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PAKISTAN
INCOME ENHANCEMENT
FUND

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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 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors	Mian Mohammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
Audit Committee	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	Member
Company Secretary & Chief Operating Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer	Mr. Umair Ahmed	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited United Bank Limited Bank Al-Falah Limited NIB Bank Limited Standard Chartered Bank Pakistan Limited Habib Metropolitan Bank Limited Faysal Bank Limited	
Auditors	KPMG Taseer Haidi & 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 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, 2014

The Board of Directors of MCB-Arif Habib Savings and 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, 2014.

ECONOMY AND MONEY MARKET OVERVIEW

Economic optimism generally prevailed throughout the year, as the new government managed to close the performance of their first fiscal year with improving macroeconomic indicators. Single-digit inflation, improvement in reserves, stability in rupee and successful implementation of fiscal reforms managed to dilute the negative impact arising from wide fiscal and current account deficits on the economy.

Despite poor law and order situation and energy crisis, the real GDP growth remained in the vicinity of 4% in FY14, as opposed to 3.7% during the previous fiscal year. During the year, the country successfully entered into a three-year \$6.6 billion loan program with IMF. The country received four tranches of around \$540 million each during FY14 as against the total \$3 billion repayments to IMF due in FY14.

The reserves had remained under pressure during the first eight months of FY14 on account of hefty repayments to foreign donors. However, multilateral agencies and close allies along with fewer repayments towards the latter part of the year helped improve reserve balance to \$13.99 billion as on 27-June-2014 from the trough of \$7.59 billion touched on 7-February-2014. Not to mention, \$1.5 billion from Saudi Arabia in March 2014. Local currency managed to appreciate to Rs98 against dollar from a record low of Rs108.6 against dollar on 5-December-2013.

Despite implementation of fiscal reforms, inflation remained in single digit with CPI averaging around 8.62% in FY14. Although the government had twice announced 50 bps hikes in the discount rate in the monetary policy held in September and November, bringing the discount rate to 10%, stable inflation and improvement in foreign reserve convinced policy makers to keep discount rate unchanged in the later three monetary policies, in spite of IMF pressure of maintaining positive real returns.

The Current Account balance remained in pressure posting a deficit of \$2.57 billion in 11MFY14 as opposed to deficit of \$2.15 billion reported in 11MFY13. Last year's saving grace came in the form of proceeds under Coalition Support Funds (CSF) where the country received \$1 billion as opposed to inflows of \$1.8 billion received during 11MFY14. The country's import bill nudged up by 3.31% to \$38.13 billion and exports stayed constant at last year's level of around \$23 billion. At the same time, remittances improved to \$14.33 billion from \$12.75 billion reported in 11MFY13.

The country's financial account registered a surplus of \$4.36 billion, as opposed to surplus of \$212 million in the previous year. Thanks to higher FDIs as proceeds amounted to \$ 1.36 billion in 11MFY14, nearly \$34 million higher than the previous fiscal year. A large portion of this increase could be attributed to sale of 3G & 4G licenses.

The lower current account deficit along with surplus in financial account and capital account summed to an overall surplus of \$3.33 billion in 11MFY14 as opposed to deficit of \$1.86 billion during the previous year.

On the heels of structural reforms, the country's performance on fiscal side improved, with the government expected to conclude the year by recording a fiscal deficit of 5.8% largely lower than the year's target of 6.3% and the last year's level of 8%. A big part of this reduction could be attributed to large Circular Debt transaction towards the end of last fiscal year.

The tax revenue collection is expected to remain close to the budgeted amount of around Rs 2.51 trillion, while higher than expected growth in non-tax revenues would help the country to record Rs 3.59 trillion in gross receipts that is nearly 10% higher than the budgeted revenue.

While being overly aggressive with their tax collection drive the government's debt management has left a lot to be desired. Perhaps a better strategy could here helped the Govt. borrow long at better rates while developing the mid to long end debt market.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 8.73% as against its benchmark return of 8.73%.

In order to capitalize on changing interest rate scenario during the year, fund increased its exposure in T-Bills during 1HFY14 while exposure towards PIBs was increased in latter half of FY14. At period-end, the fund was 62.4% invested in PIBs as compared to 7.8% at the beginning of the period, 0% invested in T-Bills as compared to 44.8% at the beginning and 15.3% invested in TFCs vis-à-vis beginning allocation of 19.6%.

The Net Assets of the Fund as at June 30, 2014 stood at Rs.1,677.16 million as compared to Rs 1,318.7 million as at June 30, 2013 registering an increase of 27.18%.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 51.05 as compared to opening NAV of Rs.51.86 per unit as at June 30, 2013 registering a decrease of Rs. 0.81 per unit.

Income Distribution

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

Date of distribution	Per unit distribution
	Rs.
July 25, 2013	0.2900
August 23, 2013	0.3000
September 25, 2013	0.3200
October 25, 2013	0.3200
November 25, 2013	0.3300
December 24, 2013	0.3000
January 24, 2014	0.3900
February 25, 2014	0.3500
March 25, 2014	0.3600
April 25, 2014	0.4200
May 25, 2014	0.4200
June 27, 2014	0.4300

FUTURE OUTLOOK

The country's trade deficit is likely to reduce on account of stable commodity prices, stronger rupee and incremental exports due to GSP plus facility. Also, in consideration of various reforms introduced in FY15, targeted fiscal deficit level of 4.9% doesn't appear as farfetched as it has been in the last few years. The government expects reserve position to improve further on the back pledges made by multilateral agencies, approved project financing and divestment of strategic assets.

Earnings growth is expected to continue in Cement, Autos and Consumer goods sector, amongst others. The rupee appreciation bodes well for Autos and Consumer goods sectors, while higher allocation in PSDP will increase demand for cement. Moreover, expected monetary easing down the line would reignite the market's interest in the leveraged scripts.

Above all, the equity market will continue to attract foreign investors owing to divestment of the government's holding in listed companies and increase in the country's weight in MSCI FM Index.

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.
- 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.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

- 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 21.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2014:

1. Meeting of Human resource and remuneration committee (held on July 31, 2013)

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

2. Meeting of Audit Committee (held on August 02, 2013, October 22, 2013, November 18, 2013, February 04, 2014 and April 18, 2014)

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	5	4	1
2.	Mr. Nasim Beg	Member – Executive Vice Chairman	5	4	-
3.	Mr. Samad A. Habib	Member	5	3	2
4.	Mr. Ahmed Jahangir*	Member	5	1	-

* During the period Mr. Nasim Beg retired from audit committee and Mr. Ahmed Jahangir has been appointed as a member of audit Committee.

- m. During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting 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:

**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2014**

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	-	864	14

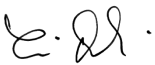
External Auditors

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, 2015. 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, 2015.

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 Officer

Karachi: July 28, 2014

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

Fund Type and Category

Pakistan Income Enhancement Fund— (PIEF) is an open end fund which comes under aggressive income scheme. This fund may invest in bonds, money market placements, certificates of deposits, certificates of Musharikas, Commercial Papers, TFCs/Sukuks and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities with at least 10% of the net assets shall be invested in cash and/or near cash instruments which include cash in bank account (excluding TDRs), Treasury bills not exceeding 90 days maturity;

Fund Benchmark

The benchmark for 90% KIBOR (1 Year)+ 10% (3 Months) PKRV.

Investment Objective

“The objective of the fund is to deliver return from aggressive investment strategy in debt and fixed income market”

Manager’s Review

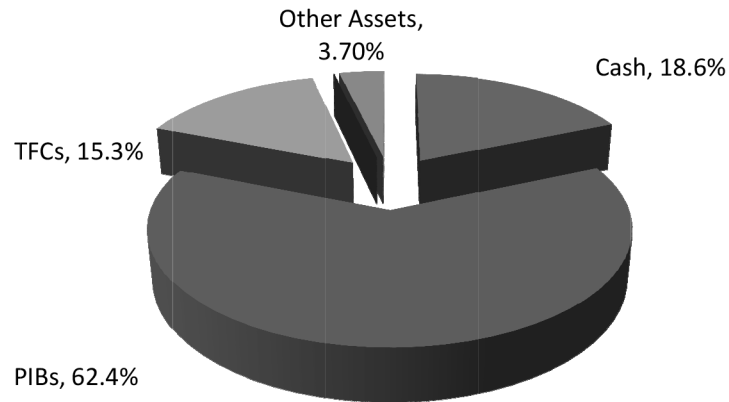
During the period under review the fund managed to generate an annualized return of 8.73% against a bench mark rates of 8.73%, hence the fund was successfully able to meet its benchmark this year considering the heavy provisioning made against workers welfare fund liability.

The fund remained significantly invested in PIBs and TFCs throughout the period with focus on keeping the fund’s duration at the maximum optimum level due to no change in discount rate throughout the period. At the year end the fund was invested 62.4% in PIBs, 15.3% in TFCs and the rest in cash and bank deposits.

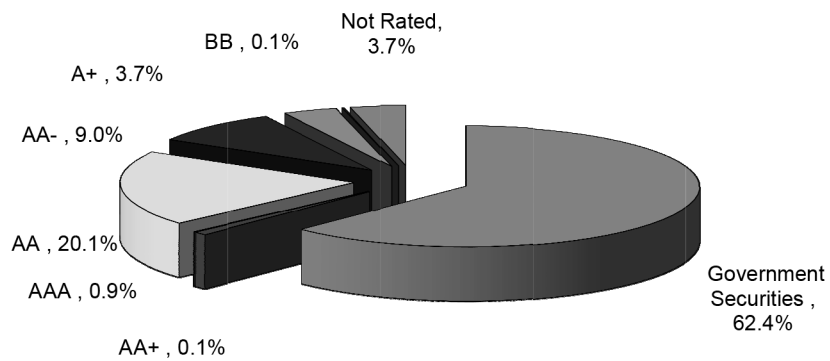
During the year under review, the net assets of the fund increased slightly from 1.3bn last fiscal year to 1.6bn.

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

Asset Allocation as on June 30, 2014 (% of total assets)



Asset Quality as of June 30, 2014 (% of total assets)



Mr. Kashif Rafi
Fund Manager

Karachi: July 28, 2014

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, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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 13, 2014



STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

This statement is being presented by the Board of Directors of MCB Arif Habib Savings and 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 Islamabad Stock Exchange Limited 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 Limited. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Saving and Investment Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

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

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

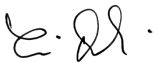
The independent directors meet the criteria of independence under clause i (b) of the Code.

- The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
- All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- During the period no casual vacancy occurred on the Board of the Management Company
- The Management Company has prepared a ‘Code of Conduct’ and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
- 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.
- 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.
- 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.
- During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
- There have been no appointments of Chief Operating Officer and Company Secretary, Chief Financial Officer and Head of Internal Audit during the year. However, during the year, Chief Executive Officer has been re-appointed and his remuneration has been revised and approved by the Board.
- The Directors’ Report for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units 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, which 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 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 a Human Resource and Remuneration Committee. It comprises of five members, of whom three 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 Management 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 / units of the Management Company / Fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by the 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 net assets value of the fund / market price of Management Company's shares, was determined and intimated to directors, employees and the stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through the stock exchange.
23. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board



Yasir Qadri
Chief Executive

Karachi: July 28, 2014

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



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

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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 enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (“the Code”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (“the Management Company”) of the Fund for the year ended 30 June 2014 to comply with the requirements of Listing Regulation No. 35 of Lahore Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code 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 and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors’ 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.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken 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 as applicable to the Fund for the year ended 30 June 2014.

Date: 28 July 2014

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, 2014



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

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

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 2014, and the related income statement, statement of comprehensive income, 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 2014, 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, 2014



KPMG Taseer Hadi & Co.

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: 28 July 2014

Karachi

A handwritten signature in black ink, appearing to read 'Moneeza Usman Butt', written over a horizontal line.

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2014

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Assets			
Balances with banks	4	315,888	287,079
Investments	5	1,306,124	1,031,865
Advance against subscription of Term Finance Certificates	6	18,083	-
Income and profit receivable	7	61,533	13,214
Deposits, prepayments and other receivable	8	728	1,818
Preliminary expenses and floatation costs	9	-	31
Total assets		1,702,356	1,334,007
Liabilities			
Payable against redemption of units		565	565
Payable to Management Company	10	3,103	3,900
Payable to Central Depository Company of Pakistan Limited - Trustee	11	182	149
Payable to Securities and Exchange Commission of Pakistan	12	867	609
Accrued expenses and other liabilities	13	20,473	10,103
Total liabilities		25,190	15,326
Net assets		1,677,166	1,318,681
Unit holders' fund		1,677,166	1,318,681
		(Number of units)	
Number of units in issue		32,856,013	25,426,838
		(Rupees)	
Net assets value per unit		51.05	51.86

The annexed notes from 1 to 23 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Income			
Capital (loss) / gain on sale of investments - net		(1,539)	27,722
Income from term finance, sukuk certificates and Pre-IPO		32,736	43,738
Income from government securities		82,311	45,560
Profit on bank deposits		7,145	6,755
Income from placements, certificates of investment and term deposit receipts		-	506
		120,653	124,281
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	5.6	1,013	10,835
Reversal of provision against non-performing investments	5.4	6,347	4,882
Total income		128,013	139,998
Expenses			
Remuneration of Management Company	10.1	17,337	12,175
Federal excise duty and Sindh sales tax on remuneration of Management Company	10.1		
Remuneration of Central Depository Company of Pakistan Limited -Trustee	11	5,992	2,117
Annual fee - Securities and Exchange Commission of Pakistan	12	1,796	1,370
Provision for Workers' Welfare Fund	12.2	867	609
Brokerage, settlement, professional and bank charges		7,332	8,495
Amortisation of preliminary expenses and floatation costs	9.1	425	868
Auditors' remuneration	14	31	200
Printing and related costs		536	482
Fees and subscription		22	226
Provision against non-performing investments	5.4	216	198
Total expenses		-	58,471
		34,554	85,211
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - realized		4,840	(830)
Net income for the year before taxation		98,299	53,957
Taxation	15	-	-
Net income for the year after taxation		98,299	53,957
Earnings per unit	16		

The annexed notes from 1 to 23 form an integral part of these financial statements.

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


Chief Executive Officer



Director

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Net income for the year after taxation	98,299	53,957
Other comprehensive income:		
<i>Items to be reclassified to income statement in subsequent periods:</i>		
Net unrealized appreciation on re-measurement of investments classified as 'available-for-sale'	457	-
Total comprehensive income for the year	<u>98,756</u>	<u>53,957</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

	<i>Note</i>	2014 (Rupees in '000)	2013
Undistributed income brought forward			
- Realised gains		46,818	52,262
- Unrealised gains / (losses)		<u>405</u>	<u>(17,358)</u>
		47,223	34,904
Net income for the year		98,299	53,957
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - unrealized		7,650	11,532
<i>Distributions</i>			
Final distribution for the year ended 30 June 2013 at the rate of Re. 0.86 per unit [Date of distribution: 5 July 2013]			
- Issue of bonus units		(21,867)	-
Final distribution for the year ended 30 June 2014 at the rate of Re. 0.43 per unit [Date of distribution: 27 June 2014]			
- Issue of bonus units		(13,169)	-
Interim distributions during the year	20.1		
- Cash distribution		-	(243)
- Issue of bonus units		(84,328)	(52,927)
		(119,364)	(53,170)
Undistributed income carried forward		<u>33,808</u>	<u>47,223</u>
Undistributed income carried forward:			
- Realised gains		32,802	46,818
- Unrealised gains		1,006	405
		<u>33,808</u>	<u>47,223</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2014**

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Net assets at beginning of the year		1,318,681	991,307
Issue of 26,872,637 units (2013: 24,192,451 units)		1,282,721	1,246,918
Issue of 2,342,358 bonus units (2013: 1,032,145 bonus units)		119,364	52,926
Redemption of 21,785,820 units (2013: 18,923,499 units)		(1,018,152)	(974,087)
		383,933	325,757
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:			
- amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to the Income Statement		(4,840)	830
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement		(7,650)	11,532
		(12,490)	12,362
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 loss or gain on sale of investments)		98,825	15,400
Capital (loss) / gain on sale of investments - net		(1,539)	27,722
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		1,013	10,835
		98,299	53,957
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'		457	-
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement		7,650	(11,532)
<i>Distributions</i>			
Final distribution for the year ended 30 June 2013 at the rate of Re. 0.86 per unit [Date of distribution: 5 July 2013]			
- Issue of bonus units		(21,867)	-
Final distribution for the year ended 30 June 2014 at the rate of Re. 0.43 per unit [Date of distribution: 27 June 2014]			
- Issue of bonus units		(13,169)	-
Interim distributions during the year	20.1		
- Cash distribution		-	(243)
- Issue of bonus units		(84,328)	(52,927)
		(119,364)	(53,170)
Net assets at end of the year		1,677,166	1,318,681
Net assets value per unit as at beginning of the year		51.86	51.83
Net assets value per unit as at end of the year		51.05	51.86

The annexed notes from 1 to 23 form an integral part of these financial statements.



Chief Executive Officer

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




Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

	<i>Note</i>	2014	2013
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		98,299	53,957
Adjustments for:			
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(4,840)	830
Amortisation of preliminary expenses and floatation costs		31	200
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		(1,013)	(10,835)
Provision for Workers' Welfare Fund		7,332	8,495
Provision against non-performing exposures		-	58,471
		<u>99,809</u>	<u>111,118</u>
(Increase) / decrease in assets			
Investments		(272,789)	(421,964)
Advance against subscription of Term Finance Certificates		(18,083)	-
Term deposit receipts		-	205,000
Income and profit receivable		(48,319)	5,046
Deposits, prepayments and other receivable		1,090	(8)
		<u>(338,101)</u>	<u>(211,926)</u>
Increase / (decrease) in liabilities			
Payable to Management Company		(797)	2,585
Payable to Central Depository Company of Pakistan Limited - Trustee		33	8
Payable to Securities and Exchange Commission of Pakistan		258	(384)
Accrued expenses and other liabilities		3,038	163
		<u>2,532</u>	<u>2,372</u>
Net cash used in operating activities		<u>(235,760)</u>	<u>(98,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		-	(243)
Net receipts from sale and redemption of units		264,569	272,392
Net cash generated from financing activities		<u>264,569</u>	<u>272,149</u>
Net increase in cash and cash equivalents during the year		<u>28,809</u>	<u>173,713</u>
Cash and cash equivalents at beginning of the year		287,079	113,366
Cash and cash equivalents at end of the year	4	<u><u>315,888</u></u>	<u><u>287,079</u></u>

The annexed notes from 1 to 23 form an integral part of these financial statements.

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



Chief Executive Officer



Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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.

Pursuant to the merger of MCB-Asset Management Company and Arif Habib Investments Limited, the name of the Management Company (Arif Habib Investments Limited being the surviving entity) 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 generate 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.

2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended 30 June 2014

The following standards, amendments and interpretations are effective for the year ended 30 June 2014. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures, if any.

Standards / amendments / interpretations

Effective from accounting period beginning on or after

Amendments to IAS 1 'Presentation of Financial Statements' –
larification of Requirements for Comparative information.

1 January 2013

Amendments to IAS 32 'Financial Instruments: Presentation' -
Tax effects of distributions to holders of an equity instrument,
and transaction costs of an equity transaction.

1 January 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Amendments to IFRS 7 'Financial Instruments: Disclosures' -
Offsetting financial assets and financial liabilities. 1 January 2013

2.3 New accounting standards and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

<i>Standards / amendments / interpretations</i>	<i>Effective from accounting period beginning on or after</i>
Amendments to IAS 32 'Financial Instruments: Presentation' - Offsetting financial assets and financial liabilities	1 January 2014
IAS 36 'Impairment of Assets' - Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39 'Financial Instruments: Recognition and Measurement' - Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21 'Levies'	1 January 2014
Amendment to IAS 19 'Employee Benefits' - Employee Contributions	1 July 2014
Amendment to IAS 38 'Intangible Assets' and IAS 16 Property, Plant and Equipment'	1 January 2016
Amendment to IAS 41 'Agriculture' and IAS 16 'Property, Plant and Equipment'	1 January 2016
Annual improvements 2010-2012 and 2011-2013 cycle	Various

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

IFRS 1 – First Time Adoption of International Financial Reporting Standards
IFRS 9 – Financial Instruments
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
IFRS 14 – Regulatory Deferral Accounts
IFRS 15 – Revenue from Contracts with Customers
IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of
IFRS 10 and IFRS 11

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 follow:

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, cannot be determined with precision.

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.

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 at fair value through profit or loss at inception. 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'.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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.

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 Circulars . 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 Circulars 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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.

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.

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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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

4. BALANCES WITH BANKS

	2014	2013
	Rupees in '000	
In current account	-	71
In deposit accounts	4.1 <u>315,888</u>	<u>287,008</u>
	<u>315,888</u>	<u>287,079</u>

4.1 These carry mark-up at rates ranging between 6.5% to 10.35% per annum (2013: 6% to 11% per annum).

5. INVESTMENTS

Fixed income and other debt securities

'At fair value through profit or loss'

Government securities	5.1	623,729	762,340
Term finance and sukuk certificates			
- Listed debt securities	5.2	133,098	153,711
- Unlisted debt securities	5.3	109,623	115,814
		<u>242,721</u>	<u>269,525</u>
		<u>866,450</u>	<u>1,031,865</u>
<i>'Available-for-sale'</i>			
Pakistan Investment Bonds	5.8	<u>439,674</u>	-
		<u>1,306,124</u>	<u>1,031,865</u>

5.1 Government securities

Treasury Bills	5.1.1	-	615,768
Pakistan Investment Bonds	5.1.2	623,729	106,588
GoP Ijara Sukuk	5.1.3	-	39,984
		<u>623,729</u>	<u>762,340</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5.1.1 Treasury Bills - 'at fair value through profit or loss' - held for trading

Issue date	Face value			Balance as at 30 June 2014			Market value		
	As at 01 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Carrying value	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----									
1 year (Tenor)									
16 May 2013	365,000	150,000	515,000	-	-	-	-	-	-
30 May 2013	44,000	1,000	45,000	-	-	-	-	-	-
13 June 2013	250,000	6,310	256,310	-	-	-	-	-	-
9 August 2012	-	50,000	50,000	-	-	-	-	-	-
6 September 2012	-	100,000	100,000	-	-	-	-	-	-
20 September 2012	-	175,000	175,000	-	-	-	-	-	-
18 October 2012	-	150,000	150,000	-	-	-	-	-	-
27 June 2013	-	200,000	200,000	-	-	-	-	-	-
23 January 2014	-	311,000	311,000	-	-	-	-	-	-
15 May 2014	-	320,000	320,000	-	-	-	-	-	-
4 October 2012	-	25,000	25,000	-	-	-	-	-	-
6 months (Tenor)									
4 April 2013	-	100,000	100,000	-	-	-	-	-	-
30 May 2013	-	20,000	20,000	-	-	-	-	-	-
3 months (Tenor)									
2 May 2013	6,000	-	6,000	-	-	-	-	-	-
25 July 2013	-	210,400	210,400	-	-	-	-	-	-
7 August 2013	-	300,000	300,000	-	-	-	-	-	-
19 September 2013	-	250,000	250,000	-	-	-	-	-	-
3 October 2013	-	261,350	261,350	-	-	-	-	-	-
21 October 2013	-	200,000	200,000	-	-	-	-	-	-
12 December 2013	-	50,000	50,000	-	-	-	-	-	-
28 November 2013	-	150,000	150,000	-	-	-	-	-	-
20 February 2014	-	650,000	650,000	-	-	-	-	-	-
28 February 2014	-	350,000	350,000	-	-	-	-	-	-
17 April 2014	-	365,000	365,000	-	-	-	-	-	-
12 June 2014	-	400,000	400,000	-	-	-	-	-	-

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
					608,303	609,804	1,501		
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	-	-	-	-	-	-
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	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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) -----									
3 months (Tenor)									
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	-	-	-	-	-	-
					5,963	5,964	2		
					614,266	615,768	1,503		

5.1.2 Pakistan Investment Bonds - 'at fair value through profit or loss' - held for trading

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2014			Market value	
		As at 01 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
3 years (Tenor)										
22 July 2010	11.25%	29,400	-	29,400	-	-	-	-	-	
18 August 2011	11.25%	50,000	550,000	600,000	-	-	-	-	-	
19 July 2012	11.25%	25,000	300,000	25,000	300,000	303,047	303,106	59	18.07	
18 July 2013	11.25%	-	777,500	452,500	325,000	320,450	320,623	173	19.12	
						623,497	623,729	232		

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) -----										
5 years (Tenor)										
30 August 2008	11.50%	8,000	-	8,000	-	-	-	-	-	
22 July 2010	11.50%	50,000	-	50,000	-	-	-	-	-	
18 August 2011	11.50%	-	175,000	175,000	-	-	-	-	-	
19 July 2012	11.50%	-	150,000	150,000	-	-	-	-	-	
						-	-	-		
3 years (Tenor)										
22 July 2010	11.25%	-	219,000	189,600	29,400	29,720	29,431	(289)	2.23	
18 August 2011	11.25%	-	200,000	150,000	50,000	51,004	51,195	191	3.88	
19 July 2012	11.25%	-	550,000	525,000	25,000	25,568	25,962	394	1.97	
						106,292	106,588	296		
						106,292	106,588	296		

5.1.3 GoP Ijara Sukuk - 'at fair value through profit or loss' - held for trading

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2014			Market value	
		As at 01 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
3 years (Tenor)										
18 September 2012	9.15%	40,000	-	40,000	-	-	-	-	-	
						-	-	-		

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	
						40,034	39,984	(50)		

5.2 Listed debt securities - term finance certificates - 'at fair value through profit or loss' - held for trading

		2014 (Rupees in '000)		2013 (Rupees in '000)	
Market value / carrying value as on 30 June	5.2.1	187,620		208,233	
Provision for impairment in value:					
- As at the beginning of the year		(54,522)		(11,236)	
- Charge for the year	5.2.1.1	-		(43,286)	
		(54,522)		(54,522)	
		133,098		153,711	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5.2.1	Name of the investee company	Issue date	Profit / mark-up percentage	No. of certificates			Balance as at 30 June 2014			Market value		Face value percentage in relation to the size of the issue	
				As at 01 July 2013	Purchases during the year	Sales / Matured during the year	As at 30 June 2014	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	12.13%	4,950	100	-	5,050	25,464	25,264	(200)	1.51	1.93	1.68
	PACE Pakistan Limited												
	(Note 5.2.1.1)	15 February 2008		15,000	-	-	15,000	54,522	-	-	0.00	0.00	5.00
	Askari Bank Limited	18 November 2009	12.64%	6,000	-	-	6,000	30,224	29,162	(1,062)	1.74	2.23	1.00
	Escorts Investment												
	Bank Limited	15 March 2007	8.00%	6,000	-	-	6,000	293	1,104	811	0.07	0.08	6.00
	NIB Bank Limited	5 March 2008	10.64%	3,399	-	3,399	-	-	-	-	-	-	-
	Askari Bank Limited *	23 December 2011	11.92%	45	-	-	45	47,909	47,279	(630)	2.82	3.62	4.50
	Bank Al Falah Limited	20 February 2013	11.41%	5,981	-	-	5,981	30,362	30,289	(73)	1.81	2.32	0.60
								188,774	133,098	(1,154)			

* Face value of the investment is Rs. 1,000,000 each

Name of the investee company	Issue date	Profit / mark-up percentage	No. of certificates			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	11.07%	6,000	-	6,000	-	-	-	-	-	-	0.00
	PACE Pakistan Limited												
	(Note 5.2.1.1)	15 February 2008	12.57%	15,000	-	-	15,000	49,418	-	(49,418)	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	13.24%	425	-	425	-	-	-	-	-	-	0.00
	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 Al Falah Limited	20 February 2013	10.96%	-	5,981	-	5,981	30,151	30,374	223	2.30	2.94	0.60
								202,113	153,711	(48,402)			

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	11.07%	6,000	-	6,000	-	-	-	-	-	-	0.00
	PACE Pakistan Limited												
	(Note 5.2.1.1)	15 February 2008	12.57%	15,000	-	-	15,000	49,418	-	(49,418)	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	13.24%	425	-	425	-	-	-	-	-	-	0.00
	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 Al Falah Limited	20 February 2013	10.96%	-	5,981	-	5,981	30,151	30,374	223	2.30	2.94	0.60
								202,113	153,711	(48,402)			

* 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. The Fund has recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan 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.

5.3 Unlisted debt securities - term finance certificates and sukuk bonds - 'at fair value through profit or loss' - held for trading

2014
2013
(Rupees in '000)

Market value / carrying value as on 30 June	5.3.1	130,464	143,002
Provision for impairment in value:			
- As at the beginning of the year		11,076	12,982
Eden Housing Limited		16,112	3,903
Pak Elektron Limited		27,188	16,885
- Charge for the year			
Eden Housing Limited	5.3.1.1	-	2,976
Pak Elektron Limited	5.3.1.2	-	12,209
		-	15,185
- Reversal of provision during the year			
Eden Housing Limited	5.3.1.1	(6,347)	(4,882)
		20,841	27,188
		109,623	115,814

5.3.1	Name of the investee company	Issue date	Profit / mark-up percentage	No. of certificates			Balance as at 30 June 2014			Market value		Face value percentage in relation to the size of the issue	
				As at 01 July 2013	Purchases during the year	Sales / Matured during the year	As at 30 June 2014	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.													
Unlisted debt securities													
	Engro Fertilizer Limited	18 March 2008	11.78%	12,900	-	-	12,900	60,469	63,298	2,829	3.77	4.85	1.29
	Bank Al Falah Limited												
	(Floating)	2 December 2009	12.67%	9,000	-	-	9,000	47,219	46,325	(894)	2.76	3.55	0.90
	Jahangir Siddiqui & Company Limited	4 July 2007	11.07%	3,250	-	3,250	-	-	-	-	-	-	-
								107,688	109,623	1,935			
Unlisted sukuk certificates													
	Eden Housing Limited												
	(Note 5.3.1.1)	31 March 2008		10,415	-	-	10,415	4,729	-	-	0.28	0.36	7.13
	Pak Elektron Limited												
	(Note 5.3.1.2)	28 September 2007		8,000	-	-	8,000	16,112	-	-	0.96	1.23	3.33
								20,841	-	-			
								128,529	109,623	1,935			

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Name of the investee company	Issue date	Profit / mark-up percentage	No. of certificates				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	
Certificates have a face value of Rs. 5,000 each unless stated otherwise.												
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 Al Falah 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	10.69%	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	11.28%	4,900	-	4,900	-	-	-	-	-	-	-
							<u>116,792</u>	<u>115,814</u>	<u>(978)</u>			
Unlisted sukuk certificates												
Eden Housing Limited (Note 5.3.1.1)	31 March 2008		10,415	-	-	10,415	7,336	11,076	3,740	0.84	1.07	7.13
Pak Elektron Limited (Note 5.3.1.2)	28 September 2007		8,000	-	-	8,000	15,907	16,112	205	1.22	1.56	3.33
							<u>23,243</u>	<u>27,188</u>	<u>3,945</u>			
							<u>140,035</u>	<u>143,002</u>	<u>2,967</u>			

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. The Fund has recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund recognised reversal amounting to Rs. 6.347 million (2013: Rs. 4.882 million) on receipt basis. The Fund has suspended accrual of markup thereagainst.

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. The Fund has recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan 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

	2014		
	Listed debt securities	Unlisted debt securities	Total
Opening balance	54,522	27,188	81,710
Less: Reversal of provision	-	(6,347)	(6,347)
Closing balance	<u>54,522</u>	<u>20,841</u>	<u>75,363</u>

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
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
Escorts Investment Bank Limited	8.00%	15 March 2007	15 March 2012
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
Eden Housing Limited	6 month KIBOR+3%	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'

	2014	2013
Market value of investments as on 30 June	866,450	1,031,865
Less: carrying value of investments as on 30 June	(865,437)	(1,021,030)
	<u>1,013</u>	<u>10,835</u>

5.7 Details of non-compliant investments

In accordance with section 3.2.1 of the Offering Document of the Fund, the Fund is required to invest, in case of listed debt securities, in instruments having minimum rating of BBB and, in case of unlisted debt securities, having minimum issuer rating of BBB. However, as at 30 June 2014, the Fund is non-compliant with the above-mentioned requirements in respect of the following investments:

Nature of non-compliant investment	Name of company	Instrument / issuer rating	Value of investment before provision	Provision held	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Listed term finance certificates	Escorts Investment Bank Limited	Non-investment grade	1,104	-	1,104	0.07	0.06
Listed term finance certificates	PACE Pakistan Limited	Non-performing	-	-	-	-	-
Unlisted sukuk certificates	Eden Housing Limited	Unrated	4,729	4,729	-	-	-
Unlisted sukuk certificates	Pak Elektron Limited	Unrated	16,112	16,112	-	-	-

5.8 Pakistan Investment Bonds - 'available-for-sale'

Issue date	Profit rate (%)	Face value			Balance as at 30 June 2014			Market value	
		As at 01 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets
(Rupees in '000)									
3 years (Tenor)									
18 August 2011	11.25%	-	200,000	200,000	-	-	-	-	-
18 July 2013	11.25%	-	587,500	166,000	421,500	415,066	415,823	757	24.79
10 years (Tenor)									
19 July 2012	12.00%	-	25,000	-	25,000	24,151	23,851	(300)	1.42
						<u>439,217</u>	<u>439,674</u>	<u>457</u>	

**NOTES TO THE FINANCIAL STATEMENTS
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**6. ADVANCE AGAINST SUBSCRIPTION OF
TERM FINANCE CERTIFICATES**

This represents advance provided against privately placed issue of term finance certificates (TFCs) of Pakistan Mobile Communications Limited (PMCL) in terms of investment agreement dated 17 September 2013 entered into with PMCL. The advance is unsecured and carries markup at the rate of 6 months KIBOR + 2.00% per annum (2013: Nil). The Fund has committed to subscribe 7,000 TFCs having face value of Rs. 5,000 each with the total amount of Rs. 35 million.

7. INCOME AND PROFIT RECEIVABLE

2014 2013
(Rupees in '000)

Income receivable on term finance, sukuk certificates and Pre-IPO	6,244	6,439
Income receivable on Pakistan Investment Bonds	54,146	4,756
Profit receivable on deposit accounts with banks	1,143	957
Income receivable on sukuk certificates	-	1,062
	61,533	13,214

8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE

Deposits with		
- National Clearing Company of Pakistan Limited	8.1	375 375
- Central Depository Company of Pakistan Limited	8.2	200 200
Margin against term finance certificates	8.3	52 1,152
Prepayments		101 91
		728 1,818

8.1 This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS).

8.2 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.

8.3 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 Securities and Exchange Commission of Pakistan.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

2014 2013
(Rupees in '000)

Preliminary expenses and floatation costs	31	231
Amortisation during the year	(31)	(200)
	-	31

9.1 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 28 August 2008.

10. PAYABLE TO MANAGEMENT COMPANY

Management fee payable	10.1	1,975 1,380
Sindh sales tax on management fee	10.1	316 248
Front-end load payable		812 2,272
		3,103 3,900

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

10.1 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% (2013: 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. Management fee charged during the year is inclusive of all government levies (i.e. 16% General Sales tax by Sindh Government and 16% Federal Excise Duty).

**11. 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. The remuneration is paid to the Trustee monthly in arrears.

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 Rs. 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.

12. 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% of the average annual net assets of the scheme as annual fee to the Securities and Exchange Commission of Pakistan.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

		2014	2013
(Rupees in '000)			
Federal excise duty payable	13.1	3,387	169
Provision for Workers' Welfare Fund	13.2	15,827	8,495
Auditors' remuneration		364	325
Zakat payable		680	680
Legal and professional charges		-	144
Brokerage payable		97	15
Capital gain tax payable		3	9
Others		115	266
		20,473	10,103

13.1 The Finance Act, 2013 introduced an amendment to Federal Excise Act, 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% on the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the passage of eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 3.387 million as at 30 June 2014. In case, the suit is decided against the Fund it would be paid to management company, who will be responsible for submitting the same to taxation authorities. Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the Net Assets Value (NAV) of the Fund would have been higher by Re. 0.1 per unit as at 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

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

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

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, the Management Company, as a matter of abundant precaution, has charged provision for WWF amounting Rs. 15.827 million in these financial statements.

14. AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Annual audit fee	250	225
Half yearly review fee	125	125
Other certifications	100	80
Out of pocket expenses	61	52
	536	482

15. 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.

16. 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.

17. 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 are carried out at contracted rates / agreed terms.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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.

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

17.1 Details of the transactions with related parties / connected persons:	2014	2013
	(Rupees in '000)	
MCB-Arif Habib Savings and Investments Limited - Management Company		
Remuneration (including indirect taxes)	23,329	14,292
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	1,796	1,370
CDS charges	12	14
Summit Bank Limited		
Profit on bank deposits	-	33
MCB Bank Limited		
Profit on bank deposits	3,714	2,559
Bank charges	22	14
Arif Habib Limited - Brokerage House		
Brokerage expense	7	-
Directors and Executives of the Management Company		
Issue of 71,468 units (2013: 66,087 units)	3,657	3,422
Issue of 1,571 bonus units (2013: 1,338 units)	80	69
Redemption of 75,186 units (2013: 70,561 units)	3,846	3,643
Adamjee Insurance Company Limited		
Issue of 9,724,063 units (2013: Nil units)	500,000	-
Issue of 247,433 bonus units (2013: Nil units)	12,636	-
Adamjee Life Assurance Company Limited - Nuil Fund		
Issue of Nil units (2013: 136,879 units)	-	7,000
Issue of 5,089 bonus units (2013: 6,186 units)	259	317
Redemption of 147,261 units (2013: Nil units)	7,500	-
Attock Cement Pakistan Limited		
Issue of 4,208,736 units (2013: Nil units)	215,908	-
Issue of 70,410 bonus units (2013: Nil units)	3,592	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

17.2 Amount outstanding as at year end

MCB-Arif Habib Savings and Investments

Limited - Management Company

Management fee payable	1,975	1,380
Sindh sales tax on management fee	316	248
Front-end load payable	812	2,272

Central Depository Company of Pakistan Limited - Trustee

Security deposit	200	200
Remuneration payable	182	149

Summit Bank Limited

Bank deposit held	-	71
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MCB Bank Limited

Bank deposit held	13,172	44,800
Accrued profit on bank deposit	591	134

Directors and executives of the Management Company

Units held: 31,712 units (2013: 33,858 units)	1,619	1,756
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Adamjee Insurance Company Limited

Units held: 9,971,496 units (2013: Nil units)	509,004	-
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Adamjee Life Assurance Company Limited - Nuil Fund

Units held: 893 units (2013: 143,065 units)	46	7,419
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Attock Cement Pakistan Limited

Units held: 4,279,146 units (2013: Nil units)	218,433	-
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18. 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

18.1 Market risk

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

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 2014, the investment in debt securities exposed to interest rate risk is detailed in Note 5.2 and Note 5.3 to these financial statements.

Sensitivity analysis for variable rate financial assets

In case of 100 basis points increase / decrease in rates announced by State Bank of Pakistan on 30 June 2014, 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. 0.587 million (2013: Rs. 0.788 million). The fluctuation 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 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

Sensitivity analysis for fixed rate financial assets

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan or Mutual Funds Association of Pakistan at the year end, with all other variables held constant, the net income for the year and net assets would be affected as follows. The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

	(Decrease) / increase in income	(Decrease) / increase in net assets (Rupees in '000)
2014		
100 basis points increase	<u>(8,573)</u>	<u>(17,042)</u>
100 basis points decrease	<u>8,750</u>	<u>17,472</u>
2013		
100 basis points increase	<u>(1,004)</u>	<u>(1,004)</u>
100 basis points decrease	<u>1,004</u>	<u>1,004</u>

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 2014 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 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

18.2 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, investment in debt securities, advance against subscription of term finance certificates, deposits with central clearing and settlement companies and other receivable in Statement of Assets and Liabilities. The credit exposure arises from investment in debt securities (before impairment) as detailed in Note 5.2 and Note 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 due to the short settlement period and also 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 2014, the Fund kept surplus liquidity with banks having long term credit rating ranging from AAA to AA-. 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 applicable to non performing exposure 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	2014	2013
	(Percentage)	
AA+, AA, AA-	73.47	70.07
A, A+	26.08	28.71
Non-investment grade	0.45	1.22
Non-performing	0.00	0.00
	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Deposits 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 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 2014 and 2013 except for the exposures and the provisions there against as provided in Note 5.2 and Note 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.

None of financial assets and financial liabilities is offset in the statement of assets and liabilities except where the settlement is done through central clearing systems.

18.3 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 may 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 at the next page 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	30 June 2014			Total
	Up to three months	More than three months and upto one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	3,103	-	-	3,103
Payable to Central Depository Company of Pakistan Limited - Trustee	182	-	-	182
Payable against redemption of units	565	-	-	565
Accrued expenses and other liabilities	576	-	-	576
	<u>4,426</u>	<u>-</u>	<u>-</u>	<u>4,426</u>
	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	3,900	-	-	3,900
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
	<u>5,364</u>	<u>-</u>	<u>-</u>	<u>5,364</u>

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

18.4 Financial instruments by category

As at 30 June 2014, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables', financial assets 'at fair value through profit or loss' or financial assets classified as 'available for sale'. 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 2014			Total
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available for sale	
----- (Rupees in '000) -----				
Assets				
Balances with banks	315,888	-	-	315,888
Investments	-	866,450	439,674	1,306,124
Advance against subscription of Term Finance Certificates	18,083	-	-	18,083
Income and profit receivable	61,533	-	-	61,533
Deposits and other receivable	627	-	-	627
	<u>396,131</u>	<u>866,450</u>	<u>439,674</u>	<u>1,702,255</u>
	30 June 2014			
	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	-	3,103	3,103	
Payable to Central Depository Company of Pakistan Limited - Trustee	-	182	182	
Accrued expenses and other liabilities	-	576	576	
	<u>-</u>	<u>4,426</u>	<u>4,426</u>	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	30 June 2013			Total
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available for sale	
	----- (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

	30 June 2013			Total
	Liabilities at fair value through profit or loss	Other financial liabilities		
	----- (Rupees in '000) -----			
Liabilities				
Payable against redemption of units	-	565		565
Payable to Management Company	-	3,900		3,900
Payable to Central Depository Company of Pakistan Limited - Trustee	-	149		149
Accrued expenses and other liabilities	-	750		750
	-	5,364	-	5,364

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.

19. 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 2014

Fixed income and other debt securities

At fair value through profit or loss - Held for trading

Available-for-sale

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

654,018	212,432
439,674	-

30 June 2013

Fixed income and other debt securities

At fair value through profit or loss - Held for trading

Available-for-sale

839,726	192,137
-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

20. DISTRIBUTIONS BY THE FUND

20.1 Distributions during the year

Date of distributions	Distribution per unit	For the year ended 30 June 2014			
		Bonus *		Cash **	Total
		Units	Amount		
----- (Rupees in '000) -----					
25 July 2013	Re. 0.2900	144,449	7,352	-	7,352
23 August 2013	Re. 0.3000	144,857	7,354	-	7,354
25 September 2013	Re. 0.3200	144,337	7,335	-	7,335
25 October 2013	Re. 0.3200	120,186	6,110	-	6,110
25 November 2013	Re. 0.3300	119,972	6,097	-	6,097
24 December 2013	Re. 0.3000	102,391	5,197	-	5,197
24 January 2014	Re. 0.3900	132,632	6,754	-	6,754
25 February 2014	Re. 0.3500	116,193	5,908	-	5,908
25 March 2014	Re. 0.3600	147,431	7,544	-	7,544
25 April 2014	Re. 0.4200	216,645	11,086	-	11,086
25 May 2014	Re. 0.4200	266,276	13,591	-	13,591
		<u>1,655,369</u>	<u>84,328</u>	<u>-</u>	<u>84,328</u>

Date of distributions	Distribution per unit	For the year ended 30 June 2013			
		Bonus *		Cash **	Total
		Units	Amount		
----- (Rupees in '000) -----					
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 February 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>

* 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.

21. 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:

21.1 Pattern of unit holding

	As at 30 June 2014		
	Number of unit holders	Investment amount	Percentage investment
	----- (Rupees in '000) -----		
Individuals	719	747,823	44.59%
Associated companies	2	509,090	30.35%
Insurance companies	2	5,661	0.34%
Banks	1	100,098	5.97%
Retirement funds	15	72,413	4.32%
Public limited companies	8	231,458	13.16%
Others	1	10,623	1.27%
	<u>748</u>	<u>1,677,166</u>	<u>100.00%</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

	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%
	<u>1,072</u>	<u>1,318,681</u>	<u>100.00%</u>

21.2 Top ten brokers / dealers by percentage of commission paid

	2014 (Percentage)
1 Invest Capital Markets Limited	30.41
2 BMA Capital Management Limited	24.41
3 Invest One Markets (Private) Limited	6.98
4 Invest & Finance Securities Limited	6.93
5 Optimus Markets (Private) Limited	6.42
6 JS Global Capital Limited	5.82
7 C&M Management (Private) Limited	5.14
8 Investment Capital Market Limited	4.22
9 Icon Securities (Private) Limited	2.93
10 Arif Habib Limited	2.73

	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

21.3 Attendance at meetings of Board of Directors

During the year, eight board meetings were held on 4 July 2013, 5 August 2013, 23 October 2013, 31 December 2013, 6 February 2014, 7 March 2014, 21 April 2014 and 27 June 2014.

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

Name of attendee	Designation	Number of Meetings			Meetings not attended
		Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	Executive Vice Chairman	8	7	1	106th
Mr. Yasir Qadri	Chief Executive Officer	8	8	-	
Dr. Syed Salman Ali Shah	Director	8	7	1	107th
Mr. Haroun Rashid	Director / Chairman Audit Committee	8	6	2	104th and 106th
Mr. Ahmed Jahangir	Director	8	8	-	
Mr. Samad A. Habib	Director	8	6	2	105th and 109th
Mr. Mirza Mehmood Ahmed	Director	8	7	1	106th
Mr. M. Saqib Saleem	Chief Operating Officer & Company Secretary	8	8	-	
Mr. Umair Ahmed	Chief Financial Officer	8	8	-	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

21.4 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	20 Years
Mr. Kashif Rafi	SVP- Head of Fixed Income Investments	MBA & CFA level I	14 Years
Mr. Muhammad Asim	SVP - Head of Equities	MBA & CFA	12 Years
Mr. Mohsin Pervaiz	VP - Investments	CFA level I	10 Years
Ms. Uzma Khan	SAVP - Head of Research	MBA, CFA & FRM	9 Years
Mr. Saad Ahmed	Fund Manager	BS & MBA	10 Years

21.5 Other funds managed by the Fund Manager

Details of the other funds managed by Fund Manager are as follows:

- Pakistan Cash Management Fund; and
- Pakistan Income Fund

22. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified for the purposes of comparison and better presentation as follows:


Reclassification from component	Reclassification to component	Rupees in '000
Payable to Management Company (Management fee payable)	Accrued expenses and other liabilities (Federal excise duty payable)	<u>169</u>
Payable to Management Company (Management fee payable)	Payable to Management Company (Sindh sales tax on management fee)	<u>248</u>
Remuneration of Management Company	Federal excise duty and Sindh sales tax on remuneration of Management Company	<u>2,117</u>
Legal and professional charges	Brokerage, settlement, professional and bank charges	<u>70</u>

The effect of the above reclassifications is not material.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on July 28, 2014 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2014**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
ADAMJEE LIFE ASSURANCE CO. LTD.-NUIL FUND	1	893
ADAMJEE INSURANCE CO. LTD.	1	9,971,496
Public Sector Companies and Corporations	7	254,798
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.		
	2	110,893
Individuals	717	10,706,233
Trust	16	1,626,573
Unitholders holding 5 percent or more Voting interest in the listed company		
ATTOCK CEMENT PAKISTAN LTD	1	4,279,146
M. NAJEEB BUTT	1	2,268,253
HABIB METROPOLITAN BANK LTD.	1	1,960,784
TARIQ ISLAM	1	1,676,944
	748	32,856,013

**PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2014**

No of Unit Holders	Unit Holdings	Total Units Held
493	1-10000	1,441,378
225	10001-100000	6,593,009
25	100001-1000000	4,665,003
5	1000001-Onwards	20,156,624
<hr/> 748		<hr/> 32,856,013

PERFORMANCE TABLE

	PIEF	PIEF	PIEF	PIEF	PIEF
	June 30, 2014 (Rupees in '000)	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	1,677,166	1,318,681	991,307	1,624,000	2,223,592
Net Income	98,299	53,957	111,555	199,613	227,364
Net Asset Value per Unit	51.05	51.86	51.83	52.19	51.38
Dividend distribution (stock-)interim	4.23	3.55	4.10	4.67	5.95
Dividend distribution (stock-)final	0.43	0.86	0.40	0.33	0.51
Distribution date-final	June 27, 2014	April 4, 2013	June 20, 2012	July 4, 2011	July 5, 2010
Offer price	52.46	52.33	52.53	52.90	52.08
Repurchase price	51.05	50.92	51.83	52.19	51.38
Highest offer price	53.02	53.28	53.39	52.94	52.09
Lowest offer price	51.56	51.50	52.50	51.08	51.11
Highest repurchase price per unit	51.59	5,185.00	52.68	52.23	51.39
Lowest repurchase price per unit	50.79	50.80	51.80	50.39	50.42
				(Percentage)	(Percentage)
Total return of the Fund	8.73	7.20	8.9		
Capital growth	4.07	(1.62)	1.08	2.59	1.48
Income Distribution	4.66	8.82	7.82	9.83	12.78
Average return of the fund	8.73	7.20	8.90	12.42	14.26
Waeighted average portfolio duration	694 Days	584 Days	803 Days	515 days	165 days
* Interim Distribution				2011	
Date				Rate per Unit	
29th July 2013	0.29	0.29	0.40	0.42	
27th August 2013	0.30	0.30	0.48	0.51	
27th September 2013	0.32	0.32	0.29	0.40	
29th October 2013	0.32	0.32	0.32	0.27	
27th November 2013	0.33	0.33	0.36	0.27	
27th December 2013	0.30	0.30	0.50	0.54	
27th January 2014	0.39	0.39	0.30	0.43	
26th February 2014	0.35	0.35	0.35	0.30	
27th March 2014	0.36	0.36	0.40	0.51	
29th April 2014	0.42	0.42	0.35	0.51	
27th May 2014	0.42	0.42	0.35	0.51	
27th June 2014	0.43	0.43			
Disclaimer	4.23	4.23			

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

Please find us on



by typing: **Bachat Ka Doosra Naam**

MCB-Arif Habib Savings and Investments Limited

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