



**Bachat** ka Doosra Naam

**Annual Report  
2014**



**Aik Dar Band Hazar Khulay**

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

**MCB-Arif Habib Savings and Investments Limited**

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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

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<b>Management Company</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors</b>	Mian Mohammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
<b>Audit Committee</b>	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
<b>Human Resource &amp; Remuneration Committee</b>	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	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 Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S., Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited Deutsche Bank Limited Meezan Bank Limited Dubai Islamic Bank Limited Standard Chartered Bank (Pakistan) Limited Habib Metropolitan Bank Limited United Bank Limited	
<b>Auditors</b>	KPMG Taseer Haidi & 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>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	Asset Manager AM2 - Management quality rating assigned by PACRA	

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

Dear Investor,

On behalf of the Board of Directors, I am pleased to present Pakistan International Element Islamic Asset Allocation Fund's accounts review for the year ended June 30th 2014.

## ECONOMY AND MONEY MARKET OVERVIEW

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

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

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

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

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

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

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

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

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

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

## EQUITIES MARKET OVERVIEW

KSE-100 index rose by a remarkable 41% in FY14 as against an average annual growth of 46% recorded during the past three fiscal years. Aided by smooth political transition and improving fundamentals, the stock market started the year on a positive note. The market touched an all-time high (intraday) of around 29,789.85 on 2nd June, 2014.

This double-digit growth in performance has helped the local equity market to shine as one of the best performing markets in the world. Pakistan ranked first amongst Asian Frontier markets in FY14 as MSCI Pakistan gained 23% outpacing Bangladesh, 21%; Vietnam, 13%; and Sri Lanka, -1%.

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

The volumes remained healthy with an average daily market turnover of around 216 million shares during the year, nearly 1.2 times higher than the average volume during the past three fiscal years. Foreign investors remained net buyers given that the market closed its fiscal year recording net foreign inflows of around \$261.8 million as opposed to the net inflow of around \$552.6 million in FY13

A combination of smooth political transition, successful political transition, entry into IMF program and foreign inflows 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.

Moreover, a combination of improving economic indicators, strong inherent bottom line growth and healthy payouts helped keep the investors' interest alive in the stock market. The rally remained broad based, but interest largely remained in Pharmaceuticals, Banks and Automobile sectors.

Pharmaceutical stocks managed to lead the pack on the heels of upward revision in drugs prices, while rupee appreciation towards the latter half of the fiscal year improved the margins of automobile companies. The successful entry into GSP plus program brought few profitable textile companies into limelight in the face of rupee appreciation which bodes negative for textile companies and Cement companies thrived on widening of margins owing to increase in cement prices and lower coal prices.

## FUND PERFORMANCE

During the period under review, the fund delivered a return of 18.89% as against its benchmark return of 28.51%. Fund's equity allocation was changed several times during the period in response to varying market dynamics. The fund maintained significant exposure towards Oil & Gas sector, increased exposure towards General Industries and Electricity, while exposure towards Chemicals and Construction & Material sectors declined during the period.

On the fixed income side, the fund decreased its allocation towards GoP Ijarah Sukuk to 0% from 22% at the beginning of the period due to maturity of the GoP Ijarah Sukuk.

The Net Assets of the Fund as at June 30, 2014 stood at Rs.411.02 million as compared to Rs. 203.54 million as at June 30 2013 registering an increase of 101.94%

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 49.30 as compared to opening NAV of Rs. 51.04 per unit as at June 30, 2013 registering a decrease of Rs. 1.74 per unit.

## Income Distribution

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

Date of distribution	Per unit distribution
	Rs.
June 27, 2014	5.000

## FUTURE OUTLOOK

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

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

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

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

### Corporate Governance

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

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

- 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.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no 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, 2014:

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

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

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

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

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

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

- m. During the year one of the Directors and in total three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:

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

### External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2015. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2015.



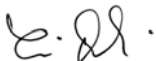
## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2014

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### 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. 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



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**Yasir Qadri**  
**Chief Executive Officer**  
**Karachi: July 28, 2014**

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

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## **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 18.89% against a benchmark return of 28.51%. Smooth political transition, entry into IMF program and foreign inflows 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. Moreover, a combination of improving economic indicators, strong inherent bottom line growth and healthy payouts helped keep the investors' interest alive in the stock market. The rally remained broad based, but interest largely remained in Construction and Materials, Pharmaceuticals, Banks and Automobile sectors. The fund remained vigilant and tried to concentrate its exposure in those stocks and sectors that were the beneficiary of improved economic fundamentals. The fund changed overall equity allocation several times during the year in sync with various developing market scenarios.

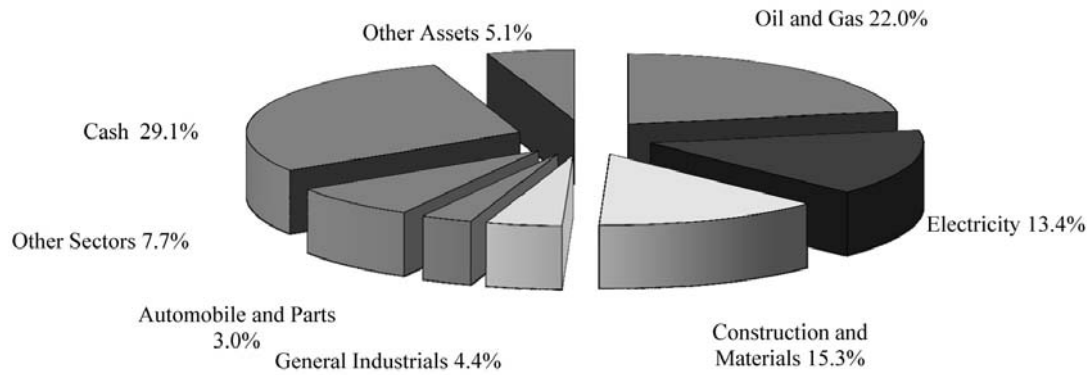
The fund started the year with an equity allocation of 60.4% with average equity allocation for the year hovering around 59.2%. Overall the fund increased its equity allocation from around 60.4% to 65.8% by the end of FY14. On sector basis fund generally increased its exposure in Electricity while exposure in Banks, Oil and Gas, Chemicals, Construction and Materials and Personal Goods was reduced during the year. Fund also took active positions in growth and value companies of miscellaneous sectors in the period under review. The fund's Net Assets doubled from PKR 204 Million at the beginning of the year to PKR 411 Million as on June 30, 2014.

On the fixed income side, the fund's exposure towards GoP Ijara Sukuk was slashed down from 22.1% at the beginning of the year to 0% by the end of June 2014, while the exposure towards cash and bank deposits increased to mere 29% by year-end from 14.3% at the beginning of the year.

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

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



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

Karachi: July 28, 2014

# TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2014

## 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, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

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

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

Karachi: October 13, 2014



## REPORT OF THE SHAHRIAH ADVISORY COUNCIL FOR THE YEAR ENDED JUNE 30, 2014

Alhamdulillah, the year under review was fifth full year of operations of Pakistan International Element Islamic Asset Allocation 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), the management company of the fund, to establish and maintain a system of internal controls to ensure compliance with Shariah guidelines. Our responsibility is to express an opinion, based on our review of the representation 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 compliant activities to total assets, (5) Income from non-compliant Investment to Gross revenue and (6) net liquid assets per share vs. share price

As a 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 provisions of the scheme and investments made by the Fund for the year ended 30<sup>th</sup> June 2014 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-compliant 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 116,912 was transferred to the charity account. The total amount of the charity payable as of 30<sup>th</sup> June 2014 is Rs 116,912.

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  
Date: 28 July 2014

**Dr. Ejaz Samadani**

For and on behalf of Shariah Advisory Council

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

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

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

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

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

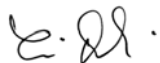
2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an 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 has prepared a ‘Code of Conduct’ and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
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.
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. During the year one of the Directors and in total three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
10. There have been no appointments of Chief Operating Officer and Company Secretary, Chief Financial Officer and Head of Internal Audit during the year. However, during the year, Chief Executive Officer has been re-appointed and his remuneration has been revised and approved by the Board.

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

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11. The Directors' Report for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements 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 other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, which are non-executive directors and the chairman of the Committee is an independent director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results and as required by the Code. The terms of reference of the Committee have been approved by the Board and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of five members, of whom three are non-executive directors and the chairman of the Committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and the Management Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares / units of the Management Company / Fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the net assets value of the fund / market price of Management Company's shares, was determined and intimated to directors, employees and the stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through the stock exchanges.
23. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board



**Yasir Qadri**  
Chief Executive

Karachi: July 28, 2014

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

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

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Fax + 92 (21) 3568 5095  
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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 enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (“the Code”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (“the Management Company”) of the Fund for the year ended 30 June 2014 to comply with the requirements of Listing Regulation No. 35 of Karachi, Islamabad and Lahore Stock Exchange Limited, where the Fund is listed.

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.

**Date: 28 July 2014**

**Karachi**

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

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



# INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2014



**KPMG Taseer Hadi & Co.**  
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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 2014, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2014, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

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

**INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS  
FOR THE YEAR ENDED JUNE 30, 2014**

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• KPMG Taseer Hadi & Co.

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

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

**Date: 28 July 2014**

**Karachi**

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

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

**STATEMENT OF ASSETS AND LIABILITIES**  
**AS AT 30 JUNE 2014**

	<i>Note</i>	<b>2014</b>	2013
		<b>(Rupees in '000)</b>	
<b>Assets</b>			
Balances with banks	4	128,167	30,227
Receivable against sale of units		-	418
Receivable against sale of investments		7,445	2,030
Investments	5	284,615	173,935
Advance against investment	6	4,824	-
Dividend and profit receivable	7	531	1,018
Advance and deposits	8	3,196	3,198
<b>Total assets</b>		<u>428,778</u>	<u>210,826</u>
<b>Liabilities</b>			
Payable against purchase of investments		7,993	-
Payable to Management Company	9	1,322	532
Payable to Central Depository Company of Pakistan Limited - Trustee	10	63	59
Payable to Securities and Exchange Commission of Pakistan	11	259	246
Accrued expenses and other liabilities	12	8,121	6,449
<b>Total liabilities</b>		<u>17,758</u>	<u>7,286</u>
<b>Net assets</b>		<u>411,020</u>	<u>203,540</u>
<b>Unit holders' fund</b>		<u>411,020</u>	<u>203,540</u>
		<b>(Number of units)</b>	
<b>Number of units in issue</b>		<u>8,336,993</u>	<u>3,987,627</u>
		<b>(Rupees)</b>	
<b>Net assets value per unit</b>		<u>49.30</u>	<u>51.04</u>

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

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

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

  
\_\_\_\_\_  
Director

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

	<i>Note</i>	<b>2014</b>	2013
		(Rupees in '000)	
<b>Income</b>			
Capital gain on sale of investments - net		10,861	35,170
Dividend income		7,865	13,788
Income from investment in sukuk certificates		724	1,031
Income from investment in GoP Ijarah Sukuk		3,812	7,807
Profit on bank deposits		3,433	459
		<b>26,695</b>	58,255
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	5.5	<b>29,471</b>	23,879
<b>Total income</b>		<b>56,166</b>	82,134
<b>Expenses</b>			
Remuneration of Management Company	9.1	5,277	5,059
Federal excise duty and Sindh sales tax on remuneration of Management Company	9.1	1,825	760
Remuneration of Central Depository Company of Pakistan Limited- Trustee	10	707	702
Annual fee - Securities and Exchange Commission of Pakistan	11	259	246
Provision for Workers' Welfare Fund	12.2	1,384	4,408
Brokerage, settlement, professional and bank charges		1,419	1,410
Fees and subscription		210	208
Auditors' remuneration	13	537	483
Printing and related costs		57	57
Donation	12.3	117	239
Provision non-performing term finance certificates		-	4,577
<b>Total expenses</b>		<b>11,792</b>	18,149
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - realized		<b>23,432</b>	(18,979)
<b>Net income for the year before taxation</b>		<b>67,806</b>	45,006
Taxation	14	-	-
<b>Net income for the year after taxation</b>		<b>67,806</b>	45,006
<b>Earnings per unit</b>	15		

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

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

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

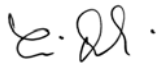
  
\_\_\_\_\_  
Director

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

	2014	2013
	(Rupees in '000)	
Net income for the year after taxation	67,806	45,006
<b>Other comprehensive income</b>		
<i>Items to be reclassified to income statement in subsequent periods</i>		
Net unrealised diminution on re-measurement of investments classified as 'available-for-sale'	(21)	-
<b>Total comprehensive income for the year</b>	<u>67,785</u>	<u>45,006</u>

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

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



Chief Executive Officer



Director

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

	2014 (Rupees in '000)	2013
Undistributed income / (loss) brought 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>
Net income for the year	67,806	45,006
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed - unrealized	(18,777)	34,947
<i>Distributions</i>		
Final distribution at the rate of Rs. 5.1374 per unit for the year ended 30 June 2013 [Date of distribution: 5 July 2014]		
- Issue of 463,778 bonus units	(21,204)	-
Final distribution at the rate of Rs. 5 per unit for the year ended 30 June 2014 [Date of distribution: 27 June 2014]		
- Issue of 774,480 bonus units	(37,833)	-
	<u>(59,037)</u>	<u>-</u>
<b>Undistributed (loss) / income carried forward</b>	<u>(5,662)</u>	<u>4,346</u>
<b>Undistributed (loss) / income carried forward:</b>		
- Realised losses	(38,408)	(22,035)
- Unrealised gains	<u>32,746</u>	<u>26,381</u>
	<u>(5,662)</u>	<u>4,346</u>

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

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

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

  
\_\_\_\_\_  
Director

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

	2014 (Rupees in '000)	2013
Net assets at beginning of the year	203,540	294,063
Issue of 6,271,960 units (2013: 633,289 units)	313,425	31,032
Issue of bonus 1,238,258 units (2013: Nil bonus units)	59,037	-
Redemption of 3,160,852 units (2013: 4,042,773 units)	(150,298)	(185,540)
	<b>222,164</b>	<b>(154,508)</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	(23,432)	18,979
- amount representing unrealised capital (gains) / losses - transferred to Distribution Statement	18,777	(34,947)
	<b>(4,655)</b>	<b>(15,968)</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)	27,474	(14,043)
Capital gain on sale of investments - net	10,861	35,170
Net unrealised appreciation on re-measurement of investments classified as at fair value through profit or loss'	29,471	23,879
	<b>67,806</b>	<b>45,006</b>
Net unrealised diminution on re-measurement of investments classified as available-for-sale'	(21)	-
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(18,777)	34,947
<i>Distributions</i>		
Final distribution at the rate of Rs. 5.1374 per unit for the year ended 30 June 2013 - [Date of distribution: 5 July 2013]		
- Issue of 463,778 bonus units	(21,204)	-
Final distribution at the rate of Rs. 5 per unit for the year ended 30 June 2014 - [Date of distribution: 27 June 2014]		
- Issue of 774,480 bonus units	(37,833)	-
	<b>(59,037)</b>	<b>-</b>
Net assets at end of the year	<b>411,020</b>	<b>203,540</b>
	<b>(Rupees)</b>	
Net assets value per unit as at beginning of the year	<b>51.04</b>	39.75
Net assets value per unit as at end of the year	<b>49.30</b>	51.04

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

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

  
Chief Executive Officer

  
Director

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

	<i>Note</i>	<b>2014</b>	2013
		<b>(Rupees in '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		67,806	45,006
<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'		(29,471)	(23,879)
Provision for Workers' Welfare Fund		1,384	4,408
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - realized		(23,432)	18,979
		(51,519)	(492)
<b>Decrease / (increase) in assets</b>			
Receivable against sale of units		418	-
Receivable against sale of investments		(5,415)	(2,030)
Investments - net		(81,231)	95,850
Advance against investment		(4,824)	-
Dividend and profit receivable		487	572
Advance and deposits		2	-
		(90,563)	94,392
<b>(Decrease) / increase in liabilities</b>			
Payable against purchase of investments		7,993	(11,826)
Payable to Management Company		790	40
Payable to Central Depository Company of Pakistan Limited - Trustee		4	2
Payable to Securities and Exchange Commission of Pakistan		13	(44)
Accrued expenses and other liabilities		289	14
		9,089	(11,814)
<b>Net cash (used in) / generated from operating activities</b>		<b>(65,187)</b>	<b>127,092</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net receipts / (payments) from sale and redemption of units		163,127	(153,344)
<b>Net increase / (decrease) in cash and cash equivalents during the year</b>		<b>97,940</b>	<b>(26,252)</b>
Cash and cash equivalents at beginning of the year		30,227	56,479
<b>Cash and cash equivalents at end of the year</b>	4	<b>128,167</b>	<b>30,227</b>

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

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

  
Chief Executive Officer

  
Director



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

## 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.

Pursuant to the merger of MCB-Asset Management Company and Arif Habib Investments Limited, the name of the Management Company (Arif Habib Investments Limited being the surviving entity) has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Fund is an open-ended mutual fund, listed on the 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.

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

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

<b>Standards / amendments / interpretations</b>	<b>Effective from accounting period beginning on or after</b>
Amendments to IAS 1 - Presentation of Financial Statements - Clarification of Requirements for Comparative information	1 January 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	1 January 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	1 January 2013

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **3.1 Financial instruments**

The Fund classifies its financial instruments in the following categories:

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

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

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

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

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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**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 amortized cost using the effective yield method.

Recognition

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

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

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

**Measurement**

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

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

**Fair value measurement principles**

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

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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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.

## **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 prolong 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 issued by the 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 cash flows 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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

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

### 3.5 Preliminary expenses and floatation costs

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

### 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 fair 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, 2014**

- 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.

**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**

**2014                  2013**  
**(Rupees in '000)**

In current accounts		37,118	1,422
In deposit accounts	4.1	91,049	28,805
		128,167	30,227

4.1 These carry profit at the rate ranging from 5.17% to 7.3% (2013: 6% to 8.28%) per annum.

**5. INVESTMENTS**

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

Quoted equity securities 5.1 279,095 127,357

Fixed income and other debt securities:

- GoP Ijara Sukuk 5.2 - 46,578

- Sukuk certificates - unlisted 5.3 - -

279,095

173,935

*Available-for-sale'*

Quoted equity securities 5.6 5,520 -

284,615

173,935

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

## 5.1 Quoted equity securities - 'at fair value through profit or loss' - held for trading

Shares of listed companies are fully paid ordinary shares of Rs. 10 each unless stated otherwise.

Name of the investee company	Number of shares				Balance as at 30 June 2014			Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company	
	As at 1 July 2013	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2014	Carrying value	Market value	Appreciation/ (diminution)	As a percentage of total investments		As a percentage of net assets
----- (Rupees in 000) -----											
<b>OIL AND GAS</b>											
Pakistan State Oil Company Limited	21,600	73,600	4,940	21,800	78,340	27,881	30,463	2,582	10.70	7.41	0.00
Shell Pakistan Limited	4,000	-	-	4,000	-	-	-	-	-	-	0.00
National Refinery Limited	-	58,000	-	25,000	33,000	7,299	7,107	(192)	2.50	1.73	0.00
Pakistan Oilfields Limited	30,111	57,600	-	45,100	42,611	23,117	24,471	1,354	8.60	5.95	0.00
Oil & Gas Development Company Limited	50,000	18,000	-	67,500	500	115	131	16	0.05	0.03	0.00
Pakistan Petroleum Limited	85,225	119,600	19,165	133,400	90,590	18,601	20,323	1,722	7.14	4.94	0.00
Attock Petroleum Limited	-	40,300	4,160	27,960	16,500	8,394	9,732	1,338	3.42	2.37	0.00
						85,407	92,227	6,820			
<b>CHEMICALS</b>											
Sitara Chemical Industries Limited	400	-	-	400	-	-	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	149,000	-	-	149,000	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	-	110,000	-	110,000	-	-	-	-	-	-	-
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>											
D.G. Khan Cement Company Limited	78,500	129,500	-	208,000	-	-	-	-	-	-	0.00
Lucky Cement Limited	41,575	73,000	-	41,575	73,000	25,865	29,952	4,087	10.52	7.29	0.00
Attock Cement Pakistan Limited	105	53,900	15	-	54,020	8,625	8,519	(106)	2.99	2.07	0.00
Cherat Cement Company Limited	153,000	16,000	4,300	126,000	47,300	2,558	3,096	538	1.09	0.75	0.00
Kohat Cement Company Limited	93,500	60,500	25,800	135,500	44,300	3,594	5,662	2,068	1.99	1.38	0.00
Fecto Cement Limited	77,000	-	-	77,000	-	-	-	-	-	-	-
Maple Leaf Cement Factory Limited	-	565,000	-	129,000	436,000	10,706	13,102	2,396	4.60	3.19	0.00
Fauji Cement Company Limited	-	75,000	-	-	75,000	1,026	1,443	417	0.51	0.35	0.00
						52,374	61,774	9,400			
<b>GENERAL INDUSTRIES</b>											
Thal Limited*	-	34,000	-	-	34,000	5,660	7,051	1,391	2.48	1.72	0.00
Packages Limited	-	25,000	-	-	25,000	6,702	12,539	5,837	4.41	3.05	0.00
						12,362	19,590	7,228			
<b>INDUSTRIAL ENGINEERING</b>											
Millat Tractors Limited	5	10,900	-	-	10,905	5,447	5,443	(4)	1.91	1.32	0.00
						5,447	5,443	(4)			
<b>AUTOMOBILE AND PARTS</b>											
Pak Suzuki Motor Company Limited	18,000	49,000	-	18,000	49,000	10,591	13,421	2,830	4.72	3.27	0.00
						10,591	13,421	2,830			
<b>HOUSEHOLD GOODS</b>											
Tariq Glass Industries	-	179,000	-	179,000	-	-	-	-	-	-	-

\*Par Value of Shares is Rs 5 each.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Name of the investee company	Number of shares				Balance as at 30 June 2014			Market value		Paid up value of shares held as a percentage of total paid up capital of the investee company
	As at 1 July 2013	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2014	Carrying value	Market value	Appreciation/ (diminution)	As a percentage of total investments	
----- (Rupees in 000) -----										
<b>FOOD PRODUCERS</b>										
Engro Foods Limited	-	50,000	-	50,000	-	-	-	-	-	-
Habib Sugar Mills	-	75,000	-	75,000	-	-	-	-	-	-
<b>PERSONAL GOODS (TEXTILE)</b>										
Nishat Mills Limited	59,500	90,100	-	149,500	100	14	11	(3)	0.00	0.00
Kohinoor Textiles Limited	-	39,000	-	39,000	-	-	-	-	-	-
BATA Pakistan Limited	-	2,980	-	-	2,980	9,843	9,643	(200)	3.39	2.35
						9,857	9,654	(203)		
<b>PHARMA AND BIO TECH</b>										
Ferozsons Laboratories Limited	-	13,500	-	-	13,500	1,735	3,111	1,376	1.09	0.76
Abbot Laboratories (Pakistan) Limited	-	15,000	-	-	15,000	6,315	8,585	2,270	3.02	2.09
						8,050	11,696	3,646		
<b>FIXED LINE TELECOMMUNICATION</b>										
Pakistan Telecommunications Company Limited	-	500,000	-	500,000	-	-	-	-	-	-
<b>ELECTRONIC AND ELECTRICAL GOODS</b>										
Pakistan Cables Limited	-	66,000	-	-	66,000	6,915	6,584	(331)	2.31	1.60
						6,915	6,584	(331)		
<b>ELECTRICITY</b>										
Hub Power Company Limited	224,244	686,000	-	438,500	471,744	27,315	27,710	395	9.74	6.74
Kot Addu Power Company Limited	-	752,000	-	227,000	525,000	31,306	30,996	(310)	10.89	7.54
Pakgen Power Limited	-	240,000	-	240,000	-	-	-	-	-	-
						58,621	58,706	85		
<b>COMMERCIAL BANKS</b>										
Meezan Bank Limited	403,707	285,500	-	689,207	-	-	-	-	-	-
<b>Total as at 30 June 2014</b>										
						249,624	279,095	29,471		
----- (Rupees in 000) -----										
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	Sales during the year	As at 30 June 2013	Carrying value	Market value	Appreciation/ (diminution)	As a percentage of total investments	
<b>OIL AND GAS</b>										
Pakistan State Oil Company Limited	-	69,000	6,100	53,500	21,600	4,249	6,920	2,671	3.98	3.40
Shell Pakistan Limited	-	4,000	-	-	4,000	560	573	13	0.33	0.28
National Refinery Limited	-	26,000	-	26,000	-	-	-	-	-	-
Pakistan Oilfields Limited	68,511	22,500	-	60,900	30,111	11,704	14,976	3,272	8.61	7.36
Oil & Gas Development Company Limited	20,000	200,000	-	170,000	50,000	10,635	11,438	803	6.58	5.62
Pakistan Petroleum Limited	147,700	49,600	28,425	140,500	85,225	15,031	18,032	3,001	10.37	8.86
Attock Petroleum Limited	-	62,300	-	62,300	-	42,179	51,939	9,760	-	-



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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	Sales during the year	As at 30 June 2013	Carrying value	Market value	As a percentage of total investments		As a percentage of net assets
----- (Rupees in 000) -----										
<b>CHEMICALS</b>										
Fuji Fertilizer Company Limited	111,199	393,400	-	504,599	-	-	-	-	-	-
ICI Pakistan Limited	-	71,500	-	71,500	-	-	-	-	-	-
Sitara Chemical Industries Limited	-	400	-	-	400	66	80	0.05	0.04	0.00
Fuji Fertilizer Bin Qasim Limited	-	199,000	-	50,000	149,000	6,255	5,593	3.22	2.75	0.00
Archroma Pakistan Limited (Formerly Clariant Pakistan Limited)	-	44,400	-	44,400	-	-	-	-	-	-
						6,321	5,673			
<b>GENERAL INDUSTRIALS</b>										
Tri-Pack Films Limited	29,350	-	-	29,350	-	-	-	-	-	-
Thal Limited*	-	26,000	-	26,000	-	-	-	-	-	-
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>										
D.G. Khan Cement Company Limited	-	321,500	-	243,000	78,500	4,232	6,570	3.78	3.23	0.00
Lucky Cement Limited	120,775	139,900	-	219,100	41,575	5,619	8,719	5.01	4.28	-
Attock Cement Pakistan Limited	115,505	10,000	3,600	129,000	105	7	14	0.01	0.01	0.00
Cherat Cement Company Limited	-	245,000	-	92,000	153,000	7,384	8,903	5.12	4.37	0.00
Kohat Cement Company Limited	-	332,500	-	239,000	93,500	7,755	8,025	4.61	3.94	0.00
Fecto Cement Limited	-	141,500	-	64,500	77,000	2,764	3,697	2.13	1.82	0.00
						27,761	35,928			
<b>INDUSTRIAL ENGINEERING</b>										
Millat Tractors Limited	30,753	9,500	5	40,253	5	-	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	1.54	1.32	0.00
						2,088	2,677			
<b>PERSONAL GOODS (TEXTILE)</b>										
Nishat Mills Limited	228,000	-	-	168,500	59,500	4,073	5,605	3.22	2.75	0.00
						4,073	5,605			
<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 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	7.95	6.79	0.00
						10,595	13,825			
<b>COMMERCIAL BANKS</b>										
Meezan Bank Limited	204,552	563,500	56,655	421,000	403,707	10,665	11,707	6.73	5.75	0.00
						10,665	11,707			
						103,682	127,357			
Total as at 30 June 2013										

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

**5.1.1** Investments as at 30 June 2014 include shares with market value of Rs. 13.21 million (2013: Rs. 36.356 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 and Exchange Commission of Pakistan.

**5.1.2** The cost of the quoted equity securities as at 30 June 2014 amounted to Rs. 246.350 million (2013: Rs. 101.009 million).

**5.2** **GoP Jara Sukuk - 'at fair value through profit or loss' - held for trading**

Issue Date	Face value			Balance as at 30 June 2014		Market value	
	As at 1 July 2013	Purchased during the year	Disposed / matured during the year	As at 30 June 2014	Cost	Market value	Appreciation/ (Diminution)
<b>3 year (Tenor)</b>							
15 November 2010	36,500	-	36,500	-	-	-	-
16 May 2011	10,000	37,000	47,000	-	-	-	-

(Rupees in '000)

Issue Date	Face value			Balance as at 30 June 2013		Market value	
	As at 1 July 2012	Purchased during the year	Disposed / matured during the year	As at 30 June 2013	Cost	Market value	Appreciation/ (Diminution)
<b>3 year (Tenor)</b>							
15 November 2010	57,500	16,000	37,000	36,500	36,522	36,554	32
16 May 2011	25,000	-	15,000	10,000	10,005	10,024	19
					46,527	46,578	51

(Rupees in '000)

**5.3** **Sukuk certificates - unlisted - 'at fair value through profit or loss' - held for trading**

Carrying value as on 30 June

Provision for impairment in value:  
 - As at the beginning of the year  
 - Charge for the year (refer 5.3.2)

5.3.1	6,042	6,042	6,042
	1,465	6,042	6,042
	4,577	6,042	6,042
	-	6,042	6,042

5.3.1	Name of the investee company	Number of certificates				Balance as at 30 June 2014		Market value as a percentage of net assets	Market value as a percentage of total investment	Outstanding principle value as a percentage of total investment of issued debt capital
		As at 1 July 2013	Purchases during the period	Sales during the period	As at 30 June 2014	Carrying value	Market value			
		3,000	-	-	3,000	6,042	-	0.00	0.00	1.25

(Rupees in '000)

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

Pak Elektron Limited  
 (28 September 2007) (refer note 5.3.2)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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			
Pak Elektron Limited (28 September 2007) (refer note 5.3.2)	3,000	-	-	3,000	6,042	0.00	0.00	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 and has recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund suspended further accrual of markup there against.

**5.4 Details of non-compliant investment**

In accordance with clause (v) of the investment criteria laid down for 'Shariah Compliant Islamic Scheme' in Circular no. 7 of 2009 (the Circular), 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 2014, the Fund is non-compliant with the above-mentioned requirement in respect of the following investment:

Nature of non-compliant investment	Name of company	Instrument/ issuer rating	Value of investment before provision	Provision held	Value of investment after provision	Percentage of net assets	Percentage of gross assets
						(Rupees in '000)	%
Unlisted Sukuk Certificates	Pak Elektron Limited-Sukuk	Un rated	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.

**5.5 Net unrealised appreciation in value of investments at fair value through profit or loss' - held for trading**

Market value of investments as on 30 June  
Less: cost of investments as on 30 June

	2014	2013
	(Rupees in '000)	
	279,095	179,977
	(249,624)	(156,098)
	<u>29,471</u>	<u>23,879</u>

**5.6 Quoted equity securities - 'available-for-sale'**

Shares of listed companies are fully paid ordinary shares of Rs. 10 each unless stated otherwise.

Name of the investee company	Number of shares				Balance as at 30 June 2014		Market value	Paid up value of shares held as a percentage of total paid up capital of the investee company				
	As at 1 July 2013	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at 30 June 2014	Carrying value			Market value	As a percentage of total investments	As a percentage of net assets	
CONSTRUCTION AND MATERIALS Attock Cement Pakistan Limited	-	35,000	-	-	35,000	5,541	5,520	(21)	1.94	1.34	0.00	
						5,541	5,520	(21)				

**5.6.1** The cost of the quoted equity securities as at 30 June 2014 amounted to Rs. 5,541 million (2013: Rs. Nil million).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**6. ADVANCE AGAINST INVESTMENT**

This represents advance provided against privately placed issue of shares of Pakistan Petroleum Limited (PPL) on 27 June 2014. The advance is unsecured.

**7. DIVIDEND AND PROFIT RECEIVABLE**

	2014	2013
	(Rupees in '000)	
Dividend receivable	1	88
Accrued profit on deposit accounts with banks	530	381
Accrued profit on GoP Ijara Sukuk	-	549
	531	1,018

**8. ADVANCE AND DEPOSITS**

Advance tax		496	498
Security deposits with			
- National Clearing Company of Pakistan Limited	8.1	2,500	2,500
- Central Depository Company of Pakistan Limited	8.2	200	200
		3,196	3,198

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

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

**9. PAYABLE TO MANAGEMENT COMPANY**

		2014	2013
		(Rupees in '000)	
Management fee payable	9.1	615	326
Sindh sales tax on management fee	9.1	98	57
Front-end load payable		609	149
		1,322	532

**9.1** Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. Management Company has charged fee as per the following structure:

Class of units	Management fee as a percentage of average annual net assets
Classes A and B	2%
Classes C and D	1.33%
Class E	1%

The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears.

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

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

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund. The remuneration is paid to the Trustee monthly in arrears.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

Amount of funds under management (average NAV)	Tariff per annum
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

### 11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

As per Schedule II of the NBFC Regulations, 2008, a shariah compliant asset allocation based scheme is required to pay an amount equal to 0.095 % of the average annual net assets of the scheme as annual fee to the Securities and Exchange Commission of Pakistan

### 12. ACCRUED EXPENSES AND OTHER LIABILITIES

		2014	2013
		(Rupees in '000)	
Federal excise duty payable	12.1	1,015	36
Provision for Worker's Welfare Fund	12.2	5,791	4,408
Charity / donation payable	12.3	117	744
Auditors' remuneration		364	325
Zakat payable		285	253
Legal and professional charges		-	150
Brokerage payable		226	45
Capital gain tax payable		45	40
Other payables		278	448
		<u>8,121</u>	<u>6,449</u>

**12.1** The Finance Act, 2013 introduced an amendment to Federal Excise Act, 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% on the services rendered by asset management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the passage of eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 1.015 million as at 30 June 2014. In case, the suit is decided against the Fund it would be paid to management company, who will be responsible for submitting the same to taxation authorities. Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the Net Assets Value (NAV) of the Fund would have been higher by Re. 0.12 per unit as at 30 June 2014.

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

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

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, the Management Company, as a matter of abundant precaution, has decided to charge the entire provision for WWF amounting to Rs. 5.791 million in these financial statements.

- 12.3** 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.

**13. AUDITORS' REMUNERATION**

**2014**                  **2013**  
**(Rupees in '000)**

Annual statutory audit fee	250	225
Half yearly review fee	125	125
Other certifications	100	100
Out of pocket expenses	62	33
	<b>537</b>	<b>483</b>

**14. TAXATION**

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

Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

**15. EARNINGS PER UNIT**

Earnings per Unit (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.

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

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

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

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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Details of transactions with related parties / connected persons and balances with them at year end are as follows:

<b>16.1 Details of the transactions with related parties / connected persons:</b>	<b>2014</b>	<b>2013</b>
	<b>(Rupees in '000)</b>	
<b>MCB Arif Habib Savings and Investments Limited - Management Company</b>		
Remuneration (including indirect taxes)	7,102	5,819
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	707	702
CDS settlement charges	27	15
<b>Arif Habib Limited - Brokerage House</b>		
Brokerage *	64	54
<b>Next Capital Limited</b>		
Brokerage *	18	28
<b>D.G Khan Cement Company Limited</b>		
Dividend income	293	247
<b>Nishat Mills Limited</b>		
Dividend income	-	437
<b>Directors and executives of the Management Company</b>		
Issue of 107,544 units (2013: 63,807 units)	5,488	3,009
Bonus units of 4824 units (2013: Nil units)	227	-
Redemption of 111,685 units (2013: 50,083 units)	5,720	2,332
<b>D.G Khan Cement Company Limited - Employees Provident Fund Trust</b>		
Issue of 16,924 bonus units (2013: Nil units)	800	-
<b>Adamjee Life Assurance Company Limited - (Amanat Fund)</b>		
Issue of 285,933 units (2013: 22,510 units)	15,000	1,149
Issue of 28,097 Bonus Units (2013: Nil Units)	1,364	-
Redemption of 62,131 Units (2013: Nil Units)	3,233	-
<b>Mandate under Discretionary Portfolio Services</b>		
Issue of 941,212 units (2013: Nil units)	48,063	-
Bonus Issue of 34,695 units (2013: Nil units)	1,695	-
Redemption of 602,237 units (2013: Nil units)	31,500	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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\* 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.

**16.2 Amounts outstanding as at the year end**

**MCB Arif Habib Savings and Investments**

**Limited - Management Company**

Management fee payable	<b>615</b>	326
Sindh sales tax payable on management fee	<b>98</b>	57
Front-end load payable	<b>609</b>	149

**Central Depository Company of Pakistan Limited - Trustee**

Remuneration payable to trustee	<b>63</b>	59
Security deposit	<b>200</b>	200

**MCB Bank Limited**

Balance with bank	<b>3,005</b>	-
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**D.G Khan Cement Limited**

Shares held: Nil shares (2013: 78,500 shares)	-	6,570
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**Nishat Mills Limited**

Shares held: 100 shares (2013: 59,500 shares)	<b>11</b>	5,605
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**Directors and executives of the Management Company**

Units held: 23,445 units (2013: 22,762 units)	<b>1,156</b>	1,157
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**D.G Khan Cement Company Limited -**

**Employees Provident Fund Trust**

Units held: 90,326 units (2013: 73,403 units)	<b>4,453</b>	3,747
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**Adamjee Life Assurance Company Limited - (Amanat Fund)**

Units held: 274,408 units (2013: 22,510 units)	<b>13,528</b>	1,228
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**Mandate under Discretionary Portfolio Services**

Units held : 373,670 units (2013: Nil Units)	<b>18,422</b>	-
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**17. FINANCIAL RISK MANAGEMENT**

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

The Fund primarily invests in 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.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

- Market risk;
- Credit risk; and
- Liquidity risk

## 17.1 Market risk

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

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

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 invest in 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 2014, the fund is not exposed to any interest rate risks as it does not hold any floating rate instruments.

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

### *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 document and circulars issued by the Securities and Exchange Commission of Pakistan. The Fund's constitutive document also limits investment in individual equity securities to a maximum of 10% of the net assets or issued capital of the investee company and also restricts sector exposure to a limit of 25% of the net assets of the Fund.

In case of 5% increase / decrease in KSE 100 index on 30 June 2014, net income and net assets of the Fund would increase / decrease by Rs. 12.839 million (2013: Rs. 6.051 million) as a result of gains/losses on equity securities at fair value through profit or loss. This 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, 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

## 17.2 Credit risk

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### *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 year end is represented by the respective carrying amount of relevant financial assets i.e. balances with banks, receivable against sale of units, advance against investment, 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 2014, the Fund kept surplus liquidity with banks having long term credit rating ranging from AAA to A. The rating to respective banks are assigned by reputable credit rating agencies.

### *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 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.

### *Receivable against sale of units*

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

### *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 transactions 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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### *Past due and impaired assets*

None of the above financial assets were considered to be past due or impaired in 2014 and 2013 except for the exposures and the provisions there against as provided in Note 5.3. 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.

### **17.3 Liquidity risk**

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

### *Management of liquidity risk*

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 due, without incurring undue losses or risking damage to the Fund's reputation. The Fund may borrow, with prior approval of trustee, for meeting The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

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 The Board of Directors of the Management Company is empowered to impose a redemption gate should redemption level exceed 10% of the net 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	30 June 2014			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable against purchase of investments	7,993	-	-	7,993
Payable to Management Company	1,322	-	-	1,322
Payable to Central Depository Company of Pakistan Limited - Trustee	63	-	-	63
Accrued expenses and other liabilities	985	-	-	985
	<u>10,363</u>	<u>-</u>	<u>-</u>	<u>10,363</u>
	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	532	-	-	532
Payable to Central Depository Company of Pakistan Limited - Trustee	59	-	-	59
Accrued expenses and other liabilities	1,712	-	-	1,712
	<u>2,303</u>	<u>-</u>	<u>-</u>	<u>2,303</u>

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

**17.4 Financial instruments by category**

As at 30 June 2014, all the financial assets carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables', financial assets 'at fair value through profit or loss' or financial assets classified as 'available for sale'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

	30 June 2014			Total
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available for sale	
	----- (Rupees in '000) -----			
<b>Assets</b>				
Balances with banks	128,167	-	-	128,167
Receivable against sale of investments	7,445	-	-	7,445
Investments	-	279,095	5,520	284,615
Advance against subscription of equity securities	4,824	-	-	4,824
Dividend and profit receivable	531	-	-	531
Advance and deposits	3,196	-	-	3,196
	<u>144,163</u>	<u>279,095</u>	<u>5,520</u>	<u>428,778</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

	30 June 2014		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	------(Rupees in '000)-----		
<b>Liabilities</b>			
Payable against purchase of investments	-	7,993	7,993
Payable to Management Company	-	1,322	1,322
Payable to Central Depository Company of Pakistan Limited - Trustee	-	63	63
Accrued expenses and other liabilities	-	985	985
	<u>-</u>	<u>10,363</u>	<u>10,363</u>

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

	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	-	532	532
Payable to Central Depository Company of Pakistan Limited - Trustee	-	59	59
Accrued expenses and other liabilities	-	1,712	1,712
	<u>-</u>	<u>2,303</u>	<u>2,303</u>

**Unit holders' fund risk management**

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

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

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

30 June 2014	Level 1	Level 2
	(Rupees in '000)	
<i>'At fair value through profit or loss' - held for trading</i>		
Quoted equity securities	279,095	-
<i>'Available-for-sale'</i>		
Quoted equity securities	5,520	-
30 June 2013		
<i>'At fair value through profit or loss' - held for trading</i>		
Quoted equity securities	127,357	-
Fixed income and other debt securities		
- Government securities	-	46,578

## 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 2014

	As at 30 June 2014		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	1675	282,678	69%
Insurance companies	1	3,102	1%
Banks / DFIs	1	30,480	7%
Retirement funds	20	78,152	19%
Public limited companies	1	2	0%
Others	4	16,606	4%
	1,702	411,020	100%

#### Details of pattern of unit holding as at 30 June 2013

	As at 30 June 2013		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	1,646	167,958	83%
Insurance companies	2	3,759	2%
Banks / DFIs	1	1	0%
Retirement funds	14	29,184	14%
Others	3	2,638	1%
	1,666	203,540	100%

### 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:

	2014 (Percentage)
1 JS Global Capital Ltd.	11%
2 KASB Securities Ltd.	8%
3 Elixir Securities Pakistan (Private) Limited	8%
4 Arif Habib Limited	7%
5 Fortune Securities Limited	7%
6 Topline Securities (Pvt) Limited	6%
7 Invest and Finance Securities Ltd	6%
8 Taurus Securities Ltd	5%
9 AKD Securities Limited	4%
10 Habib Metropolitan Financial Services Private Limited	4%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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2013  
(Percentage)

1	First Capital Equities Limited.	10%
2	JS Global Capital Limited	9%
3	KASB Securities Limited	8%
4	Foundation Securities (Private) Limited	8%
5	Topline Securities Private Limited	8%
6	Elixir Securities Pakistan (Private) Limited	7%
7	Arif Habib Limited	6%
8	Invest and Finance Securities Limited	6%
9	Fortune Securities Limited	5%
10	Pearl Securities Limited	4%

**19.3 Attendance at meetings of the Board of Directors**

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

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

Name of attendee	Designation	Number of meetings			Meeting not attended
		Held	Attended	Leave	
Mr. Mian Mohammad Mansha	Chairman	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	Executive Vice Chairman	8	7	1	106th
Mr. Yasir Qadri	Chief Executive Officer	8	8	-	
Dr. Syed Salman Ali Shah	Director	8	7	1	107th
Mr. Haroun Rashid	Director / Chairman Audit Committee	8	5	3	104th and 106th
Mr. Ahmed Jahangir	Director	8	8	-	
Mr. Samad A. Habib	Director	8	6	2	105th and 109th
Mr. Mirza Mehmood Ahmed	Director	8	7	1	106th
Mr. M. Saqib Saleem	Chief Operating Officer & Company Secretary	8	8	-	
Mr. Umair Ahmed	Chief Financial Officer	8	8	-	

**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	19 years
Mr. Kashif Rafi	SVP - Head of Fixed Income Investments	MBA, CFA (Level I)	13 years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	11 years
Mr. Mohsin Pervaiz	VP - Investments	MBA, CFA (Level I)	13 years
Ms. Uzma Khan	Fund Manager	MBA, CFA, FRM	9 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; and
- MCB Islamic Income Fund

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**20. CORRESPONDING FIGURES**

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

<b>Reclassification from component</b>	<b>Reclassification to component</b>	<b>Rupees in '000</b>
Payable to Management Company (Management fee payable)	Accrued expenses and other liabilities (Federal excise duty payable)	<u>36</u>
Payable to Management Company (Management fee payable)	Payable to Management Company (Sindh sales tax on management fee)	<u>57</u>
Remuneration of Management Company	Federal excise duty and Sindh sales tax on remuneration of Management Company	<u>760</u>
Professional charges	Brokerage, settlement, professional and bank charges	<u>15</u>
Brokerage, settlement and bank charges	Donation	<u>239</u>

The effect of the above reclassifications 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 July 28, 2014.

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



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



\_\_\_\_\_  
**Director**



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

Category	No.of Unit Holders	Units
<b>Associated Companies, undertakings and related Parties</b>		
D.G KHAN CEMENT COMPANY LTD. EMPLOYEES PROVIDENT FUND TRUST	1	90,326
ADAMJEE LIFE ASSURANCE CO. LTD. AMAANAT FUND	1	274,408
<b>Public Sector Companies and Corporations</b>	4	94,908
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>		
	2	62,955
<b>Individuals</b>	1,675	5,733,694
<b>Trust</b>	18	1,462,443
<b>Unitholders holding 5 percent or more Voting interest in the listed company</b>		
HABIB METROPOLITAN BANK ISLAMIC BANKING	1	618,258
	1,702	8,336,993

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

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<b>No of Unit Holders</b>	<b>Unit Holdings</b>	<b>Total Units Held</b>
1,561	1-10000	2,061,166
127	10001-100000	3,033,890
14	100001-1000000	3,241,937
-	1000001-Onwards	-
<hr/> 1,702 <hr/>		<hr/> 8,336,993 <hr/>

## PERFORMANCE TABLE

	June 30, 2014	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	411,020	203,540	294,076	337,213	410,415	606,589	984,083	1,072,531	1,378,168
Net Income / (loss)	67,806	45,006	42,099	60,676	68,145	(114,977)	32,760	227,664	(65,690)
Net Asset Value per Unit	49.30	51.04	39.75	43.72	45.09	42.16	51.86	58.89	47.73
Closing selling price per unit	50.66	52.45	40.57	44.61	46.01	43.02	54.02	60.40	48.95
Closing repurchase price per unit	49.30	51.04	39.75	43.72	45.09	42.16	51.86	58.89	47.73
	(Rupees)								
Highest selling price per unit	55.91	54.58	46.36	48.34	51.51	51.54	60.34	60.52	51.59
Lowest selling price per unit	48.07	40.95	40.38	38.37	44.24	30.49	48.69	46.22	44.25
Highest repurchase price per unit	54.41	53.31	45.45	47.37	50.48	49.48	58.83	59.01	50.30
Lowest repurchase price per unit	46.78	40.13	39.59	37.60	43.36	29.88	47.47	45.07	43.14
Dividend distribution - Final	5.00	5.32	4.33	5.58	7.10	-	1.75	8.75	-
Date of Distribution	June 27, 2014	July 4, 2013	June 20, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	-
	(Percentage)								
Total return of the Fund	18.89	28.40	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)
Income Distribution	5.00	13.38	9.90	14.69	16.84	-	3.49	18.33	-
Capital growth	13.89	15.02	5.80	0.39	(9.89)	(15.87)	(0.06)	5.07	-
Average return of the fund									
One Year	18.89	28.38	15.70	15.08	6.95	(15.87)	3.43	23.40	(4.54)*
Two Year	52.65	24.25	33.12	23.08	(5.14)	(6.71)	12.96	14.98	-
Three Year	76.55	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 down, as well as up.

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## **MCB-Arif Habib Savings and Investments Limited**

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