

**Annual Report
2015**



MCB

ISLAMIC INCOME FUND

MCB-Arif Habib Savings and Investments Limited

AM2 Plus by PACRA



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Vision

To become synonymous with Savings.

Mission

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

Core Values

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

FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors	Mian Muhammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
Audit Committee	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	Member
Company Secretary & Chief Financial Officer	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B' S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited United Bank Limited Bank Al-Falah Limited Habib Bank Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 + Management Quality Rating assigned by PACRA	

REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2015

On behalf of the Board of Directors, I am pleased to present MCB Islamic Income Fund's accounts review for the year ended June 30th, 2015.

ECONOMY AND MONEY MARKET OVERVIEW

Lower oil prices benefited the country in the form of improving macroeconomic indicators during FY15. Average annual inflation remained significantly below the target, foreign exchange reserves improved, Current account deficit narrowed down and GDP growth marginally increased.

As oil prices stood around \$63 per barrels at the end of June, 2015 in the international market, the Brent crude has nearly halved in price since its peak of around \$114 a barrel touched in June, 2014. Hence, on the heels of stable food prices and cut in fuel prices in the domestic market, Consumer Price Inflation averaged around 4.56% in FY15 as opposed to the average inflation of 8.6% in FY14.

While the country's current account deficit summed to \$2.28 billion at the end of FY15 as opposed to deficit of \$ 3.13 billion in FY14. With trade deficit largely unchanged compared to the previous year, improvement in the current account balance came from growth in remittances.

Import bill remained close to the last year's level, as benefit of lower oil bill was annulled by volumetric increase in imports in other segments. Exports remained weak in consideration of disruptive power supplies, weak competitiveness and a weak demand outlook in export destinations particularly Europe. Workers' Remittances totalled to \$ 18.45 billion in FY15, marking a growth of 17 percent as compared to last year.

At the same time, financial account registered a surplus of \$ 4.52 billion as compared to a surplus of \$ 5.55 billion recorded during the last year. This is mainly due to lower Direct Investments and Portfolio investments in the country.

The country's FX reserves got an impetus from multilateral and bilateral disbursements, successful continuation of IMF program, privatization proceeds, Sukuk auction and lower oil bill. The reserves stood at around \$ 18.7 billion at the end of June, increased by around \$4 billion in FY15.

Keeping in view of subsiding inflationary pressure along with improving outlook on the balance of payment, the State Bank announced successive cuts in the discount rate in the monetary policy held in November, January, March and May, bringing the discount rate to 7 percent from 10 percent at the start of the year.

With the country battling with power crisis and poor infrastructure, commitment of \$47 billion in the form of investments in the power and infrastructure sectors by Chinese president in April-2015 is expected to provide an impetus to resource mobilization and economic activity for Pakistan. Pace of progress along with extent of domestic partnerships on key development projects shall however be critical for achieving the desired impact on economy over the next 3 years.

All these positives developments led to the improvement in the country's rating outlook by the international rating agencies. Moody's Investors Service has upgraded Pakistan to the 'B-3' category. While Standard and Poor's (S&P) ratings' agency has raised Pakistan's credit rating to positive, with rating reaffirmed at B-.

M2 has expanded by 12.3 percent during FY15 (till June 26, 2015) as opposed to 11.43% in FY14 with stable contribution from NFA. At the same time, the net borrowing from the banking system increased by Rs 1,001 billion as opposed to Rs 373 billion during the previous year.

Treasury market remained quite active during the year, largely due to declining interest rate scenario stemming from sharp decline in oil prices. Participation largely remained concentrated in longer tenure paper causing strain on short term liquidity which was supported by SBP through frequent OMO injections. In order to efficiently manage market liquidity, SBP introduced a target rate; 50bps below the ceiling rate (Discount rate). Moreover, to reduce volatility, policy makers also reduced the width of the interest rate corridor by 50 bps to 200 bps.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 6.55% as against its benchmark return of 6.29%, an out performance by 0.26%.

During the period, the fund reduced its exposure marginally towards GoP Ijarah Sukuk, which stood at around 49.1% at period end compared with 69.8% at June 30, 2014, 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.

The Net Assets of the Fund as at June 30, 2015 stood at Rs. 1.261 billion as compared to Rs. 2.055 billion as at June 30, 2014 registering a decrease of 38.60%.

The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 100.1908 as compared to opening NAV of Rs. 100.0326 per unit as at June 30, 2014 registering an increase of Rs. 0.1582 per unit.

REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2015

Income Distribution

During the period the Management Company has announced the final distribution:

Date of distribution	Per unit distribution
	Rs.
June 22, 2015	5.8500
June 23, 2015	0.5258

FUTURE OUTLOOK

On the back of weak crude oil prices, average CPI is expected to remain in lower range of around 6% in FY16. Forex Reserves are also expected to remain strong with the continued focus of government on privatization plans. Moreover, the government aims to raise \$1 billion by issuing Eurobond and planning to borrow \$1 billion from Islamic Development Bank (IDB) in FY16. The agreement with China for investment in infrastructure and energy projects is likely to support the weak FDI and shall be the key to rejuvenate economic activity.

Due to subsiding cost pressure, we expect manufacturing sectors, primarily, Auto, Cement and Consumer sectors to outperform the broader market. Moreover, continuation of expansionary environment suggests high-dividend yield companies will continue to perform. While improvement in Pakistan's sovereign outlook and possible reclassification of Pakistan to emerging market by MSCI will support appetite for Large Cap stocks.

Corporate Governance

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 18.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2015:

REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2015

1. Meeting of the Audit Committee.

During the year, four (4) meetings of the Audit Committee were held. The attendance of each participant is as follows:

Name of Persons	Number of meetings held	Number of meetings		
		Attendance required	Attended	Leave granted
1 Mr. Haroun Rashid	4	4	2	2
2 Mr. Samad A. Habib	4	4	2	2
3 Mr. Ahmed Jahangir	4	4	4	-

2. Meeting of the Human Resource and Remuneration Committee.

During the year, two (2) meetings of the Human Resource and Remuneration Committee were held. The attendance of each participant is as follows:

Name of Persons	Number of meetings held	Number of meetings		
		Attendance required	Attended	Leave granted
1 Dr. Syed Salman Shah	2	2	2	-
2 Mr. Nasim Beg	2	2	2	-
3 Mr. Ahmed Jahangir	2	2	2	-
4 Mr. Haroun Rashid	2	2	2	-
5 Mr. Yasir Qadri	2	2	2	-

- m. During the year no Director has attended the Directors' Training Program organized by the Pakistan Institute of Corporate Governance (as already all the directors have completed the course or they are exempted from attending training course due to sufficient working experience).
- n. No trades in the Units of the Fund were carried out during the year 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.

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, 2016. 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, 2016.

Acknowledgment

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

For and on behalf of the board



Yasir Qadri
Chief Executive Officer
Karachi: August 07, 2015

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2015

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

During the period under review, the fund generated an annualized return of 6.55% as against its benchmark return of 6.29%, an out performance by 0.26%.

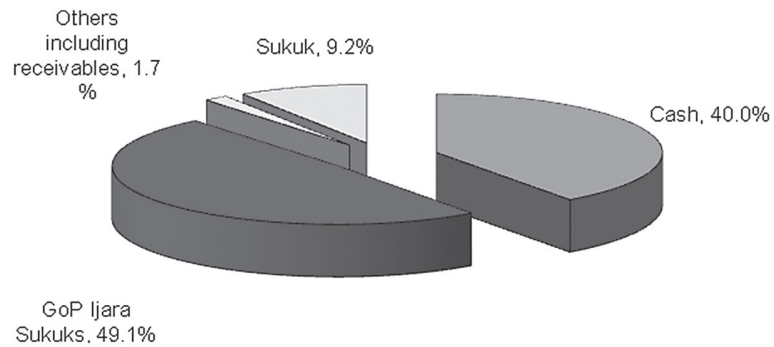
During the period, the fund reduced its exposure in GoP Ijarah Sukuk, which stood at around 49.1% at period end compared with 69.8% at June 30, 2014, on the back of decent yield being offered by Islamic Banks as well as capital gains potential. The fund has kept its 40% of allocation in bank deposits at competitive rates and 9.2% allocation in corporate SUKUK.

The Net Assets of the Fund as at June 30, 2015 stood at Rs. 1.261 billion as compared to Rs. 2.055 billion as at June 30, 2014 registering a decrease of 38.60%.

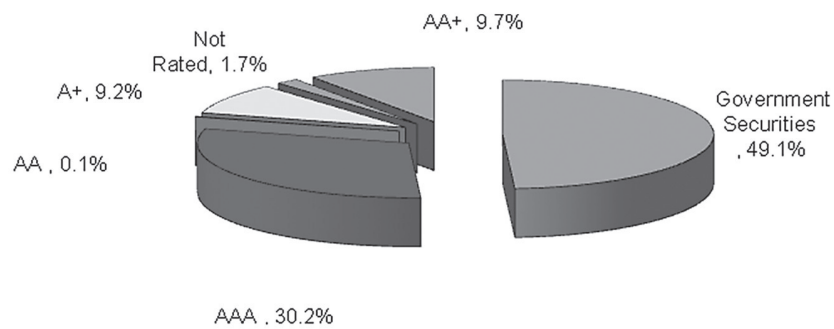
The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 100.1908 as compared to opening NAV of Rs. 100.0326 per unit as at June 30, 2014 registering an increase of Rs. 0.1582 per unit.

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2015

Asset Allocation as on June 30, 2015 (% of total assets)



Asset Quality as on June 30, 2015 (% of total assets)



Mohsin Pevaiz
Fund Manager

Karachi: August 07, 2015

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2015

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



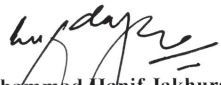
TRUSTEE REPORT TO THE UNIT HOLDERS

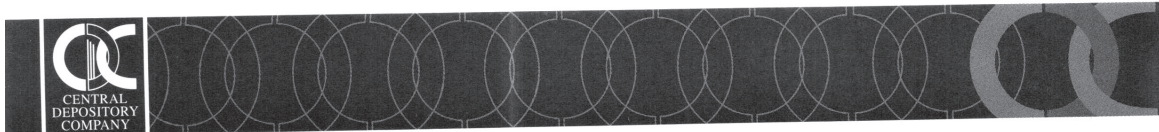
MCB ISLAMIC INCOME FUND

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 and Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2015 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 1, 2015



REPORT OF THE SHARIAH ADVISOR BOARD FOR THE YEAR ENDED JUNE 30, 2015

REPORT OF THE SHARIAH ADVISOR BOARD

Alhamdulillah, the year under review was fifth full year of operations of MCB Islamic Income Fund (the Fund). We, the Shariah Advisory Board of the Fund, are issuing this report in accordance with the clause 5.8.5 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

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

A review is limited primarily to inquire 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, 2014 to June 30, 2015 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.



Dr Muhammad Zubair Usmani

Karachi: August 07, 2015

For and on behalf of Shariah Advisory Board

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2015

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 listing regulation 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 Limited. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, MCB-Arif Habib Saving and Investment Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

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

Category	Names
Independent Directors	<ol style="list-style-type: none"> 1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	<ol style="list-style-type: none"> 1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	<ol style="list-style-type: none"> 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. No formal Code of Corporate Governance Leadership Skills (CGLS) training was organized for any director as all the directors already possess required training or qualification and experience as required by CCG.
10. The Board of Directors in a resolution passed through circulation on March 30, 2015, appointed Chief Financial Officer and fixed his remuneration and terms and conditions of employment. However, there have been no new appointments of Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for the year ended June 30, 2015 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2015

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 Board has formulated a mechanism for an annual evaluation of its own performance. The evaluation has been done by the board in the meeting held on August 07, 2015.
20. 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.
21. 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.
22. 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.
23. Material/price sensitive information has been disseminated among all market participants at once through the stock exchange.
24. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board



Yasir Qadri
Chief Executive Officer

Karachi: August 07, 2015

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



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

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Internet www.kpmg.com.pk

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited ("the Management Company") of the Fund for the year ended 30 June 2015 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.

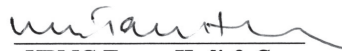
As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control 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 2015.

Date: 07 August 2015

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, 2015



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

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

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **MCB Islamic Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2015, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund and 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 2015, 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, 2015**



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: 07 August 2015

Karachi

A handwritten signature in black ink, appearing to read 'Moneeza Usman Butt'.

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

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2015

	<i>Note</i>	2015	2014
		(Rupees in '000)	
Assets			
Balances with banks	4	517,006	597,684
Investments	5	754,410	1,451,550
Profit and income receivable	6	20,907	28,151
Deposits, prepayments and other receivables		229	100
Preliminary expenses and floatation costs	7	192	392
Total assets		1,292,744	2,077,877
Liabilities			
Payable to Management Company	8	1,365	2,220
Payable to Central Depository Company of Pakistan Limited - Trustee	9	153	226
Payable to Securities and Exchange Commission of Pakistan	10	1,198	1,817
Dividend payable		-	31
Accrued expenses and other liabilities	11	28,968	19,020
Total liabilities		31,684	23,314
Net assets		1,261,060	2,054,563
Unit holders' fund		1,261,060	2,054,563
		(Number of units)	
Number of units in issue		12,586,594	20,538,940
		(Rupees)	
Net assets value per unit		100.19	100.03

The annexed notes from 1 to 20 form an integral part of these financial statements.

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



Chief Executive Officer



Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
Income			
Profit on bank deposits		32,509	74,734
Capital (loss) / gain on sale of investment - net		(9,390)	8,044
Income from government securities		95,862	134,718
Income from unlisted debt securities - term finance certificates		13,298	-
Back end load		1	-
		<u>132,280</u>	<u>217,496</u>
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - held for trading		(6,232)	19,868
Total income		<u>126,048</u>	<u>237,364</u>
Expenses			
Remuneration of Management Company	8.1	14,375	27,005
Federal excise duty and Sindh sales tax on remuneration of Management Company	8.2	4,801	5,254
Remuneration of Central Depository Company of Pakistan Limited -Trustee	9	2,208	2,909
Annual fee - Securities and Exchange Commission of Pakistan	10	1,198	1,817
Provision for Workers' Welfare Fund	11.2	1,301	3,729
Amortisation of preliminary expenses and floatation costs	7.1	200	200
Auditors' remuneration	12	580	591
Brokerage and settlement charges		242	128
Legal and professional charges		100	-
Sindh sales tax registration charges		8	-
Fees and subscription		267	241
Printing and related costs		203	125
Bank charges		115	156
Total expenses		<u>25,598</u>	<u>42,155</u>
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(36,699)	(12,482)
Net income for the year before taxation		<u>63,751</u>	<u>182,727</u>
Taxation	13	-	-
Net income for the year after taxation		<u>63,751</u>	<u>182,727</u>
Earnings per unit	14		

The annexed notes from 1 to 20 form an integral part of these financial statements.

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



Chief Executive Officer



Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
Undistributed (loss) / income brought forward:			
- Realised (losses)/ gains		(16,339)	45,679
- Unrealised gains		17,009	9,113
		670	54,792
Net income for the year		63,751	182,727
Net element of income / (loss) and capital gains / (losses) for the year included in prices of units issued less those in units redeemed		259	-
<i>Distributions:</i>			
Final distribution at the rate of Rs. 1.8948 per unit for the year ended 30 June 2013 [Date of distribution: 4 July 2013]			
- Issue of bonus units		-	(54,719)
- Cash distribution		-	(73)
Final distribution at the rate of Rs. 1.5544 per unit for the year ended 30 June 2014 [Date of distribution: 27 June 2014]			
- Issue of bonus units		-	(31,209)
- Cash distribution		-	(31)
Interim distributions during the year			
- Issue of bonus units		-	(150,653)
- Cash distribution		-	(164)
Final distribution at the rate of Rs. 5.85 per unit for the year ended 30 June 2015 [Date of distribution: 22 June 2015]			
- Distribution		(56,440)	-
Final distribution at the rate of Re. 0.53 per unit for the year ended 30 June 2015 [Date of distribution: 23 June 2015]			
- Distribution		(5,321)	-
		(61,761)	(236,849)
Undistributed income carried forward		2,919	670
Undistributed income carried forward:			
- Realised gains / (losses)		9,676	(16,339)
- Unrealised (losses) / gains		(6,757)	17,009
		2,919	670

The annexed notes from 1 to 20 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 HOLDER'S FUND FOR THE YEAR ENDED JUNE 30, 2015

	2015 (Rupees in '000)	2014
Net assets at beginning of the year	2,054,563	2,946,490
Issue of 9,485,198 units (2014: 19,574,851 units)	968,125	1,942,998
Issue of nil bonus units (2014: 2,365,821 bonus units)	-	236,582
Redemption of 17,437,545 units (2014: 30,318,728 units)	(1,800,317)	(3,029,867)
	(832,192)	(850,287)
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	36,699	12,482
- amount representing unrealised capital (gains) / losses transferred to the Distribution Statement	259	-
	36,958	12,482
Net income for the year (excluding net unrealised (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' and capital (loss) / gain on sale of investments)	79,373	154,815
Capital (loss) / gain on sale of investments	(9,390)	8,044
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - held for trading	(6,232)	19,868
	63,751	182,727
Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(259)	-

STATEMENT OF MOVEMENT IN UNIT HOLDER'S FUND FOR THE YEAR ENDED JUNE 30, 2015

	2015 (Rupees in '000)	2014
Final distribution at the rate of Rs. 1.8948 per unit for the year ended 30 June 2013 [Date of distribution: 4 July 2013]		
- Issue of bonus units	-	(54,719)
- Cash distribution	-	(73)
Final distribution at the rate of Rs. 1.5544 per unit for the year ended 30 June 2014 [Date of distribution: 27 June 2014]		
- Issue of bonus units	-	(31,209)
- Cash distribution	-	(31)
Interim distributions during the year		
- Issue of bonus units	-	(150,653)
- Cash distribution	-	(164)
Final distribution at the rate of Rs. 5.85 per unit for the year ended 30 June 2015 [Date of distribution: 22 June 2015]		
- Distribution	(56,440)	-
Final distribution at the rate of Re. 0.53 per unit for the year ended 30 June 2015 [Date of distribution: 23 June 2015]		
- Distribution	(5,321)	-
	(61,761)	(236,849)
Net assets at end of the year	1,261,060	2,054,563
Net assets value per unit as at beginning of the year	100.03	101.89
Net assets value per unit as at end of the year	100.19	100.03

The annexed notes from 1 to 20 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 JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		63,751	182,727
<i>Adjustments for non-cash and other items:</i>			
Net unrealized (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - held for trading		6,232	(19,868)
Amortization of preliminary expenses and floatation costs		200	200
Provision for Workers' Welfare Fund		1,301	3,729
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		36,699	12,482
		108,183	179,270
Decrease in assets			
Investments - net		690,908	660,999
Profit and income receivable		7,244	22,267
Deposits, prepayments and other receivables		(129)	2
		698,023	683,268
Increase / (decrease) in liabilities			
Payable against redemption of units		-	(13,253)
Payable to Management Company		(855)	(2,587)
Payable to Central Depository Company of Pakistan Limited - Trustee		(73)	(50)
Payable to Securities and Exchange Commission of Pakistan		(619)	(114)
Accrued expenses and other liabilities		8,647	6,684
		7,100	(9,320)
Net cash generated from operating activities		813,306	853,218
CASH FLOWS FROM FINANCING ACTIVITIES			
Net payments from sale and redemption of units		(832,192)	(1,086,868)
Dividend paid		(61,792)	(237)
Net cash used in financing activities		(893,984)	(1,087,105)
Net decrease in cash and cash equivalents during the year		(80,678)	(233,887)
Cash and cash equivalents at the beginning of the year		597,684	831,571
Cash and cash equivalents at the end of the year	4	517,006	597,684

The annexed notes from 1 to 20 form an integral part of these financial statements.

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



Chief Executive Officer



Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 categorized 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 plus' 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 2015

There are certain standards, amendments and interpretations are effective for the year ended 30 June 2015. 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 financial statements other than certain additional disclosures, if any.

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

There are certain new standards, amendments and interpretations effective for period beginning on or after 1 July 2015, however these standards and interpretation are either not relevant to the Funds' operation or are not expected to have significant / material effect on Fund accounting policies.

2.4 Basis of measurement

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

2.5 Functional and presentation currency

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 recognized 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 judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

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 reliability 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' - held for trading

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 recognized in the Income Statement.

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

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

b) Loans and receivables

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

c) 'Available-for-sale'

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

d) Financial liabilities

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

Recognition

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 recognized 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 recognized 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 recognized in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognized in Unit Holders' Funds until derecognized or impaired, when the accumulated adjustments recognized in Unit Holders' Funds are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortized 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 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 recognized in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognized as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of asset and that loss events had an impact on the future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. In case of an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment. Impairment losses are recognized in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognized in Income Statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized 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 the applicable circular issued by the SECP.

Derecognition

The Fund derecognizes 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 derecognized 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 equalization 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 recognized in Income Statement and the remaining portion of element of income / (loss) and capital gains / (losses) is held in separate reserve account and at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortized 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 recognized 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 realized or unrealized is distributed amongst the unit holders of collective investment scheme.

Deferred

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

However, the Fund has not recognized any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year, as reduced by capital gains whether realized or unrealized is distributed 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 recognized on a time proportion basis using effective interest rate method.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

- Discount on purchase of market treasury bills is amortised to income statement using the straight line method.
- Unrealized 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 recognized on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is recognised when the units are issued and redeemed at the transaction date.

3.10 Expenses

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

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4. BALANCES WITH BANKS

		2015	2014
		(Rupees in '000)	
In current accounts		22,558	10,239
In savings accounts	4.1	494,448	587,445
		<u>517,006</u>	<u>597,684</u>

- 4.1 These carry mark-up at rates ranging from 4.5% to 6.45% (2014: 6% to 9.25%) per annum.

5. INVESTMENTS

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

Government securities	5.1	635,190	1,451,550
Unlisted debt securities - term finance certificates	5.2	119,220	-
		<u>754,410</u>	<u>1,451,550</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

5.1 Government securities - Government of Pakistan Ijara Sukuk

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2015			Market value	
		As at 1 July 2014	Purchases during the year	Sales / Matured during the year	As at 30 June 2015	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
		----- (Rupees in '000) -----								
26 December 2011	9.49%	-	600,000	600,000	-	-	-	-	-	-
28 June 2012	6.94%	8,000	69,500	66,500	11,000	11,055	11,072	17	0.88	1.47
18 September 2012	7.87%	665,200	295,000	525,000	435,200	448,038	438,159	(9,879)	34.75	58.08
2 March 2012	8.34%	-	975,000	875,000	100,000	100,660	100,850	190	8.00	13.37
28 March 2013	7.59%	-	34,800	14,500	20,300	20,405	20,428	23	1.62	2.71
25 June 2014	6.94%	758,500	132,000	825,000	65,500	65,434	64,681	(753)	5.13	8.57
						645,592	635,190	(10,402)		

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		

5.2 Unlisted debt securities - term finance certificates

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

Issue date	Profit rate (%)	Face value				Balance as at 30 June 2015			Market value	
		As at 1 July 2014	Purchased during the year	Sale / Matured during the year	As at 30 June 2015	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
		----- (Rupees in '000) -----								
Engro Fertilizers Limited	11.93%	-	23,600	-	23,600	115,050	119,220	4,170	9.45	15.80
Total as at 30 June 2014						-	-	-		

6. PROFIT AND INCOME RECEIVABLE

Profit accrued on savings accounts	1,629	8,533
Income accrued on unlisted - term finance certificates	6,202	-
Income accrued on government securities	13,076	19,618
	20,907	28,151

2015 2014
(Rupees in '000)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

7. PRELIMINARY EXPENSES AND FLOATATION COSTS		2015	2014
		(Rupees in '000)	
Opening balance		392	592
Less: Amortization for the year	7.1	200	200
Closing balance		192	392

7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortized 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	718	1,264
Sindh sales tax on management fee	8.2	178	202
Front-end load payable		369	754
Legal and professional charges		100	-
		1,365	2,220

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.

8.2 Management fee charged during the year is inclusive of all government levies (i.e. 15% General Sales tax by Sindh Government).

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.

11. ACCRUED EXPENSES AND OTHER LIABILITIES		2015	2014
		(Rupees in '000)	
Federal excise duty payable	11.1	10,140	6,954
Provision for Workers' Welfare Fund	11.2	11,490	10,189
Zakat payable		377	1,300
Auditors' remuneration		394	390
Printing charges payable		152	120
Capital gain tax payable		199	63
Withholding tax payable on dividend		6,201	-
Others		15	4
		28,968	19,020

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 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 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. 0.58 per unit as at 30 June 2015.

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 2014 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 decision of SHC, management company, as a matter of abundant precaution, has decided to charge the entire provision for WWF in these financial statements.

Furthermore, in the Finance Act, 2015, the mutual funds have been excluded from the levy of WWF. As this change has been made in the definition of the term 'Industrial Establishment' as defined in the Workers' Welfare Fund Ordinance, 1971, the change may appear to apply prospectively. Accordingly, the management is of the view that this change is applicable from 01 July 2015. Hence, the matter regarding previous years would either need to be clarified by FBR or would be resolved through courts. The Management company, as a matter of abundant precaution, has decided to retain the provision for WWF in these financial statements.

12. AUDITORS' REMUNERATION

	2015	2014
	(Rupees in '000)	
Annual audit fee	275	275
Half yearly review fee	150	150
Other certifications	100	100
Out of pocket expenses	55	66
	580	591

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 realized or unrealized 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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Certain mutual Funds have received show cause notices and demand orders from tax authorities under Section 122 (1) and 122(5A) of the Income Tax Ordinance for tax years 2008 onwards. In the said notices and orders, the Tax Department considers that the distribution of bonus shares should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The reasons cited for this view are that tax has not been deducted on bonus units and the bonus issue is only exempt from tax where it results in increase in capital. As clause (99) of Part I of Second Schedule to the Income Tax Ordinance, 2001 which provides for tax exemption in respect of mutual funds does not specifically provides any mode of distribution of profit nor places any restriction on distribution by way of bonus units, whereas under clause (100) which provides for tax exemption for Modarabas it has been specifically specified that distribution by way of bonus shares would not be considered as distribution in calculation of 90% distribution to claim exemption from tax. The mutual fund industry has consistently made distributions by way of issue of bonus units and the issue was never raised before. Finance Act 2015, effective from 1 July 2015, now includes a specific proviso in clause (99) similar to clause (100) where it has been specified that issue of bonus units would not be considered for calculating 90% distribution required to claim exemption from tax. Several asset management companies on behalf of the mutual funds have filed a petition in the Sindh High Court against the demands raised in this respect and have obtained a stay order against the payment of tax demand.

The management based on the tax advice obtained by Mutual Funds Association of Pakistan considers that if any orders passed by the Department would be incorrect and based on erroneous understanding of the law. These would be annulled at appellate forums and the Funds would not be liable to such taxes.

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:

	2015	2014
	(Rupees in '000)	
MCB Arif Habib Savings and Investments Limited - Management Company		
Remuneration (including indirect taxes)	19,176	32,259
Front-end load	-	14,774
Redemption of Nil units (2014: nil)	-	-
Reimbursement for registration in Sindh Revenue Board	8	
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	2,208	2,909
Adamjee Life Assurance Company Limited (Amaanat Fund)		
Issue of 1,830,621 units (2014: 719,995 units)	185,000	72,800
Issue of Nil bonus units (2014: 38,863 units)	-	3,886
Redemption of 976,361 units (2014: 279,335 units)	103,878	28,350
Adamjee Life Assurance Company Limited (Investment Secure Fund)		
Issue of Nil units (2014: 269,352)	-	27,000
Issue of Nil bonus units (2014: 15 units)	-	1
Redemption of 188 units (2014: 269,179)	20,028	27,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

	2015	2014
	(Rupees in '000)	
Adamjee Life Assurance Company Limited (Investment Secure Fund II)		
Issue of Nil units (2014: 119,712)	-	12,000
Issue of Nil bonus units (2014: 6 units)	-	1
Redemption of 83 units (2014: 119,635)	8,901	12,000
Mandate under Discretionary Portfolio Services		
Issue of Nil units (2014: 363,040 units)	-	37,000
Issue of Nil bonus units (2014: 19,548 units)	-	1,955
Redemption of Nil units (2014: 421,065 units)	-	42,427
MCB Bank Limited		
Profit on bank deposits	688	4,234
Bank charges	67	41
Directors and executives of the Management Company		
Issue of 54,865 units (2014: 119,288 units)	5,644	12,037
Issue of 2,074 bonus units (2014: 5,272 units)	208	528
Redemption of 70,992 units (2014: 92,976 units)	7,309	9,377
15.2 Amounts outstanding as at year end		
MCB Arif Habib Savings and Investments Limited - Management Company		
Management fee payable	718	1,264
Sindh sales tax payable on management fee	178	202
Front-end load payable	321	650
Sindh sales tax payable on front end load	48	104
Legal and professional charges	100	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	153	226
Adamjee Life Assurance Company Limited (Amaanat Fund)		
Units held: 1,348,733 (2014: 494,473 units)	135,131	49,462
Adamjee Life Assurance Company Limited (Investment Secure Fund)		
Units held: Nil (2014: 188 units)	-	19
Adamjee Life Assurance Company Limited (Investment Secure Fund II)		
Units held: Nil (2014: 83 units)	-	8
Mandate under Discretionary Portfolio Services		
Units held: Nil (2014: Nil units)	-	-
MCB Bank Limited		
Balance in bank accounts	47,732	16,293
Profit receivable on bank deposits	50	2,311
Directors and executives of the Management Company		
Units held 40,236 units (2014: 62,615 units)	4,031	6,263

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 optimizing 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 2015, the investment in debt securities exposed to interest rate risk is detailed in Note 5.2 to these financial statements.

Sensitivity analysis for variable rate instruments

In case of 100 basis points increase/ decrease in rates announced by State Bank of Pakistan on 30 June 2015, with all the other variable held constant, the net assets of the fund and net income for the year would have been higher / lower by the Rs. 0.584 million (2014: Nil). Management has determined that a fluctuation of 100 basis points in interest rate is reasonably possible in the current economic environment. The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2015 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

Sensitivity analysis for fixed rate instruments

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan or Mutual Funds Association of Pakistan at the year end, with all other variables held constant, the net income for the year and net assets would be affected by Rs. 6,320 (2014: Rs.14,317). Management has determined that a fluctuation in interest rate of 100 basis points is reasonably possible in the current economic environment.

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan and Mutual Funds Association of Pakistan is expected to change over time.

Accordingly, the sensitivity analysis prepared as of 30 June 2015 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment,

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

its issuer or factors affecting all instruments traded in the market. As at 30 June 2015, 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 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 honor its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal due to the short settlement period and also the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Balances with banks

As at 30 June 2015, 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 fixed income securities

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

Investment in debt securities

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. Further in case of investment in term finance certificate of Engro , management does not anticipate to incur credit loss thereafter given the credit worthiness of investment company.

Past due and impaired assets

No financial assets carried at amortized cost or cost were past due or impaired either as at 30 June 2015 or 30 June 2014.

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.

None of the financial assets and financial liabilities are offset in the Statement of Assets and Liabilities except where the settlement is done through central clearing system.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

The table below analyses the Fund's financial liabilities other than redemption of unit obligation, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

30 June 2015				
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
				-
Payable to Management Company	1,365	-	-	1,365
Payable to Central Depository Company of Pakistan Limited - Trustee	153	-	-	153
Accrued expenses and other liabilities	661	-	-	661
	<u>2,179</u>	<u>-</u>	<u>-</u>	<u>2,179</u>

30 June 2014				
	Up to three months	More than three months and upto one year	More than one year	Total
	----- (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>

The table above shows the undiscounted cash flows 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 2015, all the financial assets are carried on the Statement of Assets and Liabilities are categorized 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 categorized as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

		30 June 2015		
		Loans and receivables	Assets at fair value through profit or loss	Total
		----- (Rupees in '000) -----		
Assets				
Balances with banks		517,006	-	517,006
Investments		-	754,410	754,410
Profit and income receivable		20,907	-	20,907
		<u>537,913</u>	<u>754,410</u>	<u>1,292,323</u>
		30 June 2015		
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
		----- (Rupees in '000) -----		
Liabilities				
Payable to Management Company		-	1,365	1,365
Payable to Central Depository Company of Pakistan Limited - Trustee		-	153	153
Accrued expenses and other liabilities		-	28,968	28,968
		<u>-</u>	<u>30,486</u>	<u>30,486</u>
		30 June 2014		
		Loans and receivables	Assets at fair value through profit or loss	Total
		----- (Rupees in '000) -----		
Assets				
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		
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
		----- (Rupees in '000) -----		
Liabilities				
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		-	19,020	19,020
		<u>-</u>	<u>23,740</u>	<u>23,740</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 maximize 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 2015

Level 2
(Rupees in '000)

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

635,190

Level 3

Unlisted debt securities - term finance certificates

119,220

30 June 2014

Level 2

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

1,451,550

18. 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:

18.1 Pattern of unit holding

	As at 30 June 2015		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individual	829	956,296	76%
Associated Company	1	135,131	11%
Retirement Fund	12	68,002	5%
Insurance Companies	1	69,578	6%
Other Company	3	2,323	0%
Trustee	4	29,710	2%
Others	1	20	0%
	<u><u>851</u></u>	<u><u>1,261,060</u></u>	<u><u>100%</u></u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

	As at 30 June 2014		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	1,364	1,786,642	87%
Associated Companies	3	49,491	2%
Insurance Companies	1	34,524	2%
Retirement Funds	8	49,833	2%
Others	14	134,073	7%
	<u>1,390</u>	<u>2,054,563</u>	<u>100%</u>

18.2 Top ten brokers / dealers by percentage of commission paid

	2015 (Percentage)
1 Invest Capital Markets Limited	63.50%
2 JS Global Capital Limited	12.56%
3 BMA Capital Management Limited	11.13%
4 Invest One Markets Private Limited	5.46%
5 Next Capital Limited	3.09%
6 Magenta Capital limited	2.07%
7 Summit Capital Private Limited	1.82%
8 Elixir Securities Pakistan (Private) Limited	0.37%
	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%

18.3 Attendance at meetings of Board of Directors

During the year, six board meetings were held on 28 July 2014, 5 September 2014, 20 October 2014, 2 February 2015, 24 April 2015 and 22 June 2015.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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	6	1	5	112th, 113th, 114th, 115th, 117th
Mr. Nasim Beg	Executive Vice Chairman	6	6	-	
Mr. Yasir Qadri	Chief Executive Officer	6	6	-	
Dr. Syed Salman Ali Shah	Director	6	4	2	115th, 116th
Mr. Haroun Rashid	Director / Chairman Audit Committee	6	3	3	114th, 115th, 116th
Mr. Ahmed Jahangir	Director	6	5	1	114th
Mr. Samad A. Habib	Director	6	4	2	114th, 115th
Mr. Mirza Mehmood Ahmed	Director	6	3	3	112th, 113th, 114th
Mr. M. Saqib Saleem*	Chief Operating Officer & Company Secretary	6	6	-	
Mr. Umair Ahmed**	Chief Financial Officer	4	4	-	

* Mr Saqib Saleem is appointed as Chief Financial Officer on 24 March 2015.

** Mr. Umair Ahmed resigned from the position of Chief Financial Officer on 20 February 2015.

18.4 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	20 years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	12 years
Mr. Mohsin Pervaiz	VP - Investments and Fund Manager	MBA & CFA (level I)	14 years
Mr. Saad Ahmed	Sr. Manager Fixed Income	MBA	8 years
Ms. Manal Iqbal	Head of Research	CFA	6 years

18.5 Other funds managed by the Fund Manager:

- Pakistan Strategic Allocation Fund
- MCB Pakistan Stock Market Fund

19. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and better presentation. The effect of rearrangement / reclassification is not considered to be material.

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 07, 2015.

**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, 2015**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
ADAMJEE LIFE ASSURANCE CO. LTD. AMAANAT FUND	1	1,348,733
Public Sector Companies and Corporations	3	23,182
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	1	694,465
Individuals	829	9,544,750
Others	17	975,463
	851	12,586,594

**PATTERN OF UNITS HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2015**

No. of Unit Holder	Unit holdings	Total Units Held
581	1-10000	1,638,374
252	10001-100000	6,048,953
17	100001-1000000	3,550,533
1	1000001 onwards	1,348,734
851		12,586,594

PERFORMANCE TABLE

Performance Information	2015	2014	2013	2012	2011
Total Net Assets Value – Rs. in million	1,261.06	2,054.56	2,946.49	1,506.77	178.00
Net Assets value per unit – Rupees	100.19	100.03	101.89	100.10	100.25
Highest offer price per unit	108.65	104.47	104.81	106.14	100.25
Lowest offer price per unit	102.08	102.02	101.64	100.00	100.00
Highest Redemption price per unit	106.47	102.37	103.24	106.14	100.25
Lowest Redemption price per unit	100.04	99.96	100.11	100.00	100.00
Distribution per unit (annual) – Rs.	6.38	1.55	1.89	2.32	
Distribution per unit (Interim) – Rs.	0.00	6.55	6.85	8.73	0.25
Average Annual Return - %					
One year	6.55	8.38	8.91	10.40	7.80
Two year	7.46	8.65	5.06	-	NA
Three year	7.94	9.22	-	-	NA
Net Income for the period – Rs. in million	63.75	182.73	217.36	98.72	0.46
Income Distribution – Rs. in million	61.76	182.06	220.22	97.23	0.46
Accumulated Capital Growth – Rs. in million	1.99	0.67	(2.86)	1.49	0.00
Weighted average Portfolio Duration (Days)	243	132	496	387	493

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










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Disclaimer : All investments in mutual fund are subject to market risks. Past performance is not necessarily indicative of the future results.
Please read the Offering Document to understand the investment policies and the risks involved.



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