,541,602.59

PERFORMANCE TABLE

Performance Information	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 *
Total Net Assets Value – Rs. in million	1092	1301	1,814	2,102	2,370	6,070	9,406	5,687	3,707	3,401	1,500	310
Net Assets value per unit – Rupees	53.16	52.0400	53.2000	52.2200	53.0600	51.4800	55.4700	55.1100	54.8500	54.5300	56.7300	51.9400
Highest offer price per unit	54.62	54.6275	54.0598	53.6949	54.0600	54.3600	56.2000	55.8300	55.6000	55.2800	57.5100	54.2700
Lowest offer price per unit	52.63	52.7724	51.9209	51.3634	47.8800	50.9500	50.8000	50.7600	50.6200	51.4700	52.5700	52.4900
Highest Redemption price per unit	53.16	53.8900	53.3300	52.9700	53.3300	53.6300	55.4400	55.0800	54.8500	54.5300	56.7300	51.8300
Lowest Redemption price per unit	51.92	52.0600	51.2200	50.6700	47.2300	50.2600	50.1100	50.0700	49.9400	50.7800	50.2000	50.1300
Distribution per unit (interim) – Rs. (28 Mar-08)						3.3000						
Distribution per unit (interim) – Rs. (28 Sep-08)					1.3000							
Distribution per unit (interim) – Rs. (28 Sep-09)				1.8700								
Net Assets Value before distribution				52.9500								
Net Assets Value after distribution				51.0800								
Distribution per unit (interim) – Rs. (29 Dec-09)				2.0000								
Net Assets Value before distribution				52.8200								
Net Assets Value after distribution				50.8200								
Distribution per unit (interim) – Rs. (29 Mar-10)				1.4000								
Net Assets Value before distribution				52.0600								
Net Assets Value after distribution				50.6600								
Distribution per unit (interim) – Rs. (30 Jun-10)				1.1000								
Net Assets Value before distribution				52.8200								
Net Assets Value after distribution				52.2200								
Distribution per unit (interim) – Rs. (29 Sep-10)			1.1500									
Net Assets Value before distribution			52.5700									
Net Assets Value after distribution			51.4200									
Distribution per unit (interim) – Rs. (29 Dec-10)			1.4200									
Net Assets Value before distribution			53.3300									
Net Assets Value after distribution			51.9100									
Distribution per unit (interim) – Rs. (29 Mar-11)			1.5000									
Net Assets Value before distribution			52.9100									
Net Assets Value after distribution			51.4100									
Distribution per unit (interim) – Rs. (30 Jun-10)			1.2400									
Net Assets Value before distribution			53.2000									
Net Assets Value after distribution			51.9600									
Distribution per unit (interim) – Rs. (28 Sep-11)		0.8										
Net Assets Value before distribution		53.01										
Net Assets Value after distribution		52.21										
Distribution per unit (interim) – Rs. (26 Jan-12)		1.37										
Net Assets Value before distribution		53.83										
Net Assets Value after distribution		52.46										
Distribution per unit (interim) – Rs. (28 Mar-12)		1.1										
Net Assets Value before distribution		53.29										
Net Assets Value after distribution		52.19										
Distribution per unit (interim) – Rs. (30 Jun-12)		1.4										
Net Assets Value before distribution		53.28										
Net Assets Value after distribution		51.88										
Distribution per unit (interim) – Rs. (27 Sep-12)	1.05											
Net Assets Value before distribution	53.09											
Net Assets Value after distribution	52.04											
Distribution per unit (interim) – Rs. (26 Dec-12)	0.75											
Net Assets Value before distribution	52.79											
Net Assets Value after distribution	52.04											
Distribution per unit (interim) – Rs. (26 Mar-13)	0.71											
Net Assets Value before distribution	52.75											
Net Assets Value after distribution	52.04											
Distribution per unit (final) – Rs. (04 July-13)	1.16											
Net Assets Value before distribution	53.16											
Net Assets Value after distribution	52											
Average Annual Return - %												
One year	7.16	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Two year	4.3	9.88	14.10	11.38	9.01	9.97	10.40	9.89	8.56	10.18	-	-
Three year	3.5	12.18	13.20	10.65	9.57	10.03	10.16	9.07	10.01	-	-	-
Net Income for the period – Rs. in million	83.83	134.92	216.13	283.72	281.27	842.17	918.14	523.84	315.81	284.42	154.30	10.68
Income Distribution – Rs. in million	61	174.48	194.5510	-	-	-	-	-	-	-	-	-
Total return of the fund	7.2	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Dividend distribution	7.34	9.34	10.62	12.56	7.30	9.50	10.50	10.00	9.60	9.00	12.00	3.50
Capital Growth	(0.14)	0.05	1.88	1.45	1.51	(0.23)	0.22	0.12	0.04	(1.38)	1.08	1.25

Fund keeps the average duration of its portfolio less than two years.

* First year of operations from the period 1 March 2002 to 30 June 2002.

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(formerly: Arif Habib Investments Limited)

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