



**Bachat** ka Doosra Naam

## Annual Report 2014



Aik Dar Band Hazar Khulay

# MCB ISLAMIC INCOME 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

<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 Bank Al-Falah Limited Standard Chartered Bank Pakistan Limited	
<b>Auditors</b>	KPMG Taseer Haidi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530.	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	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 MCB Islamic Income Fund (MCB IIF), is pleased to present the Annual Report on the affairs of MCB IIF for the year ending June 30, 2014.

## ECONOMY AND MONEY MARKET OVERVIEW

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

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

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

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

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

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

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

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

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

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

## FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 8.38% as against its benchmark return of 6.09%, a significant out performance by 2.29%.

During the period, the fund reduced its exposure marginally towards GoP Ijarah Sukuk, which stood at around 69.8% at period end compared with 70.3% at June 30, 2013, on the back of decent yield as well as capital gains potential. The fund has kept its remaining exposure in cash and bank deposits at decent rates.

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

The Net Assets of the Fund as at June 30, 2014 stood at Rs.2.054 billion as compared to Rs.2.946 billion as at June 30, 2013 registering a decrease of 30.27%.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 100.0326 as compared to opening NAV of Rs.101.8947 per unit as at June 30, 2013 registering a decrease of Rs. 1.88 per unit.

### Income Distribution

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

Date of distribution	Per unit distribution
September 27,	1.8266
December 27, 2013	2.3551
March 27, 2014	2.3654
June 27, 2014	1.5544

### 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:

- Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- Proper books of accounts of the Fund have been maintained during the year.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- 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.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as going concern.

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

- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2014:

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

<i>S. No.</i>	<i>Name</i>	<i>Designation</i>	<i>Total Meetings Held</i>	<i>No. of Meetings Attended</i>	<i>Leave granted</i>
1.	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)

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

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

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



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

m. 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.	Yasir Qadri	Chief Executive Officer	-	-	-
3.	Mr. Saqib Saleem	Chief Operating Officer & Company Secretary	2,549	7,590	94
4.	Umair Ahmed	Chief Financial Officer	8,796	598	127
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	-	-	-

### External Auditors

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

### Acknowledgement

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

### For and on behalf of the board



**Yasir Qadri**  
Chief Executive

Karachi: July 28, 2014



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

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### **Fund Type and Category**

MCB Islamic Income Funds is an Open-End Shariah Compliant (Islamic) Income Scheme.

### **Fund Benchmark**

The benchmark for MCB IIF is an average of the most recently published three-month profit rates of three Islamic Banks rated A and above.

### **Investment Objective**

To generate superior risk adjusted returns by investing in short, medium and long-term Shariah Compliant Fixed income instruments.

### **Investment Strategy**

The Fund shall seek to provide the investors with a rate of return consistent with a broadly diversified portfolio of long, medium and short term, high quality Shariah Compliant fixed income instruments.

### **Manager's Review**

The fund a size of MIIF reduced slightly from PKR 2.9 billion last year, to an amount of PKR 2.05 billion.

During the year, the fund generated an annualized return of 8.38% as against its benchmark return of 6.09%, an out-performance of 2.3% over its benchmark. The fund has gradually been building its exposure in GoP Ijarah Sukuk (GIS) at attractive levels and has kept an allocation of around 69.8% at year-end while 28.8% assets were kept in cash and bank deposits.

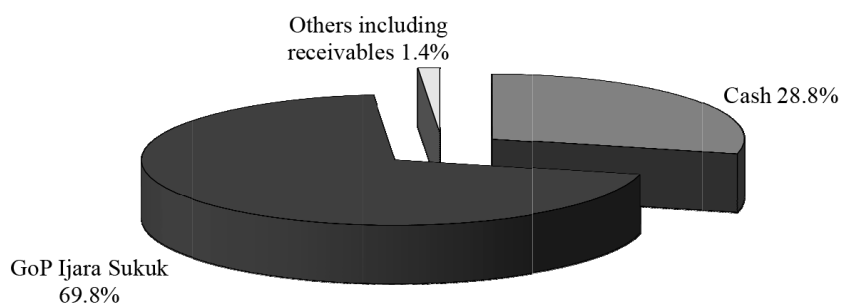
Given the attractive risk-return profile of government papers and its strong appetite in the market, the fund plans to keep a major portion of its assets in GIS to enhance returns instead of putting them in corporate Sukuk.

We believe that the well-timed accumulation of GIS should contribute towards healthy returns going forward, while the fund would remain cognizant of the changes in macroeconomic environment in order to deploy assets efficiently in Shariah compliant instruments.

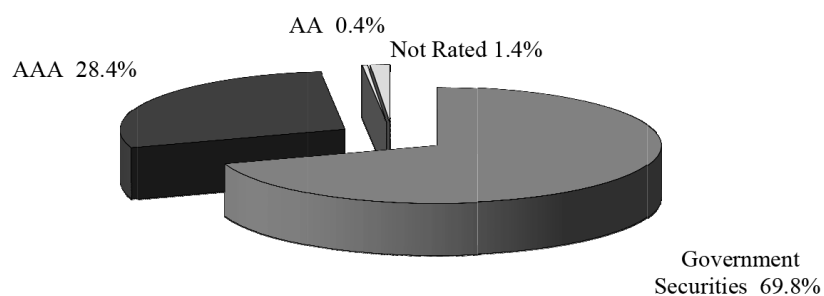
## REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

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



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



**Uzma Khan, CFA, FRM**  
Fund Manager  
July 28, 2014

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

## CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

### Head Office

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shahr-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

### MCB ISLAMIC INCOME 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 MCB Islamic Income Fund (the Fund) are of the opinion that MCB - Arif Habib Savings & Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

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

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

Karachi: October 13, 2014



## REPORT OF THE SHARIAH ADVISOR

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I, the Shariah Advisory of the Fund, am please to issue this report in accordance with the clause 9.2.5 of the Trust Deed of the MCB Islamic Income Fund (MCB-IIF). The Scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

In the capacity of the Shariah Advisor, we have prescribed criteria and procedure to be followed in ensuing Shariah Compliance in every investment.

It is the responsibility of M/s MCB-Arif Habib Savings and Investment Limited, the Management Company of the Fund, to establish maintains a system of internal controls and to ensure compliance with the Shariah guidelines. My responsibility is to express an opinion, based on my review of the representations made by the Management Company, to the extent where such compliance can be objectively verified. A review is limited primarily to inquires to the Management Company's personnel and review of various documents prepared by the management company to comply with prescribed criteria. In the light of the above, we hereby certify that:

- We have reviewed and approved the modes of investment of MCB-IIF in the light of the Shariah guidelines.
- All the provisions of the scheme and investments made on account of MCB IIF by Management Company are Shariah Compliant and in accordance with the criteria established.
- On the basis of information provided by the Management Company, all the operations of MCB-IIF for the period from July 01, 2013 to June 30, 2014 have been in compliance with Shariah principles.

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

Karachi: July 28, 2014

Dr Muhammad Zubair Usmani  
Shariah Advisor

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

This statement is being presented by the Board of Directors of MCB Arif Habib Savings and Investments Limited, the management Company of MCB Islamic Income Fund ("the fund") to comply with the Code of Corporate Governance contained in Regulation no.35 of Lahore 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.

MCB Islamic Income Fund is an open end mutual fund and is listed at Lahore 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:

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

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

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

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

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

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

On behalf of the Board



**Yasir Qadri**  
Chief Executive

Karachi: July 28, 2014

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



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

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

## **Review report to the Unit holders of MCB Islamic Income Fund ("the Fund") on Statement of Compliance with Best Practices of Code of Corporate Governance**

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

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

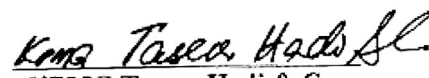
As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control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

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

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

**Date: 28 July 2014**

**Karachi**

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

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



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



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

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **MCB Islamic Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2014, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

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

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

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

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KPMG Taseer Hadi & Co.

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

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

**Date: 28 July 2014**

**Karachi**

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

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

# STATEMENT OF ASSETS AND LIABILITIES

## AS AT 30 JUNE 2014

	Note	2014 (Rupees in '000)	2013
<b>Assets</b>			
Balances with banks	4	597,684	831,571
Investments	5	1,451,550	2,092,681
Profit and income receivable	6	28,151	50,418
Prepayments		100	102
Preliminary expenses and floatation costs	7	392	592
<b>Total assets</b>		<b>2,077,877</b>	<b>2,975,364</b>
<b>Liabilities</b>			
Payable against redemption of units		-	13,253
Payable to Management Company	8	4,463	4,807
Payable to Central Depository Company of Pakistan Limited - Trustee	9	226	276
Payable to Securities and Exchange Commission of Pakistan	10	1,817	1,931
Dividend payable		31	-
Accrued expenses and other liabilities	11	16,777	8,607
<b>Total liabilities</b>		<b>23,314</b>	<b>28,874</b>
<b>Net assets</b>		<b>2,054,563</b>	<b>2,946,490</b>
<b>Unit holders' fund</b>		<b>2,054,563</b>	<b>2,946,490</b>
<b>(Number of units)</b>			
<b>Number of units in issue</b>		<b>20,538,940</b>	<b>28,916,996</b>
<b>(Rupees)</b>			
<b>Net assets value per unit</b>		<b>100.03</b>	<b>101.89</b>

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

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

  
Chief Executive Officer

  
Director

# INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 (Rupees in '000)	2013
<b>Income</b>			
Profit on bank deposits		74,734	68,202
Capital gain on sale of investments - net		8,044	4,621
Income from government securities		<u>134,718</u>	<u>183,359</u>
		217,496	256,182
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss'	5.2	<u>19,868</u>	<u>(7,563)</u>
<b>Total income</b>		237,364	248,619
<b>Expenses</b>			
Remuneration of Management Company	8.1	27,005	25,517
Federal excise duty and Sindh sales tax on remuneration of Management Company	8.2	5,254	4,081
Remuneration of Central Depository Company of Pakistan Limited -Trustee	9	2,909	3,042
Annual fee - Securities and Exchange Commission of Pakistan	10	1,817	1,931
Provision for Workers' Welfare Fund	11.2	3,729	6,377
Amortisation of preliminary expenses and floatation costs	7.1	200	200
Auditors' remuneration	12	591	587
Brokerage and settlement charges		128	163
Fees and subscription		241	240
Printing and related costs		125	272
Bank charges		156	61
<b>Total expenses</b>		42,155	42,471
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(12,482)	11,207
<b>Net income for the year before taxation</b>		<u>182,727</u>	<u>217,355</u>
Taxation	13	-	-
<b>Net income for the year after taxation</b>		<u>182,727</u>	<u>217,355</u>
<b>Earnings per unit</b>	14		

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

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

  
Chief Executive Officer

  
Director

# DISTRIBUTION STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 (Rupees in '000)	2013
Undistributed income brought forward:			
- Realised gains		45,679	6,165
- Unrealised gains / (losses)		<u>9,113</u>	<u>(4,674)</u>
		54,792	1,491
Net income for the year		182,727	217,355
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed		-	1,373
<i>Distributions:</i>			
Final distribution for the year ended 30 June 2013 at the rate of Rs. 1.8948 per unit [Date of distribution: 4 July 2013]			
- Issue of bonus units		(54,719)	-
- Cash distribution		(73)	-
Final distribution for the year ended 30 June 2014 at the rate of Rs. 1.5544 per unit [Date of distribution: 27 June 2014]			
- Issue of bonus units		(31,209)	-
- Cash distribution		(31)	-
Interim distributions during the year	18.1		
- Issue of bonus units		(150,653)	(165,153)
- Cash distribution		(164)	(274)
		(236,849)	(165,427)
<b>Undistributed income carried forward</b>		<u><u>670</u></u>	<u><u>54,792</u></u>
<b>Undistributed income carried forward:</b>			
- Realised losses / (gains)		(16,339)	45,679
- Unrealised gains		<u>17,009</u>	<u>9,113</u>
		<u><u>670</u></u>	<u><u>54,792</u></u>

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

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

  
Chief Executive Officer

  
Director

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

	<i>Note</i>	<b>2014</b> (Rupees in '000)	2013
Net assets at beginning of the year		2,946,490	1,506,772
Issue of 19,574,851 units (2013: 42,575,517 units)		<b>1,942,998</b>	4,307,273
Issue of 2,365,821 bonus units (2013: 1,649,901 bonus units)		<b>236,582</b>	165,153
Redemption of 30,318,728 units (2013: 30,361,237 units)		<b>(3,029,867)</b>	(3,073,429)
		<b>(850,287)</b>	1,398,997
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:			
- amount representing accrued (income) / loss and realised capital (gains) / losses transferred to the Income Statement		<b>12,482</b>	(11,207)
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement		<b>-</b>	(1,373)
		<b>12,482</b>	(12,580)
Net income for the year (excluding net unrealised appreciation / diminution on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)		<b>154,815</b>	220,297
Capital gain on sale of investments		<b>8,044</b>	4,621
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss'		<b>19,868</b>	(7,563)
		<b>182,727</b>	217,355
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement		<b>-</b>	1,373
Final distribution at the rate of Rs. 1.8948 per unit for the year ended 30 June 2013 [Date of distribution: 4 July 2013]			
- Cash distribution		<b>(73)</b>	-
- Issue of bonus units		<b>(54,719)</b>	-
Final distribution at the rate of Rs. 1.5544 per unit for the year ended 30 June 2014 [Date of distribution: 27 June 2014]			
- Cash distribution		<b>(31)</b>	-
- Issue of bonus units		<b>(31,209)</b>	-
Interim distributions during the year	<i>18.1</i>		
- Cash distribution		<b>(164)</b>	(274)
- Issue of bonus units		<b>(150,653)</b>	(165,153)
		<b>(236,849)</b>	(165,427)
<b>Net assets at end of the year</b>		<b>2,054,563</b>	2,946,490
Net assets value per unit as at beginning of the year		<b>101.89</b>	100.10
Net assets value per unit as at end of the year		<b>100.03</b>	101.89

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

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

  
Chief Executive Officer

  
Director

# CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 (Rupees in '000)	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		182,727	217,355
<b>Adjustments for non-cash and other items:</b>			
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'at fair value through profit or loss'		(19,868)	7,563
Amortisation of preliminary expenses and floatation costs		200	200
Provision for Workers' Welfare Fund		3,729	6,377
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		12,482	(11,207)
		<u>179,270</u>	<u>220,288</u>
<b>Decrease / (increase) in assets</b>			
Investments		660,999	(1,074,722)
Profit and income receivable		22,267	(30,429)
Prepayments		2	(1)
		<u>683,268</u>	<u>(1,105,152)</u>
<b>Increase / (decrease) in liabilities</b>			
Payable against redemption of units		(13,253)	13,253
Payable to Management Company		(344)	2,689
Payable to Central Depository Company of Pakistan Limited - Trustee		(50)	105
Payable to Securities and Exchange Commission of Pakistan		(114)	1,397
Accrued expenses and other liabilities		4,441	1,303
		<u>(9,320)</u>	<u>18,747</u>
<b>Net cash generated from / (used in) operating activities</b>		<u>853,218</u>	<u>(866,117)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (payments) / receipts from sale and redemption of units		(1,086,868)	1,233,844
Dividend paid		(237)	(274)
<b>Net cash (used in) / generated from financing activities</b>		<u>(1,087,105)</u>	<u>1,233,570</u>
Net (decrease) / increase in cash and cash equivalents during the year		(233,887)	367,453
Cash and cash equivalents at the beginning of the year		831,571	464,118
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>597,684</u></u>	<u><u>831,571</u></u>

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

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

  
Chief Executive Officer

  
Director



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2014

### 1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Islamic Income Fund ("the Fund") was established under a trust deed executed between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 25 January 2011 and was executed on 7 March 2011.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

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

The Fund is an open-end mutual fund and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering them to the Fund.

The Fund is listed on the Lahore Stock Exchange. According to paragraph 19.3 of the Trust Deed, the first accounting period of the Fund shall commence from the date on which the trust property is first paid or transferred to the Trustee i.e. 1 May 2011. The Fund has been categorised as "Shariah Compliant (Islamic) Income" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

The objective of the Fund is to seek to generate superior risk adjusted returns by investing in short, medium and long-term high quality Shariah Compliant fixed income instruments.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2' to the Management Company and 'AA-(f)' as stability rating to the Fund.

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

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

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

##### *Standards / amendments / interpretations*

##### *Effective from accounting period beginning on or after*

Amendments to IAS 1 'Presentation of Financial Statements' -  
Clarification of Requirements for Comparative information

1 January 2013

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

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

1 January 2013

Amendments to IFRS 7 'Financial Instruments: Disclosures' - Offsetting financial assets and financial liabilities

1 January 2013

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

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

### *Standards / amendments / interpretations*

### *Effective from accounting period beginning on or after*

Amendments to IAS 32 'Financial Instruments: Presentation' - Offsetting financial assets and financial liabilities

1 January 2014

IAS 36 'Impairment of Assets' - Recoverable Amount Disclosures for Non-Financial Assets

1 January 2014

IAS 39 'Financial Instruments: Recognition and Measurement' - Novation of Derivatives and Continuation of Hedge Accounting

1 January 2014

IFRIC 21 'Levies'

1 January 2014

Amendment to IAS 19 'Employee Benefits' - Employee Contributions

1 July 2014

Amendment to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment'

1 January 2016

Amendment to IAS 41 'Agriculture' and IAS 16 'Property, Plant and Equipment'

1 January 2016

Annual improvements 2010-2012 and 2011-2013 cycle

Various

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

IFRS 1 – First Time Adoption of International Financial Reporting Standards

IFRS 9 – Financial Instruments

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IFRS 14 – Regulatory Deferral Accounts

IFRS 15 – Revenue from Contracts with Customers

IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11

IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 and IFRS 11

## 2.4 Basis of measurement

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

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

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## 2.5 Functional and presentation currency

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

## 2.6 Critical accounting estimates and judgments

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

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

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

The Management Company has determined fair value of certain investments by using quotations from Financial Markets Association of Pakistan (Reuters). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgment (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

### Other assets

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

#### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not

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

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quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

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

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

**d) Financial liabilities**

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

**Recognition**

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

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

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

**Measurement**

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds 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.

**Basis of valuation of GoP Ijara sukuk certificates**

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the market rates from Reuters page.

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the rates notified on Reuters page.

**Securities under repurchase/ resale agreements**

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

**Impairment**

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective

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

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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 amortised 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 issued by the SECP.

### **Derecognition**

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **3.2 Unit holders' fund**

Unit holders' fund representing the units issued by the Fund, is carried at the net asset value representing the investors' right to a residual interest in the Fund assets.

### **3.3 Issue and redemption of units**

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

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

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

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

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

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

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### 3.5 Preliminary expenses and floatation costs

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

### 3.6 Provisions

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

### 3.7 Net assets value per unit

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

### 3.8 Taxation

#### Current

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

#### Deferred

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

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

### 3.9 Revenue recognition

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

### 3.10 Expenses

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

### 3.11 Cash and cash equivalents

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

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

## 3.12 Other assets

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

## 3.13 Dividend distributions and appropriations

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

## 4. BALANCES WITH BANKS

		2014 (Rupees in '000)	2013
In current accounts		10,239	10,690
In savings accounts	4.1	<u>587,445</u>	<u>820,881</u>
		<u>597,684</u>	<u>831,571</u>

4.1 These carry mark-up at rates ranging from 6% to 9.25% (2013: 6% to 10.9%) per annum.

## 5. INVESTMENTS

*'At fair value through profit or loss'*

- GoP Ijara Sukuk

5.1	<u>1,451,550</u>	<u>2,092,681</u>
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### 5.1 GoP Ijara Sukuk - 'at fair value through profit or loss' - held for trading

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2014			Market value	
		As at 1 July 2013	Purchases during the year	Sales / Matured during the year	As at 30 June 2014	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
3 year (Tenor)										
16 May 2011	9.46%	358,200	120,000	478,200	-	-	-	-	-	-
26 December 2011	9.22%	135,000	-	135,000	-	-	-	-	-	-
28 June 2012	9.97%	170,000	8,000	170,000	8,000	8,248	8,226	(22)	0.40	0.57
18 September 2012	9.73%	1,399,000	-	733,800	665,200	664,934	684,824	19,890	33.33	47.18
30 April 2012	9.43%	26,500	-	26,500	-	-	-	-	-	-
7 March 2011	9.02%	3,000	100,000	103,000	-	-	-	-	-	-
25 June 2014	7.98%	-	758,500	-	758,500	758,500	758,500	-	36.92	52.25
						1,431,682	1,451,550	19,868		

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2013			Market value	
		As at 1 July 2012	Purchases during the year	Sales / Matured during the year	As at 30 June 2013	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
----- (Rupees in '000) -----										
<b>3 year (Tenor)</b>										
15 November 2010	9.43%	697,500	75,000	772,500	-	-	-	-	-	-
16 May 2011	9.43%	280,000	78,200	-	358,200	358,995	359,060	65	17.48	24.74
26 December 2011	9.22%	47,500	150,000	62,500	135,000	136,350	135,284	(1,066)	6.58	9.32
28 June 2012	8.92%	-	220,000	50,000	170,000	170,680	170,323	(357)	8.29	11.73
2 March 2012	9.34%	-	25,000	25,000	-	-	-	-	-	-
18 September 2012	9.15%	-	1,429,000	30,000	1,399,000	1,404,454	1,398,440	(6,014)	68.07	96.34
30 April 2012	9.43%	-	30,000	3,500	26,500	26,765	26,569	(196)	1.29	1.83
7 March 2011	9.34%	-	3,000	-	3,000	3,000	3,005	5	0.15	0.21
						2,100,244	2,092,681	(7,563)		

### 5.2 Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss'

		2014 (Rupees in '000)	2013
Market value of investments as of 30 June	5.1	1,451,550	2,092,681
Less: carrying value of investments as of 30 June		<u>1,431,682</u>	<u>2,100,244</u>
		<u>19,868</u>	<u>(7,563)</u>

## 6. PROFIT AND INCOME RECEIVABLE

Profit accrued on savings deposits	8,533	8,504
Income accrued on government securities	<u>19,618</u>	<u>41,914</u>
	<u>28,151</u>	<u>50,418</u>



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

## 7. PRELIMINARY EXPENSES AND FLOATATION COSTS

	2014	2013
	(Rupees in '000)	
Opening balance	592	792
Less: Amortisation for the year	7.1 200	200
Closing balance	<u>392</u>	<u>592</u>

- 7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 19 June 2011 as per the requirements set out in the Trust Deed of the Fund.

## 8. PAYABLE TO MANAGEMENT COMPANY

Management fee payable	8.1 1,264	2,205
Sindh sales tax on management fee	8.1 202	353
Front-end load payable	<u>2,997</u>	<u>2,249</u>
	<u>4,463</u>	<u>4,807</u>

- 8.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities 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. The Management Company has charged remuneration at the rate of 10% of the gross earnings of the Fund. This fee is subject to a minimum of 0.25% of the average daily net assets of the Fund not exceeding the maximum rate of remuneration permitted under the NBFC Regulations, 2008. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. Management fee charged during the year is inclusive of all government levies (i.e. 16% General Sales tax by Sindh Government and 16% Federal Excise Duty).

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

The Trustee (Central Depository Company of Pakistan Limited) 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.

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

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

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

As per Schedule II of the NBFC Regulations, 2008, an income scheme is required to pay an amount equal to 0.075 percent of the average annual net assets of the scheme as annual fee to the Securities and Exchange Commission of Pakistan.

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

## 11. ACCRUED EXPENSES AND OTHER LIABILITIES

		2014	2013
		(Rupees in '000)	
Federal excise duty payable	11.1	4,711	262
Provision for Workers' Welfare Fund	11.2	10,189	6,460
Zakat payable		1,300	1,300
Auditors' remuneration		390	350
Printing charges payable		120	200
Capital gain tax payable		63	34
Others		4	1
		<u>16,777</u>	<u>8,607</u>

**11.1** The Finance Act, 2013 introduced an amendment to Federal Excise Act, 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% on the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the passage of eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 4,711 million as at 30 June 2014. In case, the suit is decided against the Fund it would be paid to Management Company, who will be responsible for submitting the same to taxation authorities. Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the Net Assets Value (NAV) of the Fund would have been higher by Re. 0.23 per unit as at 30 June 2014.

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

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

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

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the recent decision of SHC, the Management Company, as a matter of abundant precaution, has decided to charge the entire provision for WWF amounting to Rs. 10.189 million in these financial statements.

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

## 12. AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Annual audit fee	275	250
Half yearly review fee	150	150
Other certifications	100	131
Out of pocket expenses	66	56
	<u>591</u>	<u>587</u>

## 13. TAXATION

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

## 14. EARNINGS PER UNIT

Earnings per unit has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating earnings per unit is not practicable.

## 15. TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

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

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

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

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

### 15.1 Details of the transactions with related parties / connected persons:

	2014	2013
	(Rupees in '000)	
<b>MCB Arif Habib Savings and Investments Limited - Management Company</b>		
Remuneration (including indirect taxes)	32,259	29,598
Front-end load	14,774	48,067
Redemption of Nil units (2013: 105,733)	-	111,841
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	2,909	3,042
<b>Adamjee Life Assurance Co. Limited (Amaanat Fund)</b>		
Issue of 719,995 units (2013: 191,967 units)	72,800	19,334
Issue of 38,863 bonus units (2013: 533 units)	3,886	53
Redemption of 279,335 units (2013: 177,550 units)	28,350	18,000

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

	2014 (Rupees in '000)	2013
<b>Adamjee Life Assurance Co. Limited (Investment Secure Fund)</b>		
Issue of 269,352 units (2013: Nil units)	27,000	-
Issue of 15 bonus units (2013: Nil units)	1	-
Redemption of 269,179 units (2013: Nil units)	27,000	-
<b>Adamjee Life Assurance Co. Limited (Investment Secure Fund II)</b>		
Issue of 119,712 units (2013: Nil units)	12,000	-
Issue of 6 bonus units (2013: Nil units)	1	-
Redemption of 119,635 units (2013: Nil units)	12,000	-
<b>Mandate under Discretionary Portfolio Services</b>		
Issue of 363,040 units (2013: Nil units)	37,000	3,900
Issue of 19,548 bonus units (2013: Nil units)	1,955	-
Redemption of 421,065 units (2013: Nil units)	42,427	-
<b>MCB Bank Limited</b>		
Profit on bank deposits	4,234	699
Bank charges	41	21
<b>Directors and executives of the Management Company</b>		
Issue of 119,288 units (2013: 78,672 units)	12,037	8,120
Issue of 5,272 bonus units (2013: 4,528 units)	528	453
Redemption of 92,976 units (2013: 115,413 units)	9,377	11,670
<b>15.2 Amounts outstanding as at year end</b>		
<b>MCB Arif Habib Savings and Investments Limited - Management Company</b>		
Management fee payable	1,264	2,205
Sindh sales tax payable on management fee	202	353
Front-end load payable	2,997	2,249
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	226	276
<b>Adamjee Life Assurance Co. Limited (Amaanat Fund)</b>		
Units held: 494,473 (2013: 14,950 units)	49,462	1,523
<b>Adamjee Life Assurance Co. Limited (Investment Secure Fund)</b>		
Units held: 188 (2013: Nil units)	19	-
<b>Adamjee Life Assurance Co. Limited (Investment Secure Fund II)</b>		
Units held: 83 (2013: Nil units)	8	-
<b>Mandate under Discretionary Portfolio Services</b>		
Units held Nil (2013: 38,476)	-	3,920
<b>MCB Bank Limited</b>		
Balance in bank accounts	16,293	12,561
Profit receivable on bank deposits	2,311	74
<b>Directors and executives of the Management Company</b>		
Units held 62,615 units (2013: 31,031 units)	6,263	3,161

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

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### 16. FINANCIAL RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by Investment Committee under policies approved by the Board of Directors.

The Fund primarily invests in short, medium and long-term Shariah Compliant Fixed income instruments.

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

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

#### 16.1 Market risk

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

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

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

##### Currency risk

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

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds floating debt securities that expose the Fund to cash flow and fair value interest rate risk due to fluctuations in prevailing levels of market interest rates.

As at 30 June 2014, the investment in debt securities exposed to interest rate risk is detailed in Note 5.1 to these financial statements.

##### Sensitivity analysis for variable rate instruments

Presently, the Fund holds GoP Ijara Sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in 6 months weighted average yield of GoP Ijara Sukuks on 30 June 2014 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 2.08 million (2013: Rs. 4.6 million).

The composition of the Fund's investment portfolio and rates announced is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The fluctuation in interest of 100 basis points is reasonably possible in the current economic environment.

##### Sensitivity analysis for fixed rate instruments

At present the Fund does not hold any fixed financial instruments which expose the Fund to fair value risk. The Fund maintain saving account with banks. However, it carries it at cost. Hence not exposed to fair value risk owing to fluctuation in interest

##### Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at 30 June 2014, the Fund does not hold any investment exposed to price risk, accordingly there will be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in debt securities (i.e. government securities) for change in factors other than those arising from interest rate or currency risk.

#### 16.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered

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

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into with the Fund, resulting in a financial loss to the Fund. Risk attributable to investments in GoP Ijara Sukuks is limited as these are guaranteed by the Federal Government while bank balances are maintained with banks with a reasonably high credit rating. The Fund's policy is to enter into financial instrument contracts by following internal guidelines approved by the Investment Committee.

### **Exposure to credit risk**

The Fund's maximum credit exposure (without taking into account collateral and other credit enhancement) at the balance sheet date is represented by the respective carrying amount of relevant financial assets i.e. balances with banks, investments and profit and income receivable in Statement of Assets and Liabilities.

### **Settlement risk**

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

### **Balances with banks**

As at 30 June 2014, the Fund kept surplus liquidity with banks having long term credit rating ranging from AAA to AA. The rating to respective banks are assigned by reputable credit rating agencies.

### **Investment in debt securities**

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

### **Past due and impaired assets**

No financial assets carried at amortised cost or cost were past due or impaired either as at 30 June 2014 or 30 June 2013. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor it considers the value of collateral while testing investments for impairment and follows the circulars issued by SECP for the purpose of making provision and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

### **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 most significant investment is made in GoP Ijara sukuk which are government guaranteed.

## **16.3 Liquidity risk**

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

### **Management of liquidity risk**

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

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

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

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	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable to Management Company	4,463	-	-	4,463
Payable to Central Depository Company of Pakistan Limited - Trustee	226	-	-	226
Accrued expenses and other liabilities	514	-	-	514
	<u>5,203</u>	<u>-</u>	<u>-</u>	<u>5,203</u>

	30 June 2013			Total
	Up to three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Payable against redemption of units	13,253	-	-	13,253
Payable to Management Company	5,069	-	-	5,069
Payable to Central Depository Company of Pakistan Limited - Trustee	276	-	-	276
Accrued expenses and other liabilities	1,851	-	-	1,851
	<u>20,449</u>	<u>-</u>	<u>-</u>	<u>20,449</u>

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

## 16.4 Financial instruments by category

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

	30 June 2014		Total
	Loans and receivables	Assets at fair value through profit or loss	
	----- (Rupees in '000) -----		
<b>Assets</b>			
Balances with banks	597,684	-	597,684
Investments	-	1,451,550	1,451,550
Profit and income receivable	28,151	-	28,151
	<u>625,835</u>	<u>1,451,550</u>	<u>2,077,385</u>

	30 June 2014		Total
	Liabilities at fair value through profit or loss	Other financial liabilities	
	----- (Rupees in '000) -----		
<b>Liabilities</b>			
Payable to Management Company	-	4,463	4,463
Payable to Central Depository Company of Pakistan Limited - Trustee	-	226	226
Dividend payable	-	31	31
Accrued expenses and other liabilities	-	16,777	16,777
	<u>-</u>	<u>21,497</u>	<u>21,497</u>



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

	30 June 2013		
	Loans and receivables	Assets at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
<b>Assets</b>			
Balances with banks	831,571	-	831,571
Investments	-	2,092,681	2,092,681
Profit and income receivable	50,418	-	50,418
	<u>881,989</u>	<u>2,092,681</u>	<u>2,974,670</u>

	30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
<b>Liabilities</b>			
Payable against redemption of units	-	13,253	13,253
Payable to Management Company	-	4,807	4,807
Payable to Central Depository Company of Pakistan Limited - Trustee	-	276	276
Accrued expenses and other liabilities	-	8,607	8,607
	<u>-</u>	<u>26,943</u>	<u>26,943</u>

## Unit holders' fund risk management

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

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

## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

### 30 June 2014

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

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

1,451,550

30 June 2013

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

2,092,681

## 18. DISTRIBUTIONS BY THE FUND

### 18.1 Distributions during the year

	For the year ended 30 June 2014			
	Distribution per unit	Bonus Units	Cash Amount	Total
			----- (Rupees in '000) -----	
<i>Date of distributions</i>				
27 September 2013	Rs. 1.8266	455,060	45,506	45,576
27 December 2013	Rs. 2.3551	545,263	54,526	54,573
27 March 2014	Rs. 2.3654	506,214	50,621	50,668
		<u>1,506,537</u>	<u>150,653</u>	<u>150,817</u>

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

	For the year ended 30 June 2013			
	Distribution per unit	Bonus Units	Cash Amount	Total
	----- (Rupees in '000) -----			
<i>Date of distributions</i>				
27 September 2012	Rs. 3.1363	569,652	57,022	125
26 December 2012	Rs. 2.1461	560,122	56,067	86
26 March 2013	Rs. 1.5687	520,127	52,064	63
		<u>1,649,901</u>	<u>165,153</u>	<u>274</u>
				<u>165,427</u>

The Board of Directors on 22 September 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund, in the form of cash or bonus units or in any other form on monthly / quarterly basis. However, the final distributions to the Fund is recommended and approved by the Board of Directors of the Management Company.

## 19. SUPPLEMENTARY NON FINANCIAL INFORMATION

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

### 19.1 Pattern of unit holding

	As at 30 June 2014		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	1,364	1,786,642	86.97%
Associated companies	3	49,491	2.42%
Insurance companies	1	34,524	1.69%
Retirement funds	8	49,833	2.43%
Others	14	134,073	6.53%
	<u>1,390</u>	<u>2,054,563</u>	<u>100%</u>

	As at 30 June 2013		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	1,598	2,770,271	94.02%
Insurance companies	2	16,602	0.56%
Retirement funds	11	37,558	1.27%
Public limited companies	3	30,960	1.05%
Others	11	91,099	3.08%
	<u>1,625</u>	<u>2,946,490</u>	<u>100.00%</u>

### 19.2 Top ten brokers / dealers by percentage of commission paid

	2014 (Percentage)
1 Invest Capital Markets Limited	54.82%
2 Vector Capital (Private) Limited	15.60%
3 C&M Management (Private) Limited	10.53%
4 Invest & Finance Securities Limited	10.10%
5 JS Global Capital Ltd	8.95%
	2013 (Percentage)
1 Invest & Finance Securities Ltd	35.94%
2 JS Global Capital Ltd	26.91%
3 Invest Capital Markets Ltd	12.46%
4 Elixer Securities Pakistan (Pvt) Ltd.	8.15%
5 Vector Capital (Pvt) Ltd	6.13%
6 KASB Securititas Ltd	6.12%
7 Optimus Markets (Pvt) Ltd	2.45%
8 Global Securities Pakistan Limited	1.84%

### 19.3 Attendance at meetings of Board of Directors

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

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

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

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

## 19.4 Particulars of Investment Committee and Fund Manager

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

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	19 Years
Mr. Kashif Rafi	SVP - Head of Fixed Income Investments	MBA & CFA (Level I)	13 Years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	11 Years
Mr. Mohsin Pervaiz	VP - Investments	MBA & CFA (Level I)	13 Years
Ms. Uzma Khan	Fund Manager and Senior Research Analyst	MBA, CFA & FRM	9 Years

## 19.5 Other funds managed by the Fund Manager:

- Pakistan Stock Market Fund;
- Pakistan International Element Islamic Asset Allocation Fund; and
- Pakistan Islamic Pension Fund

## 20. CORRESPONDING FIGURES

The following figures have been re-arranged and reclassified for the purposes of comparison and better presentation as follows:

Reclassification from component	Reclassification to component	(Rupees in '000)
Payable to Management Company (Management fee payable)	Accrued expenses and other liabilities (Federal excise duty payable)	262
Payable to Management Company (Management fee payable)	Payable to Management Company (Sindh sales tax on management fee)	353
Remuneration of Management Company	Federal excise duty and Sindh sales tax on remuneration of Management Fee	4,081
Fees, subscription and printing charges	Fees and subscription	240
Fees, subscription and printing charges	Printing and related costs	272
Fees, subscription and printing charges	Bank charges	61

The effect of the above reclassifications is not material.

## 21. DATE OF AUTHORISATION FOR ISSUE

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

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>		
ADAMJEE LIFE ASSURANCE CO.LTD.ISF-II	1	84
ADAMJEE LIFE ASSURANCE CO.LTD.(ISF)	1	188
ADAMJEE LIFE ASSURANCE CO. LTD. AMAANAT FUND	1	494,474
 <b>Public Sector Companies and Corporations</b>	 6	 735,942
 <b>Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.</b>	 1	 345,131
 <b>Individuals</b>	 1,364	 17,860,653
 <b>Trust</b>	 16	 1,102,468
	1,390	20,538,940

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

No of Unit Holders	Unit Holdings	Total Units Held
943	1-10000	2,422,470
413	10001-100000	11,506,510
34	100001-1000000	6,609,960
1390		20,538,994

## PERFORMANCE TABLE

Performance Information	2014	2013	2012	2011
Total Net Assets Value – Rs. in million	2,054.56	2,946.49	1,506.77	178.00
Net Assets value per unit – Rupees	100.03	101.89	100.10	100.25
Highest offer price per unit	104.47	104.81	106.14	100.25
Lowest offer price per unit	102.02	101.64	100.00	100.00
Highest Redemption price per unit	102.37	103.24	106.14	100.25
Lowest Redemption price per unit	99.96	100.11	100.00	100.00
Distribution per unit (annual) – Rs.	1.55	1.89	2.32	
Distribution per unit (Interim) – Rs.	6.55	6.85	8.73	0.25
<b>Average Annual Return - %</b>				
One year	8.38	8.91	10.40	7.80
Two year	8.65	5.06	-	NA
Three year	9.22	-	-	NA
Net Income / (loss) for the period – Rs. in million	182.73	217.36	98.72	0.46
Income Distribution – Rs. in million	182.06	220.22	97.23	0.46
Accumulated Capital Growth – Rs. in million	0.67	(2.86)	1.49	0.00
Weighted average Portfolio Duration (Days) – 30 June 2014	132.00	496.40	386.90	492.75

### 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.

Please find us on



by typing: **Bachat Ka Doosra Naam**

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

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

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