

## Annual Report 2015



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MCB

# DCF INCOME FUND

(Formerly : MCB Dynamic Cash Fund)

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

AM2 Plus by PACRA

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## **Vision**

To become synonymous with Savings.

## **Mission**

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

## **Core Values**

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

## FUND'S INFORMATION

<b>Management Company</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors</b>	Mian Muhammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
<b>Audit Committee</b>	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
<b>Human Resource &amp; Remuneration Committee</b>	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	Member
<b>Company Secretary &amp; Chief Financial Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B' S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited United Bank Limited Bank Al-Falah Limited NIB Bank Limited Habib Metropolitan Bank Limited Faysal Bank Limited Allied Bank Limited Bank Islami Pakistan Limited	
<b>Auditors</b>	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants Progressive Plaza, Beaumont Road, P.O. Box 15541, Karachi, Sindh-75530, Pakistan.	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 + Management Quality Rating assigned by PACRA	

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

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On behalf of the Board of Directors, I am pleased to present MCB DCF Income Fund's [Formerly: MCB Dynamic Cash Fund] accounts review for the year ended June 30th, 2015.

### ECONOMY AND MONEY MARKET OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

### FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 12.64% as against its benchmark return of 10.57%.

In order to capitalize on changing interest rate scenario during the year, fund increased its exposure in T-Bills while exposure towards PIBs was maintained at the last year level. At period-end, the fund was 53.1% invested in PIBs and 13.2% in TFCs.

The Net Asset of the Fund as at June 30, 2015 stood at Rs. 11.273 billion as compared to Rs. 11.102 billion as at June 30, 2014 registering an increase of 1.54%.

The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 105.6002 as compared to opening NAV of Rs. 101.1030 per unit as at June 30, 2014 registering an increase of Rs.4.4972 per unit.

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

### Income Distribution

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

Date of distribution	Per unit distribution
	Rs.
June 22, 2015	7.2700
June 23, 2015	1.0000

### FUTURE OUTLOOK

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

Due to subsiding cost pressure, we expect manufacturing sectors, primarily, Auto, Cement and Consumer sectors to outperform the broader market. Moreover, continuation of expansionary environment suggests high-dividend yield companies will continue to perform.

While improvement in Pakistan's sovereign outlook and possible reclassification of Pakistan to emerging market by MSCI will support appetite for Large Cap stocks.

Corporate Governance

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

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

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 23 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2015:

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

### 1. Meeting of the Audit Committee.

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

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

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

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

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

- m. During the year no Director has attended the Directors' Training Program organized by the Pakistan Institute of Corporate Governance (as already all the directors have completed the course or they are exempted from attending training course due to sufficient working experience).
- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Dividend
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer		27,331	3,019
3.	Mr. Saqib Saleem	Chief Operating Officer, Chief Financial Officer & Company Secretary	-	-	-
4.	Asif Mehdi Rizvi	Head of Internal Audit	9,540	36,134	-

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

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### External Auditors

The fund's external auditors, Ernst & Young Ford Rhodes Sidat Hyder., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2016. The audit committee of the Board has recommended reappointment of Ernst & Young Ford Rhodes Sidat Hyder., Chartered Accountant as auditors of the fund for the year ending June 30, 2016.

### Acknowledgment

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

For and on behalf of the board



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Yasir Qadri  
Chief Executive Officer  
Karachi: August 07, 2015



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

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### **Fund Type and Category**

MCB DCF Income Fund (MCB DCFIF) is an open-end Income scheme, which falls under the category of Income Scheme.

### **Fund Benchmark**

The benchmark for MCB DCFIF is 75% 6 Months KIBOR + 25% 6 Months PKRV.

### **Investment Objective**

To deliver superior fixed income returns by investing in an optimal mix of authorized debt instruments while taking into account capital security and liquidity consideration.

### **Investment Strategy**

The Fund through active management will aim to provide optimum returns for its Unit Holders by investing in medium to long term assets. The fund may also invest a portion of the Fund in money market and short term instruments in order to provide liquidity to Unit Holders at the same time.

### **Manager's Review**

During the period under review, the fund generated an annualized return of 12.64% as against its benchmark return of 10.57%, an outperformance of 2.07%.

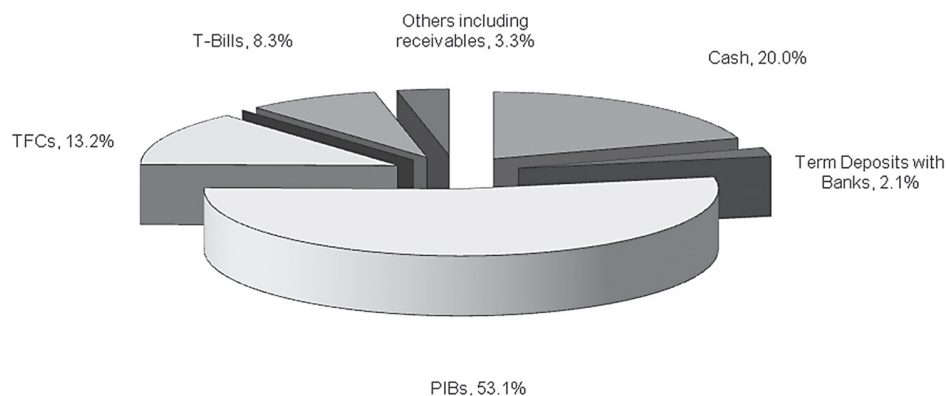
In order to capitalize on changing interest rate scenario during the year, fund increased its exposure in T-Bills while exposure towards PIBs was maintained at the last year level. At period-end, the fund was 53.1% invested in PIBs, 13.2% in TFCs, 8.3% in T-bills, 20% in cash and 2.1% in TDR.

The Net Asset of the Fund as at June 30, 2015 stood at Rs. 11.273 billion as compared to Rs. 11.102 billion as at June 30, 2014 registering an increase of 1.54%.

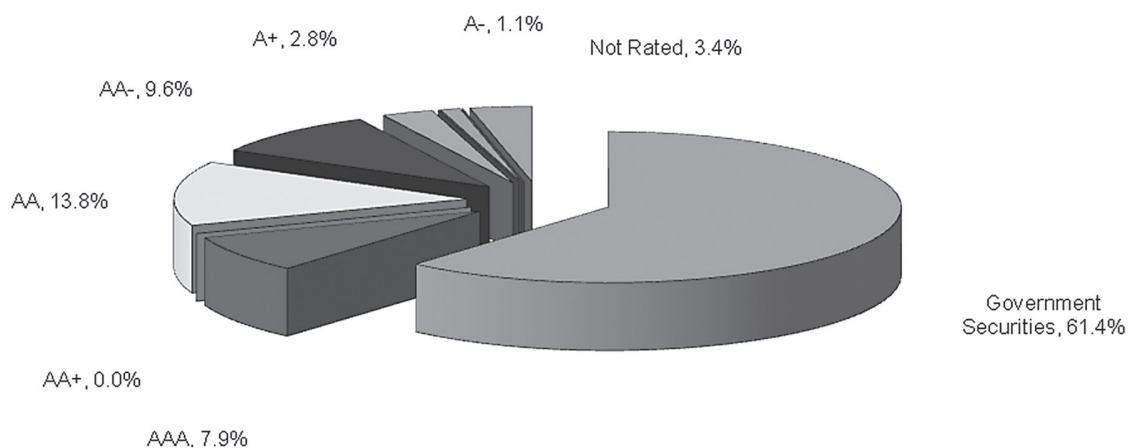
The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 105.6002 as compared to opening NAV of Rs. 101.1030 per unit as at June 30, 2014 registering an increase of Rs.4.4972 per unit.

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

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



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



Mr. Saad Ahmed  
Fund Manager

Karachi: August 07, 2015

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

## CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

### Head Office

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



## TRUSTEE REPORT TO THE UNIT HOLDERS

### MCB DCF INCOME FUND (FORMERLY MCB DYNAMIC CASH FUND)

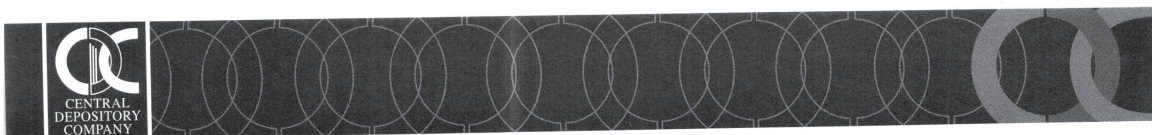
#### Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of MCB DCF Income Fund (the Fund) are of the opinion that MCB-Arif Habib Savings and Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2015 in accordance with the provisions of the following:

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

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

Karachi: October 1, 2015



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

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

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

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

Category	Names
Independent Directors	<ol style="list-style-type: none"> <li>1. Dr. Salman Shah</li> <li>2. Mr. Haroun Rashid</li> <li>3. Mr. Mirza Mehmood</li> </ol>
Executive Directors	<ol style="list-style-type: none"> <li>1. Mr. Nasim Beg – Executive Vice Chairman</li> <li>2. Mr. Yasir Qadri – Chief Executive Officer</li> </ol>
Non – Executive Directors	<ol style="list-style-type: none"> <li>1. Mian Mohammad Mansha</li> <li>2. Mr. Ahmed Jehangir</li> <li>3. Mr. Samad Habib</li> </ol>

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

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the Board of the Management Company
5. The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. No formal Code of Corporate Governance Leadership Skills (CGLS) training was organized for any director as all the directors already possess required training or qualification and experience as required by CCG.
10. The Board of Directors in a resolution passed through circulation on March 30, 2015, appointed Chief Financial Officer and fixed his remuneration and terms and conditions of employment. However, there have been no new appointments of Company Secretary and Head of Internal Audit during the year.
11. The Directors' Report for the year ended June 30, 2015 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

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

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15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, all of whom are non-executive directors and the chairman of the Committee is an independent director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results and as required by the Code. The terms of reference of the Committee have been approved by the Board and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of five members, of whom three are non-executive directors and the chairman of the Committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and the Management Company.
19. The Board has formulated a mechanism for an annual evaluation of its own performance. The evaluation has been done by the board in the meeting held on August 07, 2015.
20. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares / units of the Management Company / Fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by the ICAP.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountants guidelines in this regard.
22. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the net assets value of the fund / market price of Management Company's shares, was determined and intimated to directors, employees and the stock exchange.
23. Material/price sensitive information has been disseminated among all market participants at once through the stock exchange.
24. We confirm that all other material principles enshrined in the Code have been complied with.

On behalf of the Board



**Yasir Qadri**  
**Chief Executive Officer**

Karachi: August 07, 2015

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

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

We have reviewed the enclosed Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of MCB-Arif Habib Savings and Investments Limited, the Management Company of **MCB DCF Income Fund (Formerly: MCB Dynamic Cash Fund)** (the Fund), for the year ended **30 June 2015** to comply with the requirements of Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code is that of the Board 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund 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 part of our audit of 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's 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 for their review and approval the Fund's 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 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 does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2015.



**Chartered Accountants**

**Karachi**

**Date: 07 August 2015**



# INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2015

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## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

### *REPORT ON THE FINANCIAL STATEMENTS*

We have audited the accompanying financial statements of **MCB DCF Income Fund (Formerly: MCB Dynamic Cash Fund)** (the Fund), which comprise the statement of assets and liabilities as at **30 June 2015**, and the related statements of income, comprehensive income, cash flows, distribution and movement in unit holders' fund 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 the requirements of 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 whether the financial statements are free from material misstatement.

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

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



## INDEPENDENT AUDITORS' REPORTS TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2015

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### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at **30 June 2015** and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Other matter*

The financial statements for the year ended 30 June 2014 were audited by another firm of Chartered Accountants whose audit report, dated 31 July 2014, expressed an unqualified opinion thereon.

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

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



**Chartered Accountants**

**Audit Engagement Partner: Shabbir Yunus**

**Date: 07 August 2015**

**Karachi**



# STATEMENT OF ASSETS AND LIABILITIES

## AS AT JUNE 30, 2015

	Note	2015 ----- (Rupees in '000) -----	2014
<b>ASSETS</b>			
Balances with banks	5	2,327,525	2,404,638
Investments	6	8,932,479	8,412,988
Profit and other receivables	7	374,991	371,586
Advances, deposits and prepayments	8	3,494	80,801
<b>Total assets</b>		<b>11,638,489</b>	<b>11,270,013</b>
<b>LIABILITIES</b>			
Payable to Management Company		34,095	18,832
Payable to Central Depository Company of Pakistan Limited - Trustee		863	767
Payable to the Securities and Exchange Commission of Pakistan - annual fee		9,620	8,167
Accrued expenses and other liabilities	9	321,105	140,262
<b>Total liabilities</b>		<b>365,683</b>	<b>168,028</b>
<b>NET ASSETS</b>		<b>11,272,806</b>	<b>11,101,985</b>
<b>Unit holders' fund (as per statement attached)</b>		<b>11,272,806</b>	<b>11,101,985</b>
<b>Contingencies and commitments</b>	10		
<b>NUMBER OF UNITS IN ISSUE</b>			
		<b>106,749,897</b>	<b>109,808,608</b>
<b>NET ASSET VALUE PER UNIT</b>			
	4.22	<b>105.60</b>	<b>101.10</b>

The annexed notes from 1 to 27 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director

# INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

		2015 ----- (Rupees in '000) -----	2014 ----- (Rupees in '000) -----
<b>INCOME</b>	<b>Note</b>		
Income from government securities		1,039,886	815,057
Income from term finance certificates		210,773	231,860
Dividend Income		5,014	-
Profit on bank deposits and term deposit receipts		102,604	138,952
Capital gain on sale of investments - net		340,380	10,438
Income from spread transactions	6.2.1	10,472	-
Other income		872	-
		<u>1,710,001</u>	<u>1,196,307</u>
Net unrealised appreciation on re-measurement of investments classified as 'held-for-trading'	6.4.3	13,778	35,335
(Charge) / reversal of provision against debt securities		<u>(9,468)</u>	<u>151,451</u>
<b>Total income</b>		<u>1,714,311</u>	<u>1,383,093</u>
<b>EXPENSES</b>			
Remuneration of Management Company	11	192,394	163,340
Sales Tax and Federal Excise Duty on remuneration of Management Company	9.2 & 12	64,260	56,450
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13	10,579	9,223
Securities and Exchange Commission of Pakistan - annual fee	14	9,620	8,167
Brokerage and settlement charges		4,425	2,575
Auditors' remuneration	15	766	687
Bank charges		466	499
Others		601	587
<b>Total expenses</b>		<u>283,111</u>	<u>241,528</u>
<b>Net income from operating activities</b>		<u>1,431,200</u>	<u>1,141,565</u>
Element of (loss) and capital (losses) included in the prices of units issued less those in units redeemed		(303,884)	(27,993)
Provision for Workers' Welfare Fund	9.1	(22,546)	(22,271)
<b>Net income for the year before taxation</b>		<u>1,104,770</u>	<u>1,091,301</u>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<u>1,104,770</u>	<u>1,091,301</u>
Other comprehensive income for the year			
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'		112,205	3,202
<b>Total comprehensive income for the year</b>		<u>1,216,975</u>	<u>1,094,503</u>
<b>Earnings per unit</b>	4.15	<u>-</u>	<u>-</u>

The annexed notes from 1 to 27 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director

# DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

	2015 ----- (Rupees in '000) -----	2014 ----- (Rupees in '000) -----
<b>Undistributed income brought forward</b>	<b>117,865</b>	<b>398,934</b>
<b>Final distributions:</b>		
For the year ended June 30, 2015 on June 22, 2015 at Rs.7.27 per unit - Cash distribution	<b>(635,105)</b>	-
For the year ended June 30, 2015 on June 23, 2015 at Rs.1.00 per unit - Cash distribution	<b>(92,359)</b>	-
For the year ended June 30, 2014 on June 27, 2014 at Rs.3.9321 per unit - Bonus distribution	-	(404,777)
For the year ended June 30, 2013 on July 04, 2013 at Rs.2.6526 per unit - Bonus distribution	-	(289,686)
<b>Interim distributions during the year ended June 30, 2014:</b>		
(On September 26, 2013 at Rs.1.7440 per unit) - Bonus distribution	-	(178,366)
(On December 26, 2013 at Rs.2.0257 per unit) - Bonus distribution	-	(214,163)
(On March 26, 2014 at Rs.2.6910 per unit) - Bonus distribution	-	(285,224)
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised income	<b>12,795</b>	(154)
Net income for the year	<b>1,104,770</b>	1,091,301
	<b>390,101</b>	(281,069)
<b>Undistributed income carried forward</b>	<b>507,966</b>	117,865

The annexed notes from 1 to 27 form an integral part of these financial statements.

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

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

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

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

	2015 ----- (Rupees in '000) -----	2014 ----- (Rupees in '000) -----
Net assets at beginning of the year	11,101,985	11,319,750
Issue of 130,471,848 units (2014: 89,519,479 units)	<b>14,013,248</b>	9,123,979
Redemption of 133,530,559 units (2014: 102,505,661 units)	<b>(14,635,822)</b>	(10,464,240)
Issue of Nil bonus units in respect of final distribution for the year ended June 30, 2015 (2014: 13,586,287 bonus units)	-	1,372,216
	<b>(622,574)</b>	31,955
	<b>10,479,411</b>	11,351,705
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		
amount representing loss and capital losses - transferred to income statement	<b>303,884</b>	27,993
amount representing unrealised capital (gains) / losses and capital (gains) / losses that forms part of the unit holders' fund transferred to distribution statement	<b>(12,795)</b>	154
	<b>291,089</b>	28,147
Net income for the year transferred from the distribution statement		
Capital gain on sale of investments	<b>340,380</b>	10,438
Net unrealised appreciation on re-measurement of investments classified as 'held-for-trading'	<b>13,778</b>	35,335
Other net income for the year	<b>750,612</b>	1,045,528
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount representing unrealised income	<b>12,795</b>	(154)
Distributions made during the year (refer distribution statement)	<b>(727,464)</b>	(1,372,216)
	<b>390,101</b>	(281,069)
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'	<b>112,205</b>	3,202
	<b>11,272,806</b>	11,101,985
	----- (Number of units) -----	----- (Number of units) -----
NUMBER OF UNITS IN ISSUE	<b>106,749,897</b>	109,808,608
	----- (Rupees) -----	----- (Rupees) -----
NET ASSET VALUE PER UNIT	<b>105.60</b>	101.10

The annexed notes from 1 to 27 form an integral part of these financial statements.

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2015**

	Note	2015 ----- (Rupees in '000) -----	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income before taxation		1,104,770	1,091,301
<b>Adjustments for non - cash and other items</b>			
Net unrealised appreciation in the fair value of investments classified 'as held-for-trading'		(13,778)	(35,335)
Charge / (reversal) of provision against debt securities		9,468	(151,451)
Element of losses and capital losses included in prices of units issued less those in units redeemed		303,884	27,993
		<u>1,404,344</u>	<u>932,508</u>
<b>Decrease / (increase) in assets</b>			
Investments - net		596,821	539,195
Profit and other receivables		(3,405)	(170,332)
Security deposits and prepayments		77,307	(77,501)
		670,723	291,362
<b>Increase / (decrease) in liabilities</b>			
Payable to Management Company		15,263	(573)
Payable to Trustee		96	(22)
Payable to Securities and Exchange Commission of Pakistan - annual fee		1,453	1,157
Accrued expenses and other liabilities		180,843	63,517
		<u>197,655</u>	<u>64,079</u>
<b>Net cash generated from operating activities</b>		<u>2,272,722</u>	<u>1,287,949</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net receipts against issue of units		14,013,248	9,123,979
Net payments on redemption of units		(14,635,822)	(10,464,240)
Dividend paid		(727,464)	-
<b>Net cash used in financing activities</b>		<u>(1,350,038)</u>	<u>(1,340,261)</u>
<b>Net increase in cash and cash equivalents during the year</b>			
		922,684	(52,312)
Cash and cash equivalents at beginning of the year		2,616,575	2,668,887
<b>Cash and cash equivalents at end of the year</b>	18	<u>3,539,259</u>	<u>2,616,575</u>

The annexed notes from 1 to 27 form an integral part of these financial statements.

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

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

  
\_\_\_\_\_  
Director

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

## 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 MCB DCF Income Fund (Formerly: MCB Dynamic Cash Fund) (the Fund) was established under a Trust Deed dated, November 09, 2006, executed between MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited) as the Management Company and Central Depository Company of Pakistan Limited as the Trustee. The Trust Deed was amended through a supplemental Trust Deed dated January 21, 2007. The Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) as a Collective Investment Scheme under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 on December 12, 2006.
- 1.2 Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited.
- 1.3 The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non Banking Finance Companies (Establishment and Regulations) Rules 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.
- 1.4 The Fund is an open ended mutual fund and has been categorised as "Income Scheme" and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.
- 1.5 The Fund primarily invests in money market and other instruments which includes corporate debt and government securities, repurchase agreements and spread transactions. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.
- 1.6 The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2+ (positive outlook) dated April 07, 2015 to the Management Company and a rating of "A+(f)" dated March 19, 2015 to the Fund.
- 1.7 Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

## 2. STATEMENT OF COMPLIANCE

- 2.1 These financial statements have been prepared in accordance with 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 Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP shall prevail.

### 2.2 New Standards, Interpretations and Amendments

The Fund has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Amendment) - Defined Benefit Plans: Employee Contributions

IAS 32 – Financial Instruments : Presentation – (Amendment)  
– Offsetting Financial Assets and Financial Liabilities

IAS 36 – Impairment of Assets – (Amendment)  
– Recoverable Amount Disclosures for Non-Financial Assets

IAS 39 – Financial Instruments: Recognition and Measurement – (Amendment)  
– Novation of Derivatives and Continuation of Hedge Accounting

IFRIC 21 – Levies

#### Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment – Definitions of vesting conditions

IFRS 3 Business Combinations – Accounting for contingent consideration in a business combination  
– Scope exceptions for joint ventures

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

IFRS 8 Operating Segments – Aggregation of operating segments  
– Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

### 2.3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities (Amendment)	January 01, 2015
Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	January 01, 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	January 01, 2016
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	January 01, 2016
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	January 01, 2016
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	January 01, 2016

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

Standard or Interpretation	Effective date (annual periods beginning on or after)
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IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	January 01, 2016
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IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	January 01, 2016
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The Fund expects that the adoption of the above amendments and interpretation of the standards will not affect the Fund's financial statements in the period of initial application.

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014. The Fund expects that such improvements to the standards will not have any impact on the Fund's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

## Standards

IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
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IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
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IFRS 15 – Revenue from Contracts with Customers	January 01, 2018
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## 3. BASIS OF PREPARATION

### 3.1 Accounting convention

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

### 3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The area where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies primarily related to classification and valuation of investments and impairment there against (note 4.1 and 4.5).

### 3.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated:

### 4.1 Financial assets

The Fund classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss - held-for-trading;
- available-for-sale investments; and
- loans and receivables.

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of initial recognition and re-evaluates this classification on a regular basis.



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

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### a) **Financial assets at fair value through profit or loss**

These include held-for-trading investments and such other investments that, upon initial recognition, are designated under this category. Investments are classified as held-for-trading if they are acquired for the purpose of selling in the near term. After initial measurement, such investments are carried at fair value and gains or losses on revaluation are recognised in the income statement.

### b) **Available-for-sale**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables or (b) financial assets at fair value through profit or loss - held for-trading. These are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or change in price.

### c) **Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

## 4.2 **Regular way contracts**

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Fund commits to purchase or sell assets.

## 4.3 **Initial recognition and measurement**

### a) **Financial assets at fair value through profit or loss - held-for-trading**

These investments are initially recognized at fair value. Transaction costs are expensed in the Income Statement.

### b) **Available-for-sale and loans and receivables**

These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of such assets.

## 4.4 **Subsequent measurement**

Subsequent to initial recognition, financial assets designated by the management at fair value through profit or loss and available-for-sale are valued at fair values determined as follows:

### a) **Debt securities**

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 1 dated January 06, 2009 as amended by Circular No. 33 dated October 24, 2012. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorizes them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

### b) **Government securities**

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association of Pakistan, except the Government of Pakistan Ijarah Sukuks, which are obtained from Mutual Funds Association of Pakistan (MUFAP).

Net gains and losses arising on changes in the fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from changes in fair value of available-for-sale financial assets are taken to the 'statement of comprehensive income' until these are derecognized or impaired. At this time, the cumulative gain or loss previously recognized directly in the 'statement of comprehensive income' is transferred to the 'income statement'.

### **Loans and receivables**

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortized cost using the effective interest method.

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

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### 4.5 Securities under repurchase / resale agreements

Transactions of purchase under an agreement for resale (reverse-repo) of marketable and government securities, including the securities purchased under margin trading system, 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. Amount paid under these agreements are included as receivable in respect of reverse repurchase transactions / against margin trading system transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions / margin trading system and accrued over the life of the reverse-repo agreement.

All reverse repo / marginal trading system transactions are accounted for on the settlement date.

### 4.6 Impairment of financial assets

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Provision for non-performing debt securities and other exposures is made in accordance with the criteria specified in Circular No. 1 dated January 6, 2009 as amended by Circular No. 13 dated May 4, 2009 and Circular No. 33 dated October 24, 2012 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

### 4.7 Derivatives

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as asset when the fair value is positive and liabilities when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the income statement.

### 4.8 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

### 4.9 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is 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.

### 4.10 Financial liabilities

All financial liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognized at fair value and subsequently stated at amortized cost.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

### 4.11 Issue and redemption of units

Units issued are recorded at the offer price of the day on which cleared funds are received in the Trustee bank accounts during business hours. The offer price represents the net asset value per unit as of the close of the business day.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correctly filled-in redemption form is submitted within the business hours. The redemption price represents the net asset value per unit as of the close of the business day.

### 4.12 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) and capital gains / (losses) included in prices of units issued 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealized gains / (losses) that form part of the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether

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

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gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognized in the Income Statement.

### 4.13 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognized in the financial statements in the period in which such distributions are declared.

### 4.14 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 amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

### 4.15 Earnings per unit

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

### 4.16 Taxation

The Fund's income is exempt from Income Tax as per Clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders. The management intends to distribute in cash at least 90% of the income earned by the Fund during the year to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under Clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Since the management intends to distribute 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.

### 4.17 Revenue recognition

- Realized capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealized gains / (losses) arising on mark to market of investments classified as 'Financial assets at fair value through profit or loss' - held-for-trading are included in the Income Statement in the period in which they arise.
- Income from government securities is recognized using the effective interest method.
- Profit on investments is recognized on an accrual basis.
- Profit on bank deposits is recognized on an accrual basis.

### 4.18 Expenses

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

### 4.19 Cash and cash equivalents

Cash and cash equivalents include deposits with banks and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### 4.20 Other assets

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

### 4.21 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary financial assets and liabilities are recognized in the Income Statement.

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

## 4.22 Net asset value per unit

The net asset value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

	Note	2015 ----- (Rupees in '000) -----	2014
<b>5. BALANCES WITH BANKS</b>			
In deposit accounts	5.1	<u>2,327,525</u>	<u>2,404,638</u>

5.1 These carry mark-up at rates ranging between 4.5% to 10.15% per annum (2014: 3.5% to 10.5% per annum) per annum and include balance of Rs.720.343 million (2014: Rs.164.712 million) with MCB Bank Limited (a related party).

	Note	2015 ----- (Rupees in '000) -----	2014
<b>6. INVESTMENTS</b>			
<b>Financial assets 'at fair value through profit or loss - held-for-trading'</b>			
Government securities	6.1	<u>993,604</u>	3,019,904
Listed equity securities	6.2	-	-
Listed debt securities	6.3	<u>465,449</u>	816,633
Unlisted debt securities	6.4	<u>1,071,418</u>	663,159
		<u>2,530,471</u>	4,499,696
<b>Available-for-sale</b>			
Government securities	6.5	<u>6,148,787</u>	3,407,254
Loans and receivables	6.6	<u>253,221</u>	506,038
		<u>8,932,479</u>	<u>8,412,988</u>

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

Name of investee company	Face Value					Balance as at June 30, 2015			Market value as a percentage of net assets %	Market value as a percentage of total investment %
	As at July 1, 2014	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2015	Carrying Value	Market value	Diminution		
-----Rupees in '000'-----										
Treasury Bills - 1 year	-	5,187,500	2,037,500	3,150,000	-	-	-	-	-	-
Treasury Bills - 6 months	-	9,031,000	6,864,000	2,167,000	-	-	-	-	-	-
Treasury Bills - 3 months	214,060	15,511,500	7,191,000	7,567,060	967,500	958,818	958,513	(305)	8.50	10.73
Pakistan Investment Bonds - 10 years	-	662,500	662,500	-	-	-	-	-	-	-
Pakistan Investment Bonds - 05 years	35,000	100,000	100,000	-	35,000	35,445	35,091	(354)	0.31	0.39
Pakistan Investment Bonds - 03 years	2,765,500	3,425,000	6,185,500	5,000	-	-	-	-	-	-
Total as at June 30, 2015	3,014,560	33,917,500	23,040,500	12,889,060	1,002,500	994,263	993,604	(659)	8.81	11.12
Total as at June 30, 2014	6,173,050	63,012,785	51,391,040	14,780,235	3,014,560	3,020,103	3,019,904	27.20	35.92	

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

**6.2 INVESTMENTS 'AT FAIR VALUE THROUGH PROFIT OR LOSS' - 'HELD-FOR-TRADING**

**LISTED EQUITY SECURITIES**

Name of investee company	Number of shares				Balance as at June 30, 2015			% of the paid-up capital of the company
	As at July 01, 2014	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2015	Cost	Market value / Appreciation / (Diminution)	
<b>Oil and gas</b>								
Pakistan Petroleum Limited	-	214,000	-	214,000	-	-	-	-
Oil & Gas Development Company Limited	-	96,500	-	96,500	-	-	-	-
Pakistan State Oil Company Limited	-	236,000	-	236,000	-	-	-	-
<b>Chemicals</b>								
Arif Habib Corporation Limited	-	8,000	-	8,000	-	-	-	-
Engro Fertilizers Limited	-	2,244,500	-	2,244,500	-	-	-	-
Engro Corporation Limited	-	2,291,000	-	2,291,000	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	443,500	-	443,500	-	-	-	-
Fauji Fertilizer Company Limited	-	3,000	-	3,000	-	-	-	-
<b>Fixed line telecommunication</b>								
Pakistan Telecommunication Company Limited 'A'	-	268,500	-	268,500	-	-	-	-
<b>Electricity</b>								
Hub Power Company Limited	-	1,000	-	1,000	-	-	-	-
* K-Electric Limited	-	1,494,000	-	1,494,000	-	-	-	-
<b>Construction and materials (cement)</b>								
D.G.Khan Cement Limited	-	495,000	-	495,000	-	-	-	-
Lafarge Cement Limited	-	9,500	-	9,500	-	-	-	-
Lucky Cement Limited	-	137,000	-	137,000	-	-	-	-
Cherat Cement Company Limited	-	119,000	-	119,000	-	-	-	-
Fauji Cement Company Limited	-	347,500	-	347,500	-	-	-	-
Maple Leaf Cement Factory Limited	-	1,171,500	-	1,171,500	-	-	-	-
Pioneer Cement Limited	-	268,000	-	268,000	-	-	-	-
<b>Food and personal care products</b>								
Engro Foods Limited	-	1,027,000	-	1,027,000	-	-	-	-
<b>Multiutilities (gas and water)</b>								
Sui Southern Gas Company Limited	-	413,000	-	413,000	-	-	-	-
Sui Northern Gas Company Limited	-	147,000	-	147,000	-	-	-	-

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

Name of investee company	Number of shares				Balance as at June 30, 2015			Market value as a % of net assets of the sub-fund	% of the paid-up capital of the company
	As at July 01, 2014	Purchases during the year	Bonus / right issue during the year	Sales during the year	As at June 30, 2015	Cost	Market value (Rupees in '000)		
<b>Textile</b>									
Nishat Chunian Limited - a related party	-	72,000	-	72,000	-	-	-	-	-
Nishat Mills Limited - a related party	-	95,500	-	95,500	-	-	-	-	-
<b>Pharma and bio tech</b>									
The Searle Company Limited	-	30,000	-	30,000	-	-	-	-	-
<b>Commercial banks</b>									
Askari Bank Limited	-	176,500	-	176,500	-	-	-	-	-
National Bank of Pakistan Limited	-	169,500	-	169,500	-	-	-	-	-
Bank Alfalah Limited	-	347,000	-	347,000	-	-	-	-	-
United Bank Limited	-	411,500	-	411,500	-	-	-	-	-
<b>Cable and electrical goods</b>									
Pak Elektron Limited	-	5,914,500	-	5,914,500	-	-	-	-	-
<b>Refinery</b>									
Attock Refinery Limited	-	55,000	-	55,000	-	-	-	-	-
<b>Non life insurance</b>									
Adamjee Insurance Limited	-	32,000	-	32,000	-	-	-	-	-
<b>Total</b>									
	-	-	-	-	-	-	-	-	-

\* These have a face value of Rs.3.5 per share

<b>Total</b>	
2015	2014
-----	-----
(Rupees in '000')	(Rupees in '000')
-	-

## Market value

**6.2.1** The movement in equity securities represent spread transactions entered into by the Fund. The Fund purchases equity securities in ready settlement market and sells the securities in future settlement market on the same day, resulting in spread income due to difference in ready and future stock prices.

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

**6.3 Debt securities - term finance certificates of Rs.5,000 each (unless stated otherwise) - Listed**

Name of investee company	Number of Certificates				Balance as at June 30, 2015			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 01, 2014	Purchased during the year	Matured during the year	Disposed during the year	As at June 30, 2015	Carrying value	Market value		
									(Rupees in '000) %
<b>Commercial banks</b>									
Allied Bank Limited (December 06, 2006)	10,800	-	10,800	-	-	-	-	0.00	0.00
Allied Bank Limited (August 28, 2009)	9,000	-	-	-	9,000	43,922	43,922	0.35	0.36
Askari Bank Limited (November 18, 2009)	23,000	-	-	23,000	-	-	-	0.00	0.00
Bank Alfalah Limited (February 20, 2013)	72,631	-	-	-	72,631	367,670	363,410	2.93	2.95
Faysal Bank Limited (November 12, 2007)	7,515	-	7,515	-	-	-	-	0.00	0.00
Faysal Bank Limited (December 27, 2010)	-	10,000	-	-	10,000	51,183	51,183	0.41	0.41
United Bank Limited (September 08, 2006)	15,000	-	15,000	-	-	-	-	0.00	0.00
						462,775	458,515	3.69	3.72
							(4,260)		
<b>Chemicals and fertilizer</b>									
Engro Chemical Pakistan Limited (November 30, 2007)	50,162	-	-	50,162	-	-	-	-	-
Engro Fertilizer Limited (December 17, 2009)	-	4,086	-	4,086	-	-	-	-	-
<b>Financial services</b>									
Saudi Pak Leasing Company Limited (March 13, 2010) (refer note 6.4.1)	10,000	-	-	-	10,000	15,742			
Less: Provision						(8,808)			
						6,934	6,934	0.06	0.06
<b>Total listed securities</b>						469,709	465,449		(4,260)

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

## 6.4 Debt securities - Term finance certificates / sukuk of Rs.5,000 each (unless stated otherwise) - Unlisted

Name of investee company	Number of Certificates				Balance as at June 30, 2015			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 01, 2014	Purchased during the year	Matured during the year	Disposed during the year	As at June 30, 2015	Carrying value	Market value (Rupees in '000)	Appreciation / (Diminution)	
<b>Commercial banks</b>									
Askari Bank Limited PPFTFC (December 23, 2011) *	95	-	-	50	45	47,260	45,341	(1,919)	0.37
Askari Bank Limited (September 30, 2014)	-	62,000	-	6,000	56,000	279,862	279,418	(444)	2.27
Bank Alfalah Limited (December 02, 2009)	8,500	31,750	-	-	40,250	207,688	207,836	148	1.69
Bank Alfalah Limited (December 02, 2009) fixed	18,235	-	-	-	18,235	98,130	101,865	3,735	0.83
Standard Chartered Bank (Pakistan) Limited (June 29, 2012)	41,000	-	-	-	41,000	205,410	202,696	(2,714)	1.64
						838,350	837,156	(1,194)	6.79
<b>Construction and materials</b>									
Maple Leaf Cement Factory Limited (December 03, 2007)	68,000	-	-	-	68,000	109,578	127,029	17,451	1.03
<b>Chemicals and fertilizer</b>									
Engro Fertilizer Limited (March 18, 2008) PTFC-1	2,419	-	-	-	2,419	11,870	12,307	437	0.10
Engro Fertilizer Limited (March 18, 2008) PTFC-2	-	2,000	-	-	2,000	10,000	9,210	(790)	0.07
Engro Fertilizer Limited (July 09, 2014) Sukuk	-	15,800	-	-	15,800	77,025	79,817	2,792	0.65
						98,895	101,334	2,439	0.82
<b>Financial services</b>									
Security Leasing Corporation Limited (March 13, 2008) (refer note 6.4.1)	10,000	-	-	-	10,000	4,963	(1,015)	-	0.03
Less: Provision						3,948	3,948	-	
Security Leasing Corporation Limited - Sukuk (June 01, 2007) (refer note 6.4.1)	5,000	-	-	-	5,000	2,797	(846)	-	0.02
Less: Provision						1,951	1,951	-	
<b>Household goods</b>									
New Allied Electronics Industries (Private) Limited (May 15, 2007) (refer note 6.4.1)	10,400	-	-	-	10,400	22,337	(22,337)	-	-
Less: Provision						-	-	-	-
New Allied Electronics Industries (Private) Limited - Sukuk (July 27, 2007) (refer note 6.4.1)	112,000	-	-	-	112,000	35,063	(35,063)	-	-
Less: Provision						-	-	-	-
Total unlisted securities						1,052,722	1,071,418	18,697	-
<b>Total as at June 30, 2015</b>						1,522,431	1,536,867	14,437	-
Total as at June 30, 2014						1,502,859	1,538,393	35,534	-

\* Nominal value of these term finance certificates is Rs.100,000 per unit.

6.4.1 Due to continuous default on repayment of coupon by the issuer, the Fund has classified said investment as non-performing debt securities. The Fund has suspended further accrual of mark-up there against.



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

6.4.2 Significant terms and conditions of term finance certificates and other securities outstanding at the year end are as follows:

Name of security	Number of certificates	Face value	Unredeemed face value / redemption value (Rupees)	Mark-up rate (per annum)	Maturity	Secured / unsecured	Rating
<b>Listed debt securities</b>							
<b>Commercial banks</b>							
Allied Bank Limited (August 28, 2009, issue)	9,000	5,000	4,989	6 month KIBOR+0.85%	August 28, 2019	Unsecured	AA
Bank Alfalah Limited -V (February 20, 2013, issue)	72,631	5,000	4,996	6 month KIBOR+1.25%	February 20, 2021	Unsecured	AA-
Faysal Bank Limited TFC (December 27, 2010, issue)	10,000	5,000	4,992	6 month KIBOR+2.25%	December 24, 2017	Unsecured	AA-
<b>Unlisted debt securities</b>							
Askari Bank Limited IV - PPTFC (December 23, 2011)	45	1,000,000	998,800	6 month KIBOR+1.75%	December 23, 2021	Unsecured	AA-
Askari Bank Limited IV - TFC (September 30, 2014)	56,000	5,000	4,999	6 month KIBOR+1.2%	September 30, 2024	Unsecured	AA-
Bank Alfalah Limited-IV (December 02, 2009)	40,250	5,000	4,989	6 month KIBOR+2.5%	December 2, 2017	Unsecured	AA-
Bank Alfalah Limited-IV (December 02, 2009) Fixed	18,235	5,000	4,989	15%	December 2, 2017	Unsecured	AA-
Standard Chartered Bank Pakistan Limited PPTFC (June 29, 2012)	41,000	5,000	5,000	6 month KIBOR+0.75%	June 29, 2022	Unsecured	AAA
Maple Leaf Cement Factory Limited - Sukuk (December 03, 2009)	68,000	5,000	2,145	3 month KIBOR+1.0%	December 3, 2018	Secured	A-
Engro Fertilizer Limited - Perpetual TFC - 1 (March 18, 2008)	2,419	5,000	5,000	6 month KIBOR+1.7%	March 18, 2018	Secured	AA-
Engro Fertilizer Limited - Perpetual TFC - 2 (March 18, 2008)	2,000	5,000	5,000	6 month KIBOR+1.25%	March 18, 2018	Secured	AA-
Engro Fertilizer Limited - Sukuk (July 09, 2014)	15,800	5,000	4,875	6 month KIBOR+1.75%	July 9, 2019	Secured	A+

The Term Finance Certificates and Sukuks held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

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

	2015	2014
Note	-----	-----
	(Rupees in '000)	(Rupees in '000)
6.4.3 Net unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - held-for-trading		
Market value of investments	2,530,471	4,558,297
Carrying value of investments	2,516,693	4,522,962
	13,778	35,335

**6.5 Government securities - 'available-for-sale'**

Name of investee company	Face value				Balance as at June 30, 2015			Market value as a percentage of net assets %	Market value as a percentage of total investment %
	As at July 01, 2014	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2015	Carrying Value	Market value	Appreciation / (diminution)	
Pakistan Investment Bonds - 10 years	-	2,160,400	912,500	-	1,247,900	1,314,472	1,290,587	(23,885)	11.00
Pakistan Investment Bonds - 05 years	12,500	2,460,800	340,500	-	2,132,800	2,272,329	2,278,594	6,265	20.00
Pakistan Investment Bonds - 03 years	3,441,500	915,500	1,882,100	-	2,474,900	2,446,579	2,579,606	133,027	23.00
Total	3,454,000	5,536,700	3,135,100	-	5,855,600	6,033,380	6,148,787	115,407	54.00

-----Rupees in '000'-----

**6.6 Loans and receivables**

Particulars	Profit / mark-up rate	Maturity date	Closing balance as at June 30, 2015	Value as a percentage of net assets %	Value as percentage of investments %
Term deposit receipts	8.25%	August 05, 2015	253,221	2.25	2.83
Total - 2015			253,221	2.25	2.83

(Rupees in '000)

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

	Note	2015 ----- (Rupees in '000) -----	2014
<b>7. PROFIT AND OTHER RECEIVABLES</b>			
Income on government securities		263,775	315,815
Income on term finance certificates		32,053	31,258
Income on savings deposits		3,923	8,635
Dividend receivable		3,933	-
Receivable from National Clearing Company Pakistan Limited (NCCPL)		71,307	15,878
		<u>374,991</u>	<u>371,586</u>
<b>8. ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
Advance against subscription of term finance certificates		-	77,500
Security deposit with National Clearing Company of Pakistan Limited		2,750	3,000
Advance tax		415	-
Security deposit with Central Depository Company of Pakistan Limited		200	200
Prepaid rating fee		129	101
		<u>3,494</u>	<u>80,801</u>
<b>9. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Provision for Workers' Welfare Fund	9.1	121,190	98,643
Federal Excise Duty payable on management fee	9.2	67,281	31,880
Federal Excise Duty payable on Sales Load		24,672	7,532
Auditors' remuneration		525	520
Withholding tax payable		79,812	557
Payable against redemption of units		25,844	-
Others		1,781	1,130
		<u>321,105</u>	<u>140,262</u>

## 9.1 Provision for Workers' Welfare Fund

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance), whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, all mutual funds / Collective Investment Schemes (CISs) whose income exceeds Rs.0.5 million in a tax year have been brought within the scope of the WWF Ordinance thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honorable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

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

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

As per the legal counsel handling the case, the constitutional petition filed by the CIS to challenge the WWF contribution has not been affected by SHC judgment.

Further, in May 2014, the Honourable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the Ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money Bill under the constitution and, hence, the amendments made through the Finance Acts were declared as 'Ultra Vires'.

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

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs.121.190 million (2014: Rs.98.643 million) in these financial statements. Had the provision not been made, the net asset value per unit of the Fund would have been higher by Rs.1.13 per unit (1.08%) (2014: Rs.0.90 per unit (0.89%)).

The Finance Act, 2015 has excluded Mutual Funds and Collective Investment Schemes from the definition of 'industrial establishment' subject to WWF under WWF Ordinance, 1971. Accordingly, no provision for WWF is made from July 01, 2015 onwards. However, provision made till June 30, 2015 has not been reversed as the above lawsuit is pending in the SHC.

### 9.2 Federal Excise Duty on remuneration of Management Company

The Finance, Act 2013 introduced an amendment to Federal Excise Act 2005 whereby Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by asset management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management services after the eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in its books of account and financial statements aggregating to Rs.67.281 million as at June 30, 2015 (2014: Rs.31.88 million). In case, the suit is decided against the Fund the same would be paid to Management Company, who will be responsible for submitting the same to authorities. Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Re.0.63 per unit as at June 30, 2015 (2014: Re.0.29 per unit).

## 10. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at June 30, 2015.

	Note	2015 ----- (Rupees in '000) -----	2014
<b>11. REMUNERATION OF MANAGEMENT COMPANY</b>			
Management fee	11.1	<u>192,394</u>	<u>163,340</u>
11.1 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 two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent (2014: 1.5%) of the average annual net assets of the Fund.			

## 12. SALES TAX ON REMUNERATION OF MANAGEMENT COMPANY

The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 15% (2014: 16%) on Management Company's remuneration.

	Note	2015 ----- (Rupees in '000) -----	2014
<b>13. REMUNERATION OF CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
Trustee fee	13.1	<u>10,579</u>	<u>9,223</u>
13.1 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 and Offering Documents as per the tariff specified therein, based on the daily net asset value of the Fund. As per the Trust Deed and Offering Document the tariff structure applicable to the Fund in respect of trustee fee is as follows:			

Tariff applicable from July 01, 2014 to June 30, 2015.

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

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

Upto Rs.1,000 million	Rs.0.6 million or 0.17% per annum of NAV, whichever is higher
Rs.1,000 million to Rs.5,000 million	Rs.1.7 million plus 0.085% per annum of NAV, exceeding Rs.1,000 million
On an amount exceeding Rs.5,000 million	Rs.5.1 million plus 0.07% per annum of NAV, exceeding Rs.5,000 million
The remuneration is paid to the Trustee monthly in arrears.	

	Note	2015 ----- (Rupees in '000) -----	2014
<b>14. SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE</b>			

Annual fee	14.1	<u>9,620</u>	<u>8,167</u>
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14.1 Under the provisions of the NBFC Regulations, the Fund is required to pay as an annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

## 15. AUDITORS' REMUNERATION

Annual audit fee	<u>350</u>	<u>350</u>
Half yearly review fee	<u>180</u>	<u>180</u>
Other certifications	<u>236</u>	<u>157</u>
	<u>766</u>	<u>687</u>

## 16. TAXATION

The Fund's income is exempt from income tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders by way of cash dividend. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealised capital gains to the unit holders in cash. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Since the management intends to distribute the income earned by the Fund during the year to the unit holders in cash in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

## 17. DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

17.1 In accordance with Clause (v) of the investment criteria laid down for 'Income Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at June 30, 2015, the Fund is non-compliant with the above mentioned requirement in respect of the following investments. The securities were in compliance of the circular (i.e. investment grade) at the time of purchase and were subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupon due on respective dates.

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

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
					----- % -----	
New Allied Electronics Industries (Private) Limited	Term finance certificates	22,337	22,337	-	0.00%	0.00%
New Allied Electronics Industries (Private) Limited	Sukuk certificates	35,063	35,063	-	0.00%	0.00%
Security Leasing Corporation Limited	Privately placed term finance certificates	4,963	1,015	3,948	0.04%	0.03%
Security Leasing Corporation Limited	Sukuk certificates	2,797	846	1,951	0.02%	0.02%
Saudi Pak Leasing Company Limited	Term finance certificates	15,742	8,808	6,934	0.06%	0.06%

**2015                      2014**  
**----- (Rupees in '000) -----**

**18. CASH AND CASH EQUIVALENTS**

Balances with banks	<b>2,327,525</b>	2,404,638
Treasury bills due within 3 months	<b>958,513</b>	211,937
Term deposit receipts	<b>253,221</b>	-
	<b><u>3,539,259</u></b>	<b><u>2,616,575</u></b>

**19. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES**

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by 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 connected persons are in the normal course of business.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the Non-Banking Finance Companies & Notified Entities Regulations, 2008 and the Trust Deed respectively.

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

2015                      2014  
----- (Rupees in '000) -----

**19.1 Details of transactions with connected persons are as follows:**

**MCB Arif Habib Savings and Investments Limited**

Remuneration of Management Company including indirect tax	256,654	189,474
Issuance of 65,088 units (2014: 1,239,340 units)	7,000	126,175
Redemption of 2,649,884 units (2014: 3,269,246 units)	283,375	333,000
Distribution of NIL bonus units (2014: 443,224 units)	-	44,766
Sindh sales tax registration charges	8	-

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

Remuneration and settlement charges for the year	10,699	9,276
--	--------	-------

**MCB Bank Limited**

Profit on deposit accounts	7,263	4,876
Bank charges	97	53

**Adamjee Insurance Company Limited**

Issuance of NIL units (2014: 9,404,176 units)	-	954,943
Redemption of 10,882,364 units (2014: 9,404,176 units)	1,208,462	954,943
Distribution of NIL bonus units (2014: 1,301,637 units)	-	131,465

**MCB Employees Provident Fund**

Issuance of 81,304 units (2014: NIL units)	8,648	-
Distribution of NIL bonus units (2014: 124,056 units)	-	12,530

**MCB Employees Pension Fund**

Issuance of 81,304 units (2014: NIL units)	8,648	-
Distribution of NIL bonus units (2014: 124,056 units)	-	12,530

**Staff Provident Fund of Management Company**

Issuance of NIL units (2014: NIL units)	-	-
Redemption of NIL units (2014: 20,186 units)	-	2,051
Distribution of NIL bonus units (2014: 517 units)	-	52

**D.G Khan Cement Company Limited Employees Provident Fund Trust**

Issuance of 244 units (2014: Nil units)	26	-
Distribution of Nil bonus units (2014: 373 units)	-	38

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

	2015	2014
	----- (Rupees in '000) -----	
<b>Adamjee Insurance Company Limited - Employees Provident Fund</b>		
Issue of NIL Units (2014: NIL units)	-	-
Redemption of NIL units (2014: 527,359 units)	-	53,990
Distribution of NIL bonus units (2014: 22,219 units)	-	2,244
<b>Adamjee Life Assurance Company Limited - Non-Unitised Investment Linked Fund</b>		
Issue of 882,704 Units (2014: 207,180 units)	<b>94,000</b>	21,000
Redemption of 778,538 units (2014: 946,742 units)	<b>88,540</b>	96,370
Distribution of Nil Bonus units (2014: 18,926 units)	-	1,912
<b>Adamjee Life Assurance Company Limited - Investment Multiplier Fund</b>		
Issue NIL of Units (2014: 64,172 units)	-	6,500
Redemption of NIL units (2014: 182,226 units)	-	18,545
Distribution of NIL Bonus units (2014: 3,021 units)	-	305
<b>Adamjee Life Assurance Company Limited - Investment Secure Fund</b>		
Issue of NIL Units (2014: 457,642 units)	-	46,400
Redemption of NIL units (2014: 1,158,435 units)	-	117,912
Distribution of NIL Bonus units (2014: 17,934 units)	-	1,811
<b>Adamjee Life Assurance Company Limited - Investment Secure Fund II</b>		
Issue of NIL Units (2014: 88,853 units)	-	9,000
Redemption of NIL units (2014: 577,590 units)	-	58,774
Distribution of NIL Bonus units (2014: 12,507 units)	-	1,263
<b>Arif Habib Limited</b>		
Brokerage *	<b>9</b>	115
<b>Next Capital Limited</b>		
Brokerage *	<b>259</b>	-
<b>Mandate Under Discretionary Portfolio Services</b>		
Issue of 122,149 Units (2014: 694,130 units)	<b>12,665</b>	70,304
Redemption of 324,327 units (2014: 785,862 units)	<b>34,763</b>	79,653
Distribution of NIL Bonus units (2014: 41,412 units)	-	4,183



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

	2015	2014
	----- (Rupees in '000) -----	
<b>Key management personnel</b>		
Issuance of 108,671 units (2014: 182,783 units)	11,707	18,624
Redemption of 136,142 units (2014: 288,250 units)	14,731	29,287
Distribution of NIL bonus units (2014: 25,559 units)	-	2,581
<b>19.2 Amount outstanding as at year end</b>		
<b>MCB Arif Habib Savings and Investments Limited</b>		
Remuneration payable to Management Company	15,655	13,604
Sales tax payable on management fee	2,348	2,177
Sales load payable	13,993	2,630
Sales tax payable on Sales Load	2,099	421
NIL units held as at June 30, 2015 (2014: 2,584,796)	-	261,331
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Security deposit	200	200
Remuneration and settlement charges payable	863	767
<b>MCB Bank Limited</b>		
Bank balance	720,343	164,712
Profit receivable on deposit accounts	816	303
<b>MCB Employees Provident Fund</b>		
1,118,478 units held as at June 30, 2015 (2014: 1,037,174)	118,112	104,861
<b>MCB Employees Pension Fund</b>		
1,118,478 units held as at June 30, 2015 (2014: 1,037,174)	118,112	104,861
<b>Adamjee Insurance Company Limited</b>		
NIL units held as at June 30, 2015 (2014: 10,882,364 units)	-	1,100,240
<b>Staff Provident Fund of Management Company</b>		
NIL units held as at June 30, 2015 (2014: NIL units)	-	-
<b>D.G Khan Cement Company Limited - Employees Provident Fund Trust</b>		
3,364 units held as at June 30, 2015 (2014: 3,120 units)	355	315
<b>Adamjee Life Assurance Company Limited - Non-Unitised Investment Linked Fund</b>		
104,166 units held as at June 30, 2015 (2014: NIL units)	11,000	-
<b>Mandate Under Discretionary Portfolio Services</b>		
NIL units held as at June 30, 2015 (2014: 79,214 units)	-	8,009

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

	2015 ----- (Rupees in '000) -----	2014 -----
<b>Key management personnel</b>		
79,037 units held as at June 30, 2015 (2014: 105,210 units)	8,346	10,637
<b>Arif Habib Limited</b>		
Brokerage Payable	3	-
<b>Next Capital Limited</b>		
Brokerage Payable	19	-

\* The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.

## 20. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

**20.1** Detail of members of the investment committee of the Fund are as follow:

		----- 2015 -----		
		Experience in		
	Designation	years	Qualification	
1	Mr. Yasir Qadri	Chief Executive Officer	20	MBA
2	Mr. Muhammad Asim	Chief Investment Officer	12	MBA & CFA
3	Mr. Saad Ahmed	Senior- Manager Fixed Income	8	MBA
4	Mr. Mohsin Pervaiz	Vice President - Investments	14	MBA & CFA Level-1
5	Ms. Manal Iqbal	Head of Research	6	MBA & CFA

**20.2** Mr. Saad Ahmed is the Fund Manager. He is also the Fund Manager of MCB Pakistan Sovereign Fund and MCB Cash Management Optimizer Fund.

## 21. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2015 %
1 Invest & Finance Securities Limited	29.78
2 Invest Capital Markets Limited	18.26
3 Adam Securities (Private) Limited	16.86
4 Invest One Markets (Private) Limited	13.03
5 Next Capital Limited	6.60
6 JS Global Capital Limited	5.97
7 Vector Capital (Private) Limited	3.10
8 C & M Management (Private) Limited	2.24
9 KASB Securities Limited	1.86
10 Icon Securities (Private) Limited	1.79

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

	<b>2014 %</b>
1 Invest Capital Markets Limited	34.58
2 Invest & Finance Securities Limited	14.83
3 Icon Securities (Private) Limited	11.25
4 Optimus Markets (Private) Limited	8.71
5 KASB Securities Limited	6.01
6 C & M Management (Private) Limited	5.85
7 Arif Habib Limited	5.35
8 JS Global Capital Limited	4.72
9 Invest One Markets (Private) Limited	3.12
10 Summit Capital (Private) Limited	1.94

**22. PATTERN OF UNIT HOLDINGS**

<b>As at June 30, 2015</b>				
	<b>Number of unit holders</b>	<b>Number of units held</b>	<b>Net asset value of the amount invested Rupees '000</b>	<b>Percentage investment %</b>
Individuals	3,118	94,184,427	9,945,891	88.23
Associated companies / Directors	4	2,366,366	249,889	2.22
Banks / DFIs	1	236,766	25,002	0.22
Retirement funds	44	3,342,787	352,999	3.13
Public limited companies	33	5,816,302	614,202	5.45
Others	18	803,249	84,823	0.75
	<b>3,218</b>	<b>106,749,897</b>	<b>11,272,806</b>	<b>100.00</b>

<b>As at June 30, 2014</b>				
	<b>Number of unit holders</b>	<b>Number of units held</b>	<b>Net asset value of the amount invested Rupees '000</b>	<b>Percentage investment %</b>
Individuals	3,948	56,347,081	5,696,861	51.31
Associated companies / Directors	5	15,600,287	1,577,237	14.21
Insurance companies	5	4,012,112	405,637	3.65
Banks / DFIs	3	9,760,110	986,777	8.89
Retirement funds	48	3,810,144	385,217	3.47
Public limited companies	44	18,142,444	1,834,256	16.52
Others	17	2,136,430	216,000	1.95
	<b>4,070</b>	<b>109,808,608</b>	<b>11,101,985</b>	<b>100.00</b>

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

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

During the year, six board meetings were held on July 28, 2014, September 09, 2014, October 20, 2014, February 02, 2015, April 24, 2015 and June 28, 2015. Information in respect of attendance by Directors in the meetings is given below:

Name of persons attending the meetings	No. of meetings held	Number of Meetings			Meeting not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Mohammad Mansha	6	6	1	5	112th, 113th, 114th, 115th, 117th
2 Mr. Nasim Beg	6	6	6	-	-
3 Mr. Yasir Qadri (Chief Executive Officer)	6	6	6	-	-
4 Dr. Syed Salman Ali Shah	6	6	4	2	115th, 116th
5 Mr. Haroun Rashid	6	6	4	2	114th, 116th
6 Mr. Ahmed Jahangir	6	6	3	3	114th, 115th, 117th
7 Mr. Samad A. Habib	6	6	4	2	114th, 115th
8 Mr. Mirza Mehmood Ahmed	6	6	3	3	112th, 113th, 116th
9 Mr. Saqib Saleem * (Chief Operating Officer, Chief Financial Officer & Company Secretary)	6	6	6	-	-
10 Mr. Umair Ahmed ** (Chief Financial Officer)	6	4	4	-	-

\* Mr. Saqib Saleem was appointed as Chief Financial Officer on March 24, 2015.

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

### 24. FINANCIAL RISK MANAGEMENT

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

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

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities and investments in other money market instruments.

#### 24.1 Market risk

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

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

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

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

## 24.1.1 Currency risk

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

## 24.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates and sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates and sukuks, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs.14.396 million (2014: Rs.2.242 million).

### b) Sensitivity analysis for fixed rate instruments

As at June 30, 2015, the Fund holds Treasury bills and Pakistan Investment Bonds which are classified as at fair value through profit or loss - held-for-trading and available-for-sale exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association of Pakistan (FMAP) on June 30, 2015, with all other variables held constant, total comprehensive income for the year and net assets would be lower by Rs.121.362 million (2014: lower by Rs.94.304 million). In case of 100 basis points decrease in rates announced by FMAP on June 30, 2015, with all other variables held constant, total comprehensive income for the year and net assets would be higher by Rs.127.012 million (2014: higher by Rs.96.373 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by FMAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2015 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

----- June 30, 2015 -----						
Exposed to yield / interest rate risk						
Yield / effective interest rate (%)	Upto three months	More than three months and upto one year		More than one year	Not exposed to yield / interest risk	Total
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	4.50-7.20	2,327,525	-	-	-	2,327,525
Investments - held-for-trading						
- Government securities	7.23-12.00	958,513	-	35,091	-	993,604
- Listed debt securities	6.00-12.07	-	-	465,449	-	465,449
- Unlisted debt securities	7.73-15.00	-	-	1,071,418	-	1,071,418
Available-for-sale						
- Government securities	7.23-12.00	-	-	6,148,787	-	6,148,787
Loans and Receivables						
-Term Deposit Receipts	8.25	-	253,221	-	-	253,221
		958,513	253,221	7,720,745	-	8,932,479
Profit and other receivables		-	-	-	374,991	374,991
Advance and deposits		-	-	-	3,079	3,079
		3,286,038	253,221	7,720,745	378,070	11,638,074

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

----- June 30, 2015 -----					
Yield / effective interest rate (%)	Exposed to yield / interest rate risk				Total
	Upto three months	More than three months and upto one year	More than one year	Not exposed to yield / interest risk	
<b>Financial Liabilities</b>					
Payable to Management Company	-	-	-	34,095	34,095
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	863	863
Accrued expenses and other liabilities	-	-	-	27,844	27,844
	-	-	-	62,802	62,802
<b>On-balance sheet gap</b>	<b>3,286,038</b>	<b>253,221</b>	<b>7,720,745</b>	<b>315,268</b>	<b>11,575,272</b>
<b>Off-balance sheet financial instruments</b>	-	-	-	-	-

----- June 30, 2014 -----						
Exposed to Yield/ Interest rate risk						
Yield / effective interest rate (%)	Upto three months	More than three months and		More than one year	Not exposed to yield / interest risk	Total
		upto one year				
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	3.50-10.50	2,404,638	-	-	-	2,404,638
Investments - held-for-trading						
- Government securities	8.92-12.00	216,943	-	2,802,961	-	3,019,904
- Listed debt securities	11.13-14.21	12,489	22,890	781,254	-	816,633
- Unlisted debt securities	10.88-23.03	-	-	663,159	-	663,159
Available-for-sale						
- Government securities	11.25-12.00	-	-	3,407,254	-	3,407,254
Loans and receivables						
- Term deposit receipts	9.90-10.25	-	500,000	-	-	500,000
		229,432	522,890	7,654,628	-	8,406,950
Profit and other receivables		-	-	-	377,624	377,624
Advance and deposits		-	-	-	80,801	80,801
		2,634,070	522,890	7,654,628	458,425	11,270,013

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

----- June 30, 2014 -----					
Yield / effective interest rate (%)	Exposed to Yield/ Interest rate risk				Total
	Upto three months	More than three months and upto one year	More than one year	Not exposed to yield / interest risk	
		----- (Rupees in '000) -----			
<b>Financial Liabilities</b>					
Payable to Management Company	-	-	-	15,781	15,781
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	767	767
Accrued expenses and other liabilities	-	-	-	11,855	11,855
	-	-	-	28,403	28,403
<b>On-balance sheet gap</b>	2,634,070	522,890	7,654,628	430,022	11,241,610
<b>Off-balance sheet financial instruments</b>	-	-	-	-	-

## 24.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The fund is exposed to Price risk because of Term Finance Certificates (TFCs) held by it and classified as 'Fair value through Profit and Loss'.

In case of a 5% increase / decrease in rates determined by MUFAP as on June 30, 2015, the net assets of the Fund would increase / decrease by Rs.23.272 million (2014: Rs.11.445 million), as a result of reduction/increase in Unrealized Gains / (losses).

## 24.2 Credit risk

Credit risk represents the risk of loss if counterparties fail to perform as contracted. The Fund is exposed to counter party credit risks on investment in term finance certificates and sukus, loans and receivables, and balances with bank. The credit risk on the fund is limited because the counterparties are financial institutions with reasonably high credit ratings. Investments in Treasury bills and Pakistan Investment Bonds are government backed and hence considered as secured.

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

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

The Fund's maximum exposure to credit risk related to receivables at June 30, 2015 and June 30, 2014 is the carrying amounts of following financial assets.

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

	June 30, 2015	June 30, 2014
	(Rupees in '000)	
Balances with banks	2,327,525	2,404,638
Investments	1,790,088	1,979,792
Profit and other receivables	374,991	371,586
Advance and deposits	-	77,500
	<b>4,492,604</b>	<b>4,833,516</b>

All deposits with National Clearing Company of Pakistan Limited and Central Depository Company of Pakistan Limited - CDC are highly rated and risk of default is considered minimal.

The analysis below summarizes the credit rating quality of the Fund's financial assets as at June 30, 2015 and June 30, 2014.

Bank Balances by rating category	June 30, 2015	June 30, 2014
AA / A1+	66.95%	67.52%
AA+ / A1+	0.16%	25.59%
A / A1	0.00%	0.01%
AAA / A1+	30.95%	6.85%
AA- / A1+	1.94%	0.03%
	<b>100.00%</b>	<b>100.00%</b>

The analysis below summarizes the credit quality of the Fund's investment in term finance certificates and sukuks, term deposit receipts and government securities as at June 30, 2015 and June 30, 2014:

Investments by rating category	June 30, 2015	June 30, 2014
Government Securities	79.96%	76.45%
AAA, AAA-, AAA+	2.27%	2.44%
AA, AA-, AA+	12.48%	15.47%
A, A-, A+	5.15%	3.09%
BBB	0.00%	2.34%
Non - performing, Unrated	0.14%	0.21%

### Investment in fixed income securities

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

### Receivables against sale of units

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

### Advances and deposits

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

### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties



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

whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

### Settlement risk

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

### 24.3 Liquidity risk

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

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

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

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

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

#### ----- June 30, 2015 -----

	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
<b>Liabilities</b>				
Payable to Management Company	34,095	34,095	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	863	863	-	-
Accrued expenses and other liabilities	27,844	27,844	-	-
<b>Total liabilities</b>	<b>62,802</b>	<b>62,802</b>	<b>-</b>	<b>-</b>

#### ----- June 30, 2014 -----

	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
<b>Liabilities</b>				
Payable to Management Company	18,832	18,832	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	767	767	-	-
Accrued expenses and other liabilities	11,855	11,855	-	-
<b>Total liabilities</b>	<b>31,454</b>	<b>31,454</b>	<b>-</b>	<b>-</b>

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

## 24.4 Financial instruments by category

----- June 30, 2015 -----

	Loans and Receivables	Assets at fair value through profit and loss	Available-for- sale	Total
	----- (Rupees in '000) -----			
<b>Assets</b>				
Balances with banks	2,327,525	-	-	2,327,525
Investments	253,221	2,530,471	6,148,787	8,932,479
Profit and other receivables	374,991	-	-	374,991
Advance and deposits	3,079	-	-	3,079
	<u>2,958,816</u>	<u>2,530,471</u>	<u>6,148,787</u>	<u>11,638,074</u>

----- June 30, 2015 -----

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
<b>Liabilities</b>			
Payable to Management Company	-	34,095	34,095
Payable to Central Depository Company of Pakistan Limited - Trustee	-	863	863
Accrued expenses and other liabilities	-	27,844	27,844
	<u>-</u>	<u>62,802</u>	<u>62,802</u>

----- June 30, 2014 -----

	Loans and Receivables	Assets at fair value through profit and loss	Available-for- sale	Total
	----- (Rupees in '000) -----			
<b>Assets</b>				
Balances with banks	2,404,638	-	-	2,404,638
Investments	500,000	4,499,696	3,407,254	8,406,950
Profit and other receivables	377,624	-	-	377,624
Advance and deposits	80,801	-	-	80,801
	<u>3,363,063</u>	<u>4,499,696</u>	<u>3,407,254</u>	<u>11,270,013</u>

----- June 30, 2014 -----

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
<b>Liabilities</b>			
Payable to Management Company	-	15,781	15,781
Payable to Central Depository Company of Pakistan Limited - Trustee	-	767	767
Accrued expenses and other liabilities	-	11,855	11,855
	<u>-</u>	<u>28,403</u>	<u>28,403</u>

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

### 24.5 Fair value of financial instruments

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

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

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

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

----- As at June 30, 2015 -----				
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<b>ASSETS</b>				
At fair value through profit or loss - held-for-trading	-	2,530,471	-	2,530,471
Available-for-sale investments	-	6,148,787	-	6,148,787
----- As at June 30, 2014 -----				
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<b>ASSETS</b>				
At fair value through profit or loss - held-for-trading	-	4,499,696	-	4,499,696
Available-for-sale investments	-	3,407,254	-	3,407,254

### 25. UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund is represented by redeemable units. They are entitled to distributions and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable to the fund.

The Fund's objectives when managing unit holder's fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

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 requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

Under the NBFC regulations 2008, the minimum size of an open end scheme shall be one hundred million rupees at all the times during the life of the scheme.

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

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**26. GENERAL**

Figures have been rounded off to the nearest thousand Rupees unless otherwise specified.

**27. DATE OF AUTHORISATION FOR ISSUE**

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

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



**Chief Executive Officer**



**Director**

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2015**

Category	No.of Unit Holders	Units
<b>Associated Companies, undertakings and related Parties</b>		
MCB EMPLOYEES PROVIDENT FUND (PAK STAFF)	1	1,118,479
MCB EMPLOYEES PENSION FUND	1	1,118,479
ADAMJEE LIFE ASSURANCE COMPANY LIMITED-EMPLOYEES GRATUIT	1	25,243
ADAMJEE LIFE ASSURANCE CO. LTD.-NUIL FUND	1	104,166
<b>Directors</b>		
YASIR QADRI	1	45,842
<b>Public Sector Companies and Corporations</b>	33	5,816,302
<b>Banks, Development Finance Institutions,</b>	1	236,766
<b>Non-Banking Finance Institutions, Insurance,</b>		
<b>Insurance Companies, Modarbas and Mutual Funds.</b>	-	0
<b>Individuals</b>	3,117	94,138,585
<b>Others</b>	62	4,146,036
	3,218	106,749,897

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

<b>No. of Unit Holder</b>	<b>Unit holdings</b>	<b>Total Units Held</b>
1325	1-10000	14,094,209
1745	10001-100000	51,063,082
139	100001-1000000	28,464,784
9	1000001 onwards	13,127,823
<b>3,218</b>		<b>106,749,897</b>

## PERFORMANCE TABLE

Performance Information	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Net Assets Value – Rs. in million	11,272.81	11,101.99	11,319.75	6,696.21	5,020.00	5,970.00	9,487.00	12,896.89	9,143.86
Net Assets value per unit – Rupees	105.6002	101.1030	103.6526	101.45	101.32	103.42	103.17	106.46	103.38
Highest offer price per unit	116.2595	107.0667	105.9915	105.9686	107.0111	106.2858	105.1300	108.0900	103.3800
Lowest offer price per unit	103.1938	101.1137	103.0244	102.5150	102.5526	101.5228	97.1400	100.1700	100.0000
Highest Redemption price per unit	113.9331	104.9057	104.4016	104.4026	105.4059	104.6915	105.1300	108.0900	103.3800
Lowest Redemption price per unit	101.1289	100.9919	101.4790	101.0000	101.0143	100.0000	97.1400	100.1700	100.0100
Distribution per unit (Annual) – Rs.	8.2700	3.9321	2.6500	1.94	3.02	2.42	-	-	-
Distribution per unit (interim) – Rs.	-	6.4607	7.4100	8.45	12.45	7.30	9.17	6.46	3.38
<b>Average Annual Return - %</b>									
One year	12.64	10.79	9.80	10.80	12.90	11.00	9.40		10.10
Two year	11.71	10.16	5.40	12.50	12.70	10.7	10.03		N/a
Three year (inception date Mar 01, 2007)	11.08	10.46	4.10	12.95	12.30	11.1	10.30		N/a
Net Income for the year – Rs. in million	1,104.77	1,091.30	880.41	605.73	591.54	738.14	926.41		298.95
Income Distribution – Rs. in million	727.46	1,082.53	639.55	597.61	575.45	680.41	926.41		298.95
Accumulated Capital Growth – Rs. in million	377.31	8.77	46.73	33.40	73.82	57.73	-	-	-
Weighted average Portfolio Duration (years)	2.20	1.60	1.10	1.80	1.87	2.37	2.48	2.10	2.90

### 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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Please read the Offering Document to understand the investment policies and the risks involved.



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