



Bachat ka Doosra Naam

**Annual Report
2013**



Aam Key Aam Guthliyon key Daam

PAKISTAN

INCOME ENHANCEMENT 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 Standard Chartered Bank (Pakistan) Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

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

The Board of Directors of MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited), the Management Company of Pakistan Income Enhancement Fund (PIEF), is pleased to present the Annual Report on the affairs of PIEF 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 improved significantly by 33% on a YoY basis to around PKR 1319 million as on June 30, 2013. The investment objective of the Fund is to deliver returns from aggressive investment strategy in the debt and fixed income markets. The fund is benchmarked against a composite benchmark based on 90% of 12 M KIBOR + 10% of 3M PKRV. The fund 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 12.3% during the same period. The under-performance was due to provisioning of certain non-performing TFCs/ Sukuks during the period. Since inception returns of the fund has been weak at 12% as against benchmark's return of 12.8%, an under-performance by 0.8%.

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 has kept a decent exposure towards government papers while maintaining sizeable 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 while placing no TDRs during quarter-ends.

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

Performance Information (%)	PIEF	Benchmark
Last twelve Months Return(Annualized)	7.2%	12.3%
Since Inception (CAGR)	12%	12.8%

During the year your fund earned net income of Rs 53.957 million. The Board in the meeting held on July 04, 2013 has declared final distribution amounting to Rs. 21.867 million (i.e. Rs. 0.86 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
25 July 2012	Re. 0.3000 per unit
25 August 2012	Re. 0.2640 per unit
25 September 2012	Re. 0.1314 per unit
25 October 2012	Re. 0.1314 per unit
25 November 2012	Re. 0.4500 per unit
25 December 2012	Re. 0.3700 per unit
25 January 2013	Re. 0.5100 per unit
25 February 2013	Re. 0.3000 per unit
25 March 2013	Re. 0.3400 per unit
25 April 2013	Re. 0.4000 per unit
25 May 2013	Re. 0.3518 per unit

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

During the period, units worth Rs. 1,299.844 million (including Rs. 52.926 million worth of bonus units) were issued and units with a value of Rs. 974.087 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs.51.86 per unit.

Update on Workers' Welfare Fund

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

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of 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. 13.714 million, the Management Company as a matter of abundant precaution has charged provision for WWF amounting Rs.8.495 million in these financial statements. The unrecognized liability amounted to Rs. 5.219 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 Islamabad 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.

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

- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company, hence the disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 20.3 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	-	-	-
2	Mr. Yasir Qadri	Chief Executive Officer	-	-	-
3	Mr. Saqib Saleem	Company Secretary & Chief Operating Officer	-	-	-
4	Umair Ahmed	Chief Financial officer	-	-	-
5	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	832	36	20

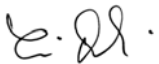
External Auditors

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

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investment 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 Islamabad 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 Enhancement Fund (PIEF) is an open-end Aggressive Fixed Income Scheme

Fund Benchmark

The benchmark for PIEF is 90% of 12 M KIBOR + 10% of 3M PKRV

Investment Objective

The objective of the Fund is to deliver returns from aggressive investment strategy in the debt and fixed income markets.

Investment Strategy

Pakistan Income Enhancement Fund (An Aggressive Fixed Income Fund) (referred to as PIEF) is an open end fund which primarily invests in debt and fixed income instruments and may also take limited exposure in structured products. The maximum duration of the fund shall not exceed 3 years.

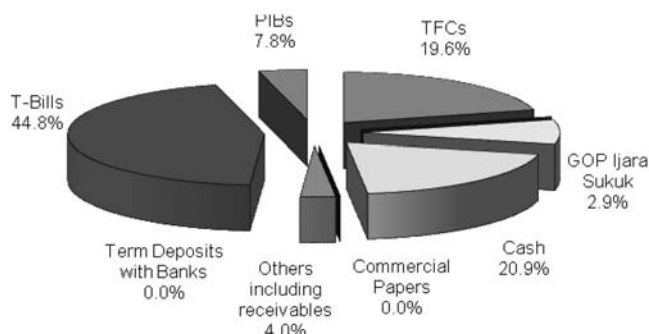
Manager's Review

The fund was able to generate an annualized return of 7.2% during the year under review as against the fund's benchmark return of 12.3% during the same period, an under-performance of 4.8%. Significant under-performance during the period was due to mark-down/ provisioning of non-performing TFCs in the portfolio.

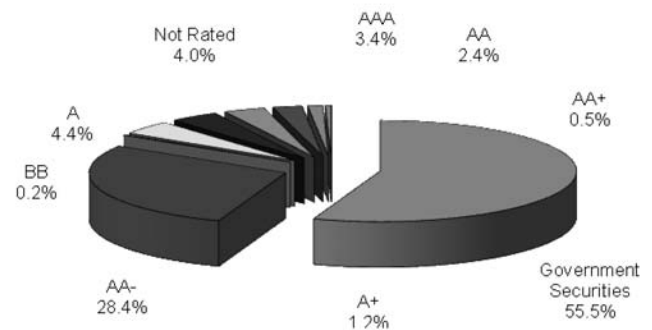
The fund remained focused towards providing higher return to the investors by taking aggressive position in the debt and money markets. During the year, the fund also capitalized strongly on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs as well as TDRs whenever available. The fund's year end allocations were 44.8% in Treasury Bills, 19.6% in Term Finance Certificates, 2.9% in GoP Ijarah Sukuk, 7.8% in PIBs, 0% in TDRs and the rest in cash & other assets.

The net assets of the fund stood at PKR 1.319bn by the end of June 2013, which was up by around 33% 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 Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME ENHANCEMENT 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 Enhancement 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 Enhancement Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Islamabad 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 Enhancement Fund is an open end mutual fund and is listed at Islamabad 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

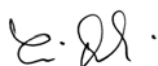
The independent directors meets the criteria of independence under clause i (b) of the Code.

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
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Karachi, 75530 Pakistan

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

Review report to the Unit holders of Pakistan Income Enhancement 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 Islamabad 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 Islamabad 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
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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 Enhancement 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 12.1 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.

Other matters

The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of auditors who vide their report dated 17 September 2012 expressed unmodified opinion with emphasis of matter paragraph on the financial statements of the Fund for the year ended 30 June 2012. The emphasis pertains to the same issue as described above.

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 (Rupees in '000)	2012
Assets			
Balances with banks	4	287,079	113,366
Receivable against sale of units		-	2,096
Investments	5	1,031,865	657,538
Term deposit receipts		-	205,000
Income and profit receivable	6	13,214	18,260
Deposits, prepayments and other receivable	7	1,818	1,810
Preliminary expenses and floatation costs	8	31	231
Total assets		1,334,007	998,301
Liabilities			
Payable against redemption of units		565	3,100
Payable to Management Company	9	4,069	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee	10	149	141
Payable to Securities and Exchange Commission of Pakistan	11	609	993
Accrued expenses and other liabilities	12	9,934	1,276
Total liabilities		15,326	6,994
Net assets		1,318,681	991,307
Unit holders' fund		1,318,681	991,307
(Number of units)			
Number of units in issue		25,426,838	19,125,741
(Rupees)			
Net assets value per unit		51.86	51.83

The annexed notes from 1 to 22 form an integral part of these financial statements.


Chief Executive Officer

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


Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

Note 2013 2012
(Rupees in '000)

Income

Capital gain on sale of investments - net	27,722	4,731
Income from term finance and sukuk certificates	43,738	65,348
Income from government securities	45,560	83,348
Profit on bank deposits	6,755	6,166
Income from margin trading system	-	36
Income from commercial papers	-	585
Income from placements, certificates of investment and term deposit receipts	506	6,131
	124,281	166,345

Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	5.6	10,835	5,849
Reversal of provision against non-performing investment	5.4	4,882	-
Total Income		139,998	172,194

Expenses

Remuneration of Management Company	9.1	14,292	23,041
Remuneration of Central Depository Company of Pakistan Limited -Trustee	10	1,370	1,975
Annual fee - Securities and Exchange Commission of Pakistan	11	609	993
Provision for Workers' Welfare Fund	12.1	8,495	-
Settlement, bank and other charges		798	1,213
Amortisation of preliminary expenses and floatation costs	8.1	200	201
Auditors' remuneration	13	482	479
Printing and related costs		226	308
Fees and subscription		198	117
Legal and professional charges		70	93
Provision against non-performing exposures	5.4	58,471	28,121
Total expenses		85,211	56,541

Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		(830)	(4,098)
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Net income for the year before taxation		53,957	111,555
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Taxation	14	-	-
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Net income for the year after taxation		53,957	111,555
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Earnings per unit	15		
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The annexed notes from 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

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

	<i>Note</i>	2013 (Rupees in '000)	2012
Undistributed income brought forward			
- Realised gains		52,262	80,414
- Unrealised losses		<u>(17,358)</u>	<u>(12,354)</u>
		34,904	68,060
Net income for the year		53,957	111,555
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		11,532	(22,318)
Distributions:			
Final distribution at the rate of Re. 0.3309 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]			
- Cash distribution		-	(1,169)
- Issue of bonus units		-	(9,130)
Final distribution at the rate of Re. 0.4000 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]			
- Cash distribution		-	(117)
- Issue of bonus units		-	(7,625)
Interim distributions during the year	<i>19.1</i>		
- Cash distribution		(243)	(9,348)
- Issue of bonus units		<u>(52,927)</u>	<u>(95,004)</u>
		(53,170)	(122,393)
Undistributed income carried forward		<u>24,159</u>	<u>34,904</u>
Undistributed income carried forward:			
- Realised gain		46,818	52,262
- Unrealised gains / (losses)		<u>405</u>	<u>(17,358)</u>
		<u>47,223</u>	<u>34,904</u>

The annexed notes from 1 to 22 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**

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Net assets at beginning of the year		991,307	1,624,412
Issue of 24,192,451 units (2012: 10,498,160 units)		1,246,918	537,531
Issue of 1,032,145 bonus units (2012: 2,148,827 bonus units)		52,926	111,759
Redemption of 18,923,499 units (2012: 24,645,977 units)		(974,087)	(1,275,655)
		325,757	(626,365)
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		830	4,098
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement		11,532	22,318
		12,362	26,416
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)		15,400	100,975
Capital gain on sale of investments - net		27,722	4,731
Unrealised appreciation in value of investments classified as 'at fair value through profit or loss'		10,835	5,849
		53,957	111,555
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(11,532)	(22,318)
Final distribution at the rate of Re. 0.3309 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]			
- Cash distribution		-	(1,169)
- Issue of bonus units		-	(9,130)
Final distribution at the rate of Re. 0.4000 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]			
- Cash distribution		-	(117)
- Issue of bonus units		-	(7,625)
Interim distributions during the year	<i>19.1</i>		
- Cash distribution		(243)	(9,348)
- Issue of bonus units		(52,927)	(95,004)
		(53,170)	(122,393)
Net assets at end of the year		1,318,681	991,307
Net assets value per unit as at beginning of the year		51.83	52.19
Net assets value per unit as at end of the year		51.86	51.83

The annexed notes from 1 to 22 form an integral part of these financial statements.

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


Chief Executive Officer


Director

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

	<i>Note</i>	2013	2012
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		53,957	111,555
Adjustments for:			
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		830	4,098
Amortisation of preliminary expenses and floatation costs		200	201
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		(10,835)	(5,849)
Provision for Workers' Welfare Fund		8,495	-
Provision against non-performing exposures		58,471	-
Provision against receivables		-	4,914
		111,118	114,919
(Increase) / decrease in assets			
Receivable against sale of investments		-	678
Investments		(421,964)	699,472
Term deposit receipts		205,000	-
Receivable against margin trading system		-	7,707
Income and profit receivable		5,046	2,062
Deposits, prepayments and other receivable		(8)	(5,928)
		(211,926)	703,991
Increase / (decrease) in liabilities			
Payable to Management Company		2,585	(1,199)
Payable to Central Depository Company of Pakistan Limited - Trustee		8	(42)
Payable to Securities and Exchange Commission of Pakistan		(384)	(409)
Accrued expenses and other liabilities		163	(197)
		2,372	(1,847)
Net cash (used in) / generated from operating activities		(98,436)	817,063
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(243)	(10,634)
Net receipts / (payments) from sale and redemption of units		272,392	(725,125)
Net cash generated from / (used in) financing activities		272,149	(735,759)
Net increase in cash and cash equivalents during the year		173,713	81,304
Cash and cash equivalents at beginning of the year		113,366	32,062
Cash and cash equivalents at end of the year		287,079	113,366

The annexed notes from 1 to 22 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 Enhancement Fund (the Fund) was established through a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 July 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with 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 NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, 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 listed on the Islamabad 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. Unit holders are divided into plan "A" and plan "B". The unit holders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend. The Fund has been categorised as "Aggressive Fixed 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.

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

The objective of the Fund is to deliver returns from aggressive investment strategy in the debt and fixed income markets.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan limited as a 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

b) Loans and receivables

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

c) 'Available-for-sale'

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

d) Financial liabilities

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

Recognition

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

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

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' 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 33 of 2012 and Circular 35 of 2012. The Circulars also specify 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.

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

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

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.

3.5 Preliminary expenses and floatation costs

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

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

3.6 Provisions

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

3.7 Net assets value per unit

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

3.8 Taxation

Current

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

Deferred

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

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

3.9 Revenue recognition

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

3.10 Expenses

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

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

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4 BALANCES WITH BANKS

		2013	2012
Rupees in '000			
In current account		71	72
In deposit accounts	4.1	287,008	113,294
		<u>287,079</u>	<u>113,366</u>

4.1 These carry mark-up at rates ranging between 6% to 11% per annum (2012: 6% to 12% per annum).

5 INVESTMENTS

Fixed income and other debt securities

'At fair value through profit or loss'

Government securities	5.1	762,340	218,211
Term finance and sukuk certificates			
- Listed debt securities	5.2	153,711	214,924
- Unlisted debt securities	5.3	115,814	224,409
		<u>1,031,865</u>	<u>657,544</u>

5.1 Government securities

Treasury Bills	5.1.1	615,768	123,427
Pakistan Investment Bonds	5.1.2	106,588	56,556
GoP Ijara sukuk	5.1.3	39,984	38,228
		<u>762,340</u>	<u>218,211</u>

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

5.1.1 Treasury Bills

Issue date	Face value			Balance as at 30 June 2013			Market value		
	As at 01 July 2012	Purchases during the year	Sales / matured during the year	As at 30 June 2013	Carrying value	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----									
1 year (Tenor)									
6 October 2011	-	30,000	30,000	-	-	-	-	-	-
20 October 2011	-	500,000	500,000	-	-	-	-	-	-
3 November 2011	-	65,000	65,000	-	-	-	-	-	-
17 November 2011	-	200,000	200,000	-	-	-	-	-	-
1 December 2011	-	50,000	50,000	-	-	-	-	-	-
12 January 2012	-	80,000	80,000	-	-	-	-	-	-
17 May 2012	-	30,000	30,000	-	-	-	-	-	-
14 June 2012	-	175,000	175,000	-	-	-	-	-	-
12 July 2012	-	920,400	920,400	-	-	-	-	-	-
20 September 2012	-	250,000	250,000	-	-	-	-	-	-
4 October 2012	-	100,000	100,000	-	-	-	-	-	-
18 October 2012	-	500,000	500,000	-	-	-	-	-	-
1 November 2012	-	350,000	350,000	-	-	-	-	-	-
16 May 2013	-	840,000	475,000	365,000	337,672	338,639	967	25.68	32.82
30 May 2013	-	294,000	250,000	44,000	40,616	40,692	76	3.09	3.94
13 June 2013	-	250,000	-	250,000	230,015	230,473	458	17.48	22.34
					<u>608,303</u>	<u>609,804</u>	<u>1,501</u>		
6 months (Tenor)									
26 July 2012	-	250,000	250,000	-	-	-	-	-	-
9 August 2012	-	250,000	250,000	-	-	-	-	-	-
23 August 2012	-	100,000	100,000	-	-	-	-	-	-
18 October 2012	-	250,000	250,000	-	-	-	-	-	-
1 November 2012	-	250,000	250,000	-	-	-	-	-	-
1 November 2012	-	27,000	27,000	-	-	-	-	-	-
13 December 2012	-	187,000	187,000	-	-	-	-	-	-
10 January 2013	-	250,000	250,000	-	-	-	-	-	-
24 January 2013	-	250,000	250,000	-	-	-	-	-	-
16 May 2013	-	250,000	250,000	-	-	-	-	-	-
30 May 2013	-	250,000	250,000	-	-	-	-	-	-
					<u>-</u>	<u>-</u>	<u>-</u>		
3 months (Tenor)									
17 May 2012	125,000	-	125,000	-	-	-	-	-	-
28 June 2012	-	500,000	500,000	-	-	-	-	-	-
26 July 2012	-	250,000	250,000	-	-	-	-	-	-
9 August 2012	-	250,000	250,000	-	-	-	-	-	-
6 September 2012	-	150,000	150,000	-	-	-	-	-	-
29 November 2012	-	250,000	250,000	-	-	-	-	-	-
13 December 2012	-	187,000	187,000	-	-	-	-	-	-
10 January 2013	-	250,000	250,000	-	-	-	-	-	-
24 January 2013	-	320,000	320,000	-	-	-	-	-	-
21 February 2013	-	262,000	262,000	-	-	-	-	-	-
7 March 2013	-	390,000	390,000	-	-	-	-	-	-
21 March 2013	-	115,000	115,000	-	-	-	-	-	-
2 May 2013	-	206,000	200,000	6,000	5,963	5,964	2	0.45	0.58
16 May 2013	-	250,000	250,000	-	-	-	-	-	-
					<u>5,963</u>	<u>5,964</u>	<u>2</u>		
					<u>614,266</u>	<u>615,768</u>	<u>1,503</u>		

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 01 July 2011	Purchases during the year	Sales / matured during the year	As at 30 June 2012	Carrying value	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)									
1 year (Tenor)									
21 April 2011	-	70,000	70,000	-	-	-	-	-	-
16 June 2011	-	100,000	100,000	-	-	-	-	-	-
11 August 2011	-	145,000	145,000	-	-	-	-	-	-
25 August 2011	-	494,000	494,000	-	-	-	-	-	-
22 September 2011	-	2,000	2,000	-	-	-	-	-	-
6 October 2011	-	50,000	50,000	-	-	-	-	-	-
20 October 2011	-	89,000	89,000	-	-	-	-	-	-
3 November 2011	-	225,000	225,000	-	-	-	-	-	-
17 November 2011	-	275,000	275,000	-	-	-	-	-	-
26 January 2012	-	187,500	187,500	-	-	-	-	-	-
6 months (Tenor)									
21 April 2011	160,000	-	160,000	-	-	-	-	-	-
5 May 2011	95,000	-	95,000	-	-	-	-	-	-
5 May 2011	-	165,000	165,000	-	-	-	-	-	-
19 May 2011	42,500	-	42,500	-	-	-	-	-	-
2 June 2011	-	25,000	25,000	-	-	-	-	-	-
16 June 2011	135,000	-	135,000	-	-	-	-	-	-
28 July 2011	-	265,000	265,000	-	-	-	-	-	-
25 August 2011	-	50,000	50,000	-	-	-	-	-	-
17 November 2011	-	275,000	275,000	-	-	-	-	-	-
3 months (Tenor)									
5 May 2011	165,000	-	165,000	-	-	-	-	-	-
19 May 2011	125,000	-	125,000	-	-	-	-	-	-
2 June 2011	135,000	-	135,000	-	-	-	-	-	-
16 June 2011	135,000	-	135,000	-	-	-	-	-	-
28 July 2011	-	110,000	110,000	-	-	-	-	-	-
26 January 2012	-	80,000	80,000	-	-	-	-	-	-
23 February 2012	-	125,000	125,000	-	-	-	-	-	-
22 March 2012	-	500,000	500,000	-	-	-	-	-	-
5 April 2012	-	40,000	40,000	-	-	-	-	-	-
5 April 2012	-	110,000	110,000	-	-	-	-	-	-
19 April 2012	-	687,000	687,000	-	-	-	-	-	-
3 May 2012	-	550,000	550,000	-	-	-	-	-	-
17 May 2012	-	1,125,000	1,125,000	-	-	-	-	-	-
17 May 2012	-	125,000	-	125,000	123,452	123,427	(25)	12.45	18.77
					123,452	123,427	(25)		
1 month (Tenor)									
21 April 2011	20,000	-	20,000	-	-	-	-	-	-
9 June 2011	30,000	-	30,000	-	-	-	-	-	-
					-	-	-	-	-
					123,452	123,427	(25)		

5.1.1.1 These Treasury Bills having cost of Rs. 609.69 million (2012: Rs. 121.99 million) carries effective yield ranging from 9.14% to 9.62% per annum (2012: 11.80%).

5.1.2 Pakistan Investment Bonds

Issue date	Face value				Balance as at 30 June 2013			Market value	
	As at 01 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)									
5 years (Tenor)									
30 August 2008	8,000	-	8,000	-	-	-	-	-	-
22 July 2010	50,000	-	50,000	-	-	-	-	-	-
18 August 2011	-	175,000	175,000	-	-	-	-	-	-
19 July 2012	-	150,000	150,000	-	-	-	-	-	-
3 years (Tenor)									
22 July 2010	-	219,000	189,600	29,400	29,720	29,431	(289)	2.23	2.85
18 August 2011	-	200,000	150,000	50,000	51,004	51,195	191	3.88	4.96
19 July 2012	-	550,000	525,000	25,000	25,568	25,962	394	1.97	2.52
					106,292	106,588	296		

**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 01 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) -----									
10 years (Tenor)									
30 August 2008	-	40,000	40,000	-	-	-	-	-	-
18 August 2011	-	50,000	50,000	-	-	-	-	-	-
18 August 2011	-	50,000	50,000	-	-	-	-	-	-
18 August 2011	-	50,000	50,000	-	-	-	-	-	-
18 August 2011	-	50,000	50,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
5 years (Tenor)									
30 August 2008	-	8,000	-	8,000	7,929	7,952	(23)	0.80	1.21
22 July 2010	-	50,000	-	50,000	48,927	48,604	323	4.90	7.39
22 July 2010	-	50,000	50,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
					56,856	56,556	300		
3 years (Tenor)									
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
18 August 2011	-	25,000	25,000	-	-	-	-	-	-
					-	-	-		
					56,856	56,556	300		

5.1.2.1 These Pakistan Investment Bonds carries interest at the rate of 11.25% (2012: 11.50%) per annum.

5.1.3 GoP Ijara sukuk

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2013			Market value	
		As at 01 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) -----										
3 years (Tenor)										
16 May 2011	11.94%	13,200	-	13,200	-	-	-	-	-	-
26 December 2011	11.94%	25,000	-	25,000	-	-	-	-	-	-
28 June 2012	11.94%	-	200,000	200,000	-	-	-	-	-	-
18 September 2012	9.15%	-	225,000	185,000	40,000	40,034	39,984	(50)	3.03	3.87
					40,034	39,984	(50)			
Issue date	Profit rate (%)	Face value				Balance as at 30 June 2012			Market value	
		As at 01 July 2011	Purchases during the year	Sales / matured during the year	As at 30 June 2012	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
3 years (Tenor)										
15 November 2010	13.11%	50,000	280,000	330,000	-	-	-	-	-	-
16 May 2011	13.45%	-	383,200	370,000	13,200	13,295	13,210	(85)	1.33	2.01
26 December 2011	11.94%	-	25,000	-	25,000	25,076	25,018	(58)	2.52	3.80
					38,371	38,228	(143)			
					218,679	218,211	132			

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	208,233	226,160
Less: Provision of Pace Pakistan Limited			
On 1 July		(11,236)	-
Charged during the year	5.2.1.1	(43,286)	(11,236)
		(54,522)	(11,236)
		153,711	214,924

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 01 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Cost / Carrying value	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												
Bank AL-Habib Limited	7 February 2007	11.28%	5,000	-	50	4,950	25,520	24,966	(554)	1.89	2.42	1.65
Askari Bank Limited	31 October 2005		6,000	-	6,000	-	-	-	-	-	-	-
PACE Pakistan Limited (Note 5.2.1.1)	15 February 2008		15,000	-	-	15,000	49,418	54,522	5,104	4.13	5.28	5.00
Askari Bank Limited	18 November 2009	12.09%	1,000	5,000	-	6,000	31,245	30,237	(1,008)	2.29	2.93	1.00
Askari Bank Limited	4 February 2005		425	-	425	-	-	-	-	-	-	-
Escorts Investment Bank Limited	15 March 2007	8.00%	6,000	-	-	6,000	2,480	3,291	811	0.25	0.32	6.00
NIB Bank Limited	5 March 2008	10.64%	12,399	-	9,000	3,399	16,885	16,917	32	1.28	1.64	0.57
Askari Bank Limited *	23 December 2011	11.19%	45	-	-	45	46,414	47,926	1,512	3.63	4.64	4.50
Bank Alfalah Limited	20 February 2013	10.96%	-	5,981	-	5,981	30,151	30,374	223	2.30	2.94	0.60
							202,113	208,233	6,120			

* Face value of the investment 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 01 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost / Carrying value	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												
Bank AL-Habib Limited	7 February 2007	13.78%	5,000	-	-	5,000	25,644	25,788	144	1.96	0.02	1.67
Askari Bank Limited	31 October 2005	13.52%	6,000	-	-	6,000	30,282	30,010	(272)	2.28	0.03	2.00
PACE Pakistan Limited (Note 5.2.1.1)	15 February 2008		15,000	-	-	15,000	63,285	49,430	(13,855)	3.75	0.05	2.55
Pak Arab Fertilizer Limited	28 February 2008		4,703	-	4,703	-	-	-	-	-	-	-
Askari Bank Limited	18 November 2009	14.52%	4,000	-	3,000	1,000	5,161	5,279	118	0.40	0.01	0.18
Askari Bank Limited	4 February 2005	13.33%	425	-	-	425	2,125	2,119	(6)	0.16	0.00	0.14
Escorts Investment Bank Limited	15 March 2007	8.00%	6,000	-	-	6,000	6,262	5,478	(784)	0.42	0.01	1.10
United Bank Limited	14 February 2008		5,000	-	5,000	-	-	-	-	-	-	-
NIB Bank Limited	5 March 2008	13.08%	-	12,399	-	12,399	60,744	61,617	873	4.67	0.06	2.05
Askari Bank Limited *	23 December 2011	13.79%	-	45	-	45	45,000	46,439	1,439	3.52	0.05	4.64
							238,503	226,160	(12,343)			

* Face value of the investment 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. 43.286 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

5.3	Unlisted debt securities - term finance certificates and sukuk bonds	2013	2012	
		(Rupees in '000)		
	Unlisted debt securities	5.3.1	143,002	241,288
	Less: Provision as on 1 July			
	Eden Housing Limited		12,982	-
	Pak Elektron Limited		3,903	-
			16,885	-
	Less: Provision charged during the year			
	Eden Housing Limited	5.3.1.1	2,976	12,982
	Pak Elektron Limited	5.3.1.2	12,209	3,903
			15,185	16,885
	Add: Reversal of provision during the year			
	Eden Housing Limited	5.3.1.1	4,882	-
			115,814	224,403

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 01 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Cost / Carrying value	Market value / Carrying value	(Diminution)/ Appreciation	as a percentage of net assets	as a percentage of total investments		
				----- (Rupees in '000) -----										
	Unlisted debt securities													
	Engro Fertilizer Limited	18 March 2008	11.25%	23,100	-	10,200	12,900	61,340	60,469	(871)	4.59	5.86	1.29	
	Bank Alfalah Limited (Floating)	2 December 2009	12.08%	9,000	-	-	9,000	47,410	47,236	(174)	3.58	4.58	0.90	
	Bank Al Falah Limited (Fixed)	2 December 2009		470	-	470	-	-	-	-	-	-	-	
	Jahangir Siddiqui & Company Limited	4 July 2007	11.07%	3,250	-	-	3,250	8,042	8,109	67	0.61	0.79	1.30	
	Bank AL Habib Limited	30 June 2011		4,900	-	4,900	-	-	-	-	-	-	-	
								116,792	115,814	(978)				
	Unlisted sukuk certificates													
	Eden Housing Limited (Note 5.3.1.1)	31 March 2008		10,415	-	-	10,415	7,336	11,074	3,738	0.84	1.07	7.13	
	Pak Elektron Limited (Note 5.3.1.2)	28 September 2007		8,000	-	-	8,000	15,907	16,114	207	1.22	1.56	3.33	
								23,243	27,188	3,945				
								140,035	143,002	2,967				

Certificates have a face value of Rs. 5,000 each unless stated otherwise.

Certificates have a face value of Rs. 5,000 each unless stated otherwise.

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 01 July 2011	Purchases during the year	Sales / Matured during the year	As at 30 June 2012	Cost / Carrying value	Market value / Carrying value	(Diminution)/ Appreciation	as a percentage of net assets	as a percentage of total investments		
	Unlisted debt securities												
	Engro Fertilizer Limited	18 March 2008	13.65%	27,200	-	4,100	23,100	108,570	109,835	1,265	8.33	0.17	2.75
	KASB Securities Limited	27 June 2007		8,000	-	8,000	-	-	-	-	-	-	-
	Bank Alfalah Limited (Floating)	2 December 2009	14.51%	11,000	-	2,000	9,000	45,581	47,428	1,847	3.60	0.07	0.95
	Bank Al Falah Limited (Fixed)	2 December 2009	15.00%	-	6,000	5,530	470	2,351	2,459	108	0.19	0.00	0.05
	Jahangir Siddiqui & Company Limited	4 July 2007	13.65%	3,250	-	-	3,250	16,237	16,154	(83)	1.23	0.02	1.29
	Bank AL Habib Limited	30 June 2011	15.00%	-	15,000	10,100	4,900	25,144	26,056	912	1.98	0.04	0.87
								197,883	201,932	4,049			
	Unlisted sukuk certificates												
	Eden Housing Limited (Note 5.3.1.1)	31 March 2008		10,415	-	-	10,415	33,515	23,449	(10,066)	1.78	0.04	0.42
	Pak Elektron Limited (Note 5.3.1.2)	28 September 2007		8,000	-	-	8,000	15,247	15,907	660	1.21	0.02	1.00
								48,762	39,356	(9,406)			
								246,645	241,288	(5,357)			

5.3.1.1 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. 2,976 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 recognised reversal amounting to Rs. 4,882 million on receipt basis. However, the Fund has suspended accrual of markup thereagainst.

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5.3.1.2 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. During the year, the Fund has recognised further provision amounting to Rs. 12.209 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.

5.4 Movement in provision against debt securities

	2013		
	Listed debt securities	Unlisted debt securities	Total
	(Rupees in '000)		
Opening balance	11,236	16,885	28,121
Add : Charge for the year	43,286	15,185	58,471
Less: Reversal of provision	-	4,882	4,882
Charge for the year - net	43,286	10,303	53,589
Closing balance	54,522	27,188	81,710

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

Name of security	Mark-up rate (per annum)	Issue date	Maturity date
Listed debt securities			
Bank AL-Habib Limited	6 month KIBOR+1.95%	7 February 2007	7 February 2015
Askari Bank Limited	6 month KIBOR+1.5%	31 October 2005	31 October 2013
PACE Pakistan Limited	6 month KIBOR+2%	15 February 2008	15 February 2017
Askari Bank Limited	6 month KIBOR+2.5%	18 November 2009	18 November 2019
Askari Bank Limited	6 month KIBOR+1.5%	4 February 2005	4 February 2013
Escorts Investment Bank Limited	6 month KIBOR+2.5%	15 March 2007	15 March 2012
NIB Bank Limited	6 month KIBOR+1.15%	5 March 2008	5 March 2016
Askari Bank Limited	6 month 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
Unlisted debt securities			
Engro Fertilizer Limited	6 month KIBOR+1.7%	18 March 2008	18 March 2018
Bank Al Falah Limited (Floating)	6 month KIBOR+2.5%	2 December 2009	2 December 2017
Bank Al Falah Limited (Fixed)	15.00%	2 December 2009	2 December 2017
Jahangir Siddiqui & Company Limited	6 month KIBOR+1.7%	4 July 2007	4 July 2013
Bank Al Habib Limited	15.00%	30 June 2011	30 June 2021
Eden Housing Limited	6 month KIBOR+2.5%	31 March 2008	31 March 2013
Pak Elektron Limited	3 month KIBOR+1.75%	28 September 2007	28 September 2012

5.5.1 The Term Finance and Sukuk certificates held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

5.6 Net unrealised appreciation on re-measurement of investments classified 'at fair value through profit or loss'

	2013	2012
	(Rupees in '000)	
Market value of investments	1,031,865	657,538
Carrying value of investments	1,021,030	651,689
	10,835	5,849

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		2013	2012
6	INCOME AND PROFIT RECEIVABLE	(Rupees in '000)	
	Income receivable on term finance and sukuk certificates	6,439	11,409
	Income receivable on Pakistan Investment Bonds	4,756	2,858
	Income receivable on term deposit receipts	-	3,184
	Profit receivable on deposit accounts with banks	957	579
	Income receivable on sukuk certificates	1,062	230
		<u>13,214</u>	<u>18,260</u>
7	DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE		
	Deposits with		
	- National Clearing Company of Pakistan Limited	7.1 375	375
	- Central Depository Company of Pakistan Limited	7.2 200	200
	Margin against term finance certificates	7.3 1,152	1,152
	Prepayments	91	83
		<u>1,818</u>	<u>1,810</u>
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	PRELIMINARY EXPENSES AND FLOATATION COSTS	(Rupees in '000)	
	Preliminary expenses and floatation costs	231	432
	Amortisation during the year	(200)	(201)
		<u>31</u>	<u>231</u>
8.1	Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from August 28, 2008.		
9	PAYABLE TO MANAGEMENT COMPANY		
	Management fee payable	9.1 1,797	1,469
	Front-end load payable	2,272	15
		<u>4,069</u>	<u>1,484</u>
9.1	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. During the current 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 by the Fund to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.		

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10 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 as per the tariff specified therein based on the daily net assets of the Fund:

Based on the Trust Deed, the tariff structure applicable to the Fund is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.6 million or 0.17% per annum of NAV whichever is higher
Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% per annum of NAV exceeding 1,000 million
Over Rs 5,000 million	Rs 5.1 million plus 0.07% per annum of NAV exceeding Rs 1,000 million.

The remuneration is paid to the Trustee monthly in arrears.

11 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.

12 ACCRUED EXPENSES AND OTHER LIABILITIES

		2013	2012
		(Rupees in '000)	
Provision for Workers' Welfare Fund	<i>12.1</i>	8,495	-
Auditors' remuneration		325	325
Zakat payable		680	581
Legal and professional charges		144	94
Brokerage payable		15	63
Capital gain tax payable		9	-
Others		266	213
		<u>9,934</u>	<u>1,276</u>

12.1 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.

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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. 13.714 million, the Management Company as a matter of abundant precaution has charged provision for WWF amounting Rs. 8.495 million in these financial statements. The unrecognized liability amounted to Rs. 5.219 million. (NAV per unit Re. 0.205)

13 AUDITORS' REMUNERATION

2013 2012
(Rupees in '000)

Annual audit fee	225	225
Half yearly review fee	125	125
Other certifications	80	105
Out of pocket expenses	52	24
	482	479

14 TAXATION

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

15 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.

16 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:

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16.1	Details of the transactions with related parties / connected persons:	2013	2012
		(Rupees in '000)	
	Management Company		
	Management fee for the year	14,292	23,041
	Front end load	10,934	1,605
	Sindh sales tax for the year	-	3,178
	Federal excise duty for the year	-	-
	Central Depository Company of Pakistan Limited - Trustee		
	Remuneration for the year	1,370	1,975
	CDS charges	14	37
	MCB Bank Limited		
	Profit on bank deposits	2,559	2,539
	Bank charges	14	5
	Summit Bank Limited		
	Profit on bank deposits	33	223
	Adamjee Insurance Company Limited - Employees Provident Fund		
	Distribution of bonus units: Nil (2012: 4,986 unit)	-	259
	Redemption of units: Nil (2012: 72,309 unit)	-	3,777
	Adamjee Life Assurance Company Limited - Nuil Fund		
	Issue of 136,879 units (2012: Nil)	7,000	-
	Distribution of bonus units: 6,186 unit (2012: 57,496)	317	2,991
	Redemption of units: Nil (2012: 1,041,719)	-	54,386
	Key management personnel		
	Issue of 66,087 units (2012: 139,811 units)	3,422	7,349
	Redemption of 70,561 units (2012: 233,810 units)	3,643	12,200
	Bonus distribution of 1,338 units (2012: 13,964 units)	69	726
16.2	Amount outstanding as at year end		
	Management Company		
	Management fee payable	1,797	1,469
	Front-end load payable	2,272	15
	Central Depository Company of Pakistan Limited - Trustee		
	Security deposit	200	200
	Remuneration payable	149	141
	Summit Bank Limited		
	Bank deposit held	71	429
	Accrued profit on bank deposit	-	2

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	2013	2012
	(Rupees in '000)	
MCB Bank Limited		
Bank deposit held	44,800	775
Accrued profit on bank deposit	134	121
Adamjee Life Assurance Company Limited - Nuil Fund		
Units held 143,065 (2012: Nil units)	7,419	-
Directors and executives of the Management Company		
Units held 33,858 (2012: 77,106 units)	1,756	3,996

17 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 markets with an objective to return from aggressive investment strategy. The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

17.1 Market risk

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 the 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.

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.

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

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. 0.788 million (2012: Rs. 1.210 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. 1.004 million (2012: Rs. 1.453 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 changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2013, the Fund does not hold any investment exposed to price risk, accordingly there will be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e. term finance certificates and government securities) for change in factors other than those arising from interest rate or currency risk.

17.2 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.

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, deposits with central clearing and settlement companies, investment in debt securities, receivable against sale of units and other receivable in Statement

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

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

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 is assigned by reputable credit rating agencies.

Investment in fixed income securities

Investment in Treasury Bills, Pakistan Investment Bonds 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 and 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-	70.07	99.88
A, A+	28.71	0.11
Non-investment grade	1.22	0.00
Non-performing	0.00	0.01
	<u>100.00</u>	<u>100.00</u>

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.

Deposits, prepayments and other receivable

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

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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 respect 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 and 5.3 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.

17.3 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 represents the continuous obligation of the Fund for redemption by its holders.

Management of liquidity risk

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

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

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

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	30 June 2013			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable to Management Company	4,069	-	-	4,069
Payable to Central Depository Company of Pakistan Limited - Trustee	149	-	-	149
Payable against redemption of units	565	-	-	565
Accrued expenses and other liabilities	750	-	-	750
	5,533	-	-	5,533

	30 June 2012			
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Payable to Management Company	1,484	-	-	1,484
Payable to Central Depository Company of Pakistan Limited - Trustee	141	-	-	141
Payable on redemption of units	3,100	-	-	3,100
Accrued expenses and other liabilities	695	-	-	695
	5,420	-	-	5,420

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

17.4 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	287,079	-	287,079
Investments	-	1,031,865	1,031,865
Income and profit receivable	13,214	-	13,214
Deposits and other receivable	1,727	-	1,727
	302,020	1,031,865	1,333,885

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	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Liabilities			
Payable against redemption of units	-	565	565
Payable to Management Company	-	4,069	4,069
Payable to Central Depository Company of Pakistan Limited- Trustee	-	149	149
Accrued expenses and other liabilities	-	750	750
	<u>-</u>	<u>5,533</u>	<u>5,533</u>

	30 June 2012		
	Loans and receivables	Assets at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Assets			
Balances with banks	113,366	-	113,366
Receivable against sale of units	2,096	-	2,096
Investments	-	657,544	657,538
Term deposit receipts	205,000	-	205,000
Income and profit receivable	18,260	-	18,260
Deposits and other receivable	1,727	-	1,727
	<u>340,449</u>	<u>657,544</u>	<u>997,993</u>

	30 June 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
Liabilities			
Payable against redemption of units	-	3,100	3,100
Payable to Management Company	-	1,484	1,484
Payable to Central Depository Company of Pakistan Limited- Trustee	-	141	141
Accrued expenses and other liabilities	-	695	695
	<u>-</u>	<u>5,420</u>	<u>5,420</u>

Unit holders' fund risk management

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

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

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FOR THE YEAR ENDED JUNE 30, 2013**

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

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

839,726 **192,137**

30 June 2012

Fixed income and other debt securities

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

596,879 **60,659**

19 DISTRIBUTIONS BY THE FUND

19.1 Distributions during the year

	For the year ended 30 June 2013				
	Distribution per unit	Bonus *		Cash **	Total
		Units	Amount		
	(Rupees in '000)				
<i>Date of distributions</i>					
25 July 2012	Re. 0.3000	103,147	5,346	88	5,434
25 August 2012	Re. 0.2640	87,090	4,488	77	4,565
25 September 2012	Re. 0.1314	39,955	2,056	39	2,095
25 October 2012	Re. 0.1314	31,479	1,604	39	1,643
25 November 2012	Re. 0.4500	108,182	5,517	-	5,517
25 December 2012	Re. 0.3700	86,249	4,399	-	4,399
25 January 2013	Re. 0.5100	154,470	7,892	-	7,892
25 Febraury 2013	Re. 0.3000	93,993	4,794	-	4,794
25 March 2013	Re. 0.3400	95,623	4,881	-	4,881
25 April 2013	Re. 0.4000	109,698	5,662	-	5,662
25 May 2013	Re. 0.3518	122,277	6,288	-	6,288
		<u>1,032,163</u>	<u>52,927</u>	<u>243</u>	<u>53,170</u>

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

	For the year ended 30 June 2012				Total
	Distribution per unit	Bonus *		Cash **	
		Units	Amount		
----- (Rupees in '000) -----					
<i>Date of distributions</i>					
25 July 2011	Re. 0.4000	208,325	10,812	1,413	12,225
25 August 2011	Re. 0.4800	238,365	12,383	1,237	13,620
25 September 2011	Re. 0.2900	142,358	7,400	747	8,147
25 October 2011	Re. 0.3200	137,033	7,127	825	7,952
25 November 2011	Re. 0.3600	152,788	7,953	927	8,880
25 December 2011	Re. 0.5000	218,466	11,399	1,288	12,687
25 January 2012	Re. 0.3000	131,045	6,842	773	7,615
25 February 2012	Re. 0.3500	151,256	7,870	902	8,772
25 March 2012	Re. 0.4000	171,527	8,931	1,031	9,962
25 April 2012	Re. 0.3500	139,977	7,280	103	7,383
25 May 2012	Re. 0.3510	134,611	7,006	103	7,109
		1,825,752	95,004	9,348	104,352

* Bonus units have been distributed to unit holders under plan A

** Cash dividends have been distributed to unit holders under plan B

As per clause 12 of the Trust Deed and clause 6 of Part VI of the Offering Document, the Management Company, on behalf of the Fund, on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22 September 2008 have passed a resolution providing standing authorisation to the Chief Executive Officer to approve and declare interim dividends out of profits earned by the Fund upto the 25th of each month. SECP vide letter no. NBFC - II.DD / AHIL / Misc-734 / 2009 has approved the above arrangement.

19.2 Non-adjusting event after the balance sheet date

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 0.86 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.

20 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:

20.1 Pattern of unit holding:

	As at 30 June 2013		
	Number of unit holders	Investment amount	Percentage investment
----- (Rupees in '000) -----			
Individuals	1,034	1,098,882	83.32%
Insurance companies	3	12,626	0.96%
Banks / DFIs	1	16,036	1.22%
Retirement funds	19	81,210	6.16%
Public limited companies	1	107,807	8.18%
Others	14	2,120	0.16%
	1,072	1,318,681	100.00%

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

	As at 30 June 2012		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	749	795,121	80.21%
Banks / DFIs	2	15,229	1.54%
Retirement funds	22	114,988	11.60%
Others	21	65,969	6.65%
	<u>794</u>	<u>991,307</u>	<u>100.00%</u>

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

	2013 (Percentage)
1 Invest and Finance Securities Limited	27.34
2 KASB Securities Limited	16.67
3 Investor Capital Securities Limited	15.16
4 BMA Capital Management Limited	11.07
5 JS Global Capital Limited	7.96
6 Elixier Securities Pakistan (Private) Limited	6.49
7 Invest Capital Market Limited	4.04
8 Optimus Capital Management (Private) Limited	3.00
9 First Capital Securities Corporation Limited	2.88
10 Vector Capital (Private) Limited	2.88
	2012 (Percentage)
1 Investor Capital Securities Limited	28.98
2 BMA Capital Management Limited	16.09
3 JS Global Capital Limited	14.19
4 KASB Securities Limited	13.93
5 Invest and Finance Securities Limited	10.92
6 Elixier Securities Pakistan (Private) Limited	7.91
7 Vector Capital (Private) Limited	4.47
8 Invisor Securities (Private) Limited	2.76
9 First Capital Securities Corporation Limited	0.45
10 Pearl Securities (Private) Limited	0.29

20.3 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:

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

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	-	
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	-	
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	-	
Mr. Umair Ahmed	Chief Financial Officer	6	3	3	Appointed in 101st BOD meeting

20.4 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	MBA	19 Years
Mr. Kashif Rafi	Fund Manager - Fixed Income	MBA & CFA level I	13 Years
Mr. Muhammad Asim	Fund Manager - Equity Funds	MBA & CFA	11 Years
Mr. Mohsin Pervez	Senior Research Analyst	CFA level 1	9 Years
Ms. Uzma Khan	AVP - Senior Research Analyst	MBA, CFA & FRM	8 Years
Mr. Saad Ahmed	Fund Manager	BS & MBA	9 Years

20.5 Other fund managed by the Fund Manager:

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

21. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified for better presentation, wherever considered necessary. The effect of which is not material.

22. 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)



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	1	143,065
Directors		
Nasim Beg		
Public Sector Companies and Corporations	15	2,119,615
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	3	409,596
Individuals	1,032	17,968,343
Trust	19	1,565,893
Unitholders holding 5 percent or more Voting interest in the listed company		
M. NAJEEB BUTT	1	2,066,374
MOHAMMAD AFSAR	1	1,153,952
	<u>1,072</u>	<u>25,426,838</u>

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

No. of Unit Holders	Units Holdings	Total Units Held
457	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	768,706.38
208	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	1,549,846.22
86	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	1,044,263.06
86	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	1,555,723.25
27	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	610,713.39
36	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	983,059.31
11	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	357,170.34
30	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	1,141,019.62
12	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	509,215.89
13	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	615,254.52
4	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	208,105.21
20	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	1,148,133.55
6	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	368,709.27
4	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	269,455.21
5	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	359,781.53
9	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	695,024.64
1	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	82,908.83
2	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	174,275.63
1	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	94,693.15
11	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	1,065,777.94
1	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	106,017.36
2	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	228,346.78
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	118,119.69
1	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	120,450.19
4	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	513,558.33
4	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	530,236.93
1	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	143,065.44
1	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	147,220.64
2	(SHAREHOLDING FROM 150001.0000 TO 155000.0000)	308,293.74
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	157,419.28
1	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	165,836.39
1	(SHAREHOLDING FROM 170001.0000 TO 175000.0000)	172,157.91
3	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	567,860.16
4	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	768,609.68
1	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	202,477.52
1	(SHAREHOLDING FROM 220001.0000 TO 225000.0000)	221,994.12
1	(SHAREHOLDING FROM 240001.0000 TO 245000.0000)	240,546.91
1	(SHAREHOLDING FROM 245001.0000 TO 250000.0000)	246,813.40
2	(SHAREHOLDING FROM 260001.0000 TO 265000.0000)	524,972.24
1	(SHAREHOLDING FROM 270001.0000 TO 275000.0000)	273,377.51
1	(SHAREHOLDING FROM 285001.0000 TO 290000.0000)	287,467.23
1	(SHAREHOLDING FROM 305001.0000 TO 310000.0000)	309,213.36
1	(SHAREHOLDING FROM 340001.0000 TO 345000.0000)	343,863.14
1	(SHAREHOLDING FROM 380001.0000 TO 385000.0000)	383,979.89
1	(SHAREHOLDING FROM 385001.0000 TO 390000.0000)	385,497.20
1	(SHAREHOLDING FROM 400001.0000 TO 405000.0000)	402,979.02
1	(SHAREHOLDING FROM 730001.0000 TO 735000.0000)	734,299.51
1	(SHAREHOLDING FROM 1150001.0000 TO 1155000.0000)	1,153,951.79
1	(SHAREHOLDING FROM 2065001.0000 TO 2070000.0000)	2,066,375.20
1,072	Total :	25,426,837.50

PERFORMANCE TABLE

	June 30, 2013 (Rupees in '000)	June 30, 2012 (Rupees in '000)	June 30, 2011 (Rupees in '000)	June 30, 2010 (Rupees in '000)
Net Assets	1,318,681	991,307	1,624,000	2,223,592
Net Income	53,957	111,555	199,613	227,364
Net Asset Value per Unit	51.86	51.83	51.86	51.38
Dividend distribution (stock-)interim	3.55	4.10	4.67	5.95
Dividend distribution (stock-)final	0.86	0.40	0.33	0.51
Distribution date-final	July 4, 2013	June 20, 2012	July 4, 2011	July 5, 2010
Offer price	52.33	52.53	52.90	52.08
Repurchase price	50.92	51.83	52.19	51.38
Highest offer price	53.28	53.39	52.94	52.09
Lowest offer price	51.50	52.50	51.08	51.11
Highest repurchase price per unit	51.85	52.68	52.23	51.39
Lowest repurchase price per unit	50.80	51.80	50.39	50.42
	(Percentage)	(Percentage)	(Percentage)	(Percentage)
Total return of the Fund	7.2	8.9	12.4	14
Capital growth	(1.62)	1.08	2.59	1.48
Income Distribution	8.82	7.82	9.83	12.78
Average return of the fund	7.2	8.9	12.4	14.3
Weighted average portfolio duration	584 days	803 days	515 days	165 days

*** Interim Distribution**

Date	2013 Rate per Unit
25 July 2012	0.3000
25 August 2012	0.2640
25 September 2012	0.1314
25 October 2012	0.1314
25 November 2012	0.4500
25 December 2012	0.3700
25 January 2013	0.5100
25 February 2013	0.3000
25 March 2013	0.3400
25 April 2013	0.4000
25 May 2013	0.3518

Disclaimer

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

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