



**Aik Dar Band Hazar Khulay**

**MCB**

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# **ISLAMIC INCOME FUND**

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

Rated: 'AM2++' by PACRA

## TABLE OF CONTENTS

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|    |  |    |
|----|--|----|
| 01 | Vision, Mission & Core Value   | 02 |
| 02 | Fund's Information   | 03 |
| 03 | Report of the Director of Management Company   | 04 |
| 04 | Report of the Fund Manager   | 15 |
| 05 | Trustee Report to the Unit Holders   | 17 |
| 06 | Report of the Shariah Advisor Board  | 18 |
| 07 | Statement of Compliance with the Code of Corporate Governance  | 19 |
| 08 | Review Report to the Unit Holders on the Statement of Compliance with the Best Practices of the Code of Corporate Governance | 21 |
| 09 | Independent Auditors' Report to the Unit Holders   | 22 |
| 10 | Statement of Assets and Liabilities  | 23 |
| 11 | Income Statement   | 24 |
| 12 | Statement of Comprehensive Income  | 25 |
| 13 | Distribution Statement   | 26 |
| 14 | Statement of Movement in Unit Holders' Fund  | 27 |
| 15 | Cash Flow Statement  | 28 |
| 16 | Notes to and Forming Part of the Financial Statements  | 29 |
| 17 | Pattern of Holding as Per Requirement of Code of Corporate Governance  | 48 |
| 18 | Pattern of Units Holding By Size   | 49 |
| 19 | Performance Table  | 50 |

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## **Vision**

To become synonymous with Savings.

## **Mission**

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

## **Core Values**

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

## FUND'S INFORMATION

|  |   |                         |
|--|---|-------------------------|
| <b>Management Company</b>                          | MCB-Arif Habib Savings and Investments Limited<br>24 <sup>th</sup> Floor, Centrepont, Off Shaheed-e-Millat Expressway,<br>Near K.P.T. Interchange, Karachi.                 |                         |
| <b>Board of Directors</b>                          | Mian Muhammad Mansha  | Chairman                |
|  | Mr. Nasim Beg   | Vice Chairman           |
|  | Mr. Muhammad Saqib Saleem   | Chief Executive Officer |
|  | Dr. Syed Salman Ali Shah  | Director                |
|  | Mr. Haroun Rashid   | Director                |
|  | Mr. Ahmed Jahangir  | Director                |
|  | Mr. Samad A. Habib  | Director                |
|  | Mr. Mirza Mahmood Ahmad   | Director                |
| <b>Audit Committee</b>                             | Mr. Haroun Rashid   | Chairman                |
|  | Mr. Ahmed Jahangir  | Member                  |
|  | Mr. Samad A. Habib  | Member                  |
|  | Mr. Nasim Beg   | Member                  |
| <b>Human Resource &amp; Remuneration Committee</b> | Dr. Syed Salman Ali Shah  | Chairman                |
|  | Mr. Nasim Beg   | Member                  |
|  | Mr. Haroun Rashid   | Member                  |
|  | Mr. Ahmed Jahangir  | Member                  |
| <b>Chief Executive Officer</b>                     | Mr. Muhammad Saqib Saleem   |                         |
| <b>Chief Financial Officer</b>                     | Mr. Muhammad Asif Mehdi   |                         |
| <b>Company Secretary</b>                           | Mr. Abdul Basit   |                         |
| <b>Trustee</b>                                     | Central Depository Company of Pakistan Limited<br>CDC House, 99-B Block 'B' S.M.C.H.S,<br>Main Shahrah-e-Faisal, Karachi-74400  |                         |
| <b>Bankers</b>                                     | MCB Bank Limited<br>United Bank Limited<br>Habib Bank Limited<br>Meezan Bank Limited<br>Dubai Islamic Bank Pakistan Limited<br>Askari Bank Limited<br>Bank Al-Habib Limited |                         |
| <b>Auditors</b>                                    | KPMG Taseer Hadi & Co.<br>Chartered Accountants<br>1st Floor, Sheikh Sultan Trust Building No. 2,<br>Beaumont Road, Karachi-75530.  |                         |
| <b>Legal Advisor</b>                               | Bawaney & Partners<br>3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area,<br>Phase VI, DHA, Karachi.   |                         |
| <b>Transfer Agent</b>                              | MCB-Arif Habib Savings and Investments Limited<br>24th Floor, Centrepont, Off Shaheed-e-Millat Expressway,<br>Near K.P.T. Interchange, Karachi.                             |                         |
| <b>Rating</b>                                      | AM2 ++ Asset Manager Rating assigned by PACRA   |                         |

# REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2016

Dear Investor,

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, 2016.

## ECONOMY AND MONEY MARKET OVERVIEW

Economic trajectory kept on improving with each passing month of this year. The blessing in disguise came from further plunge in oil prices, which succumbed to expanding supply glut lead by weaker global demand, increase inflows from Iran post removal of sanctions and resilience of shale producers. The lower oil prices helped curtail the inflationary pressures along with the import bill. However, exports kept on falling amid stiff competition and weak demand outlook.

Inflation during the outgoing year continued to remain benign triggered by subdued oil prices and higher base effect of last year. Inflation averaged around 2.85% for the year whereas, average for first half of the year remained close to 2%. Despite the withering of the low base effect from 3QFY16, inflationary pressures remained well anchored supported by dip in oil prices in 3QFY16 and government's decision to defer the increase in prices of petroleum products along with recovery in crude.

Exports continued to remain problematic for balance of payments position over the year decreasing by ~9% relative to last year. Lower commodity prices induced by weak global demand, slowdown in target markets and relatively unfavorable rupee-dollar parity versus competitors continued to cause worries for the current account position. Adding to trade deficit imports reduced only be about 3.5% as benefit of lower oil prices was offset by higher import of machinery for power while significantly lower cotton production also had to be filled in with imports. Remittances though remained resilient to weak economic outlook of gulf economies posting an increase of ~6%. Balance of Payment position however closed on in net surplus of USD 1.05 billion through external borrowings and disbursements from multilateral agencies.

The industrial growth picked up during the year with Large Scale Manufacturing index posting an increase of 3.26% YoY (July-May 2016). The noteworthy contribution came from autos, cement, power and consumer segment.

On the fiscal front, the government managed to contain the fiscal deficit at 4.3% of GDP in the FY16 against 5.3% in FY15. The Government is targeting FY17 deficit of 3.8% of GDP.

The monetary policy committee decreased the policy rate by a cumulative 75 bps during the fiscal year. Status quo was kept after reducing 50 bps in September for 6 months. Despite, the monetary policy board maintaining a cautious view relative to remittances, reversal in oil prices, non-oil imports and foreign market considerations, the monetary policy board decided to reduce policy rate by 25 bps in May.

Positive balance of foreign flows, improved external account outlook and strong foreign exchange reserves balance of near USD 23 billion along with strict vigilance of SBP kept the rupee relatively stable during the year.

M2 growth gained traction with FY16 growth of 13.67%. Net Domestic Assets, supported by increase net non-government borrowing of PKR 267 billion, increased by PKR 253 billion.

State Bank of Pakistan conducted Ijara Sukuk auction based on fixed rate rental arrangement providing yields of 6.10% and 5.59% in the successive auctions allowing comparatively lucrative avenue for Islamic financial industry.

Yield Curve shifted downward further which remains more influenced by outlook for improved fiscal deficit, better foreign inflows, issuance of Ijara Sukuk (near Rs. 200 Billion) and liquidity pressure after maturity of PIBs worth ~PKR 1.4 trillion.

## FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 5.05% as against its benchmark return of 4.42%, registering out performance of 0.63% during the period.

During the period, the fund had been increasing its exposure in GoP Ijarah Sukuk, which stood at around 60.9% at period-end. The fund was 11.3% invested in Corporate Sukuk while most of the remaining exposure was in cash and bank deposits at relatively attractive rates.

The Net Assets of the Fund as at June 30, 2016 stood at Rs. 968 million as compared to Rs. 1,261 million as at June 30, 2015 registering a decrease of 23.24%.

The Net Asset Value (NAV) per unit as at June 30, 2016 was Rs. 100.6677 as compared to opening NAV of Rs. 100.1908 per unit as at June 30, 2015 registering an increase of Rs.0.4769 per unit.

# REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2016

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## FUTURE OUTLOOK

Given current global economic environment, the local economic scorecard is expected to remain stable. The oil prices are expected to remain range bound with refineries having ample stock piles of petroleum products, increase in rig counts along with recovery in oil prices, along with low probability of major oil producers reaching any agreement to curtail supply. The weak global outlook evident from slow down in China, Bank of Japan and European Central Bank adopting negative interest rates is also a concern for the commodities market along with global uncertainty after Britain exited European Union. The weak global commodity outlook would keep import bill on the lower end, but as a result recovery in exports may also be delayed.

The average Consumer Price Index is expected to remain below 5% for the year. Whereas, stability in oil prices & exchange rate would allow inflation over the first half to remain well anchored around 4% thus framework remains favorable for a stable monetary policy environment with room for easing subject to stability on external front.

Fiscal deficit is expected to remain controlled and progressive upward economic growth targets appear achievable with enough room for the government to bring required structural changes in the economy. The incumbent government's aggressive plans for power sector would also weigh on the import bill with extensive import of power machinery keeping current account in check.

The Pakistani rupee is expected to show further resilience backed by strong foreign inflows lined up for next year. Risks to external account remain high as the major support in balance of payment account is through flows that are uncertain and self fulfilling as they are also contingent upon favorable external account environment.

The macro stability along with China Pakistan Economic Corridor is expected to provide impetus to the construction and power space. Furthermore, expansionary cycle along with stable interest rate environment is expected to provide better global positioning compared with other emerging market economies. Construction and steel sector is expected to remain the proxy for infrastructure led economic growth. Long term stability in oil prices is expected to provide impetus to exploration & production sector driven by exploration growth. Banks are expected to gain limelight with stability in interest rates along with growth in advances and focus is on the attractive Price to Book ratios. The up gradation into the emerging markets index would provide impetus for foreign flows into KSE-100 index and would lead to re-rating of market towards higher multiples.

## Corporate Governance

The Fund is committed to implement the highest standards of corporate governance and the Board of Directors of 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 Pakistan Stock Exchange, which clearly defined the role and responsibilities of Board of Directors and Management.

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

- a. Financial statements present fairly the state of affairs, the results of operations, cash flows and changes in unit holders' fund.
- b. Proper books of accounts of the fund have been maintained.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting 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 with ongoing efforts to improve it further.
- f. There are no doubts whatsoever upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

## REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2016

- 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. During the year Chief Executive Officer has attended the Directors' Training Program organized by the Institute of Chartered Accounts in Pakistan. (All other the directors have completed the course or they are exempted from attending training course due to sufficient working experience.)
- l. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- m. The details of attendance of Board of Directors meeting is disclosed in note 19.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2016:

### 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 (Chairman) | 4                       | 4                   | 4        | -             |
| 2 Mr. Samad A. Habib           | 4                       | 4                   | 3        | 1             |
| 3 Mr. Ahmed Jahangir           | 4                       | 4                   | 4        | -             |
| 4 Mr. Nasim Beg*               | -                       | -                   | -        | -             |

- With effect from April 18, 2016, he was added as a member of the Audit Committee after which no meeting of the Audit Committee was held during the year.

### 2. Meeting of the Human Resource and Remuneration Committee.

During the year, six (6) meetings of the Human Resource and Remuneration Committee were held. The attendance of each participant is as follows:

| Name of Persons                | Number of meetings | Number of meetings  |          |               |
|--------------------------------|--------------------|---------------------|----------|---------------|
|                                |                    | Attendance required | Attended | Leave granted |
| 1 Dr. Syed Salman Shah         | 6                  | 6                   | 6        | -             |
| 2 Mr. Nasim Beg                | 6                  | 6                   | 5        | 1             |
| 3 Mr. Ahmed Jahangir           | 6                  | 6                   | 5        | 1             |
| 4 Mr. Haroun Rashid            | 6                  | 6                   | 3        | 3             |
| 5 Mr. Yasir Qadri *            | 2                  | 2                   | 2        | -             |
| 6 Mr. Muhammad Saqib Saleem ** | 1                  | 1                   | 1        | -             |

\* Resigned from the post of CEO after 2<sup>nd</sup> meeting.

\*\* Attended 6<sup>th</sup> meeting as Acting CEO.



## REPORT OF THE DIRECTOR OF MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2016

- n. The trades in the Units of the Fund was 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.

| S. No. | Name                      | Designation             | Investment        | Redemption | Dividend Distribution |
|--------|---------------------------|-------------------------|-------------------|------------|-----------------------|
|        |                           |                         | (Number of Units) |            |                       |
| 1      | Muhammad Saqib Saleem     | Chief Executive Officer | 7,177.97          | 14,566.57  | -                     |
| 2      | Muhammad Asif Mehdi Rizvi | Chief Financial Officer | -                 | -          | -                     |
| 3      | Abdul Basit               | Company Secretary       | -                 | -          | -                     |
| 4      | Fahad Sultan              | Chief Internal Auditor  | -                 | -          | -                     |

### External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to code of corporate governance, KPMG has been appointed as an external auditor of Management Company; therefore they are not eligible for reappointment. The audit committee of the Board has recommended appointment of A.F. Ferguson & Co., Chartered Accountants as auditors of the fund for the year ending June 30, 2017.

### 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.

On behalf of Directors,



**Muhammad Saqib Saleem**  
Chief Executive Officer  
August 05, 2016



# ڈائریکٹرز رپورٹ

n. دوران سال فنڈ کے یونٹس کی خرید و فروخت مینجمنٹ کمپنی کے ڈائریکٹرز، چیف ایگزیکٹو آفیسرز، چیف آپریٹنگ آفیسر اور کمپنی سیکرٹری، چیف فنانشل آفیسر اور چیف انٹرنل آڈیٹر اور ان کے شوہر/کی بیوی اور نابالغ بچوں نے کی۔

| نمبر شمار      | نام                | عہدہ               | سرمایہ کاری | Redemption | ڈیویڈنڈ کی تقسیم |
|----------------|--------------------|--------------------|-------------|------------|------------------|
| یونٹس کی تعداد |                    |                    |             |            |                  |
| 1.             | محمد ثاقب سلیم     | چیف ایگزیکٹو آفیسر | 7,177.97    | 14,566.57  | -                |
| 2.             | محمد آصف مہدی رضوی | چیف فنانشل آفیسر   | -           | -          | -                |
| 3.             | عبدالباسط          | کمپنی سیکرٹری      | -           | -          | -                |
| 4.             | فہد سلطان          | چیف انٹرنل آڈیٹر   | -           | -          | -                |

## خارجی آڈیٹرز

فنڈ کے خارجی آڈیٹرز ”KPMG“ تاثیر ہادی اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس، سال رواں کے آڈٹ کے اختتام کے بعد ریٹائر ہو گئے ہیں۔ کارپوریٹ گورننس کے ضابطہء اخلاق کے تحت KPMG کو مینجمنٹ کمپنی کا خارجی آڈیٹر مقرر کر دیا گیا ہے، چنانچہ وہ دوبارہ تقرری کے اہل نہیں ہیں۔ بورڈ کی آڈٹ کمیٹی نے 30 جون 2017ء کو ختم ہونے والے سال کے لئے ”اے ایف فرگوسن اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس“ کو فنڈ کے آڈیٹرز مقرر کرنے کے سفارش کی ہے۔

## اظہار تشکر

بورڈ فنڈ کے گراں قدر سرمایہ کاروں، سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور فنڈ کے Trustees کی مسلسل معاونت اور پشت پناہی کے لئے شکر گزار ہے۔ علاوہ ازیں، ڈائریکٹرز مینجمنٹ ٹیم کی کوششوں کو بھی خراج تحسین پیش کرتے ہیں۔

من جانب ڈائریکٹرز،



محمد ثاقب سلیم  
چیف ایگزیکٹو آفیسر  
05 اگست 2016ء

# ڈائریکٹرز رپورٹ

2016ء کو ختم ہونے والے سال کے دوران ہونے والی کمیٹی میٹنگز کی تفصیلات درج ذیل ہیں:

## 1. آڈٹ کمیٹی کی میٹنگ

دوران سال آڈٹ کمیٹی کی چار (04) میٹنگز منعقد ہوئیں۔ شرکاء کی حاضری درج ذیل ہے:

| میٹنگز کی تعداد |       |              | منعقدہ میٹنگز کی تعداد | نام                         |
|-----------------|-------|--------------|------------------------|-----------------------------|
| منظور شدہ رخصت  | حاضری | مطلوبہ حاضری |                        |                             |
| -               | 4     | 4            | 4                      | 1. جناب ہارون رشید (چیرمین) |
| 1               | 3     | 4            | 4                      | 2. جناب صدائے حبیب          |
| -               | 4     | 4            | 4                      | 3. جناب احمد جہانگیر        |
| -               | -     | -            | -                      | 4. جناب نسیم بیگ *          |

\* آپ کو 18 اپریل 2016ء کو آڈٹ کمیٹی کے رکن کی حیثیت سے شامل کیا گیا جس کے بعد آڈٹ کمیٹی کی کوئی میٹنگ نہیں ہوئی۔

## 2. ہیومن ریسورس اینڈ ریویژن کمیٹی کی میٹنگ

دوران سال ہیومن ریسورس اینڈ ریویژن کمیٹی کی چھ (06) میٹنگز منعقد ہوئیں۔ شرکاء کی حاضری درج ذیل ہے:

| میٹنگز کی تعداد |       |              | منعقدہ میٹنگز کی تعداد | نام                       |
|-----------------|-------|--------------|------------------------|---------------------------|
| منظور شدہ رخصت  | حاضری | مطلوبہ حاضری |                        |                           |
| -               | 6     | 6            | 6                      | 1. جناب سید سلمان شاہ     |
| 1               | 5     | 6            | 6                      | 2. جناب نسیم بیگ          |
| 1               | 5     | 6            | 6                      | 3. جناب احمد جہانگیر      |
| 3               | 3     | 6            | 6                      | 4. جناب ہارون رشید        |
| -               | 2     | 2            | 2                      | 5. جناب یاسر قادری *      |
| -               | 1     | 1            | 1                      | 6. جناب محمد ثاقب سلیم ** |

\* دوسری میٹنگ کے بعد سی ای او کے عہدے سے مستعفی ہو گئے۔

\*\* چھٹی میٹنگ میں قائم مقام سی ای او کے طور پر شرکت کی۔

# ڈائریکٹرز رپورٹ

مطابق کاروبار چلانے پر بدستور کاربند ہے جس میں بورڈ آف ڈائریکٹرز اور انتظامیہ کے کردار اور ذمہ داریوں کو با تفصیل واضح کیا گیا ہے۔

ذیل میں کارپوریٹ گورننس کے ضابطہء اخلاق کی شرائط کی تعمیل کے لئے خصوصی بیانات دیئے جا رہے ہیں:

a. مالیاتی گوشوارے فنڈ کے معاملات کی صورت حال، اس کی سرگرمیوں کے نتائج، نقد کی آمد و رفت اور یونٹ ہولڈرز کے فنڈ میں تبدیلیوں کی منصفانہ عکاسی کرتے ہیں۔

b. فنڈ کی ڈسٹ بگس آف اکاؤنٹس تیار کی گئی ہیں۔

c. مالیاتی گوشواروں کی تیاری میں موزوں اکاؤنٹنگ پالیسیوں کا اطلاق کیا گیا ہے اور اکاؤنٹنگ تخمینے معقول اور محتاط اندازوں پر مبنی ہیں۔

d. مالیاتی گوشواروں کی تیاری میں بین الاقوامی مالیاتی رپورٹنگ کے معیارات، جس حد تک ان کا پاکستان میں اطلاق ہوتا ہے، Non-

بینکنگ فنانس کمپنیز (اسٹابلشمنٹ اور ریگولیشنز) کے ضوابط، 2003ء، Non- بینکنگ فنانس اینڈ نوٹیفائیڈ انڈسٹری ریگولیشنز،

2008ء، متعلقہ ڈسٹ ڈیڈس کی شرائط اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی جاری کردہ ہدایات کی تعمیل کی گئی ہے۔

e. انٹرنل کنٹرول کا نظام مستحکم خطوط پر استوار اور نافذ ہے اور اس کی موثر نگرانی کی جاتی ہے، اور اسے مزید بہتر بنانے کی کوششیں جاری ہیں۔

f. کمپنی کے کاروبار جاری رکھنے کی صلاحیت میں کوئی شہادت نہیں ہے۔

g. لسٹنگ قوانین میں تفصیلاً بیان کردہ کارپوریٹ گورننس کی بہترین روایات سے کوئی قابل ذکر انحراف نہیں کیا گیا ہے۔

h. کارپوریٹ گورننس کے ضابطہء اخلاق کے مطابق مطلوبہ کلیدی مالیاتی اعداد و شمار کا خلاصہ مالیاتی گوشواروں کے ساتھ ملحق ہے۔

i. واجب الاداء ٹیکسز، ڈیویڈنڈ، محصولات اور چارجز (اگر کوئی ہیں تو) ملحقہ آڈٹ شدہ مالیاتی گوشواروں میں مکمل طور پر ظاہر کیے گئے ہیں۔

j. پراویڈنٹ فنڈ میں سرمایہ کاریوں کی مالیت کے اسٹیٹمنٹ کا اطلاق فنڈ پر نہیں ہوتا لیکن مینجمنٹ کمپنی پر ہوتا ہے، چنانچہ مینجمنٹ کمپنی کی ڈائریکٹرز رپورٹ میں اس حوالے سے کوئی معلومات ظاہر نہیں کی گئی ہیں۔

k. دوران سال دی انسٹیٹیوٹ آف چارٹرڈ اکاؤنٹنٹس آف پاکستان کے منعقدہ ڈائریکٹرز ٹریڈنگ پروگرام میں چیف ایگزیکٹو آفیسر نے

شرکت کی۔ (باقی تمام ڈائریکٹرز ٹریڈنگ کورس مکمل کر چکے ہیں، یا خاطر خواہ تجربے کی بنیاد پر اس سے مستثنیٰ ہیں۔)

l. این بی ایف سی کے قواعد و ضوابط اور کارپوریٹ گورننس کے ضابطہء اخلاق کے تحت مطلوب یونٹ ہولڈنگ کا تفصیلی pattern

مالیاتی گوشواروں کے ساتھ ملحق ہے۔

m. بورڈ آف ڈائریکٹرز کی میٹنگ میں حاضری کی تفصیلات ملحقہ مالیاتی گوشواروں کے نوٹ 23 میں پیش کی گئی ہیں۔ 30 جون

# ڈائریکٹرز رپورٹ

سالِ مذکورہ کا اوسط کنزیومر پرائس انڈیکس متوقع طور پر 5% سے کم رہے گا۔ جبکہ تیل قیمتوں اور زر مبادلہ کی شرح میں استحکام کی بدولت افزائی پہلی ششماہی میں تقریباً 4% کی سطح پر قابو میں رہے گی، چنانچہ ایک مستحکم مانیٹری پالیسی کے ماحول کے لئے فریم ورک موافق ہے اور اس میں کسی عنصر کو بیرونی جہت میں مستحکم کرنے کی گنجائش موجود ہے۔

مالیاتی خسارہ متوقع طور پر قابو میں رہے گا اور ترقی کے مثبت اہداف قابل حصول نظر آ رہے ہیں، اور حکومت کے پاس معیشت میں ساخت سے متعلق مطلوبہ تبدیلیاں لانے کی گنجائش موجود ہے۔ علاوہ ازیں، بجلی کے شعبے کے لئے حکومت کے ناگزیر متحرک منصوبے درآمداتی بل پر بوجھ ڈالیں گے اور بجلی کی مشینری کی بڑے پیمانے پر درآمد سے کرنٹ اکاؤنٹ قابو میں رہے گا۔

پاکستانی روپیہ متوقع طور پر مزید چلک کا مظاہرہ کرے گا کیونکہ اسے اگلے سال بھر پور غیر ملکی آمدات کی پشت پناہی حاصل ہوگی۔ ایکسٹرنل اکاؤنٹ کے خطرات بدستور بلند ہیں کیونکہ ادائیگیوں کے توازن کے اکاؤنٹ میں بڑی مدد آمدات سے ہوتی ہے، جو غیر یقینی اور ناگزیر ہیں، جس کی ایک وجہ یہ بھی ہے کہ وہ بیرونی اکاؤنٹ کے موافق ماحول پر منحصر ہیں۔

مجموعی استحکام اور اس کے ساتھ ساتھ چین پاکستان معاشی راہداری متوقع طور پر تعمیر اور بجلی کے شعبے میں تیزی لائیں گے۔ علاوہ ازیں، توسیعی چلّ اور اس کے ساتھ ساتھ انٹریسٹ کی شرح کے مستحکم ماحول سے دیگر ابھرتی ہوئی مارکیٹ کی معیشتوں کے مقابلے میں عالمی سطح پر بہتر درجہ بندی متوقع ہے۔ تعمیر اور اسٹیل کے شعبے متوقع طور پر انفراسٹرکچر پر مبنی معاشی ترقی کے متبادل بنے رہیں گے۔ تیل کی قیمتوں میں طویل المیعاد استحکام متوقع طور پر ایکسپلوریشن اور پیداوار کے شعبے کو ایکسپلوریشن میں ترقی کے ذریعے تحریک فراہم کرے گا۔ بینک متوقع طور پر انٹریسٹ کی شرح میں استحکام اور ایڈوانسز میں اضافے کے سبب منظر عام پر آئیں گے، اور پُرکشش Price to Book ratios پر سب کی نظریں ہیں۔ ابھرتی ہوئی مارکیٹس میں پاکستان کی دوبارہ درجہ بندی سے غیر ملکی آمدات کے لئے PSX-100 انڈیکس میں تیزی آسکتی ہے اور مارکیٹ کی شرح کے دوبارہ تعین اور اس میں اضافے کی راہ ہموار ہوگی۔

## کارپوریٹ گورننس

فنڈ کارپوریٹ گورننس کے اعلیٰ ترین معیارات نافذ کرنے کے لئے کوشاں ہے، اور مینجمنٹ کمپنی کا بورڈ آف ڈائریکٹرز عمدہ کارپوریٹ گورننس کے لئے یونٹ ہولڈرز کو جو ابدا ہے۔ انتظامیہ کارپوریٹ گورننس کے ضابطہء اخلاق کی بہترین طریقوں سے متعلق شقوں، خاص طور پر غیر ایگزیکٹو ڈائریکٹرز کی خود مختاری کے حوالے سے شق، کی بدستور تعمیل کر رہی ہے۔ فنڈ پاکستان اسٹاک ایکسچینج کے لسٹنگ ضوابط کے

# ڈائریکٹرز رپورٹ

## فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ نے منافع کے متعین کردہ معیار 4.42% کے بالمقابل 5.05% سالانہ منافع کمایا، جو دوران مدت 0.63% ترقی ہے۔

دوران مدت حکومت پاکستان کے اجارہ سٹلگ میں فنڈ کی شمولیت میں اضافہ ہوتا رہا، جو اختتام مدت پر 60.9% تھی۔ فنڈ کی 11.3% کارپوریٹ سٹلگ میں، جبکہ باقی سارے کے اکثر حصے کی نقد میں، اور نسبتاً پُرکشش شرحوں پر بینک ڈپازٹس میں، سرمایہ کاری کی گئی تھی۔

30 جون 2016ء کو فنڈ کے net اثاثے 968 ملین روپے تھے جبکہ 30 جون 2015ء کو 1,261 ملین روپے تھے، جو 23.24% کمی ہے۔

30 جون 2016ء کو Net Asset Value (NAV) فی یونٹ 100.6677 روپے تھی جبکہ 30 جون 2015ء کو 100.1908 روپے فی یونٹ تھی، جو 0.4769 روپے فی یونٹ اضافہ ہے۔

## مستقبل کی صورتحال

موجودہ عالمی معاشی ماحول کو دیکھتے ہوئے مقامی معاشی صورتحال متوقع طور پر مستحکم رہے گی۔ تیل کی قیمتیں آئل ریفائنریز میں پٹرول کی مصنوعات کے خاطر خواہ اسٹاک، rig کی تعداد میں اضافے اور تیل کی قیمتوں کی وصولی کی وجہ سے متوقع طور پر قابل رسائی رہیں گی، اور اس وجہ سے بھی کہ اس بات کی توقع بہت کم ہے کہ بڑے آئل پروڈیوسرز رسد کو کم کرنے کے مقصد سے کوئی معاہدہ کریں گے۔ چین میں مندی سے کمزور عالمی صورتحال کی عکاسی ہوتی ہے، اور بینک آف جاپان اور یورپین سینٹرل بینک کا انٹریسٹ کی منفی شرحیں اختیار کرنا بھی اشیاء کی مارکیٹ کے لئے ایک تشویش ناک امر ہے، اور اس کے ساتھ ساتھ برطانیہ کے یورپی یونین کو خیر باد کہہ دینے کے بعد عالمی سطح پر غیر یقینی صورتحال۔ عالمی سطح پر اشیاء کی کمزور صورتحال کے باعث درآمداتی بل کمزور رہے گا لیکن اس کے نتیجے میں برآمدات کی وصولی بھی تاخیر کا شکار ہو سکتی ہے۔

# ڈائریکٹرز رپورٹ

صنعتی ترقی میں اس سال تیزی آئی جیسا کہ بڑے پیمانے پر مینوفیکچرنگ کے انڈیکس میں %3.26 YoY (جولائی - مئی 2016ء) اضافے سے ظاہر ہے۔ گاڑیوں، سیمنٹ، بجلی اور صارفین کے شعبوں نے قابل ذکر کردار ادا کیا۔

مالیاتی میدان میں حکومت نے مالی سال 2016ء میں مالیاتی خسارے کو مجموعی ملکی پیداوار (GDP) کے %4.3 (بالمقابل %5.3 برائے مالی سال 2015ء) سے آگے بڑھنے نہیں دیا۔ حکومت کا ہدف ہے کہ مالی سال 2017ء میں یہ خسارہ GDP کے %3.8 تک کم کیا جائے۔

مانیٹری پالیسی کمیٹی نے اس سال پالیسی کی شرح کو مجموعی طور پر 75 bps کم کیا۔ ستمبر میں 6 ماہ کے لئے 50 bps کم کرنے کے بعد موجودہ صورتحال برقرار رکھی گئی۔ اس کے باوجود مانیٹری پالیسی بورڈ نے ترسیل زر، تیل کی قیمتوں میں دوبارہ کمی، تیل کے علاوہ دیگر اشیاء کی درآمدات اور غیر ملکی مارکیٹ کے معاملات سے متعلق محتاط رویہ اختیار کرتے ہوئے مئی میں پالیسی کی شرح کو 25 bps کم کرنے کا فیصلہ کیا۔

غیر ملکی آمدورفت کے مثبت توازن، ایکسٹرنل اکاؤنٹ کی بہتر صورتحال اور تقریباً 23 بلین ڈالر کے زیر مبادلہ کے مضبوط ذخائر، اور اس کے ساتھ ساتھ اسٹیٹ بینک آف پاکستان کی کڑی نگرانی نے دوران سال روپے کو مستحکم رکھا۔

مالی سال 2016ء کی %13.67 ترقی کے ساتھ M2 ترقی نے زور پکڑا۔ Net غیر حکومتی قرض کے حصول میں 267 بلین روپے اضافے کی مدد سے Net مقامی اثاثہ جات میں 253 بلین روپے اضافہ ہوا۔

اسٹیٹ بینک آف پاکستان نے طے شدہ کرائے کے طریقے پر مبنی اجارہ سسٹم نیلامی منعقد کی، اور اس کے بعد ہونے والی نیلامیوں میں %6.10 اور %5.59 آمدنی ہوئی جس سے اسلامی مالیاتی صنعت کے لئے نسبتاً منافع بخش راہ ہموار ہوئی۔

نہم پیداوار مزید جھک گیا جس پر بنیادی اثر مالیاتی خسارے کی بہتر صورتحال، بہتر غیر ملکی آمدات، اجارہ سسٹم کے اجراء (تقریباً 200 بلین روپے) اور 1.4 ٹریلین روپے مالیت کی PIBs کی maturity کے بعد liquidity کے دباؤ کا ہے۔

# ڈائریکٹرز رپورٹ

عزیز سرمایہ کار

بورڈ آف ڈائریکٹرز کی طرف سے ’ایم سی بی اسلاک انکم فنڈ‘ کے 30 جون 2016ء کو ختم ہونے والے سال کے اکاؤنٹس کا جائزہ پیش خدمت ہے۔

## معیشت اور بازار زر کا مجموعی جائزہ

اس سال ہرگزرتے مہینے کے ساتھ معاشی صورتحال بہتر ہوتی گئی۔ اس پر مزید خوش آئند بات یہ ہوئی کہ تیل کی گرتی ہوئی عالمی مانگ، ایران میں پابندیاں ختم ہونے کے بعد وہاں سے رسد میں اضافے اور shale بنانے والوں کی لچک کے باعث رسد میں غیر ضروری اضافہ ہو گیا اور تیل کی قیمتیں گر گئیں، جس کے سبب افراط زر کے دباؤ اور درآمداتی بل میں بھی کمی ہوئی۔ تاہم کڑی مسابقت اور کمزور مانگ کی وجہ سے برآمدات مسلسل کم ہوتی چلی گئیں۔

تیل کی گری ہوئی قیمتوں اور گزشتہ سال کے بڑھے ہوئے base effect کی وجہ سے افراط زر اس سال بھی موافق رہی۔ افراط زر کا سال بھر کا اوسط تقریباً 2.85% ہے، جبکہ پہلی ششماہی میں تقریباً 2% تھا۔ مالی سال 2016ء کی تیسری سہ ماہی سے پست base effect کے موہوم ہو جانے کے باوجود افراط زر کے دباؤ قابو میں رہے جس میں تیل کی قیمتوں میں کمی اور پٹرولیم مصنوعات کی قیمتوں میں اضافے کو ملٹوی کرنے کے حکومتی فیصلے اور اس کے ساتھ ساتھ خام تیل کی وصولی کی معاونت شامل تھی۔

دوران سال برآمدات میں گزشتہ سال کے مقابلے میں 9% کمی ہوئی اور ادائیگیوں کے توازن کی صورتحال بدستور مشکلات کا شکار رہی۔ عالمی سطح پر اشیاء کی کمزور مانگ، مطلوبہ مارکیٹس میں سست روی اور حریفوں کے مقابلے میں روپے اور ڈالر کے نسبتاً غیر موافق توازن کے باعث اشیاء کی پست قیمتوں سے کرنٹ اکاؤنٹ کی صورتحال بدستور تشویش ناک رہی۔ درآمدات میں صرف تقریباً 3.5% کمی نے تجارتی خسارے میں اضافہ کیا کیونکہ تیل کی کم قیمتوں کا مثبت اثر بجلی کے لئے مشینری کی درآمد میں اضافے سے زائل ہو گیا جبکہ کپاس کی بہت کم پیداوار کی وجہ سے پیدا ہونے والے خلاء کو بھی درآمدات سے پُر کرنا پڑا۔ تراسیل زر خلیجی معیشتوں کی کمزور معاشی صورتحال کے مطابق پلکار رہیں اور ان میں 6% کا اضافہ ہوا۔ تاہم ادائیگیوں کے توازن کی حتمی صورتحال بیرونی قرضوں کے حصول اور کثیر الجہتی ایکسیسوں سے فراہمیوں کے ذریعے 1.05 بلین USD فاضل پر تھی۔



## **REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2016**

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### **Fund Type and Category**

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

### **Fund Benchmark**

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

### **Investment Objective**

To generate 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 5.05% as against its benchmark return of 4.42%, registering out performance of 0.63% during the period.

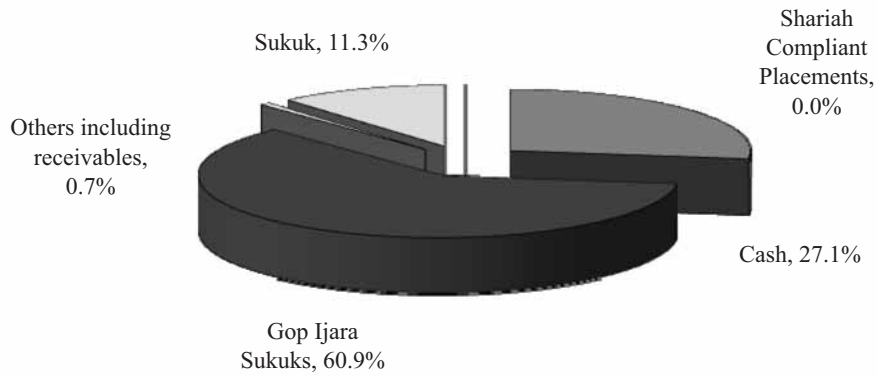
During the period, the fund had been increasing its exposure in GoP Ijarah Sukuk, which stood at around 60.9% at period-end. The fund was 11.3% invested in Corporate Sukuk while most of the remaining exposure was in cash and bank deposits at relatively attractive rates.

The Net Assets of the Fund as at June 30, 2016 stood at Rs. 968 million as compared to Rs. 1,261 million as at June 30, 2015 registering a decrease of 23.24%.

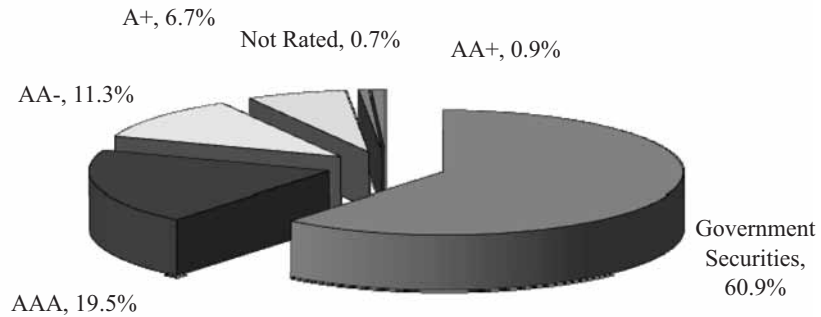
The Net Asset Value (NAV) per unit as at June 30, 2016 was Rs. 100.6677 as compared to opening NAV of Rs. 100.1908 per unit as at June 30, 2015 registering an increase of Rs.0.4769 per unit.

# REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2016

## Asset Allocation as on June 30, 2016 (% of total assets)



## Asset Quality as on June 30, 2016 (% of total assets)



Usama Iqbal  
Fund Manager

Karachi: August 05, 2016

# TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2016

## CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

### Head Office:

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S.M.C.H.S. Main Shakra-e-Faisal,  
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## 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, 2016 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: September 9, 2016



**REPORT OF THE SHARIAH ADVISOR BOARD  
FOR THE YEAR ENDED JUNE 30, 2016**

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**REPORT OF THE SHARIAH ADVISORY BOARD**

Alhamdulillah, the year under review was Sixth 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 Offering Document 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 IFF 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, 2015 to June 30, 2016 have been in compliance with Shariah principles.

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

Karachi: August 05, 2016

  
Dr Muhammad Zubair Usmani

For and on behalf of Shariah Advisory Board

# STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016

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 clause no. 5.19.23 of Rule Book of Pakistan 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 on Pakistan 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 have applied the principles contained in the Code in the following manner:

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

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

The independent directors meet the criteria of independence under clause 5.19.1 (b) of the Code.

- The directors have confirmed that none of them are serving as a director in more than seven listed companies, including the Management Company.
- 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 Broker of a stock exchange, has been declared as a defaulter by that stock exchange.
- During the year, a casual vacancy occurring on January 04, 2016 consequent to the resignation of the former Chief Executive Officer of the Company was filled up by the directors the same day through the appointment of Mr Muhammad Saqib Saleem.
- The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
- The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. The Board has also approved the appointment, remuneration and terms and conditions of appointment of the Chief Executive Officer.
- The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- During the year, the Chief Executive Officer of the Management Company and an independent director attended directors' training programs conducted by the Institute of Chartered Accountants of Pakistan (ICAP). All the remaining directors on the Board already possess the required training or qualification and experience as required by the Code.
- The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment.
- The Directors' Report of the Management Company for the year ended June 30, 2016 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016**

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12. The financial statements were duly endorsed by the Chief Executive Officer and the Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises four members who 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 four are non-executive directors including the chairman of the committee, who is also 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 05, 2016.
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 the 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



**Muhammad Saqib Saleem**  
Chief Executive Officer

Karachi: August 05, 2016



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



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

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

## **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 2016 to comply with the requirements of Clause No. 5.19 of Rule Book of Pakistan Stock Exchange (formerly 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.

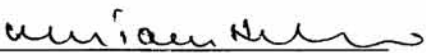
As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors’ statement on internal control 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 2016.

**Date: 5 August 2016**

**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' REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2016



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

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Fax + 92 (21) 3568 5095  
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 2016, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' Fund and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management'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 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

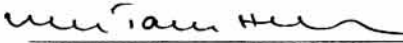
In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2016, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *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: 5 August 2016**

**Karachi**

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

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.

**STATEMENT OF ASSETS AND LIABILITIES  
AS AT 30 JUNE 2016**

|   | <i>Note</i> | <b>2016</b>       | 2015       |
|---|-------------|-------------------|------------|
|   |             | (Rupees in '000)  |            |
| <b>Assets</b>   |             |                   |            |
| Balances with banks   | 4           | 270,361           | 517,006    |
| Investments   | 5           | 720,660           | 754,410    |
| Profit and income receivable  | 6           | 6,276             | 20,907     |
| Deposits, prepayments and other receivables                         |             | 237               | 229        |
| Preliminary expenses and floatation costs                           | 7           | -                 | 192        |
| <b>Total assets</b>   |             | <b>997,534</b>    | 1,292,744  |
| <b>Liabilities</b>  |             |                   |            |
| Payable to Management Company                                       | 8           | 640               | 1,365      |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 9           | 152               | 153        |
| Payable to Securities and Exchange Commission of Pakistan           | 10          | 837               | 1,198      |
| Accrued expenses and other liabilities                              | 11          | 27,800            | 28,968     |
| <b>Total liabilities</b>  |             | <b>29,429</b>     | 31,684     |
| <b>Net assets</b>   |             | <b>968,105</b>    | 1,261,060  |
| <b>Unit holders' fund</b>   |             | <b>968,105</b>    | 1,261,060  |
|   |             | (Number of units) |            |
| <b>Number of units in issue</b>                                     |             | <b>9,616,837</b>  | 12,586,594 |
|   |             | (Rupees)          |            |
| <b>Net assets value per unit</b>                                    |             | <b>100.6677</b>   | 100.1908   |

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

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

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

  
\_\_\_\_\_  
Director

**INCOME STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2016**

|   | <i>Note</i> | <b>2016</b>      | 2015            |
|---|-------------|------------------|-----------------|
|   |             | (Rupees in '000) |                 |
| <b>Income</b>   |             |                  |                 |
| Profit on bank deposits   |             | 24,125           | 32,509          |
| Capital gains / (losses) on sale of investment - net  |             | 2,795            | (9,390)         |
| Income from government securities   |             | 34,802           | 95,862          |
| Income from unlisted debt securities - sukuk certificates   |             | 9,225            | 13,298          |
| Income from term deposit receipts   |             | 510              | -               |
| Back end load   |             | -                | 1               |
|   |             | <u>71,457</u>    | <u>132,280</u>  |
| Net unrealised diminution on re-measurement of investments<br>classified as 'at fair value through profit or loss' - held for trading |             | <u>(1,006)</u>   | <u>(6,232)</u>  |
| <b>Total income</b>   |             | <b>70,451</b>    | <b>126,048</b>  |
| <b>Expenses</b>   |             |                  |                 |
| Remuneration of Management Company  | 8.1         | 7,042            | 14,375          |
| Federal excise duty and Sindh sales tax on remuneration of<br>Management Company  | 8.2         | 2,269            | 4,801           |
| Remuneration of Central Depository Company of Pakistan Limited -Trustee   | 9           | 1,836            | 2,208           |
| Sindh Sales tax on remuneration of trustee  | 9.1         | 212              | -               |
| Annual fee - Securities and Exchange Commission of Pakistan   | 10          | 837              | 1,198           |
| Provision for Workers' Welfare Fund   | 11.2        | -                | 1,301           |
| Amortisation of preliminary expenses and floatation costs   | 7.1         | 192              | 200             |
| Auditors' remuneration  | 12          | 654              | 580             |
| Brokerage and settlement charges  |             | 131              | 242             |
| Legal and professional charges  |             | 104              | 100             |
| Shariah advisory fee  |             | 691              | -               |
| Allocated expense and related taxes   | 13          | 700              | -               |
| Sindh sales tax registration charges  |             | -                | 8               |
| Fees and subscription   |             | 308              | 267             |
| Printing and related costs  |             | 117              | 203             |
| Bank charges  |             | 111              | 115             |
| <b>Total expenses</b>   |             | <b>15,204</b>    | <b>25,598</b>   |
| Net element of income / (loss) and capital gains / (losses) included<br>in prices of units issued less those in units redeemed        |             |                  |                 |
| - arising from capital (losses) / gains and unrealised (losses) / gains   |             | (740)            | 7,827           |
| - arising from other income   |             | (17,928)         | (44,526)        |
|   |             | <u>(18,668)</u>  | <u>(36,699)</u> |
| <b>Net income for the year before taxation</b>  |             | <b>36,579</b>    | <b>63,751</b>   |
| Taxation  | 14          | -                | -               |
| <b>Net income for the year after taxation</b>   |             | <b>36,579</b>    | <b>63,751</b>   |
| <b>Earnings per unit</b>  | 15          |                  |                 |

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

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

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

  
\_\_\_\_\_  
Director

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

|   | <i>Note</i> | <b>2016</b>             | 2015          |
|---|-------------|-------------------------|---------------|
|   |             | <b>(Rupees in '000)</b> |               |
| Net income for the year after taxation  |             | <b>36,579</b>           | 63,751        |
| <b>Other comprehensive income</b>   |             |                         |               |
| <i>Items that are or may be reclassified subsequently to income statement</i>                   |             |                         |               |
| Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale' |             | <b>114</b>              | -             |
| <b>Total comprehensive income for the year</b>  |             | <u><b>36,693</b></u>    | <u>63,751</u> |

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

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

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

  
 \_\_\_\_\_  
 Director

**DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2016**

|   | <i>Note</i> | <b>2016</b>             | 2015             |
|---|-------------|-------------------------|------------------|
|   |             | <b>(Rupees in '000)</b> |                  |
| Undistributed (loss) / income brought forward:  |             |                         |                  |
| - Realised gains/ (losses)  |             | 9,676                   | (16,339)         |
| - Unrealised (losses) / gains   |             | <u>(6,757)</u>          | <u>17,009</u>    |
|   |             | <b>2,919</b>            | 670              |
| <br>Net income for the year   |             | <br><b>36,579</b>       | <br>63,751       |
| <br>Net element of income / (loss) and capital gains / (losses) for the year<br>included in prices of units issued less those in units redeemed |             | <br><b>(601)</b>        | <br>259          |
| <br><i>Distributions:</i>   |             |                         |                  |
| Interim distribution at the rate of Rs. 5.85 per unit for the year<br>ended 30 June 2015 [Date of distribution: 22 June 2015]                   |             |                         |                  |
| - Distribution  |             | -                       | (56,440)         |
| <br>Interim distribution at the rate of Re. 0.53 per unit for the year<br>ended 30 June 2015 [Date of distribution: 23 June 2015]               |             |                         |                  |
| - Distribution  |             | -                       | (5,321)          |
| <br>Interim distribution at the rate of Rs. 4.6 per unit for the year<br>ended 30 June 2016 [Date of distribution: 27 June 2016]                |             |                         |                  |
| - Distribution  |             | <b>(32,069)</b>         |                  |
|   |             | <b>(32,069)</b>         | (61,761)         |
| <br><b>Undistributed income carried forward</b>   |             | <br><b><u>6,828</u></b> | <br><u>2,919</u> |
| <br><b>Undistributed income carried forward:</b>  |             |                         |                  |
| - Realised gains  |             | 12,157                  | 9,676            |
| - Unrealised losses   |             | <u>(5,329)</u>          | <u>(6,757)</u>   |
|   |             | <b><u>6,828</u></b>     | <u>2,919</u>     |

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

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

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

  
\_\_\_\_\_  
Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND  
FOR THE YEAR ENDED 30 JUNE 2016**

|  | 2016<br>(Rupees in '000) | 2015        |
|--|--------------------------|-------------|
| Net assets at beginning of the year  | 1,261,060                | 2,054,563   |
| Issue of 9,192,778 units (2015: 9,485,198 units)   | <b>924,066</b>           | 968,125     |
| Redemption of 12,162,535 units (2015: 17,437,545 units)  | <b>(1,240,313)</b>       | (1,800,317) |
|  | <b>(316,247)</b>         | (832,192)   |
| 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  |                          |             |
| n arising from capital (gain) / loss and unrealised (gain) / loss  | <b>740</b>               | (7,827)     |
| n arising from other income  | <b>17,928</b>            | 44,526      |
| - amount representing unrealised capital (gains) / losses transferred to the Distribution Statement  | <b>(601)</b>             | 259         |
|  | <b>18,067</b>            | 36,958      |
| Net income for the year (excluding net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain / (loss) on sale of investments) | <b>34,790</b>            | 79,373      |
| Capital gains / (losses) on sale of investments  | <b>2,795</b>             | (9,390)     |
| Net unrealised diminution on re-measurement of investments classified as 'at fair value through profit or loss' - held for trading   | <b>(1,006)</b>           | (6,232)     |
|  | <b>36,579</b>            | 63,751      |
| Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'  | <b>114</b>               | -           |
| Net element of (loss) / income and capital (loss) / gains included in prices of units issued less those in units redeemed - transferred to Distribution Statement                                    | <b>601</b>               | (259)       |
| Interim 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)    |
| Interim 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)     |
| Interim distribution at the rate of Rs. 4.60 per unit for the year ended 30 June 2016 [Date of distribution: 27 June 2016]   |                          |             |
| - Distribution   | <b>(32,069)</b>          |             |
|  | <b>(32,069)</b>          | (61,761)    |
| <b>Net assets at end of the year</b>   | <b>968,105</b>           | 1,261,060   |
| Net assets value per unit as at beginning of the year  | <b>100.1908</b>          | 100.0326    |
| Net assets value per unit as at end of the year  | <b>100.6677</b>          | 100.1908    |

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

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

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

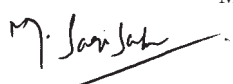
  
\_\_\_\_\_  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

|   | Note | 2016<br>(Rupees in '000) | 2015      |
|---|------|--------------------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |      |                          |           |
| Net income for the year   |      | 36,579                   | 63,751    |
| <i>Adjustments for non-cash and other items:</i>  |      |                          |           |
| Net unrealized diminution on re-measurement of investments<br>classified as 'at fair value through profit or loss' - held for trading |      | 1,006                    | 6,232     |
| Amortization of preliminary expenses and floatation costs   |      | 192                      | 200       |
| Provision for Workers' Welfare Fund   |      | -                        | 1,301     |
| Net element of (income) / loss and capital (gains) / losses included<br>in prices of units issued less those in units redeemed        |      | -                        |           |
| - arising from capital loss / (gain) and unrealised loss / (gain)   |      | 740                      | (7,827)   |
| - arising from other income   |      | 17,928                   | 44,526    |
|   |      | 56,445                   | 108,183   |
| <b>Decrease / (increase) in assets</b>  |      |                          |           |
| Investments - net   |      | 32,858                   | 690,909   |
| Profit and income receivable  |      | 14,631                   | 7,244     |
| Deposits, prepayments and other receivables   |      | (8)                      | (129)     |
|   |      | 47,481                   | 698,024   |
| <b>Increase / (decrease) in liabilities</b>   |      |                          |           |
| Payable to Management Company   |      | (725)                    | (855)     |
| Payable to Central Depository Company of Pakistan Limited - Trustee   |      | (1)                      | (73)      |
| Payable to Securities and Exchange Commission of Pakistan   |      | (361)                    | (619)     |
| Accrued expenses and other liabilities  |      | (1,168)                  | 8,647     |
|   |      | (2,255)                  | 7,100     |
| <b>Net cash generated from operating activities</b>   |      | 101,671                  | 813,307   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |      |                          |           |
| Net payments from sale and redemption of units  |      | (316,247)                | (832,192) |
| Dividend paid   |      | (32,069)                 | (61,792)  |
| <b>Net cash used in financing activities</b>  |      | (348,316)                | (893,984) |
| <b>Net decrease in cash and cash equivalents during the year</b>  |      | (246,645)                | (80,678)  |
| Cash and cash equivalents at the beginning of the year  |      | 517,006                  | 597,684   |
| <b>Cash and cash equivalents at the end of the year</b>   | 4    | 270,361                  | 517,006   |

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

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, 2016

## 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 currently situated at 24th Floor, Centre Point, Off. Shaheed-e-Millat Expressway, near KPT interchange, Karachi, Pakistan.

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

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

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

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

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

### 2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended 30 June 2016

There are certain standards, amendments and interpretations are effective for the year ended 30 June 2016. 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.

IFRS - 13 "Fair Value Measurement" became effective during the year which establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. As a result, the Fund has included additional disclosures in this regard in note 18 to these financial statements. In accordance with the transitional provisions of IFRS 13, the Fund has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosure. Notwithstanding the above, the change had no significant impacts on the measurements of the Fund's assets and liabilities.

### 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 2016, 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, 2016

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## 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 except for adoption of IFRS 13 as mentioned in note 2.2 to these financial statements.

### 3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

#### 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. 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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### *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 Certificate*

The fair value of the investments in GoP Ijara sukuk certificates is determined by using the Pakistan revaluation rates issued by MUFAP.

### *Basis of valuation of Sukuk Certificate*

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

Investment in thinly and non-traded securities with maturity upto six months are valued at their amortised cost in accordance with the requirements of circular issued by SECP.

### *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 prolong 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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## *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. The legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or winding up of the Fund or the counter parties.

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

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

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

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

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

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

An 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.

The Element of Income arising on issuance and redemption of units is bifurcated in to portion attributable to capital gain / losses (realised and unrealised) and other income appearing in book of accounts of the Funds. Accordingly corresponding figures have been aligned with the current presentation.

### **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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

## *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.
- Unrealised gains / (losses) arising on valuation of investments classified as 'at fair which they value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is 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**

|                     |     | 2016                  | 2015                  |
|---------------------|-----|-----------------------|-----------------------|
|                     |     | (Rupees in '000)      |                       |
| In current accounts |     | 186,120               | 22,558                |
| In savings accounts | 4.1 | <u>84,241</u>         | <u>494,448</u>        |
|                     |     | <u><u>270,361</u></u> | <u><u>517,006</u></u> |

4.1 These carry mark-up at rates ranging from 4.5% to 6.05% (2015: 4.5% to 6.45%) per annum.

## **5. INVESTMENTS**

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

|   |     |         |         |
|---|-----|---------|---------|
| Government securities                         | 5.1 | 558,065 | 635,190 |
| Unlisted debt securities - sukuk certificates | 5.2 | 113,115 | 119,220 |

### *'At fair value through profit or loss' - available for sale*

|                       |     |                       |                       |
|-----------------------|-----|-----------------------|-----------------------|
| Government securities | 5.3 | <u>49,480</u>         | -                     |
|                       |     | <u><u>720,660</u></u> | <u><u>754,410</u></u> |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**5.1 Government securities - Government of Pakistan Ijara Sukuk - Held for trading**

| Issue date        | Face value                      |                                 | Balance as at 30 June 2016    |                                      | Market value                         |                           |
|-------------------|---------------------------------|---------------------------------|-------------------------------|--------------------------------------|--------------------------------------|---------------------------|
|                   | As at 1 July 2015               | Purchases during the year       | As at 30 June 2016            | Cost                                 | Market value                         | Appreciation/(diminution) |
| Profit rate (%)   | Sales / Matures during the year | Sales / Matures during the year | As a percentage of net assets | as a percentage of total investments | as a percentage of total investments |                           |
| 26 December 2011  | 6.94%                           | 100,000                         | 100,000                       | -                                    | -                                    | -                         |
| 28 June 2012      | 6.94%                           | 11,000                          | 11,000                        | -                                    | -                                    | -                         |
| 18 September 2012 | 6.20%                           | 435,200                         | 435,200                       | -                                    | -                                    | -                         |
| 2 March 2012      | 6.94%                           | 100,000                         | 100,000                       | -                                    | -                                    | -                         |
| 28 March 2013     | 6.15%                           | 20,300                          | 10,500                        | -                                    | -                                    | -                         |
| 25 June 2014      | 3.89%                           | 65,500                          | 360,000                       | 347,500                              | 344,860                              | (974)                     |
| 18 December 2015  | 5.46%                           | -                               | 865,000                       | 212,500                              | 214,179                              | (41)                      |
| 15 February 2016  | 6.10%                           | -                               | 250,000                       | -                                    | -                                    | -                         |
|                   |                                 |                                 |                               | <b>559,080</b>                       | <b>558,065</b>                       | <b>(1,015)</b>            |

| Issue date        | Face value                      |                                 | Balance as at 30 June 2015    |                                      | Market value                         |                           |
|-------------------|---------------------------------|---------------------------------|-------------------------------|--------------------------------------|--------------------------------------|---------------------------|
|                   | As at 1 July 2014               | Purchases during the year       | As at 30 June 2015            | Cost                                 | Market value                         | Appreciation/(diminution) |
| Profit rate (%)   | Sales / Matures during the year | Sales / Matures during the year | As a percentage of net assets | as a percentage of total investments | as a percentage of total investments |                           |
| 26 December 2011  | 9.49%                           | 600,000                         | 600,000                       | -                                    | -                                    | -                         |
| 28 June 2012      | 6.94%                           | 69,500                          | 66,500                        | 11,055                               | 11,072                               | 17                        |
| 18 September 2012 | 7.87%                           | 295,000                         | 525,000                       | 448,038                              | 438,159                              | (9,879)                   |
| 2 March 2012      | 8.34%                           | -                               | 975,000                       | 100,660                              | 100,850                              | 190                       |
| 28 March 2013     | 7.59%                           | 34,800                          | 14,500                        | 20,405                               | 20,428                               | 23                        |
| 25 June 2014      | 6.94%                           | 758,500                         | 825,000                       | 65,434                               | 64,681                               | (753)                     |
|                   |                                 |                                 |                               | <b>645,592</b>                       | <b>635,190</b>                       | <b>(10,402)</b>           |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**5.2 Unlisted debt securities - Sukuk Certificate**

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

| Issue date                   | Profit rate (%) | Number of certificates |                           |                                | Balance as at 30 June 2016 |                   | Market value as a percentage of total investments |                            |       |       |  |
|------------------------------|-----------------|------------------------|---------------------------|--------------------------------|----------------------------|-------------------|---|----------------------------|-------|-------|--|
|                              |                 | As at 1 July 2015      | Purchased during the year | Sale / Matured during the year | As at 30 June 2016         | Cost Market value |   | Appreciation/ (diminution) |       |       |  |
| Engro Fertilizers Limited    | 8.21%           | 23,600                 | -                         | -                              | 23,600                     | 113,107           | 113,115   | 9                          | 11.68 | 15.70 |  |
| ----- (Rupees in '000) ----- |                 |                        |                           |                                |                            |                   |   |                            |       |       |  |
| Issue date                   | Profit rate (%) | Number of certificates |                           |                                | Balance as at 30 June 2015 |                   | Market value as a percentage of total investments |                            |       |       |  |
|                              |                 | As at 1 July 2014      | Purchased during the year | Sale / Matured during the year | As at 30 June 2015         | Cost Market value |   | Appreciation/ (diminution) |       |       |  |
| Engro Fertilizers Limited    | 11.93%          | -                      | 23,600                    | -                              | 23,600                     | 115,050           | 119,220   | 4,170                      | 9.45  | 15.80 |  |
| ----- (Rupees in '000) ----- |                 |                        |                           |                                |                            |                   |   |                            |       |       |  |

**5.3 Government securities - Government of Pakistan Ijara Sukuk - Available for sale**

| Issue date                   | Profit rate (%) | Face value        |                           |                                 | Balance as at 30 June 2016 |                   | Market value as a percentage of total investments |                            |      |      |  |
|------------------------------|-----------------|-------------------|---------------------------|---------------------------------|----------------------------|-------------------|---|----------------------------|------|------|--|
|                              |                 | As at 1 July 2015 | Purchases during the year | Sales / Matured during the year | As at 30 June 2016         | Cost Market value |   | Appreciation/ (diminution) |      |      |  |
| 25 June 2014                 | 3.89%           | -                 | 50,000                    | -                               | 50,000                     | 49,366            | 49,480  | 114                        | 5.11 | 6.87 |  |
| ----- (Rupees in '000) ----- |                 |                   |                           |                                 |                            |                   |   |                            |      |      |  |
| Total as at 30 June 2015     |                 |                   |                           |                                 |                            |                   |   |                            |      |      |  |



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

|   | 2016             | 2015          |
|---|------------------|---------------|
| 6. PROFIT AND INCOME RECEIVABLE   | (Rupees in '000) |               |
| Profit accrued on savings accounts  | 1,325            | 1,629         |
| Income accrued on unlisted - term finance certificates  | 4,284            | 6,202         |
| Income accrued on government securities   | 667              | 13,076        |
|   | <u>6,276</u>     | <u>20,907</u> |
| <b>7. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>   |                  |               |
| Opening balance   | 192              | 392           |
| Less: Amortization for the year   | 7.1 <u>192</u>   | <u>200</u>    |
| Closing balance   | <u>-</u>         | <u>192</u>    |
| <b>7.1</b> 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. |                  |               |
| <b>8. PAYABLE TO MANAGEMENT COMPANY</b>   |                  |               |
| Management fee payable  | 8.1 376          | 718           |
| Sindh sales tax on management fee   | 8.2 53           | 178           |
| Front-end load payable  | 56               | 369           |
| Legal and professional charges  | -                | 100           |
| Shariah advisor charges   | 76               | -             |
| Allocated charges   | 13 <u>79</u>     | <u>-</u>      |
|   | <u>640</u>       | <u>1,365</u>  |

8.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and, thereafter, of an amount equal to two percent of such assets of the Fund. The Management Company has charged remuneration at the rate of 10% of the gross earnings of the Fund. This fee is subject to a minimum of 0.25% of the average daily net assets of the Fund not exceeding the maximum rate of remuneration permitted under the NBFC Regulations, 2008. The remuneration is paid by the Fund to the Management Company on a monthly basis in arrears. In the current period a statutory notification (S.R.O. No 1160 (1) /2015 dated 25 November 2015 was issued by the Securities and Exchange Commission of Pakistan (SECP), which introduced amendments in Non - Banking Finance Companies and Notified Entities Regulations, 2008. As a result of these amendments, Management Company of the Fund is entitled to a remuneration of an amount not exceeding 1.5% of average annual net assets in case of Income Fund.

8.2 Management fee charged during the year is inclusive of all government levies (i.e. 14% 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  |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

- 9.1 The Sindh Revenue Board through Circular No. SRB 3-4/TP/01/2015/86554 dated 13 June 2015 has amended the definition of services of shares, securities and derivatives and included the custodianship services as well. Accordingly, sindh sales tax at the rate of 14% is also charged on trustee fee .

Accordingly, the Fund has made an accrual of Rs. 0.19 million on account of sindh sales tax on services chargeable on custodianship services.

**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**

**2016          2015**  
**(Rupees in '000)**

|                                     |             |                      |                      |
|-------------------------------------|-------------|----------------------|----------------------|
| Federal excise duty payable         | <i>11.1</i> | <b>11,667</b>        | 10,140               |
| Provision for Workers' Welfare Fund | <i>11.2</i> | <b>11,490</b>        | 11,490               |
| Zakat payable                       |             | <b>403</b>           | 377                  |
| Auditors' remuneration              |             | <b>449</b>           | 394                  |
| Printing charges payable            |             | <b>115</b>           | 152                  |
| Capital gain tax payable            |             | <b>287</b>           | 199                  |
| Withholding tax payable on dividend |             | <b>3,222</b>         | 6,201                |
| Others                              |             | <b>167</b>           | 15                   |
|                                     |             | <b><u>27,800</u></b> | <b><u>28,968</u></b> |

- 11.1 The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from 13 June 2013. As the asset management services rendered by the Management Company of the Fund are already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company is of the view that further levy of FED was not justified.

On 4 September 2013, a constitutional petition was filed in Honorable Sindh High Court (SHC) jointly by various asset management companies, together with Collective Investment Schemes through their trustees, challenging the levy of FED. The SHC vide its Order dated 16 July 2016 has disposed of the petition by referring its judgment dated 2 June 2016 whereby it rendered the FED on certain services to be 'ultra vires' in the presence of Sindh Sales Tax Act 2011. Further, the Federal Government vide Finance Act 2016 has excluded asset management companies and other non-banking finance companies from charge of FED on their services. Management is however of the view that since the Federal government still has the right to appeal against the Order of the SHC, the previous balance of FED cannot be reversed.

In view of the pending decision and as a matter of abundant caution, the Management Company of the Fund has made a provision for FED in the books of accounts of the Fund with effect from 13 June 2013 to 30 June 2016 aggregating to Rs. 11.67 million (2015: Rs. 10.14 million).

- 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 the CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication.

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

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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.

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.

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, 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. Management Company, as a matter of abundant precaution, has decided to retain the provision for WWF amounting to Rs. 11.490 million in these financial statements pertaining to period 1 July 2011 to 30 June 2015 and have not recognised any further provision there against. During the year ended 30 June 2016 the Fund charged Rs. Nil on account of WWF. Had the said provision of WWF not been recorded in the books of account of the Fund, the Net Asset Value (NAV) of the Fund would have been higher by Rs. 1.19 per unit as at 30 June 2016.

### 12. AUDITORS' REMUNERATION

|                        | 2016             | 2015 |
|------------------------|------------------|------|
|                        | (Rupees in '000) |      |
| Annual audit fee       | 289              | 275  |
| Half yearly review fee | 150              | 150  |
| Other certifications   | 141              | 100  |
| Out of pocket expenses | 74               | 66   |
|                        | 654              | 591  |

### 13. ALLOCATED EXPENSES

In the current period a statutory notification (S.R.O. No 1160 (1)/2015 dated 25 November 2015 was issued by the Securities and Exchange Commission of Pakistan (SECP), which introduced amendments in Non - Banking Finance Companies and Notified Entities Regulations, 2008. As a result of these amendments, the Management Company may charge fees and expenses related to registrar services, accounting, operations and valuation services related to Collective Investment Scheme (CIS) upto maximum of 0.1% of average annual net assets of the scheme. Accordingly, such expenses have been charged effective from 27 November 2015.

### 14. TAXATION

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

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**15. 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.

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

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

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

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

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

| <b>16.1 Details of the transactions with related parties / connected persons:</b> | <b>2016</b>             | <b>2015</b> |
|---|-------------------------|-------------|
|   | <b>(Rupees in '000)</b> |             |
| <b>MCB Arif Habib Savings and Investments Limited - Management Company</b>        |                         |             |
| Remuneration (including indirect taxes)   | <b>9,311</b>            | 19,176      |
| Allocated expense (including indirect taxes)                                      | <b>700</b>              | -           |
| Reimbursement for registration in Sindh Revenue Board                             | -                       | 8           |
| <b>Central Depository Company of Pakistan Limited - Trustee</b>                   |                         |             |
| Remuneration  | <b>2,048</b>            | 2,208       |
| <b>Adamjee Life Assurance Company Limited (Amaanat Fund)</b>                      |                         |             |
| Issue of 1,620,577 units (2015: 1,830,621 units)                                  | <b>165,000</b>          | 185,000     |
| Redemption of 2,085,321 units (2015: 976,361 units)                               | <b>215,230</b>          | 103,878     |
| <b>Adamjee Life Assurance Company Limited (Investment Secure Fund)</b>            |                         |             |
| Redemption of Nil units (2015: 188)   | -                       | 20,028      |
| <b>Adamjee Life Assurance Company Limited (Investment Secure Fund II)</b>         |                         |             |
| Redemption of Nil units (2015: 83)  | -                       | 8,901       |
| <b>Mandate under Discretionary Portfolio Services</b>                             |                         |             |
| Issue of 9,635 units (2015: Nil units)  | <b>1,000</b>            | -           |
| Dividend paid   | <b>1,971</b>            | 1,180       |
| Redemption of 9,635 units (2015: Nil units)                                       | <b>1,001</b>            | -           |
| <b>MCB Bank Limited</b>   |                         |             |
| Profit on bank deposits   | <b>472</b>              | 688         |
| Purchase of securities Face Value 100,000,000 (2015: Nil)                         | <b>100,093</b>          | -           |
| Sale of securities Face value 200,000,000(2015: Nil)                              | <b>203,239</b>          | -           |
| Bank charges  | <b>42</b>               | 67          |
| <b>Summit Bank Limited</b>  |                         |             |
| Sale of securities Face value Nil (2015: 50,000,000)                              | -                       | 51,099      |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

|  | 2016             | 2015    |
|--|------------------|---------|
|  | (Rupees in '000) |         |
| <b>Directors and executives of the Management Company</b>                  |                  |         |
| Issue of 94,404 units (2015: 54,865 units)                                 | 9,631            | 5,644   |
| Issue of Nil bonus units (2015: 2,074 units)                               | -                | 208     |
| Dividend paid  | 189              | 188     |
| Redemption of 107,084 units (2015: 70,992 units)                           | 10,949           | 7,309   |
| <b>Next Capital Limited</b>  |                  |         |
| Brokerage Paid   | 3                | 8       |
| <b>Summit Capital Private Limited</b>                                      |                  |         |
| Brokerage  | -                | 5       |
| <b>16.2 Amounts outstanding as at year end</b>                             |                  |         |
| <b>MCB Arif Habib Savings and Investments Limited - Management Company</b> |                  |         |
| Management fee payable   | 376              | 718     |
| Sindh sales tax payable on management fee                                  | 53               | 178     |
| Front-end load payable   | 49               | 321     |
| Sindh sales tax payable on front end load                                  | 7                | 48      |
| Shariah Advisor Payable  | 76               | -       |
| Allocated Expense Payable  | 79               | -       |
| Legal and professional charges   | -                | 100     |
| <b>Central Depository Company of Pakistan Limited - Trustee</b>            |                  |         |
| Remuneration payable   | 133              | 153     |
| Sindh sales tax payable on trustee fee                                     | 19               | -       |
| <b>Adamjee Life Assurance Company Limited (Amaanat Fund)</b>               |                  |         |
| Units held: 883,989 (2015: 1,348,733 units)                                | 88,989           | 135,131 |
| <b>MCB Bank Limited</b>  |                  |         |
| Balance in bank accounts   | 185,341          | 47,732  |
| Profit receivable on bank deposits   | -                | 50      |
| <b>Directors and executives of the Management Company</b>                  |                  |         |
| Units held 42,682 units (2015: 55,362 units)                               | 4,297            | 5,547   |

**17. FINANCIAL RISK MANAGEMENT**

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

## 17.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rates. The objective of market risk management is to manage market risk exposure within acceptable parameters, while 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 2016, 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 2016, 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. 0.52 million (2015: 0.584 million). 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 2016 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. 8,388 (2015: Rs.6,320). 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 2016 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, its issuer or factors affecting all instruments traded in the market. As at 30 June 2016, the Fund does not hold any investment exposed to other 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.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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### 17.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. 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 2016, 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 Government 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*

Fund has made investment in Term Islamic certificates (Sukuk) of Engro Fertilizer Limited having good credit standing. Currently the instrument is rated AA- as per valuation sheet of Mutual Fund Association of Pakistan. Management does not anticipate impairment there against.

#### *Past due and impaired assets*

No financial assets carried at amortized cost were past due or impaired either as at 30 June 2016 or 30 June 2015.

#### *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.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 17.3 Liquidity risk

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

#### *Management of liquidity risk*

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

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

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 2016             |  |                       | Total        |
|---|--------------------------|--|-----------------------|--------------|
|   | Up to<br>three<br>months | More<br>than three<br>months<br>and upto<br>one year | More than<br>one year |              |
| ----- (Rupees in '000) -----  |                          |  |                       |              |
| Payable to Management Company                                       | 640                      | -  | -                     | 640          |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 152                      | -  | -                     | 152          |
| Accrued expenses and other liabilities                              | 1,018                    | -  | -                     | 1,018        |
|   | <b>1,810</b>             | <b>-</b>   | <b>-</b>              | <b>1,810</b> |
| -----   |                          |  |                       |              |
|   | 30 June 2015             |  |                       | Total        |
|   | Up to<br>three<br>months | More<br>than three<br>months<br>and upto<br>one year | More than<br>one year |              |
| ----- (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                              | 760                      | -  | -                     | 760          |
|   | <b>2,278</b>             | <b>-</b>   | <b>-</b>              | <b>2,278</b> |

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**17.4 Financial instruments by category**

As at 30 June 2016, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables', financial assets 'at fair value through profit or loss' or financial assets classified as 'available for sale'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

|                              | 30 June 2016                 |   |   |         |
|------------------------------|------------------------------|---|---|---------|
|                              | Loans and<br>receivables     | Assets at fair<br>value through<br>profit or loss | Assets classified<br>as available for<br>sale | Total   |
|                              | ----- (Rupees in '000) ----- |   |   |         |
| <b>Assets</b>                |                              |   |   |         |
| Balances with banks          | 270,361                      | -   | -   | 270,361 |
| Investments                  | -                            | 671,180   | 49,480  | 720,660 |
| Profit and income receivable | 6,276                        | -   | -   | 6,276   |
| Deposits                     | 237                          | -   | -   | 237     |
|                              | 276,874                      | 671,180   | 49,480  | 997,534 |

|   | 30 June 2016  |                                |  |       |
|---|---|--------------------------------|--|-------|
|   | Liabilities at<br>fair value<br>through profit<br>or loss | Other financial<br>liabilities |  | Total |
|   | ----- (Rupees in '000) -----                              |                                |  |       |
| <b>Liabilities</b>  |   |                                |  |       |
| Payable to Management Company                                       | -   | 640                            |  | 640   |
| Payable to Central Depository Company of Pakistan Limited - Trustee | -   | 152                            |  | 152   |
| Accrued expenses and other liabilities                              | -   | 1,018                          |  | 1,018 |
|   | -   | 1,810                          |  | 1,810 |

|                              | 30 June 2015                 |   |  |           |
|------------------------------|------------------------------|---|--|-----------|
|                              | Loans and<br>receivables     | Assets at fair<br>value through<br>profit or loss | Assets classified as<br>available for sale | Total     |
|                              | ----- (Rupees in '000) ----- |   |  |           |
| <b>Assets</b>                |                              |   |  |           |
| Balances with banks          | 517,006                      | -   | -  | 517,006   |
| Investments                  | -                            | 754,410   | -  | 754,410   |
| Profit and income receivable | 20,907                       | -   | -  | 20,907    |
|                              | 537,913                      | 754,410   | -  | 1,292,323 |

|   | 30 June 2015   |                                |  |       |
|---|--|--------------------------------|--|-------|
|   | Liabilities at fair<br>value through<br>profit or loss | Other financial<br>liabilities |  | Total |
|   | ----- (Rupees in '000) -----                           |                                |  |       |
| <b>Liabilities</b>  |  |                                |  |       |
| Payable to Management Company                                       | -  | 1,365                          |  | 1,365 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | -  | 153                            |  | 153   |
| Accrued expenses and other liabilities                              | -  | 760                            |  | 760   |
|   | -  | 2,278                          |  | 2,278 |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

## 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.

## 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of underlying financial assets are determined based on requirements of Regulation 66 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives if any, issued by the Securities and Exchange Commission of Pakistan. of debt instruments other than Government Securities, which are unlisted or listed but not traded regularly on stock exchange be valued at rates notified by Mutual Funds Association of Pakistan.

The fair value of financial assets traded in active market i.e. listed securities are based on the quoted market price at determined by stock exchange in accordance with its regulations.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1 - Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

### 30 June 2016

|   | <b>Level 2</b><br><b>(Rupees in '000)</b> |
|---|---|
| <i>At fair value through profit or loss' - held for trading</i> |   |
| Government Securities   | <b>558,065</b>                            |
| <i>'Available-for-sale'</i>                                     |   |
| Government Securities   | <b>49,480</b>                             |
|   | <b>Level 3</b>                            |
| Unlisted debt securities - term finance certificates            | <b>113,115</b>                            |
| 30 June 2015  | <b>Level 2</b>                            |
| <i>At fair value through profit or loss' - held for trading</i> |   |
| Government Securities   | <b>635,190</b>                            |
|   | <b>Level 3</b>                            |
| Unlisted debt securities - term finance certificates            | <b>119,220</b>                            |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**19. SUPPLEMENTARY NON FINANCIAL INFORMATION**

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

**19.1 Pattern of unit holding**

|                     | As at 30 June 2016     |                                       |                       |
|---------------------|------------------------|---------------------------------------|-----------------------|
|                     | Number of unit holders | Investment amount<br>(Rupees in '000) | Percentage investment |
| Individual          | 1,119                  | 740,277                               | 76%                   |
| Associated Company  | 1                      | 88,989                                | 9%                    |
| Retirement Fund     | 9                      | 49,002                                | 5%                    |
| Insurance Companies | 1                      | 73,122                                | 8%                    |
| Other Company       | 4                      | 7,027                                 | 1%                    |
| Trustee             | 2                      | 6,620                                 | 1%                    |
| Others              | 2                      | 3,068                                 | 0%                    |
|                     | <b>1,138</b>           | <b>968,105</b>                        | <b>100%</b>           |

|                     | As at 30 June 2015     |                                       |                       |
|---------------------|------------------------|---------------------------------------|-----------------------|
|                     | Number of unit holders | Investment amount<br>(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%                    |
|                     | <b>851</b>             | <b>1,261,060</b>                      | <b>100%</b>           |

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

|  |                              |
|--|------------------------------|
|  | <b>2016<br/>(Percentage)</b> |
| 1 Invest Capital Markets Limited               | <b>58.60%</b>                |
| 2 JS Global Capital Limited                    | <b>35.83%</b>                |
| 3 Vector Capital (Private) Limited             | <b>3.48%</b>                 |
| 4 Next Capital Limited                         | <b>2.09%</b>                 |
|  | 2015<br>(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%                        |

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

## 19.3 Attendance at meetings of Board of Directors

During the year, eight board meetings were held on 7 August 2015, 16 October 2015, 4 January 2016, 4 February 2016, 18 April 2016, 27 May 2016, 21 June 2016 and 27 June 2016.

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

| Name of Director                                | Number of meetings |                     |          |               | Meeting not Attended                                      |
|---|--------------------|---------------------|----------|---------------|---|
|   | Held               | Attendance Required | Attended | Leave granted |   |
| Mr. Mian Mohammad Mansha                        | 8                  | 8                   | -        | 8             | 118th, 119th, 120th, 121st, 122nd, 123rd, 124th and 125th |
| Mr. Nasim Beg                                   | 8                  | 8                   | 7        | 1             | 119th   |
| Mr. Yasir Qadri (Chief Executive Officer)*      | 8                  | 3                   | 3        | -             |   |
| Dr. Syed Salman Ali Shah                        | 8                  | 8                   | 8        | -             |   |
| Mr. Haroun Rashid                               | 8                  | 8                   | 8        | -             |   |
| Mr. Ahmed Jahangir                              | 8                  | 8                   | 7        | 1             | 122nd   |
| Mr. Samad A. Habib                              | 8                  | 8                   | 6        | 2             | 119th and 125th   |
| Mr. Mirza Mehmood Ahmed                         | 8                  | 8                   | -        | 8             | 118th, 119th, 120th, 121st, 122nd, 123rd, 124th and 125th |
| Mr. M. Saqib Saleem (Chief Executive Officer)** | 8                  | 5                   | 5        | -             |   |

\* Mr. Yasir Qadri (Chief Executive Officer) resigned on 4 January 2016

\*\* Mr. Muhammad Saqib Saleem appointed as a acting Chief Executive Officer on 4 January 2016 and confirmed by the board on 18 April 2016

## 19.4 Particulars of Investment Committee and Fund Manager

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

| Name              | Designation                           | Qualification | Experience in years |
|-------------------|---------------------------------------|---------------|---------------------|
| Mr. Saqib Saleem  | Chief Executive Officer*              | FCA and FCCA  | 18 years            |
| Mr. Muhammad Asim | Asset Class Specialist - Equities     | MBA and CFA   | 13 years            |
| Mr. Saad Ahmed    | Asset Class Specialist - Fixed Income | MBA           | 10 Years            |
| Mr. Usama Iqbal   | Fund Manager Fixed Income Funds       | B.com         | 9 Years             |
| Mr. Awais Sattar  | Senior Research Analyst               | MBA and CFA   | 5 years             |

\* Mr. Saqib Saleem is nominated as Chief Executive Officer on 5 January 2016, when Mr. Yasir Qadri resigned.

19.5 Syed Muhammad Usama Iqbal is the fund manager. He is also the fund manager of Pakistan Income Fund.

## 20. 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.

## 21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 05, 2016.

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

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

  
\_\_\_\_\_  
Director

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

| Category  | No.of Unit Holders | Units            |
|---|--------------------|------------------|
| <b>Associated Companies, undertakings and related Parties</b>   |                    |                  |
| ADAMJEE LIFE ASSURANCE CO. LTD. AMAANAT FUND  | 1                  | 883,989          |
| <b>Mutual Funds</b>   | -                  | -                |
| <b>Directors and their spouse (s) and minor children</b>  | -                  | -                |
| <b>Executives</b>   | 6                  | 42,682           |
| <b>Public sector companies and corporations</b>   | -                  | -                |
| <b>Banks, Development Finance Institutos, Non-Banking Finance Companies,<br/>Insurance Companies, Takaful, Modarbas and Pension Funds</b> | 9                  | 486,769          |
| <b>Unitholders holding 5 percent or more Voting interest in the listed company</b>  |                    |                  |
| RELIANCE INSURANCE CO.LTD   | 1                  | 726,368          |
| <b>Othes</b>  | 1,121              | 7,477,029        |
|   | <b>1,138</b>       | <b>9,616,837</b> |

**PATTERN OF UNITS HOLDING BY SIZE  
FOR THE YEAR ENDED JUNE 30, 2016**

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| <b>No. of Unit Holder</b> | <b>Unit holdings</b> | <b>Total Units Held</b> |
|---------------------------|----------------------|-------------------------|
| 940                       | 1-10000              | 1,438,634               |
| 185                       | 10001-100000         | 4,777,192               |
| 13                        | 100001-1000000       | 3,401,011               |
| <u>1,138</u>              |                      | <u>9,616,837</u>        |



## PERFORMANCE TABLE

| Performance Information                            | 2016   | 2015     | 2014     | 2013     |
|--|--------|----------|----------|----------|
| Total Net Assets Value – Rs. in million            | 968.10 | 1,261.06 | 2,054.56 | 2,946.49 |
| Net Assets value per unit – Rupees                 | 100.67 | 100.19   | 100.03   | 101.89   |
| Closing Offer Price                                | 102.71 | 102.24   | 102.09   | 103.45   |
| Closing Repurchase Price                           | 100.67 | 100.19   | 100.03   | 101.89   |
| Highest offer price per unit                       | 107.36 | 108.65   | 104.47   | 104.81   |
| Lowest offer price per unit                        | 102.24 | 102.08   | 102.02   | 101.64   |
| Highest Redemption price per unit                  | 105.23 | 106.47   | 102.37   | 103.24   |
| Lowest Redemption price per unit                   | 100.22 | 100.04   | 99.96    | 100.11   |
| Distribution per unit – Rs. *                      | 4.60   | 6.38     | 6.55     | 8.75     |
| <b>Average Annual Return - %</b>                   |        |          |          |          |
| One year   | 5.05   | 6.55     | 8.38     | 8.91     |
| Two year   | 5.80   | 7.46     | 8.65     | 5.06     |
| Three year   | 6.66   | 7.94     | 9.22     | -        |
| Net Income for the period – Rs. in million         | 36.58  | 63.75    | 182.73   | 217.36   |
| Distribution made during the year – Rs. in million | 32.07  | 61.76    | 182.06   | 220.22   |
| Accumulated Capital Growth – Rs. in million        | 4.51   | 1.99     | 0.67     | (2.86)   |
| Weighted average Portfolio Duration (Days)         | 412    | 243      | 132      | 496      |

### \* Date of Distribution

| 2016          |      |
|---------------|------|
| Date          | Rate |
| June 27, 2016 | 4.6  |

| 2015          |      |
|---------------|------|
| Date          | Rate |
| June 22, 2015 | 5.85 |
| June 23, 2015 | 0.53 |

| 2014               |      |
|--------------------|------|
| Date               | Rate |
| September 27, 2013 | 1.83 |
| December 27, 2013  | 2.36 |
| March 27, 2014     | 2.37 |

| 2013               |      |
|--------------------|------|
| Date               | Rate |
| September 27, 2012 | 3.14 |
| December 26, 2012  | 2.15 |
| March 26, 2013     | 1.57 |
| July 04, 2013      | 1.89 |

### Disclaimer








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







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