



**Bachat** ka Doosra Naam

**Annual Report  
2013**



**Aik Dar Band Hazar Khulay**

**PAKISTAN**  
**INTERNATIONAL  
ELEMENT ISLAMIC  
ASSET ALLOCATION  
FUND**

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

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## **Vision**

To become synonymous with Savings.

## **Mission**

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

## **Core Values**

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

## FUND'S INFORMATION

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

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

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The Board of Directors of MCB-Arif Habib Savings and Investments Limited (Formerly Arif Habib Investments Limited), the Management Company of Pakistan International Element Islamic Asset Allocation Fund (PIEIF), is pleased to present the Annual Report on the affairs of PIEIF for the year ended June 30, 2013.

### **Economy & Money Market Overview and Outlook**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Equities Market Overview and Outlook**

The local stock market recorded substantial growth reflected by the KSE-100 index, which rose by a remarkable 52% in FY13 as against an average annual growth of 25% during the past three fiscal years. This helped the local equity market shine as one of the best performing markets in the world.

Buoyed by stable macroeconomic environment and strengthening fundamentals, the stock market started the year on a strong note. The market touched an all-time high of around 22,757 on 13th June, 2013.

The volume remained healthy with an average daily market turnover of around 200 million shares during the year. At this level, the index volume was nearly 1.5 times and 2 times higher than the average index volume in FY12 and FY11, respectively. Foreign investors also remained at the forefront given that the market closed its fiscal year recording net foreign inflows of around \$568.9 million as opposed to the net outflow of \$189 million in FY12.

A combination of lower commodity prices, monetary easing, CSF inflows, foreign portfolio inflows, rupee depreciation, smooth political transition, buyout of Unilever Pakistan Limited, along with expectation regarding resolution of circular debt, IMF loan extension and improved relationship with key strategic allies after the formation of new government, helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a catalyst as they continued to facilitate the flow of funds towards the developing countries. However, the good part is that a slew of positive developments managed to play-down the negative sentiments arising from poor law and order situation and energy crisis in the country.

The saving grace came in the shape of stable commodity prices, which reduced the pressure on fiscal and external account front. In light of tepid inflationary pressures, with average inflation stood around 7.4% in FY13, policy makers reduced the discount rate to 9% towards the end of the fiscal year, marking a total cut of 3 percentage points during the year.

Although, the overall balance of payment deficit narrowed to \$ 2.4 billion in FY13 from around \$3.3 billion in FY12, foreign reserves depleted by around \$4.2 billion during the year to \$11 billion at the end of the year- mainly on the account of timely loan repayments to IMF.

Benefiting from inventory gains, and China's sustained appetite for coarse count textile products, scrips of the sector managed to lead the pack, while higher cement prices in the local market amid lower coal prices helped cement companies to stay on a roll. The decline in discount rate brought debt-laden companies into the limelight, while rupee depreciation widened the margins of exporters such as the textile sector and companies with dollar/oil based tariffs.

On the contrary, fertilizer and banking sector remained trailed, as a reaction to lowering in discount rate. Gas curtailment issues kept investor at bay from fertilizer sector.



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

A string of positive developments arising since the formation of new government suggests positive outlook for equity markets. The government's apparent commitment towards the resolution of circular debt, recovery of \$800 million from Etisalat, privatization of state owned entities, together with higher PSDP allocation for FY14 will continue to keep investors' confidence intact. Higher PSDP allocation is likely to support stocks of companies in construction materials sector, while expected rupee depreciation may continue to support textile exports, chemical and energy sector.

The country's likely comeback in fresh IMF program will pave the way for structural, monetary and fiscal reforms. As outlook on further monetary easing changes, the lagging banking sector may start to catch up..

With the global commodity prices unlikely to rise the trade balance looks stable. Also, in consideration of various tax measures imposed in FY14, targeted fiscal deficit level of 6.3% doesn't appear as farfetched as it has in the last few years.

### **Fund's Performance**

The investment objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally. The fund is benchmarked against a composite based on 70% KMI-30 Index and 30% DJIM World Index. The fund generated a return of 28.4% during the year as against its benchmark return of 46.6%, an under-performance by 18.2%. Fund kept a vigilant eye on key developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. The fund kept a decent exposure within selected stocks of Oil & Gas, Construction & Materials and Chemicals sectors throughout the year. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund kept its exposure at higher levels in GOP Ijarah Sukuk that provided decent returns during the period under review while kept only a marginal exposure in corporate Sukuks.

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

<b>Performance Information (%)</b>	<b>PIEIF</b>	<b>Benchmark</b>
Last twelve Months Return	28.4%	46.6%
Since Inception	87.3%	N/A

During the year your fund earned net income of Rs 45.01 million. The Board in the meeting held on July 4, 2013 has declared final distribution amounting to Rs. 21.20 million (i.e. Rs. 5.3174 per unit).

During the period, units worth Rs.31.032 million (including no bonus units) were issued and units with a value of Rs. 185.540 million were redeemed. As on 30 June 2013 the NAV of the Fund was Rs. 51.04 per unit.

### **Update on Workers' Welfare Fund**

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

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

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

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

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

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

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management Company as a matter of abundant precaution has charged provision for WWF in these financial statements.

### **Corporate Governance**

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Karachi Stock Exchange.

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements.  
Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.



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

- 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 it applies to the Management Company; hence appropriate disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2013:

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

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

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

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

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

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. No trades in the 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.

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

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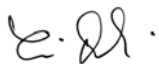
### External Auditors

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

### Acknowledgement

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

For and on behalf of the board



**Yasir Qadri**

Chief Executive

Karachi: August 05, 2013

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

## Fund Type and Category

Pakistan International Element Islamic Asset Allocation Fund (PIEIF) is an Open-End Shariah Compliant Asset Allocation Scheme.

## Fund Benchmark

The benchmark for PIEIF is a composite of KMI-30 Index and DJIM-World Index in a proportion of 70% and 30% respectively.

## Investment Objective

The objective of the fund is to provide medium to long term capital appreciation through investing in Shariah compliant investments in Pakistan and Internationally.

## Investment Strategy

Pakistan International Element Islamic Fund (PIIF) is an open-end asset allocation fund, which seeks to achieve its objective through investing in a portfolio of Shariah compliant investments diversified across the capital markets of Pakistan as well as keeping a limited exposure internationally. The Fund is managed through an active management strategy with dynamic allocation towards different asset classes. The investment process is driven by fundamental research. The domestic portfolio of the Fund primarily invests in fundamentally strong Shariah compliant equities, high quality Sukuks and other Shariah compliant instruments. For equities, fundamental outlook of sectors/companies and DCF (Discounted Cash Flow) valuations are the primary factors in sectors' allocation and stock selection. Major portion of the Fund's portfolio is high quality liquid stocks.

## Manager's Review

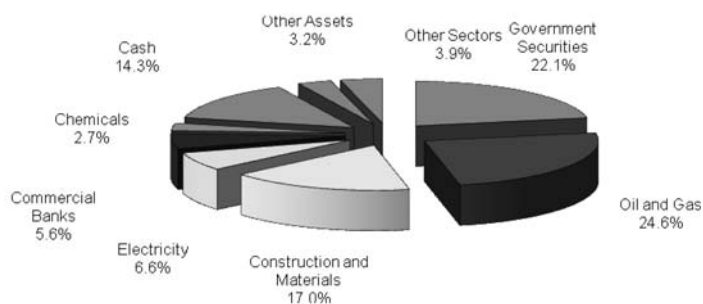
During the year under review, PIEIF underperformed the benchmark by delivering a return of 28.4% against a benchmark return of 46.6%.

The fund started the year with an equity allocation of 51.4% with average equity allocation for the year hovering around 55% - 60%. The fund altered its allocation during the period under review in selected Oil and Gas, Commercial Banks, Chemical, Electricity and Construction & Material sector stocks in order to realize capital gains. Overall the fund increased its equity allocation from around 51.4% to 60.4% by the end of FY13.

The fund's Net Assets reduced from PKR 294 Million at the beginning of the year to PKR 204 Million as on June 30, 2013.

On the fixed income side, the fund's exposure towards GoP Ijara Sukuk was decreased from 26.7% last year to 22.1% by the end of June 2013, while the exposure towards cash and bank deposits also went down to 14.3% by year-end from 18.3% at the beginning of the year.

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



**Uzma Khan, CFA, FRM**  
Fund Manager

Karachi: August 05, 2013

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



**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shakra-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: www.cdcPakistan.com  
Email: info@cdcpak.com



## TRUSTEE REPORT TO THE UNIT HOLDERS

### PAKISTAN INTERNATIONAL ELEMENT ISLAMIC ASSET ALLOCATION 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 International Element Islamic Asset Allocation Fund (the Fund) are of the opinion that MCB – Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited) being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 in accordance with the provisions of the following:

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

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

Karachi: October 10, 2013



# REPORT OF THE SHARIAH ADVISORY COUNCIL FOR THE YEAR ENDED JUNE 30, 2013

## REPORT OF THE SHARIAH ADVISORY COUNCIL

Alhamdulillah, the year under review was the fourth full year of operations of Pakistan International Element Islamic Fund (the Fund). We, the Shariah Advisory Council of the Fund, are issuing this report in accordance with the clause 2.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of M/s MCB Arif Habib Savings and Investments Limited (MCBAH) (Formerly: Arif Habib Investments Limited), the management company of the Fund, to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review of the representations made by the management, to the extent where such compliance can be objectively verified.

For screening equities in the local stock market, we have advised a criteria on the basis of the following; (1) Nature of business, (2) Interest bearing debt in relation to the total assets, (3) Illiquid assets in relation to the total assets, (4) Investment in non-Shariah complaint activities to total assets (5) Income from non-complaint investment to Gross revenues and (6) Net liquid assets per share vs. share price.

As part of our mandate as Shariah Advisor to the Fund, we have reviewed the following, during the year;

- The modes of investment of the Fund's property and its compliance with the Shariah guidelines.
- Shariah compliance of new investment avenues proposed by MCBAH.
- Shariah compliance of its International investment.

In the light of the above scope, we hereby certify that all the provisions of the scheme and investments made by the Fund for the year ended 30<sup>th</sup> June 2013 are in compliance with the Shariah principles.

The management company has been directed to set aside as charity, amount earned as interest from conventional banks. In addition, there are investments made by the Fund where Investee companies have earned a part of their income from non-complaint sources (e.g. interest income). In such cases, the management company has been directed to set aside as charity such proportion of the income from Investee companies in order to purify the earnings of the Fund.

During the year an amount of Rs 0.239 million was transferred to the charity account. The total amount of charity payable as of 30<sup>th</sup> June 2013 is Rs 0.743 million.

May Allah bless us with Tawfeeq to accomplish these cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Karachi

عجاز سامدانی  
ذکر  
Dr Ejaz Samadani

Dated: August 05, 2013

For and on behalf of Shariah Advisory Council



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

This statement is being presented by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (formerly Arif Habib Investments Limited), the Management Company of Pakistan International Element Islamic Asset Allocation Fund ("the Fund") to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Lahore Stock Exchange, Karachi Stock Exchange and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

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

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

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



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

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

For and on behalf of the board



**Yasir Qadri**

Chief Executive

Karachi: August 05, 2013

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



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

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## **Review report to the Unit holders of Pakistan International Element Islamic Asset Allocation Fund “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance**

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

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

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

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

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

**Date: 05 August 2013**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

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

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



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

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## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

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

### *Management Company's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

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

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

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

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KPMG Taseer Hadi & Co.

*Other matters*

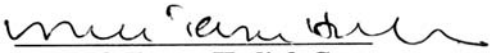
The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of auditors who vide their report dated 17 September 2012 expressed unmodified opinion with emphasis of matter paragraph on the financial statements of the Fund for the year ended 30 June 2012. The emphasis pertains to non provision of Workers' Welfare Fund.

***Report on Other Legal and Regulatory Requirements***

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

**Date: 05 August 2013**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Moneeza Usman Butt**

# **FINANCIAL STATEMENTS**



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

	<i>Note</i>	<b>2013</b>	2012
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks	4	30,227	56,479
Receivable against sale of units		418	1,584
Receivable against sale of investments		2,030	-
Investments	5	173,935	245,906
Dividend and profit receivable	6	1,018	1,590
Advances and deposits	7	3,198	3,198
<b>Total assets</b>		<b>210,826</b>	<b>308,757</b>
<b>Liabilities</b>			
Payable against purchase of investments		-	11,826
Payable to Management Company	8	568	528
Payable to Central Depository Company of Pakistan Limited - Trustee	9	59	57
Payable to Securities and Exchange Commission of Pakistan	10	246	290
Accrued expenses and other liabilities	11	6,413	1,993
<b>Total liabilities</b>		<b>7,286</b>	<b>14,694</b>
<b>Net assets</b>		<b>203,540</b>	<b>294,063</b>
<b>Unit holders' fund</b>		<b>203,540</b>	<b>294,063</b>
		<b>(Number of units)</b>	
<b>Number of units in issue</b>		<b>3,987,627</b>	<b>7,397,111</b>
		<b>(Rupees)</b>	
<b>Net assets value per unit</b>		<b>51.04</b>	<b>39.75</b>

The annexed notes from 1 to 21 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director



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

	<i>Note</i>	<b>2013</b>	2012
		<b>(Rupees in '000)</b>	
<b>Income</b>			
Capital gain on sale of investments - net		<b>35,170</b>	25,105
Dividend income		<b>13,788</b>	15,274
Income from investment in sukuk certificates		<b>1,031</b>	386
Income from investment in GoP Ijarah Sukuk		<b>7,807</b>	3,918
Profit on bank deposits		<b>459</b>	270
		<b>58,255</b>	44,953
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	5.5	<b>23,879</b>	9,413
<b>Total income</b>		<b>82,134</b>	54,366
<b>Expenses</b>			
Remuneration of Management Company	8.1	<b>5,819</b>	6,799
Remuneration of Central Depository Company of Pakistan Limited- Trustee	9	<b>702</b>	700
Annual fee - Securities and Exchange Commission of Pakistan	10	<b>246</b>	290
Provision for Workers' Welfare Fund	11	<b>4,408</b>	-
Brokerage, settlement and bank charges		<b>1,634</b>	1,860
Fees and subscription		<b>208</b>	180
Auditors' remuneration	12	<b>483</b>	492
Printing and related cost		<b>57</b>	554
Professional charges		<b>15</b>	77
Provision non-performing term finance certificates	5.3	<b>4,577</b>	1,465
<b>Total expenses</b>		<b>18,149</b>	12,417
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed		<b>(18,979)</b>	150
<b>Net income for the year before taxation</b>		<b>45,006</b>	42,099
Taxation	13	<b>-</b>	-
<b>Net income for the year after taxation</b>		<b>45,006</b>	42,099
<b>Earnings per unit</b>	14		

The annexed notes from 1 to 21 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director

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

	2013	2012
	(Rupees in '000)	
Undistributed loss brought forward:		
- Realised losses	(89,841)	(43,827)
- Unrealised gains / (losses)	<u>14,234</u>	<u>(4,767)</u>
	<u>(75,607)</u>	<u>(48,594)</u>
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed	34,947	3,761
Net income for the year	45,006	42,099
<i>Distributions:</i>		
Final distribution at the rate of Rs. 5.58 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]		
- Cash distribution	-	(11,200)
- Issue of bonus units	-	(31,881)
Final distribution at the rate of Rs. 4.33 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]		
- Cash distribution	-	(8,709)
- Issue of bonus units	-	(21,083)
	-	(72,873)
Undistributed income / (loss) carried forward	<u>4,346</u>	<u>(75,607)</u>
Undistributed income / (loss) carried forward:		
- Realised losses	(22,035)	(89,841)
- Unrealised gains	<u>26,381</u>	<u>14,234</u>
	<u>4,346</u>	<u>(75,607)</u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

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

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

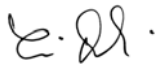
  
\_\_\_\_\_  
Director

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

	2013 (Rupees in '000)	2012
Net assets at beginning of the year	294,063	337,213
Issue of units 633,289 (2012: 1,237,158 units)	31,032	11,189
Issue of nil bonus units (2012: 1,368,906 bonus units)	-	52,964
Redemption of units 4,042,773 (2012: 2,922,808 units)	(185,540)	(76,379)
	<b>(154,508)</b>	<b>(12,226)</b>
Net element of (income) / loss and capital (gains) / losses for the year included in prices of units issued less those in units redeemed		
- amount representing accrued (income) / loss and realised capital (gains) / losses - transferred to Income Statement	18,979	(150)
- amount representing unrealised capital (gains) / losses - transferred to Distribution Statement	(34,947)	(3,761)
	<b>(15,968)</b>	<b>(3,911)</b>
Net income / (loss) for the year (excluding net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	(14,043)	7,581
Capital gain on sale of investments - net	35,170	25,105
Net unrealised appreciation on re-measurement of investments classified as at fair value through profit or loss'	23,879	9,413
	<b>45,006</b>	<b>42,099</b>
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement	34,947	3,761
Final distribution at the rate of Rs. 5.58 per unit for the year ended 30 June 2011 - [Date of distribution: 5 July 2011]	-	-
- Cash distribution	-	(11,200)
- Issue of bonus units	-	(31,881)
Final distribution at the rate of Rs. 4.33 per unit for the year ended 30 June 2012 - [Date of distribution: 25 June 2012]	-	-
- Cash distribution	-	(8,709)
- Issue of bonus units	-	(21,083)
	-	(72,873)
Net assets at end of the year	<b>203,540</b>	<b>294,063</b>
	<b>(Rupees)</b>	
Net assets value per unit as at beginning of the year	<b>39.75</b>	43.72
Net assets value per unit as at end of the year	<b>51.04</b>	39.75

The annexed notes from 1 to 21 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**Pakistan International Element Islamic Asset Allocation Fund**

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

	2013	2012
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	45,006	42,099
<b>Adjustments for non-cash and other items:</b>		
Net unrealised appreciation on re-measurement of investments classified as at fair value through profit or loss'	(23,879)	(7,948)
Provision for Workers' Welfare Fund	4,408	
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	18,979	(150)
	(492)	(8,098)
<b>Decrease / (increase) in assets</b>		
Receivable against sale of investments	(2,030)	739
Investments - net	95,850	45,429
Dividend and profit receivable	572	535
Advances and deposits	-	-
	94,392	46,703
<b>Increase / (decrease) in liabilities</b>		
Payable against purchase of investments	(11,826)	11,826
Payable to Management Company	40	(6)
Payable to Central Depository Company of Pakistan Limited- Trustee	2	(1)
Payable to Securities and Exchange Commission of Pakistan	(44)	(83)
Accrued expenses and other liabilities	14	589
	(11,814)	12,325
<b>Net cash generated from operating activities</b>	<b>127,092</b>	<b>93,029</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments from sale and redemption of units	(153,344)	(85,980)
Net increase in cash and cash equivalents during the year	(26,252)	7,049
Cash and cash equivalents at beginning of the year	56,479	49,430
Cash and cash equivalents at end of the year	<b>30,227</b>	<b>56,479</b>

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chief Executive Officer

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

  
Director

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

## 1. LEGAL STATUS AND NATURE OF BUSINESS

The Pakistan International Element Islamic Asset Allocation Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited ("the Management Company", "AHIL") as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 December 2005 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules, 2003).

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

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

The Fund is an open-ended mutual fund, listed on the Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Fund is to make investment in shariah compliant investments in securities or instruments both inside and outside Pakistan. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund has been categorised as "Shariah compliant Asset Allocation" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned management quality rating of AM2' to the Management Company and 3-star short term and 3-star long term rating to the Fund.

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

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

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

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

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

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

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

### 2.4 Basis of measurement

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

### 2.5 Functional and presentation currency

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

### 2.6 Critical accounting estimates and judgments

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

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

#### *Investments stated at fair value and derivative financial instruments*

The Management Company has determined fair value of listed equity securities, Sukuk certificates and government securities by using quotations from The Karachi Stock Exchange (Guarantee) Private Limited, Mutual Funds Association of Pakistan and Financial Markets Association of Pakistan (Reuters), respectively. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.



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

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## *Other assets*

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

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

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

### **3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

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

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

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

#### *b) Loans and receivables*

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

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

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

#### *d) Financial liabilities*

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

### *Recognition*

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

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

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

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

### *Measurement*

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

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

### *Fair value measurement principles*

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

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

### *Basis of valuation of Quoted equity securities*

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

### *Basis of valuation of Government Securities*

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 quotations from Reuters page.

### *Securities under repurchase/ resale agreements*

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

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

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## *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. In case of an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment. 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. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

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 assets expires or it transfers the right to receive the contractual cashflows in a transaction in which substantially all the risks and rewards of ownership of the financial assets 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 AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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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 assets 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 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.

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

- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposits is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

**3.10 Expenses**

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

**3.11 Cash and cash equivalents**

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

**3.12 Other assets**

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

**3.13 Dividend distributions and appropriations**

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

**4. BALANCES WITH BANKS**

		2013	2012
		(Rupees in '000)	
In current accounts		1,422	55,354
In deposit accounts	4.1	<u>28,805</u>	<u>1,125</u>
		<u><u>30,227</u></u>	<u><u>56,479</u></u>

4.1 These carry profit at the rate ranging from 6% to 8.28% (2012: 5% to 10%) per annum.

**5. INVESTMENTS**

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

- Quoted equity securities 5.1 127,357 158,864

*Fixed income and other debt securities*

- Government securities 5.2 46,578 82,542

- Sukuk certificates - unlisted 5.3 - 4,500

173,935 245,906

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

**5.1 Quoted equity securities - 'at fair value through profit or loss' - held for trading**  
Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise

Name of the investee company	Number of shares			Balance as at 30 June 2013		Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company		
	As at 1 July 2012	Purchases during the year	Bonus / right issue during the year	As at 30 June 2013	Cost as at 30 June 2013	Market Value as at 30 June 2013	Appreciation/ (diminution) as at 30 June 2013		As a percentage of total investments	As a percentage of net assets
<b>OIL AND GAS</b>										
Pakistan State Oil Company Limited	-	69,000	6,100	21,600	4,249	6,920	2,671	3.98	3.40	0.00
Shell Pakistan Limited	-	4,000	-	4,000	560	573	13	0.33	0.28	0.00
National Refinery Limited	-	26,000	-	-	-	-	-	-	-	-
Pakistan Oilfields Limited	68,511	22,500	-	30,111	11,704	14,976	3,272	8.61	7.36	0.00
Oil & Gas Development Company Limited	20,000	200,000	-	50,000	10,635	11,438	803	6.58	5.62	0.00
Pakistan Petroleum Limited	147,700	49,600	28,425	85,225	15,031	18,032	3,001	10.37	8.86	0.00
Attock Petroleum Limited	-	62,300	-	62,300	-	-	-	-	-	-
					42,179	51,939	9,760			
<b>CHEMICALS</b>										
Fauji Fertilizer Company Limited	111,199	393,400	-	-	-	-	-	-	-	-
ICI Pakistan Limited	-	71,500	-	71,500	-	-	-	-	-	-
Sitara Chemical Industries Limited	-	400	-	400	66	80	14	0.05	0.04	0.00
Fauji Fertilizer Bin Qasim Limited	-	199,000	-	149,000	6,255	5,593	(662)	3.22	2.75	0.00
Clariant Pakistan Limited	-	44,400	-	44,400	-	-	-	-	-	-
					6,321	5,673	(648)			
<b>GENERAL INDUSTRIALS</b>										
Tri-Pack Films Limited	29,350	-	-	-	-	-	-	-	-	-
Thal Limited	-	26,000	-	26,000	-	-	-	-	-	-
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>										
D.G. Khan Cement Company Limited	-	321,500	-	78,500	4,232	6,570	2,338	3.78	3.23	0.00
Lucky Cement Limited	120,775	139,900	-	41,575	5,619	8,719	3,100	5.01	4.28	0.00
Attock Cement Pakistan Limited	115,505	10,000	3,600	105	7	14	7	0.01	0.01	-
Cheerat Cement Company Limited	-	245,000	-	153,000	7,384	8,903	1,519	5.12	4.37	0.00
Kohat Cement Company Limited	-	332,500	-	93,500	7,755	8,025	270	4.61	3.94	0.00
Fecto Cement Limited	-	141,500	-	77,000	2,764	3,697	933	2.13	1.82	0.00
					27,761	35,928	8,167			
<b>Industrial Engineering</b>										
Millat Tractors Limited	30,753	9,500	5	5	-	3	3	0.00	0.00	0.00
<b>AUTOMOBILE AND PARTS</b>										
Pak Suzuki Motor Company Limited	-	18,000	-	18,000	2,088	2,677	589	1.54	1.32	0.00
					2,088	2,677	589			
<b>PERSONAL GOODS (TEXTILE)</b>										
Nishat Mills Limited	228,000	-	-	59,500	4,073	5,605	1,532	3.22	2.75	0.00
					4,073	5,605	1,532			



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

Name of the investee company	Number of shares			Balance as at 30 June 2013		Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company	
	As at 1 July 2012	Purchases during the year	Bonus / issue during the year	As at 30 June 2013	Cost as at 30 June 2013	Market Value as at 30 June 2013	Appreciation/ (diminution) as at 30 June 2013		As a percentage of total investments
<b>Food Producers</b>									
Unilever Pakistan Limited	-	1,320	-	1,320	-	-	-	-	-
<b>PHARMA AND BIO TECH</b>									
Ferozsons Laboratories Limited	-	9,000	-	9,000	-	-	-	-	-
Glaxosmithkline Pakistan Limited	119,000	21,827	-	140,827	-	-	-	-	-
Abbot laboratories Pakistan limited	101,000	-	-	101,000	-	-	-	-	-
<b>FIXED LINE</b>									
<b>TELECOMMUNICATION</b>									
Pakistan Telecommunication Company Limited	-	150,000	-	150,000	-	-	-	-	-
<b>ELECTRICITY</b>									
Hub Power Company Limited	490,244	282,000	-	548,000	224,244	10,595	13,825	3,230	7.95
<b>COMMERCIAL BANKS</b>									
Meezan Bank Limited	204,552	563,500	56,655	421,000	403,707	10,665	11,707	1,042	6.73
<b>Total as at 30 June 2013</b>						<b>103,682</b>	<b>127,357</b>	<b>23,675</b>	<b>5.752</b>

**5.1.1** Investments as at 30 June 2013 include shares with market value of Rs 36.356 million (2011: Rs. 65.833 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular no. 11 dated 23 October 2007 issued by the Securities & Exchange Commission of Pakistan.

**5.1.2** The cost of the quoted equity securities as at 30 June 2013 amounted to Rs. 101,009 million (2012: Rs. 142.698 million).

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

Name of the investee company	Number of shares		Balance as at 30 June 2012		Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	Purchases during the year	Bonus / right issue during the year	As at 30 July 2011	As at 30 June 2012	As a percentage of total investments	As a percentage of net assets	
				Sales during the year	Cost as at 30 June 2013	Market Value as at 30 June 2013	Appreciation/ (diminution) as at 30 June 2013
(Rupees in 000)							
<b>OIL &amp; GAS</b>							
Attock Petroleum Limited	-	-	-	63,764	-	-	-
National Refinery Limited	-	-	-	11,065	-	-	-
Oil and Gas Development Company Limited	-	-	-	80,000	20,000	3,209	179
Pakistan Oilfields Limited	143,011	-	63,000	137,500	68,511	25,139	133
Pakistan Petroleum Limited	194,364	14,836	128,000	189,500	27,206	27,810	604
Pakistan State Oil Company Limited	154,079	-	46,500	200,579	-	-	-
					55,242	56,158	916
<b>CHEMICALS</b>							
Fatima Fertilizer Company Limited	-	-	-	9,752	-	-	-
Fauji Fertilizer Company Limited	67,530	330,863	605	287,799	111,199	12,349	398
Sitara Chemical Industries Limited	62,483	-	-	62,483	-	-	-
					11,951	12,349	398
<b>GENERAL INDUSTRIALS</b>							
Ghani Glass Limited	-	-	-	17,931	-	-	-
Packages Limited	314,074	-	-	314,074	-	-	-
Tri- Pack Films Limited	-	-	-	-	29,350	6,163	878
					5,285	6,163	878
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>							
Attock Cement Pakistan Limited	-	-	-	57,495	115,505	9,213	9,407
D.G Khan Cement	-	-	-	370,000	-	-	-
Lucky Cement Limited	355,700	-	172,000	406,925	120,775	9,229	13,936
					18,442	23,343	4,901
<b>INDUSTRIAL ENGINEERING</b>							
Milatt Tractors Limited	-	-	-	-	30,753	14,966	14,849
						14,966	(117)
						14,849	(117)
<b>Household Goods</b>							
Pakistan Elektron Limited	1,085,011	-	-	1,085,011	-	-	-
<b>PERSONAL GOODS (TEXTILE)</b>							
Nishat Mills Limited	657,340	-	-	657,340	-	-	-
<b>PHARMA AND BIO TECH</b>							
Abbott Laboratories Pakistan Limited	-	-	-	-	101,000	12,625	12,024
Glaxo Smith Kline Pakistan Limited	-	-	-	-	119,000	7,675	7,526
					20,300	19,550	(750)
<b>FIXED LINE TELECOMMUNICATION</b>							
Pakistan Telecommunications Company Limited	-	-	-	3,415,000	-	-	-
<b>ELECTRICITY</b>							
The Hub Power Company Limited	753,419	1,181,524	-	1,444,699	490,244	18,956	20,536
						18,956	1,580
<b>COMMERCIAL BANKS</b>							
Meezan Bank Limited	-	1,531,269	173,283	1,500,000	204,552	3,397	5,916
						3,397	5,916
						148,539	158,864
							10,325
Total as at 30 June 2012							

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

### 5.2 Government securities - at fair value through profit or loss

Issue Date	Profit rate (%)	Face value			As at 30 June 2013	Balance as at 30 June 2013			Market value	
		As at 1 July 2012	Purchased during the year	Disposed / matured during the year		Carrying Value	Market Value	Appreciation/ (Diminution)	As a percentage of net assets	Market value as percentage of total investment
(Rupees in '000)										
<b>3 year (Tenor)</b>										
15 November 2010	9.4291	575,000	160,000	370,000	365,000	36,522	36,554	32	17.96	21.02
16 May 2011	9.4291	250,000	-	150,000	100,000	10,005	10,024	19	4.92	5.76
Total						<u>46,527</u>	<u>46,578</u>	<u>51</u>		

Issue Date	Profit rate	Face value			As at 30 June 2012	Balance as at 30 June 2012			Market value	
		As at 1 July 2011	Purchased during the year	Disposed / matured during the year		Carrying Value	Market Value	Appreciation/ (Diminution)	As a percentage of net assets	Market value as percentage of total investment
(Rupees in '000)										
<b>3 year (Tenor)</b>										
16 May 2011	11.9405	-	65,000	40,000	25,000	25,625	25,013	(612)	8.51	14.38
15 November 2010	-	-	57,500	-	57,500	57,538	57,529	(9)	19.56	33.07
Total						<u>83,163</u>	<u>82,542</u>	<u>(621)</u>		

### 5.3 Sukuk Certificates - unlisted

	2013	2012
	(Rupees in '000)	
	5.3.1	
	<b>6,042</b>	5,965
Less:		
Provision of Pak Elektron Limited on July 1	<b>1,465</b>	-
Charged during the year (refer 5.3.2)	<b>4,577</b>	1,465
	<b>6,042</b>	1,465
	<b>-</b>	<b>4,500</b>

5.3.1 Name of the investee company	Number of certificates				Balance as at 30 June 2013			Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
	As at 1 July 2012	Purchases during the period	Sales during the period	As at 30 June 2013	Carrying value	Market value	Appreciation/ (diminution)			
(Rupees in '000)										
Certificate have a face value of Rs. 5,000 each unless stated otherwise										
Pak Elektron Limited (28 September 2007) (refer note 5.3.2)	3,000	-	-	3,000	6,042	6,042	-	2.97	3.47	1.25
Name of the investee company	As at 1 July 2011	Purchases during the period	Sales during the period	As at 30 June 2012	Carrying value	Market value	Diminution	Market value as percentage of net assets	Market value as percentage of total investment	Outstanding principle value as a percentage of issued debt capital
Pak Elektron Limited (28 September 2007) (refer note 5.3.2)	3,000	-	-	3,000	7,541	5,965	(1,576)	2.03	2.43	1.25

**5.3.2** Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non-performing debt securities. During the year, the Fund has recognised further provision amounting to Rs. 4.577 million against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

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

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

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

Name of non-compliant investment	Name of Company	Value of investment before provision ----- (Rupees in '000)	Provision held, if any	Value of investment after provision ----- (Rupees in '000)	Percentage of net assets %	Percentage of gross assets %
Investment in debt securities	Pak Elektron Limited-Sukuk	6,042	6,042	-	-	-

**5.4.1** At the time of purchase, the above security was in compliance of the circular (i.e. investment grade) and was subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupons due on respective dates.

<b>5.5 Net unrealised appreciation in value of investments - 'at fair value through profit or loss' - held for trading</b>	<b>2013</b>	<b>2012</b>
	<b>(Rupees in '000)</b>	
Market value of investments	179,977	245,906
Less: Cost of investments	<b>(156,098)</b>	<b>(236,493)</b>
	<b><u>23,879</u></b>	<b><u>9,413</u></b>

**6. DIVIDEND AND PROFIT RECEIVABLE**

Dividend receivable	88	269
Accrued profit on deposit accounts with banks	381	56
Accrued profit on GoP Ijara Sukuk	549	1,265
	<b><u>1,018</u></b>	<b><u>1,590</u></b>

**7. ADVANCES AND DEPOSITS**

Advance tax		498	498
Security deposits with			
- National Clearing Company of Pakistan Limited	7.1	2,500	2,500
- Central Depository Company of Pakistan Limited	7.2	200	200
		<b><u>3,198</u></b>	<b><u>3,198</u></b>

**7.1** This represents deposit with National Clearing Company of Pakistan Limited in respect of trading of listed securities.

**7.2** This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

**8. PAYABLE TO MANAGEMENT COMPANY**

Management fee payable	8.1	419	493
Front-end load payable		149	35
		<b><u>568</u></b>	<b><u>528</u></b>

**8.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. During the year, the Management Company has charged fee at the rate of 2% per annum (2012: 2% per annum) of the average net asset of the Fund. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusion of all government levies.

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

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

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed 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 as at 30 June 2012 is as follows:

<b>Amount of Funds Under Management (Average NAV)</b>	<b>Tariff per annum</b>
Up to Rs. 1,000 million	Rs. 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs. 1,000 million	Rs. 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million

**10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

As per Schedule II of the NBFC Regulations, 2008, an shariah compliant asset allocation based scheme is required to pay an amount equal to 0.095 percent of the average annual net assets of the scheme as annual fee to the SECP.

**11. ACCRUED EXPENSES AND OTHER LIABILITIES**

		2013	2012
		(Rupees in '000)	
Provision for Worker's Welfare Fund	<i>11.1</i>	<b>4,408</b>	-
Charity / donation payable	<i>11.2</i>	<b>744</b>	505
Auditors' remuneration		<b>325</b>	325
Zakat payable		<b>253</b>	224
Legal and Professional charges		<b>150</b>	135
Brokerage payable		<b>45</b>	157
Capital gain tax payable		<b>40</b>	43
Other payables		<b>448</b>	604
		<b><u>6,413</u></b>	<b><u>1,993</u></b>

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

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

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

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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developments and uncertainties created by the recent decision of SHC, the Management Company as a matter of abundant precaution has decided to charge the entire provision for WWF amounting to Rs. 4.408 million. (including Rs. 3.42 million pertaining from 1 July 2009 to 30 June 2012) in these financial statements.

- 11.2** According to the instructions of the Shariah Board, any income earned by the Fund from investments whereby a portion of investment of such investee has been made in non-shariah compliant avenues, such portion of the income of the Fund from that investee should be donated for charitable purposes directly by the Fund.

**12. AUDITORS' REMUNERATION**

**2013**                      **2012**  
**(Rupees in '000)**

Annual statutory audit fee	225	225
Half yearly review fee	125	125
Other certifications	100	100
Out of pocket expenses	33	42
	<b>483</b>	<b>492</b>

**13. TAXATION**

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

**14. EARNINGS PER UNIT**

Earnings per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating EPU is not practicable.

**15. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS**

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

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

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

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

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



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15.1 Details of the transactions with related parties / connected persons:	2013	2012
	(Rupees in '000)	
<b>Management Company</b>		
Management fee for the year	5,059	5,958
Sindh sales tax	729	841
Federal excise duty	31	-
Front-end load	343	-
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Remuneration of the Trustee	702	700
CDS settlement charges	15	-
<b>Arif Habib Limited</b>		
Brokerage *	54	94
<b>Next Capital Limited</b>		
Brokerage *	28	-
<b>Directors and executives of the Management Company</b>		
Issue of 63,807 units (2012: 27,008 units)	3,009	1,096
Issue of nil bonus units (2012: 1550 bonus units)	-	60
Redemption of 50,083 units (2012: 24,016 units)	2,332	991
<b>Bank of Punjab</b>		
Issue of nil units (2012: 13,471 units)	-	532
Issue of nil bonus units (2012: 513,822 units)	-	19,909
Redemption of nil units (2012: 523,747 units)	-	19,953
<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>		
Issue of nil bonus units (2012: 15695 units)	-	609
Dividend income	247	-
<b>Nishat Mills Limited</b>		
Dividend income	437	920
<b>Adamjee Life Assurance Company Limited - (Amanat Fund)</b>		
Issue of 22,510 units (2012: nil units)	1,200	-
<b>Ernst &amp; Young Ford Rhodes Sidat Hyder (more than 10% holding)</b>		
Issue of nil bonus units (2012: 163,040 units)	-	6,325

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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15.2	Amounts outstanding as at the year end	2013	2012
		(Rupees in '000)	
	<b>Management Company</b>		
	Management fee payable	331	493
	Sindh sales tax payable on management fee	57	68
	Federal excise duty on management fee	31	-
	Front-end load payable	149	35
	<b>Central Depository Company of Pakistan Limited-Trustee</b>		
	Remuneration payable to trustee	59	57
	Security deposit	200	200
	<b>Summit Bank Limited</b>		
	Balance with bank	-	55,246
	Profit receivable on bank deposits	-	23
	<b>MCB Bank Limited</b>		
	Balance with bank	-	10
	<b>Directors and executives of the Management Company</b>		
	Units held as at June 30, 2013: 22,762 units (2012: 9,039 units)	1,157	359
	<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>		
	Units held as at June 30, 2013: 73,403 units (2012: 73,403 units)	3,747	2,918
	<b>D.G Khan Cement Limited</b>		
	Shares held as at June 30, 2013: 78,500 (June 30, 2012: Nil shares)	6,570	-
	<b>Nishat Mills Limited</b>		
	Shares held as at June 30, 2013: 59,500 (June 30, 2012: Nil shares)	5,605	-
	<b>Ernst &amp; Young Ford Rhodes Sidat Hyder (more than 10% holding)</b>		
	Units held as at June 30, 2013: Nil units (2012: 762,529 units)	-	30,311
	<b>Bank of Punjab</b>		
	Units held as at June 30, 2013: Nil units (2012: 2,009,811 units)	-	79,890

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

**16. FINANCIAL RISK MANAGEMENT**

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

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

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The Fund primarily invests in shariah compliant securities or instruments both inside and outside Pakistan including high quality liquid shares listed on stock exchanges and government securities with an objective of optimizing the return to unit holders. The Fund has exposure to the following risks from financial instruments:

The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

### 16.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rate. 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 SECP.

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

#### *Currency risk*

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

#### *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 debt securities that expose the Fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates.

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

#### *Sensitivity analysis for variable rate instruments*

In case of 100 basis points increase / decrease in rates announced by State Bank of Pakistan on 30 June 2013, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.06 million (2012: Rs. 0.03 million). The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

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

The Fund does not hold fixed rate instrument rate instrument which exposes the Fund to fair value interest rate risk.

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

### *Other price risk*

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the parameters provided in its constitutive documents and circular issued by the SECP. The Fund's constitutive document also limit investment in individual equity securities not exceed 10% of net assets or issued capital of the investee company and also restrict sector exposure limit to a limit of 25% of net assets of the Fund.

In case of 5% increase / decrease in KSE 100 index on 30 June 2013, net income and net assets of the Fund would increase / decrease by Rs. 6.051 million (2012: Rs. 21.726 million) as a result of gains/losses on equity securities at fair value through profit or loss. The represents management best estimate of reasonable possible shift in the KSE 100 index. However, investment of the Fund is not managed to track the KSE 100 index to external benchmark.

The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

### **16.2 Credit risk**

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

#### *Credit risk management*

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

#### *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 asset i.e. balances with banks, receivable against sale of units, deposits with central clearing 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 5.3 to these financial statements.

#### *Settlement risk*

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

#### *Balances with banks*

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

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

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### *Investment in debt securities*

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

### *Investment in debt securities*

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

### *Receivables against sale of units*

These represents amount held under distribution accounts maintained by the management company for receipt of subscription money from unit holders. The amount has been cleared subsequently by the management company.

### *Advances and deposits*

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 2013 and 2012 except for the exposures and the provisions there against as provided in Note 5.3. For those assets that are not past due it is believed that the risk of default is minimal and the capital repayments will be made in accordance with the agreed terms and conditions. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment.

### *Concentration of credit risk*

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

### **16.3 Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting 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

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

redeemable at the holders' option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders.

### *Management of liquidity risk*

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

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

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

	30 June 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	568	-	-	568
Payable to the trustee	59	-	-	59
Payable against purchase of investments	-	-	-	-
Accrued expenses and other liabilities	1,712	-	-	1,712
	2,339	-	-	2,339
----- (Rupees in '000) -----				
	30 June 2012			Total
	Up to three months	More than three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	528	-	-	528
Payable to the trustee	57	-	-	57
Payable against purchase of investments	11,826	-	-	11,826
Accrued expenses and other liabilities	1,726	-	-	1,726
	14,137	-	-	14,137

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**16.4 Financial instruments by category**

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

	30 June 2013		
	Loans and receivables	Assets at fair value through profit or loss	Total
	------(Rupees in '000)-----		
<b>Assets</b>			
Balances with banks	30,227	-	30,227
Receivable against sale of units	418	-	418
Investments	-	173,935	173,935
Dividend and profit receivable	1,018	-	1,018
Receivable against sale of Investment	2,030	-	2,030
Advances and deposits	3,198	-	3,198
	36,891	173,935	210,826

	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable to Management Company	-	568	568
Payable to Central Depository Company of Pakistan Limited- Trustee	-	59	59
Payable against purchase of investments	-	-	-
Accrued expenses and other liabilities	-	1,712	1,712
	-	2,339	2,339

	30 June 2012		
	Loans and receivables	Assets at fair value through profit or loss	Total
	------(Rupees in '000)-----		
<b>Assets</b>			
Balances with banks	56,479	-	56,479
Receivable against sale of units	1,584	-	1,584
Investments	-	245,906	245,906
Dividend and profit receivable	1,590	-	1,590
Receivable against sale of Investment	-	-	-
Advances and deposits	2,700	-	2,700
	62,353	245,906	308,259

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	30 June 2012		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable to Management Company	-	528	528
Payable to Central Depository Company of Pakistan Limited- Trustee	-	57	57
Payable against purchase of investments	-	11,826	11,826
Accrued expenses and other liabilities	-	1,726	1,726
	-	14,137	14,137

***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.

**17 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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<b>30 June 2013</b>	<b>Level 1</b>	<b>Level 2</b>
	<b>(Rupees in '000)</b>	
<i>'At fair value through profit or loss' - held for trading</i>		
- Quoted equity securities	127,357	-
<i>Fixed income and other debt securities</i>		
- Sukuk certificates - unlisted	-	46,578
- Government securities	-	-
 30 June 2012		
<i>'At fair value through profit or loss' - held for trading</i>		
- Quoted equity securities	158,864	-
<i>Fixed income and other debt securities</i>		
- Sukuk certificates - unlisted	-	82,542
- Government securities	-	4,500

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

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 5.3174 per unit for the year ended 30 June 2013 in their meeting held on 4 July 2013. The financial statements for the year ended 30 June 2013, do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 30 June 2014.

**19. SUPPLEMENTARY NON FINANCIAL INFORMATION**

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

**19.1 Pattern of unit holding:**

Details of pattern of unit holding as at 30 June 2013

	<b>As at 30 June 2013</b>		
	<b>Number of unit holders</b>	<b>Investment amount</b>	<b>Percentage investment</b>
		<b>(Rupees in '000)</b>	
Individuals	1,646	167,958	82.52%
Insurance companies	2	3,759	1.85%
Banks / DFIs	1	1	0.00%
Retirement funds	14	29,184	14.33%
Others	3	2,638	1.30%
	<b>1,666</b>	<b>203,540</b>	<b>100%</b>

Details of pattern of unit holding as at 30 June 2012

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	As at 30 June 2012		
	Number of unit holders -----	Investment amount (Rupees in '000)	Percentage investment -----
Individuals	1,768	147,331	50%
Insurance companies	1	2,033	1%
Banks / DFIs	2	79,898	27%
Retirement funds	19	31,301	11%
Others	22	33,500	11%
	<u>1,812</u>	<u>294,063</u>	<u>100%</u>

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

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	<b>2013 (Percentage)</b>
First Capital Equities Limited.	<b>10%</b>
JS Global Capital Limited	<b>9%</b>
KASB Securities Limited	<b>8%</b>
Foundation Securities (Private) Limited	<b>8%</b>
Topline Securities Private Limited	<b>8%</b>
Elixir Securities Pakistan (Private) Limited	<b>7%</b>
Arif Habib Limited	<b>6%</b>
Invest and Finance Securities Limited	<b>6%</b>
Fortune Securities Limited	<b>5%</b>
Pearl Securities Limited	<b>4%</b>
	<b>2012 (Percentage)</b>
Elixir Securities Pakistan (Private) Limited	16%
Foundation Securities (Private) Limited	13%
JS Global Capital Limited	9%
Arif Habib Limited	7%
Invest and Finance Securities Limited	7%
Foundation Securities (Private) Limited	6%
Next Capital Limited	5%
KASB Securities Limited	5%
BMA Capital Management Limited	4%
Topline Securities (Private) Limited	4%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**19.3 Attendance at meetings of the Board of Directors:**

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

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

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

**19.4 Particulars of investment committee and fund manager:**

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

	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	18 years
Mr. Kashif Rafi	Senior Vice President - Investments	MBA, CFA (Level I)	12 years
Mr. Muhammad Asim	Vice President - Head Equities	MBA & CFA	10 years
Mr. Syed Akbar Ali	Vice President - Investments	MBA & CFA	8 years
Mr. Mohsin Pervaiz	Assistant Vice President - Head of Research	MBA, CFA (Level I)	12 years

**19.5 Other funds managed by the Fund Manager:**

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

- Pakistan Stock Market Fund
- Pakistan Islamic Pension Fund
- MCB Islamic Income Fund

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

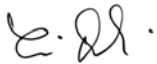
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**20. CORRESPONDING FIGURES**

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

**21. DATE OF AUTHORISATION FOR ISSUE**

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



Chief Executive Officer

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



Director



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

Category	No.of Unit Holders	Units
<b>Associated Companies, undertakings and related Parties</b>		
ADAMJEE LIFE ASSURANCE CO. LTD - NUIL Fund		
<b>Directors</b>		
Nasim Beg		
<b>Public Sector Companies and Corporations</b>	3	51,682
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	3	73,663
<b>Individuals</b>	1,645	3,055,074
<b>Trust</b>	13	376,304
<b>Unitholders holding 5 percent or more Voting interest in the listed company</b>		
MANSOOR UL HASSAN ALVI	1	235,447
BAYER CROPSCIENCE EMPLOYEES PROVIDENT FUND	1	195,450
	<u>1,666</u>	<u>3,987,620</u>

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

<b>No. of Unit Holders</b>	<b>Units Holdings</b>	<b>Total Units Held</b>
1,514	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	1,246,332.93
85	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	594,741.91
28	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	332,557.03
12	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	212,489.20
4	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	88,945.81
4	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	110,632.09
4	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	129,280.19
2	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	75,080.57
2	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	84,506.94
2	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	95,297.28
1	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	51,133.07
2	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	110,761.19
2	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	147,723.80
1	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	119,377.55
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	157,857.57
1	(SHAREHOLDING FROM 195001.0000 TO 200000.0000)	195,449.78
1	(SHAREHOLDING FROM 235001.0000 TO 240000.0000)	235,446.81
1,666	Total :	3,987,627.72

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by typing: **Bachat Ka Doosra Naam**

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

8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.  
UAN: (+92-21) 11-11-622-24 (11-11-MCB-AH), 111-468378 (111-INVEST)  
Bachat Center: 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908  
URL: [www.mcbah.com](http://www.mcbah.com), Email: [info@mcbah.com](mailto:info@mcbah.com)

## PERFORMANCE TABLE

	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
	(Rupees in '000)							
Net Assets	203,540	294,063	337,213	410,415	606,589	984,083	1,072,531	1,378,168
Net Income / (loss)	45,006	42,099	60,676	68,145	(114,977)	32,760	227,664	(65,690)
Net Asset Value per Unit	51.04	39.75	43.72	45.09	42.16	51.86	58.89	47.73
Closing selling price per unit	52.45	40.57	44.61	46.01	43.02	54.02	60.40	48.95
Closing repurchase price per unit	51.04	39.75	43.72	45.09	42.16	51.86	58.89	47.73
	(Rupees)							
Highest selling price per unit	54.58	46.36	48.34	51.51	51.54	60.34	60.52	51.59
Lowest selling price per unit	40.95	40.38	38.37	44.24	30.49	48.69	46.22	44.25
Highest repurchase price per unit	53.31	45.45	47.37	50.48	49.48	58.83	59.01	50.30
Lowest repurchase price per unit	40.13	39.59	37.60	43.36	29.88	47.47	45.07	43.14
Dividend distribution - Final	5.32	4.33	5.58	7.10	-	1.75	8.75	-
Date of Distribution	July 4, 2013	June 20, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	-
	(Percentage)							
Total return of the Fund	28.40	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)
Income Distribution	13.38	9.90	14.69	16.84	-	3.49	18.33	-
Capital growth	15.02	5.80	0.39	(9.89)	(15.87)	(0.06)	5.07	-
Average return of the fund								
One Year	28.38	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)*
Two Year	24.25	33.12	23.08	(5.14)	(6.71)	12.96	14.98	-
Three Year	23.63	42.40	3.60	(2.37)	2.40	9.50	-	-

\*Total return for the period (not CAGR)

### Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go