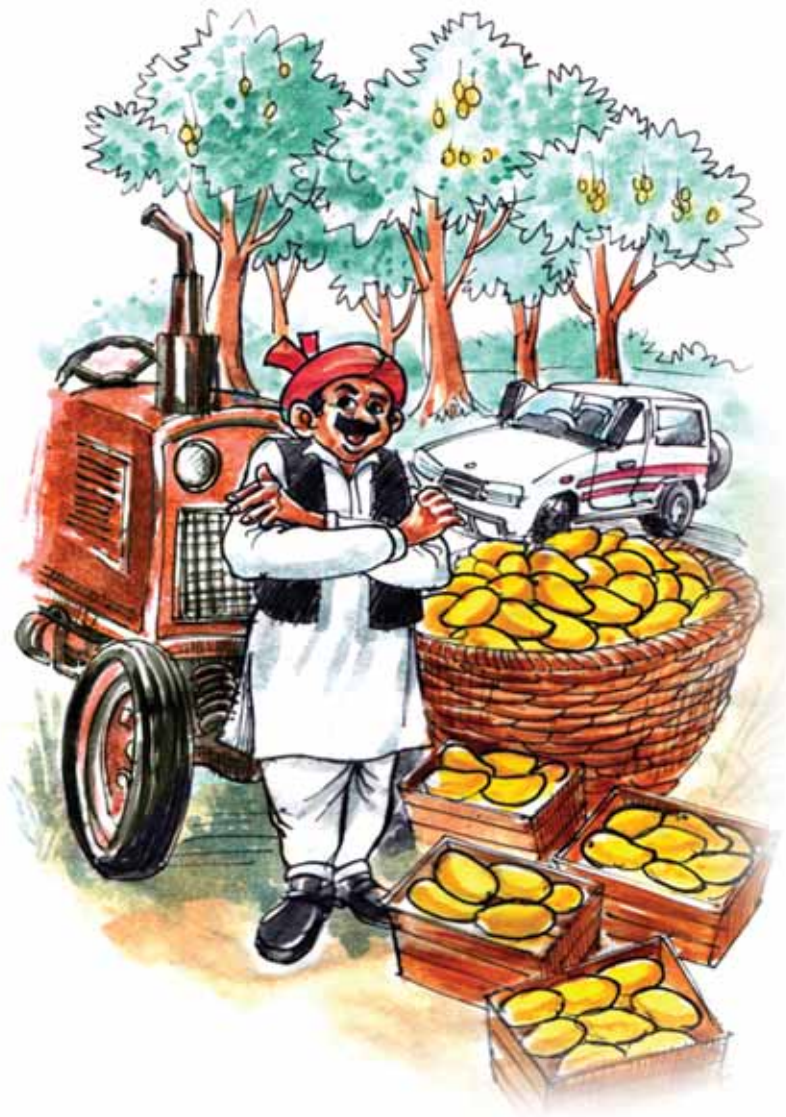




**Bachat** ka Doosra Naam

**Annual Report  
2014**



**Sabr Ka Phal Meetha**

**PAKISTAN**  
**STOCK MARKET**  
**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 Mr. Nasim Beg Mr. Yasir Qadri Dr. Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman Executive Vice Chairman Chief Executive Officer Director Director Director Director Director
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource &amp; Remuneration Committee</b>	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed	
<b>Trustee</b>	Central 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 AG Habib Metropolitan Bank Limited United Bank Limited Standard Chartered Bank Limited Bank Al-Habib Limited Summit Bank Limited	
<b>Auditors</b>	M. Yousuf Adil Saleem & Co.-Chartered Accountants Cavis Court, A-35, Block 7 & 8, KCHSU, Sharae Faisal, Karachi-75350	
<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>	AM2 - Management Quality Rating assigned by PACRA	

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

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Dear Investor,

The Board of Directors of MCB-Arif Habib Savings and Investments Limited, the Management Company of Pakistan Stock Market Fund (PSMF), is pleased to present the Annual Report on the affairs of PSMF for the year ending June 30, 2014 for the year ended June 30th 2014.

## EQUITIES 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.

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

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## **FUND PERFORMANCE**

During the period under review, the fund underperformed its benchmark KSE 100 index by delivering 34.78% return vis-à-vis KSE100 index return of 41.16%. Substantial changes were made in sector and company allocations during the period on the back of changing fundamentals. Overall equity exposure of the fund was increased to 87.0% at the end of the period as compared to 76.9% at the end June 2013. Major Sector level changes include increase in allocation in Commercial Banks and reduction in exposure in Oil & Gas and Chemical sectors.

The Net Assets of the Fund as at June 30, 2014 stood at Rs.3729.9 million as compared to Rs 1178.4 million as at June 30 2013 registering an increase of 216.52%. It is pertinent to note that Dynamic Stock Fund and Pakistan Premier Fund were merged in April. Net Assets of Dynamic Stock Fund and Pakistan Premier Fund were 1195.89 million and 845.33 million as on April 30, 2014.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 62.56 as compared to opening NAV of Rs. 77.58 per unit as at June 30, 2013 registering a decline of Rs.15.02 per unit.

## **FUTURE OUTLOOK**

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

Earnings growth is expected to continue in Cement, Autos and Consumer goods sector, amongst others.

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

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

## **CORPORATE GOVERNANCE**

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

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

- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence 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 20.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2014:-

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

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

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

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

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

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

- 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:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	2,784	-
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	3,107	-	-

### External Auditors

The fund's external auditors, Deloitte Touche Tohmatsu Limited 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 Deloitte Touche Tohmatsu Limited t as auditors of the fund for the year ending June 30, 2015.

### ACKNOWLEDGMENT

The Board is thankful to the Fund's valued investors, the Securities and Exchange Commission of Pakistan and the Trustees of the Fund for their continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the board



**Yasir Qadri**  
Chief Executive Officer

Karachi: July 28, 2014



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

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## **Fund Type and Category**

Pakistan Stock Market Fund PSMF is an Open-End Equity Scheme.

## **Fund Benchmark**

The benchmark for PSMF is KSE 100 Index.

## **Investment Objective**

The objective of the fund is to provide investors long term capital appreciation from its investment in Pakistani equities

## **Investment Strategy**

Pakistan Stock Market Fund (PSM) is an open end equity fund that invests in quality stocks listed in Pakistan. The fund is actively managed and fundamental research drives the investment process. 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. The funds which are not invested in equities are required to be kept in bank deposits and short-term money market instruments/ placements.

## **Manager's Review**

During the year under review, NAV per unit of Pakistan Stock Market Fund increased by 34.78% as compared to the benchmark KSE-100 Index return of 41.16%, resulting in an under performance of 6.38% by the fund. The double-digit growth in performance helped the local equity market to shine as one of the best performing markets in the world. The volumes remained healthy with an average daily market turnover of around 216 million shares during the year. 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 and changed overall equity allocation several times during the year in sync with various developing market scenarios.

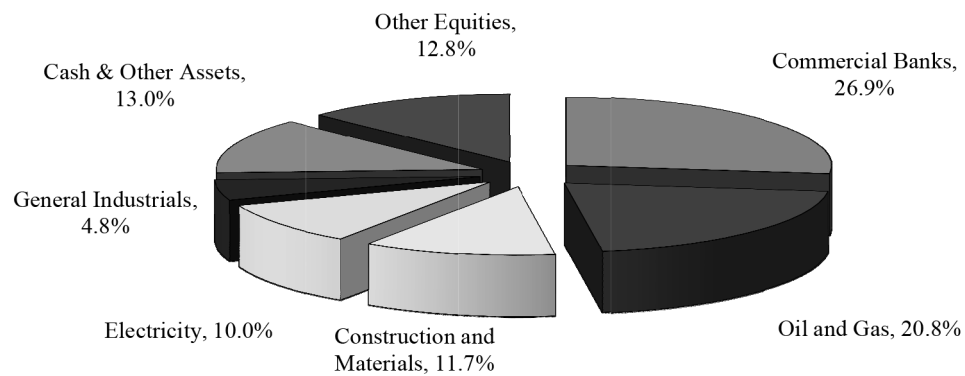
The fund started the year with an equity allocation of 76.9%. Maximum equity allocation during the year was 97% while minimum was 73%. Average equity allocation during the year comes out to be around 86%. On sector basis fund generally increased its exposure in Banks while exposure in Oil and Gas, Chemicals 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.

Since inception return of the fund comes out to be 1697.11% as compared to the benchmark's return of 1483.40%, an out-performance of 213.7%. During the year MCB Dynamic Stock Fund and Pakistan Premier Funds were merged in Pakistan Stock Market Fund due to concurrent investment strategies to increase operational efficiency. This resulted in increase in fund's Net Assets from PKR 1179 Million at the beginning of the year to PKR 3,730 Million as on June 30, 2014.

**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY  
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, 2013

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

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



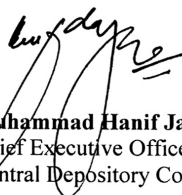
## TRUSTEE REPORT TO THE UNIT HOLDERS

### PAKISTAN STOCK MARKET 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

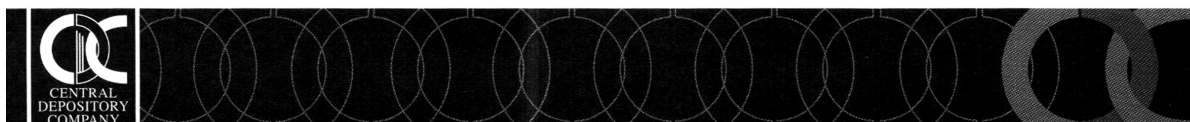
We Central Depository Company of Pakistan Limited, being the Trustee of Pakistan Stock Market Fund (the Fund) are of the opinion that MCB - Arif Habib Savings and Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

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



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

Karachi: October 13, 2014



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

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

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

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

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

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

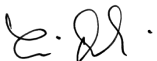
- The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
- All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- During the period no casual vacancy occurred on the Board of the Management Company
- The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
- The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board.
- The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
- There have been no appointments of Chief Operating Officer and Company Secretary, Chief Financial Officer and Head of Internal Audit during the year. However, during the year, Chief Executive Officer has been re-appointed and his remuneration has been revised and approved by the Board.
- The Directors' Report for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.

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

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

On behalf of the Board



**Yasir Qadri**  
Chief Executive

Karachi: July 28, 2014

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

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**Deloitte.**

**M. Yousuf Adil Saleem & Co**  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

Phone: +92 (0) 21- 3454 6494-7  
Fax: +92 (0) 21- 3454 1314  
Web: www.deloitte.com

**REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE  
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 & Investments Limited**, the Management Company of **Pakistan Stock Market Fund (the Fund)** for the year ended June 30, 2014 to comply with the requirements of Listing Regulation No. 35 (Chapter XI) of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. 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 Company'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 Company's personnel and review of various documents prepared by the 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 Company's corporate governance procedures and risks.

The Code requires the 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 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 Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended June 30, 2014.

  
Chartered Accountants

Karachi  
Date: July, 31, 2014

Member of  
Deloitte Touche Tohmatsu Limited

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

---

**Deloitte.**

**M. Yousuf Adil Saleem & Co**  
Chartered Accountants  
Cavish Court, A-35, Block 7 & 8  
KCHSU, Sharea Faisal,  
Karachi-75350  
Pakistan

Phone: +92 (0) 21- 3454 6494-7  
Fax: +92 (0) 21- 3454 1314  
Web: [www.deloitte.com](http://www.deloitte.com)

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**

***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of **Pakistan Stock Market Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2014, and the income statement, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies and other explanatory notes.

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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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 International Standards on Auditing 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 auditor's 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 Fund'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 Fund'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.

Member of  
**Deloitte Touche Tohmatsu Limited**

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

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**Deloitte.**

**M. Yousuf Adil Saleem & Co**  
Chartered Accountants

***Opinion***

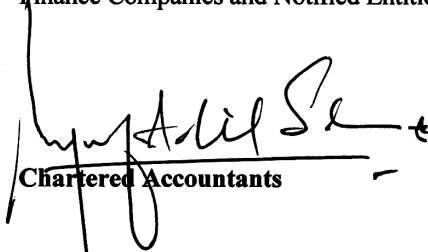
In our opinion, the financial statements give a true and fair view of the state of the Fund's financial position as at June 30, 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

***Other Matter***

The financial statements of the Fund for the year ended June 30, 2013 were audited by another firm of Chartered Accountants who vide their report dated August 05, 2013 issued an unqualified opinion thereon.

***REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS***

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



Chartered Accountants

**Engagement Partner**  
Mushtaq Ali Hirani

**Date: July 31, 2014**  
**Karachi**

Member of  
**Deloitte Touche Tohmatsu Limited**



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

	Note	2014 (Rupees in '000)	2013
<b>ASSETS</b>			
Balances with banks	5	385,178	113,835
Investments	6	3,307,850	1,050,150
Receivable against sale of investments		100,118	62,834
Receivable against sale of units		-	732
Dividend and profit receivable	7	9,054	1,176
Advances and security deposits	8	50,652	3,736
<b>Total assets</b>		<u>3,852,852</u>	<u>1,232,463</u>
<b>LIABILITIES</b>			
Payable to Management Company		7,377	2,303
Payable to Central Depository Company of Pakistan Limited - Trustee		399	194
Payable to Securities and Exchange Commission of Pakistan - annual fee		2,853	1,014
Payable against purchase of investments		3,397	22,018
Accrued expenses and other liabilities	9	108,572	28,044
Payable against redemption of units		386	228
<b>Total liabilities</b>		<u>122,984</u>	<u>53,801</u>
<b>NET ASSETS</b>		<u>3,729,868</u>	<u>1,178,662</u>
<b>Unit holders' fund (as per statement attached)</b>		<u>3,729,868</u>	<u>1,178,662</u>
<b>Contingencies and commitments</b>	10		
		(Number of units)	
<b>NUMBER OF UNITS IN ISSUE</b>		<u>59,624,421</u>	<u>15,193,475</u>
		(Rupees)	
<b>NET ASSETS VALUE PER UNIT</b>	11	<u>62.56</u>	<u>77.58</u>

The annexed notes from 1 to 25 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 JUNE 30, 2014**

	Note	2014 (Rupees in '000)	2,013
<b>INCOME</b>			
Capital gain on sale of investments - net		213,198	320,711
Dividend income		70,043	76,391
Income from government securities		11,600	4,556
Profit on bank deposits		8,802	4,925
		<u>303,643</u>	<u>406,583</u>
Unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - net	6.4	<u>193,983</u>	<u>82,696</u>
<b>Total income</b>		<u>497,626</u>	<u>489,279</u>
<b>EXPENSES</b>			
Remuneration of Management Company	12	32,487	21,294
Sales tax and Federal Excise Duty on remuneration of Management Company		11,232	3,627
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13	2,624	2,057
Securities and Exchange Commission of Pakistan - annual fee	14	1,543	1,014
Settlement and bank charges		11,369	12,754
Legal and professional		-	701
Fees and subscriptions		215	160
Auditors' remuneration	15	838	537
Printing and related costs		-	114
<b>Total expenses</b>		<u>60,308</u>	<u>42,258</u>
<b>Net income from operating activities</b>		<u>437,318</u>	<u>447,021</u>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		57,181	(29,173)
Provision for Workers' Welfare Fund	9.1	(9,890)	(24,332)
<b>Net income for the year before taxation</b>		<u>484,609</u>	<u>393,516</u>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<u>484,609</u>	<u>393,516</u>
<b>Other comprehensive income for the year</b>			
Unrealised diminution in value of investments classified as available for sale' - net		(522)	-
Reclassification adjustment relating to gain realised on disposal of investment classified as 'available for sale'		-	(2,960)
<b>Total comprehensive income for the year</b>		<u>484,087</u>	<u>390,556</u>
<b>Earnings per unit</b>	4.6	<u>-</u>	<u>-</u>

The annexed notes from 1 to 25 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 JUNE 30, 2014**

	2014 (Rupees in '000)	2013
Undistributed income brought forward		
- Realised gains / (losses)	328,724	(19,173)
- Unrealised gain	89,902	49,955
	<u>418,626</u>	<u>30,782</u>
Element of income / (loss) and capital gain / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised income	882,777	(5,672)
Net income for the year	484,609	393,516
	<u>1,367,386</u>	<u>387,844</u>
Final bonus distribution for the year ended June 30, 2013 distributed at Rs. 18.6184 per unit (Declared on : July 4, 2013)	(282,879)	-
Final bonus distribution for the year ended June 30, 2014 distributed at Rs. 16.71 per unit (Declared on : June 27, 2014)	(754,415)	-
	<u>(1,037,294)</u>	<u>-</u>
Undistributed income carried forward	<u>748,718</u>	<u>418,626</u>
Represented by:		
- Realised gains	548,569	328,724
- Unrealised gains	200,149	89,902
	<u>748,718</u>	<u>418,626</u>

The annexed notes from 1 to 25 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 UNITHOLDERS' FUND.  
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
Net assets at beginning of the year	1,178,662	921,464
Issue of 26,291,388 units to unit holders of merged entities on account of merger (refer note 1.1)		
Issue of 12,430,209 (2013: 4,587,697) units	2,755,842	292,015
Issue of 16,961,859 bonus (2013: Nil) units	1,037,294	-
Redemption of 11,252,510 (2013: 7,141,407) units	(631,542)	(454,546)
	<u>3,161,594</u>	<u>(162,531)</u>
	4,340,256	758,933
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed :		
- amount representing accrued (income) / loss and capital (gains) / losses transferred to the Income Statement	(57,181)	29,173
- amount representing unrealised capital (gains) / losses and capital (gains) / losses that forms part of the unit holders' fund transferred to distribution statement	(882,777)	5,672
	<u>(939,958)</u>	<u>34,845</u>
Net income for the year transferred from the distribution statement		
Capital gain on sale of investments - net	213,198	320,711
Unrealised appreciation on re-measurement of investments 'at fair value through profit or loss' - net	193,983	82,696
Other loss / income for the year	77,428	(9,891)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealized income	882,777	(5,672)
	<u>1,367,386</u>	<u>387,844</u>
Distributions made during the year (Refer distribution statement)	(1,037,294)	-
Unrealised diminution in value of investment classified as 'available for sale'	(522)	-
Reclassification adjustment relating to gain realised on disposal of investment classified as 'available for sale'	-	(2,960)
Net assets at end of the year	<u><u>3,729,868</u></u>	<u><u>1,178,662</u></u>
	<b>Number of units</b>	
<b>NUMBER OF UNITS IN ISSUE</b>	<u><u>59,624,421</u></u>	<u><u>15,193,475</u></u>
	------(Rupees)-----	
<b>NET ASSETS VALUE PER UNIT</b>	<u><u>62.56</u></u>	<u><u>77.58</u></u>

The annexed notes from 1 to 25 form an integral part of these financial statements.

  
Chief Executive Officer

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

  
Director

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

	2014	2013
	(Rupees in '000)	
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net income for the year	484,609	393,516
<b>Adjustments for:</b>		
Element of (income) / loss and capital (gains) / losses		
included in prices of units issued less those in units redeemed	(57,181)	29,173
Provision for Workers' Welfare Fund	(9,890)	24,332
Unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	(193,983)	(82,696)
	223,555	364,325
<b>(Increase) / Decrease in assets</b>		
Investments	(2,082,861)	(83,963)
Receivable against sale of investments	(37,284)	(61,170)
Receivable against sale of units	732	(732)
Dividend and profit receivable	(7,878)	694
Advances and security deposits	(46,916)	-
	(2,174,207)	(145,171)
<b>Decrease in liabilities</b>		
Payable to Management Company	5,074	854
Payable to Central Depository Company of Pakistan Limited - Trustee	205	28
Payable to Securities and Exchange Commission of Pakistan - annual fee	1,839	52
Accrued expenses and other liabilities	90,419	308
Payable against redemption of units	158	228
	97,695	1,470
<b>Net cash (used in) / generated from operating activities</b>	(1,852,957)	220,624
<b>B. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Cash received from units sold	2,755,842	292,015
Cash paid on units redeemed	(631,542)	(454,546)
<b>Net cash generated from / (used in) financing activities</b>	2,124,300	(162,531)
Net increase in cash and cash equivalents during the year	(A+B) 271,343	58,093
Cash and cash equivalents at beginning of the year	113,835	55,742
Cash and cash equivalents at end of the year	385,178	113,835

The annexed notes from 1 to 25 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director

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

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## 1. LEGAL STATUS AND NATURE OF BUSINESS

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

The Board of Directors of the Management Company, in their meeting held on 17 September 2013, decided to merge the MCB Dynamic Stock Fund and Pakistan Premier Fund with and into Pakistan Stock Market Fund. Securities and Exchange Commission of Pakistan vide its letter SCD/AMCW/MCB-AHSIL/967/2014 dated 24 April 2014 approved the merger with effect from 3 May 2014. The Management Company has fulfilled all the conditions as outlined by SECP in its letter. The whole of the undertakings of the MCB Dynamic Stock Fund and Pakistan Premier Fund have been transferred to and vests in Pakistan Stock Market Fund from 3 May 2014 and all units representing the Fund stood cancelled as at the effective date of merger and the existing unit holders were provided with units of Pakistan Stock Market Fund at the swap ratio of 157.2435 and 17.7861 units of Pakistan Stock Market Fund for each 100 units of MCB Dynamic Stock Fund and Pakistan Premier Fund respectively.

These financial statements present the position and results of the surviving Fund i.e. Pakistan Stock Market Fund as at and for the year ended June 30, 2014 which include the effects of the merger.

- 1.2 Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited.
- 1.3 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.
- 1.4 The Fund has been categorised as "equity scheme" and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Karachi Stock Exchange.
- 1.5 The Fund primarily invests in listed equity securities. It also invests in cash instruments and treasury bills not exceeding 90 days in maturities.
- 1.6 Pakistan Credit Rating Agency (PACRA) has assigned Management quality rating of AM2 to the management company and 3-Star as stability rating to the Fund.
- 1.7 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. STATEMENT OF COMPLIANCE

- 2.1 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, and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, and the said directives shall prevail.

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

The following standards, amendments and interpretations are effective for the year ended June 30, 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.

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

<b>Standards / amendments / interpretations</b>	<i>Effective date (accounting period beginning on or after)</i>
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 01, 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	January 01, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	January 01, 2013

### 2.3 **Standards, interpretations and amendments to published approved accounting standards 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.

<b>Standards / amendments / interpretations</b>	<i>Effective for annual periods beginning on or after</i>
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

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

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

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

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### 3. BASIS OF PREPARATION

#### 3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments' : Recognition and Measurement'.

#### 3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised by the management in application of accounting policies principally relate to classification, valuation and impairment of investments (refer note 4.1).

#### 3.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund.

### 4. SIGNIFICANT ACCOUNTING POLICIES

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

#### 4.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

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

##### b) Loans and receivables

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

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

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

##### d) Financial liabilities

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



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

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## **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 other comprehensive income (OCI) until derecognised or impaired, when the accumulated adjustments recognised in OCI 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**

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.

## **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 prolonged decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

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

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

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## **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 expired.

## **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.

## **4.2 Unit holders' fund**

Unit holders' funds 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.

## **4.3 Issue and redemption of units**

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

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

## **4.4 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.

## **4.5 Provisions**

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

## **4.6 Earnings per unit**

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

## **4.7 Taxation**

### *Current*

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 unrealised capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the Fund during the year to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

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

### *Deferred*

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilized tax losses to the extent that it is no longer probable that the related tax benefit will be realized. However, the Fund has not recognized 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 realized or Unrealised, to its unit holders every year.

#### 4.8 Revenue recognition

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

#### 4.9 Expenses

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

#### 4.10 Cash and cash equivalents

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

#### 4.11 Other assets

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

#### 4.12 Dividend distributions and appropriations

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

	Note	2014 (Rupees in '000)	2013
<b>5. BALANCES WITH BANKS</b>			
In current accounts		11,214	933
In deposit accounts	5.1	373,964	112,902
		385,178	113,835
<b>5.1</b>	These accounts carry profit at the rate ranging from 6.5% to 9% (2013: 6% to 11%) per annum.		
<b>6. INVESTMENTS</b>			
<b>'At fair value through profit or loss' - held for trading</b>			
Listed equity securities	6.1	3,234,939	927,894
Unlisted equity securities		-	2,966
Government securities	6.2	-	119,290
		3,234,939	1,050,150
<b>Available for sale</b>			
Listed equity securities	6.3	72,911	-
		3,307,850	1,050,150

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

6.1 Listed equity securities - 'at fair value through profit or loss' - held for trading

Name of the investee company	Number of shares						Balance as at June 30, 2014				Market value as a percentage of net assets %	Market value as a percentage of total investments %	Market Value as a percentage of total Paid up capital of the investee company %
	As at July 01, 2013	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2014	Carrying value	Market value	Appreciation/ (diminution)	Market value as a percentage of net assets %	Market value as a percentage of total investments %			
Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise													
<b>AUTOMOBILE AND PARTS</b>													
Pak Suzuki Motor Company Limited	26,500	779,200	-	247,200	558,500	117,167	152,968	35,801	4%	5%	0.00		
General Tyre & Rubber Company Limited	-	175,000	-	175,000	-	117,167	152,968	35,801	4%	5%	-		
<b>BANKS</b>													
Allied Bank Limited	-	606,850	36,250	643,100	-	-	-	-	0%	0%	-		
Bank Al Falah Limited	2,412,000	9,395,500	-	3,553,500	8,254,000	213,852	226,985	13,133	6%	7%	0.00		
Bank Al Habbib Limited	1,498,992	2,799,377	127,449	1,015,000	3,410,818	132,337	153,419	21,082	4%	5%	0.00		
Faysal Bank Limited	-	5,652,000	-	4,929,000	723,000	10,963	11,676	713	0%	0%	0.00		
Habib Bank Limited	174,220	369,840	13,802	38,100	519,762	84,611	100,725	16,114	3%	3%	0.00		
Habib Metropolitan Bank Limited	-	4,358,000	-	72,500	4,285,500	129,664	137,950	8,286	4%	4%	0.00		
National Bank Of Pakistan	-	4,024,000	-	1,413,000	2,611,000	156,999	162,483	5,484	4%	5%	0.00		
MCB Bank Limited	23,800	517,280	11,190	552,270	-	-	-	-	0%	0%	-		
Askari Bank Limited	288	1,000	-	1,288	-	-	-	-	0%	0%	-		
Bank Islami Pakistan Limited	22,000	-	-	-	-	-	-	-	0%	0%	-		
Meezan Bank Limited	669,885	3,083,875	-	3,753,760	-	-	-	-	0%	0%	-		
Soneri Bank Limited	-	50,500	-	50,500	-	-	-	-	0%	0%	-		
United Bank Limited	350,096	3,050,863	-	1,955,100	1,445,859	234,010	243,714	9,704	7%	7%	0.00		
<b>CHEMICALS</b>													
Aechroma Pakistan Limited	-	100	-	-	100	962,436	1,056,952	74,516	28%	31%	-		
Engro Corporation Limited	45,300	1,719,100	-	1,193,300	571,100	109,863	101,947	(7,916)	3%	3%	0.00		
Engro Fertilizer Limited	-	59,350	-	-	59,350	3,735	3,392	(343)	0%	0%	0.00		
Fauji Fertilizer Bin Qasim Limited	487,418	500	-	487,418	500	20	20	-	0%	0%	0.00		
Fauji Fertilizer Company Limited	-	80,300	-	79,500	800	92	89	(3)	0%	0%	0.00		
Fauna Fertilizer Company Limited	2,403,500	1,717,500	-	4,121,000	-	-	-	-	0%	0%	-		
Dawood Hercules Corporation Limited	247,000	500	-	247,500	1,000	7	7	-	0%	0%	-		
Lotte Chemical Pakistan Limited	-	1,000	-	-	-	113,742	105,488	(8,254)	3%	3%	-		
<b>CONSTRUCTION AND MATERIALS (CEMENT)</b>													
Attock Cement Pakistan Limited	-	295,000	-	665,500	295,000	47,365	46,521	(844)	1%	1%	0.00		
Cherat Cement Company Limited	826,746	294,941	16,124	1,193,500	472,311	30,126	30,917	791	1%	1%	0.00		
D.G. Khan Cement Company Limited	88,250	1,138,500	-	1,193,750	33,000	2,927	2,903	(24)	0%	0%	0.00		
Fauji Cement Company Limited	-	2,343,500	-	410,000	1,933,500	30,715	37,201	6,486	1%	1%	0.00		
Fecto Cement Limited	92,850	163,991	-	74,000	35,241	1,789	1,762	(27)	0%	0%	0.00		
Kohat Cement Company Limited	620,430	1,108,747	149,886	1,461,000	418,063	43,875	53,437	9,562	1%	2%	0.00		
Lucky Cement Limited	155,399	330,900	-	337,199	149,100	52,893	61,176	8,283	2%	2%	0.00		
Maple Leaf Cement Factory Limited	500,000	5,462,000	-	814,000	5,148,000	149,643	154,697	5,054	4%	5%	0.00		
Lafarge Pakistan Cement Limited	49	386,000	-	386,049	-	-	-	-	0%	0%	-		
Pioneer Cement Limited	200,500	1,353,000	-	200,500	1,353,000	63,991	63,131	(860)	2%	2%	0.00		
<b>ELECTRICITY &amp; POWER</b>													
Nishat Chunian Power Limited	-	221,000	-	221,000	-	-	-	-	0%	0%	-		
Pakgen Power Limited	-	1,160,000	-	1,160,000	-	-	-	-	0%	0%	-		
Hub Power Company Limited	1,672,128	5,041,296	-	2,871,500	3,841,924	220,506	225,675	5,169	6%	7%	0.00		
Kot Addu Power Company Limited	95,000	3,712,000	-	1,914,500	1,892,500	114,434	111,733	(2,701)	3%	3%	0.00		
Nishat Power Limited	-	2,316,000	-	1,001,000	1,315,000	44,892	46,788	1,896	1%	2%	0.00		
<b>ENGINEERING</b>													
Millar Tractors Limited	20	70	7	-	97	47	48	1	0%	0%	0.00		
Total													
						47	48	1	0%	0%	0.00		

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

Name of the investee company	Number of shares			Balance as at June 30, 2014			Market value as a percentage of net assets %	Market value as a percentage of total investments %	Market Value as a percentage of total investee company %	
	As at July 01, 2013	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2014	Carrying value				Market value
Shares of listed companies - fully paid ordinary shares of Rs. 10 each unless stated otherwise										
<b>FINANCIAL SERVICES</b>										
Jahangir Siddiqui & Company Limited	-	500	-	-	500	6	5	(1)	0%	0.00
<b>GENERAL INDUSTRIALS</b>										
Packages Limited	-	383,500	-	53,200	330,300	121,663	165,669	44,006	4%	0.00
Thal Limited	-	23,300	-	-	23,300	3,810	4,832	1,022	0%	0.00
Tri-Pak Films Limited	-	82,500	-	-	82,500	17,248	13,987	(3,261)	0%	0.00
<b>INDUSTRIAL METALS AND MINING</b>										
Crescent Steel & Allied Products Limited	-	50,000	-	50,000	-	-	-	-	0%	-
International Industries Limited	-	1,226,500	-	-	1,226,500	63,959	60,638	(3,321)	2%	0.00
<b>NON LIFE INSURANCE</b>										
Adanjee Insurance Company Limited	-	500	914	500	914	30	42	12	0%	0.00
IGI Insurance Limited	-	534,300	-	10,000	514,300	114,884	117,116	2,232	3%	0.00
Pakistan Reinsurance Company Limited	763,100	1,387,525	-	455,000	1,715,625	49,436	44,452	(4,984)	1%	0.00
<b>OIL AND GAS</b>										
Attock Refinery Limited	-	100	-	100	-	-	-	-	0%	-
Attock Petroleum Limited	53,981	177,345	20,876	132,950	119,252	61,613	70,338	8,725	2%	0.00
National Refinery Limited	72,000	464,400	-	293,600	242,800	53,710	52,292	(1,418)	2%	0.00
Oil & Gas Development Company Limited	253,481	1,172,882	-	1,113,100	313,263	79,601	81,849	2,248	2%	0.00
Pakistan Oilfields Limited	126,187	169,597	-	236,450	59,334	30,340	34,076	3,736	1%	0.00
Pakistan Petroleum Limited	277,148	1,222,062	98,309	1,103,900	493,619	107,093	110,738	3,645	4%	0.00
Pakistan State Oil Company Limited	330,600	1,064,344	19,760	549,500	865,204	331,208	336,435	4,727	10%	0.00
<b>PERSONAL GOODS (TEXTILE)</b>										
Nishat Mills Limited	216,000	675,600	-	891,600	-	-	-	-	0%	-
Gadoon Textile Mills Limited	19,500	59,400	-	78,900	-	-	-	-	0%	-
Blessed Textile Mills Limited	49,000	-	-	49,000	-	-	-	-	0%	-
Kohinoor Textile Mills Limited	-	78,500	-	78,500	-	-	-	-	0%	-
Elcot Spinning Mills Limited	-	28,500	-	28,500	-	-	-	-	0%	-
Nishat Chumian Limited	54,500	158,100	13,350	224,000	1,950	91	83	(8)	0%	0.00
<b>FIXED LINE TELECOMMUNICATION</b>										
Pakistan Telecommunication Company Limited	279,500	1,376,500	-	1,656,000	-	-	-	-	0%	-
<b>PHARMA AND BIO TECH</b>										
Abbott Laboratories (Pakistan) Limited	-	119,200	-	100,000	19,200	9,216	10,990	1,774	0%	0.00
<b>TECH HARDWARE &amp; EQUIPMENT</b>										
Avanceon Limited	-	225,000	-	225,000	-	-	-	-	0%	-
<b>FOOD PRODUCERS</b>										
Engro Foods Limited	-	562,600	-	562,600	-	-	-	-	0%	-
<b>INDUSTRIAL TRANSPORTATION</b>										
Pakistan International Bulk Terminal Limited	301,387	-	-	301,387	-	-	-	-	0%	-
<b>Total as at June 30, 2014</b>										
						3,040,956	3,234,939	193,983	86%	98%
<b>Total as at June 30, 2013</b>										
						845,175	927,894	82,719		

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

6.2 Government securities - 'at fair value through profit or loss' - held for trading

Issue date	Tenor	Face value					Balance as at June 30, 2014			
		As at July 01, 2013	Purchases during the year	Sales / matured during the year	As at June 30, 2014	Cost	Market value	Appreciation / (Diminution)	Market value as percentage of net assets	Market value as percentage of total investments
-----Rupees in '000'-----										
<b>Treasury Bills</b>										
July 26, 2012	12 months	75,000	-	75,000	-	-	-	-	-	-
August 9, 2012	12 months	-	15,000	15,000	-	-	-	-	-	-
October 4, 2012	12 months	-	80,000	80,000	-	-	-	-	-	-
October 4, 2012	12 months	-	25,000	25,000	-	-	-	-	-	-
November 25, 2012	12 months	-	1,000	1,000	-	-	-	-	-	-
May 2, 2013	3 months	45,000	-	45,000	-	-	-	-	-	-
July 25, 2013	3 months	-	50,000	50,000	-	-	-	-	-	-
August 22, 2013	3 months	-	40,000	40,000	-	-	-	-	-	-
October 3, 2013	3 months	-	5,000	5,000	-	-	-	-	-	-
October 3, 2013	3 months	-	70,000	70,000	-	-	-	-	-	-
October 3, 2013	3 months	-	25,000	25,000	-	-	-	-	-	-
October 17, 2013	3 months	-	25,000	25,000	-	-	-	-	-	-
October 21, 2013	3 months	-	25,000	25,000	-	-	-	-	-	-
November 28, 2013	3 months	-	70,000	70,000	-	-	-	-	-	-
January 23, 2014	3 months	-	75,000	75,000	-	-	-	-	-	-
February 20, 2014	3 months	-	75,000	75,000	-	-	-	-	-	-
February 20, 2014	3 months	-	50,000	50,000	-	-	-	-	-	-
April 17, 2014	3 months	-	50,000	50,000	-	-	-	-	-	-
May 2, 2014	3 months	-	75,000	75,000	-	-	-	-	-	-
May 2, 2014	3 months	-	100,000	100,000	-	-	-	-	-	-
May 15, 2014	3 months	-	50,000	50,000	-	-	-	-	-	-
May 15, 2014	3 months	-	100,000	100,000	-	-	-	-	-	-
<b>Total as at June 30, 2014</b>										

Total as at June 30, 2013	119,265	119,290	25	10	11.36
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6.3 Listed equity securities - 'Available for sale'

Shares of listed companies - fully paid ordinary shares / certificates of Rs. 10 each unless stated otherwise

Name of the investee Company	As at July 01, 2013	Purchases during the year	Bonus/Right issue	Sales during the year	As at June 30, 2014	Cost	Market Value	Diminution	Market value as percentage of net assets	Market value as percentage of total investments	Market value as percentage of total Paid up capital of the investee company
----- (Rupees in 000) -----											
<b>OIL &amp; GAS</b>											
Pakistan Petroleum Limited	-	325,000	-	-	325,000	73,433	72,911	(522)	2%	2%	0.00
<b>Total as at June 30, 2014</b>						<b>73,433</b>	<b>72,911</b>	<b>(522)</b>			
<b>Total as at June 30, 2013</b>											

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

6.4	Net unrealised appreciation in value of investments at fair value through profit or loss'	Notes	2014	2013
			(Rupees in '000)	
	Market value of investments	6.1,6.2,6.3	3,234,939	1,050,150
	Carrying value of investments	6.1,6.2,6.3	(3,040,956)	(967,454)
			<u>193,983</u>	<u>82,696</u>
<b>7. DIVIDEND AND PROFIT RECEIVABLE</b>				
	Dividend receivable		8,247	899
	Profit accrued on bank deposits		807	277
			<u>9,054</u>	<u>1,176</u>
<b>8. ADVANCES AND SECURITY DEPOSITS</b>				
	Advance against shares	8.1	43,709	-
	Advance tax		3,692	1,036
	Security deposits with National Clearing Company of Pakistan Limited	8.2	2,500	2,500
	Security deposits with Central Depository Company of Pakistan Limited	8.3	500	200
	Others		251	
			<u>50,652</u>	<u>3,736</u>
8.1	This represents advance paid to Pakistan Petroleum Limited for purchase of shares.			
8.2	This represents deposit with National Clearing Company of Pakistan Limited in respect of trading of listed securities.			
8.3	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.			
<b>9. ACCRUED EXPENSES AND OTHER LIABILITIES</b>				
	Provision for Workers' Welfare Fund	9.1, 9.2	75,578	24,332
	Federal excise duty payable on management fee	9.3	11,025	219
	Unclaimed dividend		10,002	-
	Brokerage		4,702	1,034
	Auditors' remuneration		1,092	370
	Conversion cost		2,817	-
	Legal and professional		-	150
	Printing and related expenditure		519	300
	Zakat payable		513	303
	Capital gain tax payable		460	423
	Sales load		1,429	340
	Others		435	573
			<u>108,572</u>	<u>28,044</u>

### 9.1 Provision for workers welfare fund

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance), whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, all Collective Investment Schemes (CISs) I mutual funds 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 Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

In 2011, a single judge of the Lahore High Court (LHC) issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down.

However in 2013, the Larger Bench of the Sindh High Court (SHC) issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any constitutional or legal infirmity

As the matter relating to levy of WWF on CISs is currently pending in the Sindh High Court, the Management Company has decided to retain and continue with the provision for WWF in its books of account and financial statements aggregating to Rs. 75.58 million as at June 30, 2014. Had the said provision of WWF not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 1.27 per unit

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

9.2 Movement in provision for Worker's Welfare Fund	Notes	2014 (Rupees in '000)	2013
Balance as at July 1		24,332	-
Charged for the year		9,890	24,332
Transfer of liability on merger	9.2.1		
- Dynamic Stock Fund		21,056	-
- Pakistan Premier Fund		20,300	-
		41,356	
Balance as at June 30		75,578	24,332

9.2.1 This represents transfer of liability of Worker's Welfare Fund upon merger of the said funds into Pakistan Stock Market Fund.

### 9.3 Federal excise duty payable on management fee

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% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes through their trustees in the Honourable High Court of Sindh (SHC), challenging the levy of FED on asset management services after the eighteenth amendment. The SHC in its short order of September 2013 directed the 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 this financial information aggregating to Rs. 11.025 million as at June, 2014. In case the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED and related taxes were not recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.18 per unit as at June 30, 2014.

### 10. CONTINGENCIES & COMMITMENTS

There were no contingencies and commitments exist as at June 30, 2014 and June 30, 2013.

### 11. NET ASSET VALUE PER UNIT

The net asset value (NAV) 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 circulation at the year end.

### 12. REMUNERATION OF MANAGEMENT COMPANY

Management fee	12.1	32,487	21,294
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12.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. During the year, the Management Company has charged fee at the rate of 2% (2013: 2%) per annum of the average net asset of the Fund. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company. Further during the year, Federal Government has levied Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from 13 June 2013. Accordingly, the Management fee charged is inclusive of all government levies.

13. REMUNERATION OF CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Notes	2014 (Rupees in '000)	2013
Remuneration to trustee	13.1	2,624	2,057

13.1 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 asset value of the Fund.



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

Based on the Trust Deed, the tariff structure applicable to the Fund from July 01, 2013 to June 30, 2014 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, which ever is higher.
Amount exceeding Rs. 1,000 million	Rs. 2.0 million plus 0.10% p.a of NAV, exceeding Rs. 1,000 million.

The remuneration is paid to the trustee monthly in arrears.

	Notes	2014	2013
		(Rupees in '000)	
<b>14. SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE</b>			
Annual fee	14.1	1,543	1,014
<b>14.1</b>	Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.		
<b>15. AUDITORS' REMUNERATION</b>			
Annual audit fee		350	270
Half yearly review		150	163
Other certifications and services		302	100
Out of pocket expenses		36	4
		<b>838</b>	<b>537</b>
<b>16. TAXATION</b>			
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.			
<b>17. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS</b>			
Connected persons of the Fund include the Management Company, other collective investment schemes being 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 undertaking and unit holders holding more than 10% units of the Fund.			
Remuneration to the Management Company and Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.			
Details of transactions with connected persons and balances with them at year end are as follows:			

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

		2014	2013
		(Rupees in '000)	
<b>17.1</b>	<b>Details of the transaction with related parties / connected persons</b>		
	<b>MCB - Arif Habib Savings and Investments limited - Management Company</b>		
	Remuneration including indirect taxes	43,719	24,921
	Issue of 20,804 units (2013: Nil units)	1,290	-
	Issue of 77,214 bonus units (2013: Nil units)	6,000	-
	<b>Central Depository Company of Pakistan Limited - Trustee</b>		
	Remuneration	2,624	2,057
	CDS charges	5	219
	<b>Arif Habib Limited</b>		
	Brokerage *	388	970
	<b>MCB Bank Limited</b>		
	Markup income	6,583	2,472
	Dividend income	1,598	274
	<b>Summit Bank Limited</b>		
	Markup income	-	40
	<b>Habib Metropolitan Bank Limited</b>		
	Issue of 2,418,575 units (2013: 1,757,243 units)	150,000	100,000
	<b>Adamjee Insurance Company Limited</b>		
	Issue of 966,074 units (2013: Nil units)	59,916	-
	Issue of 3,585,631 bonus units (2013: Nil units)	277,600	-
	Dividend income	3	100
	<b>MCB Employees Provident Fund</b>		
	Issue of 3,150,712 units (2013: Nil units)	243,928	-
	Issue of 848,894 bonus units (2013: Nil units)	52,648	-
	<b>MCB Employees Pension Fund</b>		
	Issue of 2,414,476 units (2013: Nil units)	186,929	-
	Issue of 650,530 bonus units (2013: Nil units)	40,346	-
	<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>		
	Issue of 14,373 units (2013: Nil units)	891	-
	Issue of 53,344 bonus units (2013: Nil units)	4,130	-
	<b>D.G Khan Cement Company Limited</b>		
	Dividend income	1,868	962
	<b>Nishat Chunian Power Limited</b>		
	Dividend income	72	1,910
	<b>Nishat Mills Limited.</b>		
	Dividend income	2	3,140
	<b>Fatima Fertilizer Company Limited</b>		
	Dividend income	3,776	1
	<b>Mandate Under Discretionary Portfolio Services</b>		
	54,348 bonus units (2013: Nil units) distributed during the year	3,371	-
	Issue of 274,508 units (2013: Nil units)	21,278	-
	Redemption of 83,293 units (2013: Nil units)	6,457	-

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

	2014	2013
	(Rupees in '000)	
<b>Directors and executives of the Management Company</b>		
Issue of 295,013 units (2013: 32,956 units)	21,270	2,471
Redemption of 217,995 units (2013: 48,948 units)	15,595	3,041
Issue of 41,422 bonus units (2013: Nil units)	2,571	-
<b>17.2 Amounts outstanding as at the year end</b>		
<b>MCB - Arif Habib Savings and Investments limited - Management Company</b>		
Remuneration payable	5,831	1,985
Sales tax payment on management fee	1,546	318
Sales load payable	1,429	340
<b>Central Depository Company of Pakistan Limited-Trustee</b>		
Security deposit	500	200
Remuneration payable	399	194
<b>Summit Bank Limited</b>		
Balance with Bank	3,514	-
<b>MCB Bank Limited</b>		
Balance with Bank	370,728	108,105
Accrued markup	402	125
<b>Habib Metropolitan Bank Limited</b>		
2,418,575 units held as at June 30, 2014 (2013: Nil units)	151,306	-
<b>Adamjee Insurance Company Limited</b>		
4,551,705 units held as at June 30, 2014 (2013: Nil units)	284,755	-
<b>MCB Employees Provident Fund</b>		
3,999,606 units held as at June 30, 2014 (2013: Nil units)	250,215	-
<b>MCB Employees Pension Fund</b>		
3,065,006 units held as at June 30, 2014 (2013: Nil units)	191,747	-
<b>MCB Arif Habib Savings and Investments Limited</b>		
98,018 units held as at June 30, 2014 (2013: Nil units)	6,132	-
<b>D.G Khan Cement Company Limited Employees Provident Fund Trust</b>		
67,717 units held as at June 30, 2014 (2013: Nil units)	4,236	-
<b>Mandate Under Discretionary Portfolio Services</b>		
245,563 units held as at June 30, 2014 (2013: Nil units)	15,362	-
<b>Directors and executives of the Management Company</b>		
148,932 units held as at June 30, 2014 (2013: 30,492 units held)	9,317	2,366
<b>Arif Habib Limited</b>		
Brokerage payable	220	80
<b>MCB Bank Limited</b>		
Nil shares held as at 30 June 2014 (2013: 23,800 shares)	-	5,774
<b>D.G Khan Cement Company Limited</b>		
33,000 shares held as at 30 June 2014 (2013: 88,250 shares)	2,903	7,386
<b>Nishat Mills Limited</b>		
Nil shares held as at 30 June 2014 (2013: 216,000 shares)	-	20,349

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

	2014	2013
	(Rupees in '000)	
<b>Nishat Chunian Limited</b>		
1,950 shares held as at 30 June 2014 (2013: 54,500 shares)	83	3,256
<b>Fatima Fertilizer Company Limited</b>		
Nil shares held as at 30 June 2014 (2013: 2,403,500 shares)	-	59,679

\* 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.

### 18. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

18.1 Details of members of the investment committee of the Fund are as follows:

Names	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	19 years
Mr. Kashif Rafi	Senior Vice President - Head of Fixed Income Investments	MBA, CFA (Level 1)	13 years
Mr. Muhammad Asim	Senior Vice President - Head of Equities	MBA & CFA	11 Years
Mr. Mohsin Pervaiz	Vice President - Investments	MBA, CFA (Level 1)	13 Years
Ms. Uzma Khan	Senior Analyst	MBA, CFA, FRM	9 Years

18.2 Ms. Uzma Khan is the Fund Manager. Details of the other funds managed by fund manager are as follows:

- MCB Islamic Income Fund
- Pakistan International Element Islamic Asset Allocation Fund
- Pakistan Islamic Pension Fund

	2014
	%
<b>19. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID</b>	
Invest & Finance Securities Limited	8.30%
Foundation Securities (Private) Limited	7.32%
KASB Securities Limited	6.88%
Arif Habib Limited.	6.76%
JS Global Capital Limited	6.49%
Optimus Capital Management (Private) Limited	5.34%
Taurus Securities Limited	5.28%
Fortune Securities Limited	4.75%
Elixir Securities Pakistan (Private) Limited	4.70%
Topline Securities (Private) Limited	4.68%
	<b>2013</b>
	<b>%</b>
Fortune Securities Limited	9.24%
Arif Habib Limited	9.02%
Foundation Securities (Private) Limited.	8.74%
KASB Securities Limited.	7.28%
Invest and Finance Securities Limited	7.02%
Optimus Capital Management (Private) Limited	6.88%
JS Global Capital Limited.	6.58%
Elixir Securities Pakistan (Private) Limited	5.22%
First Capital Equities Limited.	5.06%
Topline Securities (Private) Limited	4.79%

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

### PATTERN OF UNIT HOLDINGS

	As at June 30, 2014			
	Number of unit holders	Number of Units held	Investment amount (Rupees in '000)	Percentage investment %
	5,581	31,803,616	1,989,397	53.34%
Individuals	14	1,651,789	103,336	2.77%
Insurance companies	7	2,481,550	155,246	4.16%
Banks / DFIs	12	44,182	2,764	0.07%
NBFCs	71	6,832,077	427,415	11.46%
Retirement funds	81	2,316,348	144,911	3.89%
Listed companies	5	11,782,052	737,085	19.76%
Associated companies	4	28,558	1,787	0.05%
Directors	6	2,684,249	167,927	4.50%
Others	5,781	59,624,421	3,729,868	100.00%

	As at June 30, 2013			
	Number of unit holders	Number of Units held	Investment amount (Rupees in '000)	Percentage investment %
Individuals	2,224	10,300,784	799,087	67.80%
Insurance companies	3	793,155	61,533	5.22%
Banks / DFIs	1	971,707	75,385	6.40%
Retirement funds	47	2,172,789	168,565	14.30%
Others	18	955,040	74,092	6.28%
	2,293	15,193,475	1,178,662	100.00%

### 21. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

During the year, eight board meetings were held on 4th July 2013, 5th August 2013, 23rd October 2013, 31st December 2013, 6th February 2014, 7th March 2014, 21st April 2014, 27th June 2014. Information in respect of attendance by Directors in the meetings is given below :

Name of persons attending the meetings	Designation	Number of meetings held	Number of meetings			Meetings not attended
			Attendance required	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	8	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	Executive Vice Chairman	8	8	7	1	106th
Mr. Yasir Qadri	Chief Executive Officer	8	8	8	-	-

Name of persons attending the meetings	Designation	Number of meetings held	Number of meetings			Meetings not attended
			Attendance required	Attended	Leave granted	
Dr. Syed Salman Ali Shah	Director	8	8	7	1	107th
Mr. Haroun Rashid	Director / Chairman Audit Committee	8	8	6	2	104th & 106th
Mr. Ahmed Jahangir	Director	8	8	8	-	-
Mr. Samad A. Habib	Director	8	8	6	2	105th & 109th
Mr. Mirza Mehmood Ahmed	Director	8	8	7	1	106th
Mr. Saqib Saleem	Chief Operating Officer & Company Secretary	8	8	8	-	-
Mr. Umair Ahmed	Chief Financial Officer	8	8	8	-	-

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

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### 22. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate and price risk), credit risk and liquidity risk. Risk of the Fund are being managed by the Management Company in accordance with the approved policies of the investment committee which provide broad guidelines for management of above mention risks. The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Fund financial assets primarily comprise of balance with banks, investment in equity securities of listed companies classified at 'fair value through profit or loss' and at 'available for sale' and investment in government securities. The Fund also has dividend and profit receivable, deposits and other receivables. The Fund's principal financial liabilities include remuneration payable to Management Company, Trustee and SECP and accrued and other liabilities.

#### 22.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan and the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations), The Non Banking Finance Companies (establishment and Regulation) Rules, 2003 (the Rules).

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

##### 22.1.1 Currency risk

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

##### 22.1.2 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.

###### a) Sensitivity analysis of variable rate instruments

As at June 30, 2014, the Fund does not hold any variable interest based investment except balances with bank in deposit account exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2014, with all other variables held constant, the net assets of the Fund and total comprehensive income for the year would have been higher / lower by Rs. 1.8 million (2013: Rs. 0.9 million).

###### b) Sensitivity analysis of fixed rate instruments

As at June 30, 2014 the Fund does not holds any fixed rate instruments. Therefore the fund is not exposed to fair value interest rate risk.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

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

----- June 30, 2014 -----						
Exposed to Yield / Interest rate risk						
Yield/ effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield / Interest rate risk	Total	
----- Rs in '000 -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Balances with banks	6.5 - 9	373,964	-	-	11,214	385,178
Investments		-	-	-	3,307,850	3,307,850
Receivable against sale of investments		-	-	-	100,118	100,118
Receivable against sale of units		-	-	-	-	-
Dividend and profit receivable		-	-	-	9,054	9,054
Advances and security deposits		-	-	-	46,960	46,960
		373,996	-	-	3,475,196	3,849,160
<b>Financial Liabilities</b>						
Payable to Management Company		-	-	-	7,377	7,377
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	399	399
Payable against purchase of investments		-	-	-	3,397	3,397
Accrued expenses and other liabilities		-	-	-	32,021	32,021
Payable against redemption of units		-	-	-	386	386
		-	-	-	43,581	43,581
<b>On-balance sheet gap</b>		373,996	-	-	3,431,615	3,805,579

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2014.

----- June 30, 2013 -----						
Exposed to Yield/Interest rate risk						
Yield/ effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to Yield/ Interest rate risk	Total	
----- Rs in '000 -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial Assets</b>						
Balances with banks	6 - 11	112,902	-	-	933	113,835
Investments	9.41 - 9.49	119,290	-	-	930,860	1,050,150
Receivable against sale of investments		-	-	-	62,834	62,834
Receivable against sale of units		-	-	-	732	732
Dividend and profit receivable		-	-	-	1,176	1,176
Advances and security deposits		-	-	-	2,700	2,700
		232,192	-	-	999,235	1,231,427
<b>Financial Liabilities</b>						
Payable to Management Company		-	-	-	2,303	2,303
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	194	194
Payable against purchase of investments		-	-	-	22,018	22,018
Accrued expenses and other liabilities		-	-	-	2,986	2,986
Payable against redemption of units		-	-	-	228	228
		-	-	-	27,730	27,730
<b>On-balance sheet gap</b>		232,192	-	-	971,505	1,203,697

There is no off-balance sheet financial instrument that exist as at year ended June 30, 2013.

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

### 22.1.3 Price risk

The Fund is exposed to equity price risk because of equity securities held by the Fund and classified on the balance sheet as at fair value through profit or loss and available-for-sale. To manage its price risk arising from investment in equity securities, the Fund's investment policy, as restricted by the NBFC Regulations, the NBFC Rules, restricts investments in listed shares of one company to 10% of the Fund's net assets and investment in listed securities of a particular company have also been restricted to 10% of paid-up capital of investee company. Moreover, the sector limits have been restricted to 30% of the net assets of the Fund or index weight whichever is higher. The Investment Committee and Fund manager closely monitor the security performance and risk assessment with them and accordingly make their investment decision.

In case of 5% increase/ decrease in KSE 100 index on June 30, 2014, the net income for the year and net assets would be increase/ decrease by Rs. 171.7 million (2013: Rs. 46.68 million) as a result of gains / losses on equity securities classified as 'financial assets at fair value through profit or loss' and available for sale investments.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. 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.

### 22.2 Credit risk

Credit risk represents the risk of loss if counterparties fail to perform as contracted. The Fund is exposed to counter party credit risks on Investment in equity securities balances with banks, profit and other receivable. The credit risk on the fund is limited because the counterparties are financial institutions with reasonably high credit ratings.

The Fund has adopted a policy of only dealing with creditworthy, reputable and diverse counterparties and investee companies and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies, where available, and if not available, the Fund uses other publicly available financial information and its own trading records to rate its major customers. The Fund's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Credit risk from balances with banks and financial institutions is managed by financial department in accordance with the Fund's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are approved by the Board of Directors. The limits are set to minimize the concentration of risk and therefore mitigate financial loss through potential counterparty failure.

The Fund's maximum exposure to credit risk related to receivables at June 30, 2014 and June 30, 2013 is the carrying amounts of following financial assets.

	2014	2013
	(Rupees in '000)	
Balances with banks	385,178	113,835
Investments	-	119,290
Receivable against sale of investments	100,118	62,834
Receivable against sale of units	-	732
Dividend and profit receivable	9,054	1,176
Advances and security deposits	46,960	2,700
	541,310	300,567



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

The analysis below summaries the credit rating quality of the Fund's financial assets as at June 30, 2014 and June 30, 2013:

Bank Balances by rating category	Rating Long - term / Short - term	2014	2013
		(Rupees in '000)	
<b>Deposit Accounts</b>			
MCB Bank Limited	AAA / A1+	370,412	108,105
Habib Metropolitan Bank Limited	AA+ / A1+	3,546	4,797
United Bank Limited	AA+ / A-1+	6	-
<b>Current Accounts</b>			
Deutsche Bank Limited	A2 / P-1	13	10
MCB Bank Limited	AAA / A1+	317	-
Standard Chartered Bank (Pakistan) Limited	AAA / A1+	6,458	923
Summit Bank Limited	A- / A-3	3,514	-
Bank Al-Habib Limited	AA+ / A-1+	912	-
		<b>385,178</b>	<b>113,835</b>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2014 is the carrying amount of the financial assets. None of these assets are impaired nor past due.

### Investment in fixed income securities

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

### Receivables against sale of units

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

### Advances and deposits

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

### 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.

### 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.

### 22.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

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

The Fund has the ability to borrow in the short term to ensure settlement. During the current year, the Fund did not availed any borrowing. As per the NBFC regulation the maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets up to 90 days and would be secured by the assets of the Fund. and bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the year.

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

	30 June 2014			Total
	Up to three months	Over three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	7,377	-	-	7,377
Payable to Central Depository Company of Pakistan Limited - Trustee	399	-	-	399
Payable against purchase of investments	3,397	-	-	3,397
Accrued expenses and other liabilities	32,021	-	-	32,021
Payable against redemption of units	386	-	-	386
	<b>43,580</b>	<b>-</b>	<b>-</b>	<b>43,580</b>

	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	2,303	-	-	2,303
Payable to Central Depository Company of Pakistan Limited - Trustee	194	-	-	194
Payable against purchase of investments	22,018	-	-	22,018
Accrued expenses and other liabilities	2,986	-	-	2,986
Payable against redemption of units	228	-	-	228
	<b>27,729</b>	<b>-</b>	<b>-</b>	<b>27,729</b>

#### 22.4 Financial instruments by category

	30 June 2014			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale investments	
----- (Rupees in '000) -----				
<b>Assets</b>				
Balances with banks	385,178	-	-	385,178
Investments	-	3,234,939	72,911	3,307,850
Receivable against sale of investments	100,118	-	-	100,118
Receivable against sale of units	-	-	-	-
Dividend and profit receivable	9,054	-	-	9,054
Advances and security deposits	46,960	-	-	46,960
	<b>541,310</b>	<b>3,234,939</b>	<b>72,911</b>	<b>3,849,160</b>

## NOTES TO 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 to Management Company	-	7,377	7,377
Payable to Central Depository Company of Pakistan Limited- Trustee	-	399	399
Payable against purchase of investments	-	3,397	3,397
Accrued expenses and other liabilities	-	32,021	32,021
Payable against redemption of units	-	386	386
	-	43,580	43,580

	30 June 2013			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale investments	Total
	------(Rupees in '000)-----			
<b>Assets</b>				
Balances with banks	113,835	-	-	113,835
Investments	-	1,050,150	-	1,050,150
Receivable against sale of investments	62,834	-	-	62,834
Receivable against sale of units	732	-	-	732
Dividend and profit receivable	1,176	-	-	1,176
Advances and security deposits	2,700	-	-	2,700
	181,277	1,050,150	-	1,231,427

	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	-	2,303	2,303
Payable to Central Depository Company of Pakistan Limited- Trustee	-	194	194
Payable against purchase of investments	-	22,018	22,018
Accrued expenses and other liabilities	-	2,986	2,986
Payable against redemption of units	-	228	228
	-	27,729	27,729

### 22.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### 22.6 Fair value hierarchy

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are trade able in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

International Financial Reporting Standard 7, Financial Instruments : Disclosure requires an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3:** inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

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

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
Investment in equity securities				
- at fair value through profit or loss	3,234,939	-	-	3,234,939
- available for sale	72,911	-	-	72,911
	<u>3,307,850</u>	<u>-</u>	<u>-</u>	<u>3,307,850</u>

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
Investment in equity securities				
- at fair value through profit or loss	927,894	-	-	927,894
Investment in government securities	-	119,290	-	119,290
	<u>927,894</u>	<u>119,290</u>	<u>-</u>	<u>1,047,184</u>

**23 UNIT HOLDER' 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 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.

**24. GENERAL**

Figures have been rounded off to the nearest thousand Rupees.

**25. DATE OF AUTHORIZATION OF 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	67,717
MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED	1	98,017
MCB EMPLOYEES PENSION FUND	1	3,065,006
MCB EMPLOYEES PROVIDENT FUND (PAK STAFF)	1	3,999,606
ADAMJEE LIFE ASSURANCE CO. LTD. (IMF)	1	4,551,705
<b>Directors</b>		
Nasim Beg	4	28,558
<b>Public Sector Companies and Corporations</b>	81	2,316,348
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	33	4,177,521
<b>Individuals</b>	5581	31,803,616
<b>Trust</b>	77	9,516,326
	<b>5781</b>	<b>59,624,421</b>

**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>
5,068	1-10000	7,460,449
629	10001-100000	17,764,894
79	100001-1000000	18,059,387
5	1000001-Onwards	16,339,691
<hr/> <b>5,781</b> <hr/>		<hr/> <b>59,624,421</b> <hr/>

## PERFORMANCE TABLE

PSM													
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
(Rupees in '000)													
Net Assets	3,729,868	1,178,662	921,463	1,243,564	1,841,340	1,847,196	3,350,619	3,245,587	3,617,732	2,712,985	1,051,643	783,991	322,974
Net Income / (loss)	29,211	393,516	157,547	255,955	385,236	(560,359)	507,463	490,678	1,114,205	1,171,637	382,103	199,155	9,224
(Rupees)													
Net assets value per unit (Ex-Div)	62.56	58.96	51.92	53.80	49.64	47.56	64.55	84.08	84.29	90.10	81.99	69.02	48.97
(Percentage)													
Annual dividend distribution	16.71	31.58**	7.9**	12.6**	19.4**	-	34**	50**	60**	70***	60**	40**	3**
				4.16	8.37	17.61							
*First year of operations from the period 1 March 2002 to 30 June 2002													
**Stock dividend													
***Interim Dividend of 20% and Stock Dividend of 50%													
#VALUE!													
12.60%													
Announcement Date of Distribution													
Interim										February 10, 2005			
Final	June 26, 2014	July 5, 2013	June 20, 2012	July 4, 2011	July 5, 2010	-	July 3, 2008	July 4, 2007	July 4, 2006	July 4, 2005	July 5, 2004	July 3, 2003	July 1, 2002
(Rupees)													
Highest offer price per unit	82.47	83.22	62.90	64.27	67.93	66.00	100.55	111.96	135.42	148.71	118.59	92.85	54.08
Lowest offer price per unit	61.28	54.05	49.07	50.17	50.38	34.14	77.06	81.79	90.64	83.28	71.81	50.58	47.60
Highest Repurchase price per unit	80.25	81.25	61.67	62.98	66.57	63.36	96.53	109.16	132.03	144.99	115.63	90.53	51.65
Lowest Repurchase price per unit	59.63	52.98	48.11	49.17	49.37	33.46	75.13	79.75	88.37	81.20	70.01	48.30	45.46
Year end offer price per unit	64.29	73.73	52.96	61.33	60.55	48.53	84.95	111.88	117.22	118.05	114.86	91.30	52.68
Year end repurchase price per unit	62.56	77.58	51.92	60.10	59.34	47.56	81.55	109.08	114.29	115.10	111.99	89.02	50.31
(Percentage)													
One Year	34.78	49.42	11.30	21.10	24.77	(26.32)	(3.01)	29.41	26.85	52.41	62.04	81.23	2.02
Two Year	101.39	66.31	34.76	51.10	(4.12)	(15.45)	12.02	28.12	39.04	46.66	71.38	-	-
Three Year	124.20	101.37	68.13	11.30	3.75	(2.57)	16.75	35.75	46.34	64.83	-	-	-
Capital growth	18.07	17.84	3.40	8.37	4.37	(26.32)	(23.23)	(0.25)	(6.45)	9.89	18.79	40.94	(2.06)

Since inception from 11 March 2002 the Fund deliver a cumulative annualised growth return of 26.44%

### 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**

**Head Office:** 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

UAN: 11-11-622-24 (11-11-MCB-AH): Karachi, Lahore, Islamabad.

UAN: 111-468-378 (111-INVEST): Karachi, Lahore, Islamabad & Multan.

**\*BACHAT CENTER:** 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908

URL: [www.mcbah.com](http://www.mcbah.com), Email: [info@mcbah.com](mailto:info@mcbah.com)