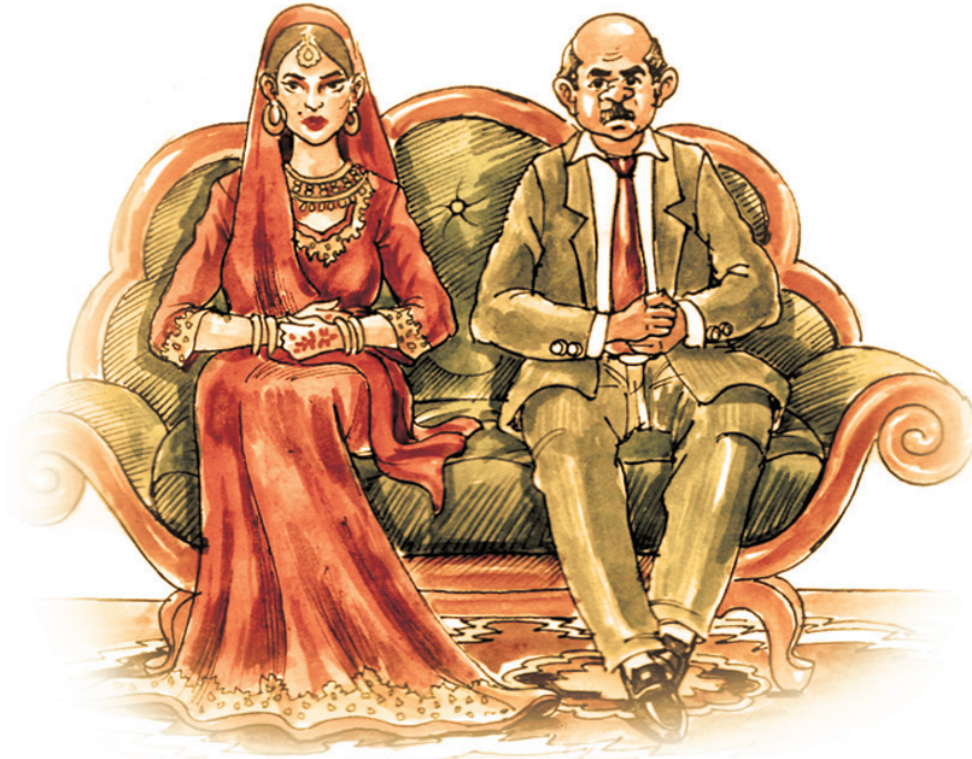


**Annual Report
2015**



Hing lagey na phatkari, rang bhi chowka

MCB

PAKISTAN SOVEREIGN FUND

(Formerly : MetroBank Pakistan Sovereign Fund)

MCB-Arif Habib Savings and Investments Limited

AM2 Plus by PACRA

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Vision

To become synonymous with Savings.

Mission

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

Core Values

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

FUND'S INFORMATION

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

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

On behalf of the Board of Directors, I am pleased to present MCB Pakistan Sovereign Fund's [Formerly: Metro-bank Pakistan Sovereign 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 16.58% as against its benchmark return of 10.41%, a significant outperformance of 6.17% due to well-timed accumulation of Government papers well ahead of the adjustments in the yield curve.

In order to capitalize on changing interest rate scenario during the year, fund adjusted its WAM accordingly while maintaining most of its exposure in PIBs. At period-end, the fund was 60.3% invested in PIBs and 5.7% in T-Bills.

The Net Assets of the Fund as at June 30, 2015 stood at Rs. 3193 million as compared to Rs. 2496 million as at June 30, 2014 registering an increase of 27.9%.

The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 53.06 as compared to opening NAV of Rs. 50.04 per unit as at June 30, 2014 registering an increase of Rs. 3.02 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 25, 2015	5.25

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 20.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2015:

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

1. Meeting of the Audit Committee.

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

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

2. Meeting of the Human Resource and Remuneration Committee.

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

Name of Persons	Number of meetings	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 the Units of the Fund were carried out during the year by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children.

S. No.	Name	Designation	Investment	Redemption	Dividend
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer	61,836.49	8,832.36	10,241.98
3.	Mr. Saqib Saleem	Chief Financial Officer & Company Secretary	-	-	-
4.	Asif Mehdi Rizvi	Head of Internal Audit	-	-	-

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

External Auditors

The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under offering document of the fund, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of Ernst & Young Ford Rhodes Sidat Hyder., Chartered Accountants as auditors of the fund for the year ending June 30, 2016.

Acknowledgment

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

For and on behalf of the board



Yasir Qadri
Chief Executive Officer
Karachi: August 07, 2015

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

Fund Type and Category

MCB Pakistan Sovereign Fund (MSF) is an open end fund, which invests in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF is a long only fund and does not undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Fund Benchmark

The benchmark for MSF is 6-month T-Bill Rate.

Investment Objective

The objective of the fund is to deliver income primarily from investment in Government securities.

Investment Strategy

The Fund through active management will aim to provide optimum returns for its Unit Holders by investing in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF is a long only fund and does not undertake leveraged investments. Under the NBFC Rules, it is only allowed to borrow up to 15% of net assets for up to 90 days to meet redemption needs.

Manager's Review

During the period under review, the fund generated an annualized return of 16.58% as against its benchmark return of 10.41%, a significant outperformance of 6.17% due to well-timed accumulation of Government securities ahead of the adjustments in the yield curve.

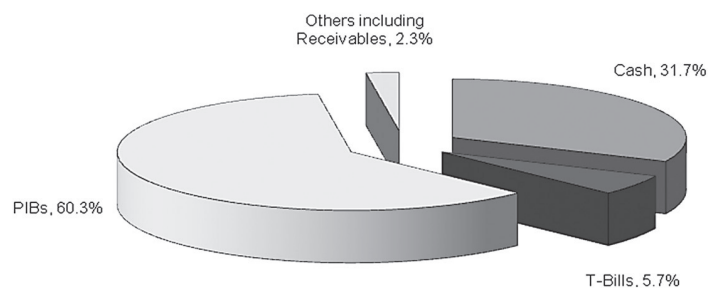
In order to capitalize on changing interest rate scenario during the year, fund adjusted its WAM accordingly while maintaining most of its exposure in PIBs. At period-end, the fund was 60.3% invested in PIBs, 5.7% in T-Bills and 31.7% in cash.

The Net Assets of the Fund as at June 30, 2015 stood at Rs. 3193 million as compared to Rs. 2496 million as at June 30, 2014 registering an increase of 27.9%.

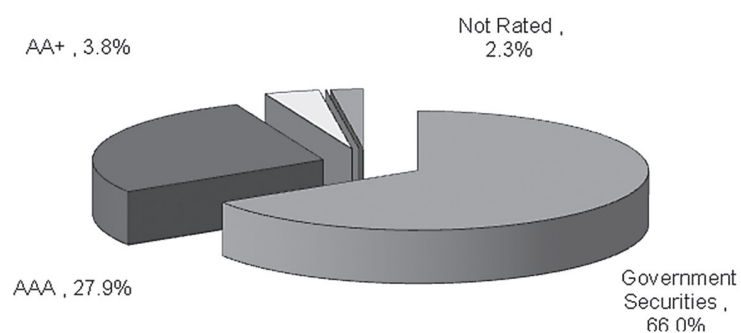
The Net Asset Value (NAV) per unit as at June 30, 2015 was Rs. 53.06 as compared to opening NAV of Rs. 50.04 per unit as at June 30, 2014 registering an increase of Rs. 3.02 per unit.

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, 2014

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



TRUSTEE REPORT TO THE UNIT HOLDERS

MCB PAKISTAN SOVEREIGN FUND (FORMERLY METROBANK - PAKISTAN SOVEREIGN FUND)

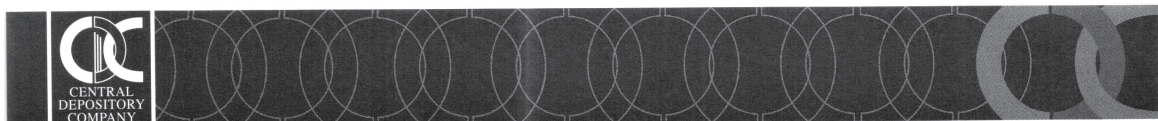
Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Pakistan Sovereign 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 Pakistan Sovereign Fund (Formerly MetroBank Pakistan Sovereign Fund) ("the fund") to comply with the Code of Corporate Governance contained in Regulation no.35 of listing regulation of Islamabad 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 Pakistan Sovereign Fund (Formerly MetroBank Pakistan Sovereign Fund) is an open end mutual fund and is listed at Islamabad 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	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

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

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an 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.

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

14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee for the Management Company. It comprises of three members, which are non-executive directors and the chairman of the Committee is an independent director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results and as required by the Code. The terms of reference of the Committee have been approved by the Board and advised to the Committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of five members, of whom three are non-executive directors and the chairman of the Committee is an independent director.
18. The Board has set up an effective internal audit function. The Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Fund and the Management Company.
19. The 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

Karachi: August 02, 2015

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



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

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

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

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

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2015.

Date: 07 August 2015

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

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

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



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

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

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **MCB Pakistan Sovereign Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2015, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' Fund for the year ended 30 June 2015, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the 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.

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

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



KPMG Taseer Hadi & Co.

Report on other legal and regulatory requirements

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

Date: 07 August 2015

Karachi

KPMG Taseer Hadi & Co.

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

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2015

	<i>Note</i>	30 June 2015	30 June 2014
		(Rupees in '000)	
Assets			
Balances with banks	4	1,382,582	684,905
Investments	5	2,875,829	1,762,472
Profit receivable	6	96,842	91,369
Advances and prepayments	7	2,086	2,055
Total assets		4,357,339	2,540,801
Liabilities			
Payable to Management Company	8	8,290	2,702
Payable to Central Depository Company of Pakistan Limited - Trustee	9	462	213
Payable to Securities and Exchange Commission of Pakistan	10	4,624	894
Payable against purchase of Investments		1,069,911	-
Accrued expenses and other liabilities	11	81,068	40,531
Total liabilities		1,164,355	44,340
Net assets		3,192,984	2,496,461
Unit holders' fund		3,192,984	2,496,461
Contingencies and commitments	12		
		(Number of Units)	
Number of units in issue (face value of units is Rs. 50 each)		60,180,807	49,885,250
		(Rupees)	
Net asset value per unit	3.7	53.06	50.04

The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

	Note	30 June 2015	30 June 2014
		(Rupees in '000)	
Income			
Income from government securities		600,055	113,512
Capital gain / (loss) on sale of government securities - net		331,524	(5,238)
Income from reverse repurchase transactions of government securities		-	48
Profit on bank deposits		25,936	9,487
		<u>957,515</u>	<u>117,809</u>
Net unrealised appreciation / (diminution) on re-measurement of investment classified as 'at fair value through profit or loss'	5.1	<u>113</u>	<u>(452)</u>
Total income		<u>957,628</u>	<u>117,357</u>
Expenses			
Remuneration of Management Company	8.1	67,474	12,097
Sindh Sales tax and Federal Excise Duty on Management Fee	8.2 & 11.1	22,536	4,181
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9	5,354	1,511
Annual fee to Securities and Exchange Commission of Pakistan	10	4,624	894
Brokerage expenses		3,383	568
Auditor's remuneration	13	555	571
Other expenses		1,670	863
Total operating expenses		<u>105,596</u>	<u>20,685</u>
Net operating income for the year		<u>852,032</u>	<u>96,672</u>
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(572,492)	25,666
Provision for workers' welfare fund	11.2	(5,591)	(2,447)
Net income for the year before taxation		<u>273,949</u>	<u>119,891</u>
Taxation	14	-	-
Net income for the year after taxation		<u>273,949</u>	<u>119,891</u>
Earnings per unit	15		

The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015**

	30 June 2015	30 June 2014
	(Rupees in '000)	
Net income for the year after taxation	273,949	119,891
Other comprehensive income:		
<i>Items that are or may be reclassified subsequently to income statement</i>		
Unrealised appreciation in investments classified as 'available for sale' -net	27,332	170
Total comprehensive income for the year	<u>301,281</u>	<u>120,061</u>

The notes 1 to 22 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

	30 June 2015	30 June 2014
	(Rupees in '000)	
Undistributed income brought forward		
- Realised income	2,476	27,408
- Unrealised (loss) / income	(282)	6,766
	2,194	34,174
 Total comprehensive income for the year	 301,281	 120,061
 Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - amount representing unrealised (diminution)	 (42)	 (96)
 Distributions to the unit holders of the Fund:		
Final Distribution for the year ended 30 June 2013: Rs 1.38 per Unit declared on 4 July 2013		
- Bonus distribution 682,389 units	-	(34,119)
Interim distribution at the rate of Rs. nil (2014: Rs. 0.53) per unit declared on 27 September 2014		
- Bonus distribution of 173,913 units	-	(8,696)
Interim distribution at the rate of Rs. nil (2014: Rs. 0.96) per unit declared on 26 December 2014		
- Bonus distribution of 201,043 units	-	(10,052)
Interim distribution at the rate of Rs. nil (2014: Rs. 2.04) per unit declared on 26 March 2014		
- Bonus distribution of 1,158,223	-	(57,911)
Final Distribution for the year ended 30 June 2014: Rs 0.92 per Unit declared on 27 June 2014		
- Bonus distribution of 823,347 units	-	(41,167)
Final Distribution for the year ended 30 June 2015: Rs 5.25 per Unit declared on 25 June 2015		
- Cash distribution	(119,578)	-
	(119,578)	(151,945)
 Undistributed income carried forward	 183,855	 2,194
 Undistributed income carried forward		
- Realised income	156,410	2,476
- Unrealised income / (loss)	27,445	(282)
	183,855	2,194

The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

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

	30 June 2015 (Rupees in '000)	30 June 2014
Net assets at the beginning of the year	2,496,461	1,270,388
Issue of 314,978,902 units (2014: 73,876,210 units)	17,300,875	3,748,444
Issue of nil bonus units (2014: 3,038,915 units)	-	151,945
Redemption of 304,683,345 units (2014: 51,754,103 units)	(17,358,547) (57,672)	(2,616,766) 1,283,623
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed:		
- amount representing loss / (income) and capital losses / (gains) transferred to income statement	572,492	(25,666)
- amount representing loss that forms part of unit holder's fund transferred to distribution statement	42 572,534	96 (25,570)
Net element of loss and capital losses included in prices of units issued less those in units redeemed - transferred to distribution statement	(42)	(96)
Net income for the year (excluding net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gains on sale of investments)	(57,688)	125,581
Capital gain / (loss) on sale of investments - net	331,524	(5,238)
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	113	(452)
Net unrealised appreciation in fair value of investments classified as at available-for-sale'	27,332 301,281	170 120,061
Distribution during the year	(119,578)	(151,945)
Net assets at end of the year	3,192,984	2,496,461
Net assets value at the beginning of the year	50.04	51.38
Net assets value at the end of the year	53.06	50.04

The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2015

	2015	2014
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	273,949	119,891
Adjustments for non cash and other items:		
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'at fair value through profit or loss'	(113)	452
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	572,492	(25,666)
	572,379	(25,214)
Net cash generated from operations before working capital changes	846,328	94,677
(Increase) / decrease in assets		
Investments	(1,085,912)	(491,554)
Profit receivable	(5,473)	(73,508)
Advances and prepayments	(31)	(9)
	(1,091,416)	(565,071)
Increase / (decrease) in liabilities		
Payable to Management Company	5,588	559
Payable to the Central Depository Company of Pakistan Limited - Trustee	249	2
Payable to Securities and Exchange Commission of Pakistan	3,730	(2,954)
Payable against purchase of Investments	1,069,911	(174,013)
Accrued and other liabilities	40,537	4,807
	1,120,015	(171,599)
Net cash generated from / (used in) operating activities	874,927	(641,993)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	17,300,875	3,748,444
Payments against redemption of units	(17,358,547)	(2,616,766)
Cash distribution	(119,578)	-
Net cash (used in) / generated from financing activities	(177,250)	1,131,678
Net increase in cash and cash equivalents	697,677	489,685
Cash and cash equivalents at beginning of the year	684,905	195,220
Cash and cash equivalents at end of the year	1,382,582	684,905

The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

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

1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Pakistan Sovereign Fund (Formerly: MetroBank Pakistan Sovereign Fund - Perpetual) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on 24 December 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7 January 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by the Non - Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules)].

The Board of Directors have approved that the Fund should be categorised as "Income Scheme" as per the categories defined by the Securities and Exchange Commission of Pakistan Circular 7 of 2009 dated 6 March 2009.

During the year ended 30 June 2010, Habib Metropolitan Bank Limited retired as the Trustee of the Scheme and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from 23 November 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated 3 November 2009.

Accordingly, the Trust Deed of the Scheme was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.

Pursuant to the merger of MCB Asset Management Limited and Arif Habib Investment Limited, the name of the Management Company has been changed from Arif Habib Investment Limited to MCB-Arif Habib Savings and Investments Limited.

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

MCB Pakistan Sovereign Fund (Formerly: MetroBank - Pakistan Sovereign Fund) has a policy of investing in Pakistani rupee denominated debt securities issued by the government of Pakistan, reverse repurchase transaction in government securities and any otherwise un-invested funds in deposits with banks and financial institutions. In addition, the Fund can also invest in sub-scheme of the Fund.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the fund can be transferred to / from the funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The Fund is listed on the Islamabad Stock Exchange.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM 2+ (AM two plus) to the MCB-Arif Habib Savings and Investments Limited, the Asset Management Company and has assigned stability rating of "A+" (A plus; fund rating) to the Fund. The Fund consists of a 'Perpetual' (the scheme). In addition, the Fund had also issued other sub-scheme which matured as follows:

Name of sub-scheme	Maturity date of sub-scheme
MetroBank - Pakistan Sovereign Fund - (December 2012)	31 December 2012
MetroBank - Pakistan Sovereign Fund - (December 2007)	31 December 2007
MetroBank - Pakistan Sovereign Fund - (December 2005)	31 December 2005
MetroBank - Pakistan Sovereign Fund - (December 2003)	31 December 2003

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The Directors of the asset management company declare that these financial statements give a true and fair view of the Fund.

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

2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that financial assets are maintained at fair value.

2.3 Functional and presentation currency

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

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value and derivative financial instruments

The management company has determined fair value of certain investments by using quotations from active market valuation done by Mutual Fund Association of Pakistan. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

Other assets

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

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

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

Standards / amendments / interpretations	Effective from accounting period beginning on or after
Amendment to IAS 38 'Intangible Assets' and IAS 16 Property, Plant and Equipment'	1 January 2016
Amendment to IAS 41 'Agriculture' and IAS 16 'Property, Plant and Equipment'	1 January 2016
Amendments to IAS 27 'Separate Financial Statements	1 January 2016
Amendments to IFRS 10 and IAS 28	1 January 2016
IFRS 10 - Consolidated Financial Statements	1 January 2015
IFRS 11 - Joint Arrangements	1 January 2015
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2015
IFRS 13 - Fair Value Measurement	1 January 2015
Annual improvements 2012-2014 cycle	1 January 2016

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

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

IFRS 1 - First Time Adoption of International Financial Reporting Standards
IFRS 9 - Financial Instruments
IFRS 14 - Regulatory Deferral Accounts
IFRS 15 - Revenue from Contracts with Customers

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in preparation of these financial statement. These accounting policies have been applied consistently to all years presented.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

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

b) *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise of cash and bank balances, receivable against sale of investments, deposits and dividend and profit receivable.

c) *Available for sale*

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

d) *Financial liabilities*

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

Initial recognition and measurement

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

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date.

Trade date is the date on which the Fund commits to purchase or sell the financial assets.

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Fund until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

Basis of valuation of debt securities

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009, Circular 33 of 2012 and Circular 35 of 2012. The Circulars also specify criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity up to six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009 issued by the SECP.

Basis of valuation of government securities

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

Securities under repurchase/ resale agreements

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

Impairment

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

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

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

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments: Recognition and Measurement.

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

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

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Unit holders' funds

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

3.3 Issue and redemption of units

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

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit 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 unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether 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 recognised in the Income Statement.

3.5 Provisions

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

3.6 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 issue at the year end.

3.7 Taxation

Current

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

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

Deferred

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

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income

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

for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no current tax and deferred tax has been recognized in these financial statements.

3.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on valuation of investments classified as 'at fair which they value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.
- Income on Pakistan investment bonds and sukuks are recognised on an accrual basis.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.
- Discount on purchase of market treasury bills is amortised to income statement using the straight line method

3.9 Expenses

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

3.10 Cash and cash equivalents

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

3.11 Other assets

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

3.12 Dividend distributions and appropriations

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

4. BALANCES WITH BANKS

		30 June 2015	30 June 2014
		(Rupees in '000)	
Saving accounts	4.1	1,382,577	684,900
Current account		5	5
		<u>1,382,582</u>	<u>684,905</u>

- 4.1 These carry mark-up at rates ranging between 4.5% to 10.35% per annum (2014: 6.5% to 10.35% per annum).

5. INVESTMENTS

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

Pakistan investment bonds	5.1.1	2,156	1,189,794
Market treasury bills	5.1.1	247,687	24,659
		<u>249,843</u>	1,214,453

5.2 Available-for-Sale

Pakistan investment bonds	5.2.1	2,625,986	548,019
		<u>2,875,829</u>	<u>1,762,472</u>

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

5.1 'Investments at fair value through profit or loss'

5.1.1 Government Securities

Note	Face value			As at 30 June 2015			Market value		
	As at 1 July 2014	Purchases during the year	Sales / matured during the year	As at 30 June 2015	Carrying value	Market value	Appreciation/ (diminution)	As a percentage of net assets	As a percentage of total investments
					----- (Rupees in '000) -----				
Pakistan Investment Bond (PIB)									
'at fair value through profit or loss'									
	1,200,000	3,278,820	(4,478,820)	-	-	-	-	-	-
5.1.1.1	-	831,505	(829,530)	1,975	2,024	2,156	132	0.068%	0.075%
	-	1,975,000	(1,975,000)	-	-	-	-	-	-
Total as at 30 June 2015									
					2,024	2,156	132		
Total as at 30 June 2014									
					1,190,245	1,189,794	(451)		
Market Treasury Bills									
5.1.1.2	-	250,000	-	250,000	247,706	247,687	(19)	7.76%	8.61%
	25,000	8,888,900	(8,913,900)	-	-	-	-	-	-
	-	4,329,500	(4,329,500)	-	-	-	-	-	-
	-	6,677,500	(6,677,500)	-	-	-	-	-	-
Total as at 30 June 2015									
					247,706	247,687	(19)		
Total as at 30 June 2014									
					24,660	24,659	(1)		
Total of investments in Government Securities - 30 June 2015									
					249,730	249,843	113		
Total of investments in Government Securities - 30 June 2014									
					1,214,905	1,214,453	(452)		

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

6. PROFIT RECEIVABLE	30 June 2015	30 June 2014
	(Rupees in '000)	
Profit receivable on bank deposits	2,599	2,703
Profit receivable on government securities	94,243	88,666
	<u>96,842</u>	<u>91,369</u>
 7. ADVANCES AND PREPAYMENTS		
Advance tax	1,955	1,955
Prepaid Stability Rating - PACRA	131	100
	<u>2,086</u>	<u>2,055</u>
 8. PAYABLE TO MANAGEMENT COMPANY		
Management fee payable	8.1 4,994	2,086
Sindh sales tax payable on management fee	8.2 748	334
Sales load payable	2,448	282
Legal and professional charges payable	100	
	<u>8,290</u>	<u>2,702</u>

8.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund and, in any case, it shall not exceed the limit prescribed by the NBFC Regulations, 2008. The management fees is being calculated on the lower of 10% of the Fund's operating revenue or 1.5% of average daily net assets subject to minimum fee of 0.5% (2014: 0.5%) of average daily net assets. The remuneration is paid to the Management Company on a monthly basis in arrears.

8.2 Management fee charged during the year is inclusive of 15% (till 30 June 2014: 16%) General Sales Tax levied by the Government of Sindh.

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

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2015 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	0.15% p.a. of Net Assets
On an amount exceeding Rs 1,000 million to 10,000 million	Rs 1.5 million plus 0.075% p.a. of Net Assets exceeding Rs 1,000 million
On an amount exceeding Rs 10,000 million	Rs 8.25 million plus 0.06% p.a. of Net Assets exceeding Rs 10,000 million

10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme classified as 'Income Fund', is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

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

11. ACCRUED EXPENSES AND OTHER LIABILITIES

		30 June 2015	30 June 2014
		(Rupees in '000)	
Provision for Federal Excise Duty and related taxes on management fee	11.1	14,891	2,567
Provision for Federal Excise Duty on sales load	11.1	1,708	458
Provision for workers' welfare fund	11.2	42,253	36,662
Withholding tax payable (deducted on dividend distribution)	11.3	9,733	-
Withholding tax payable (deducted on capital gains)	11.3	10,819	-
Auditors' remuneration payable		368	364
Brokerage payable		1,199	265
Others		97	215
		81,068	40,531

11.1 The Finance Act, 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the levy of Federal Excise Duty on Asset Management Services after the Eighteenth Amendment. The SHC in its short order of September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 16.559 million as at 30 June 2015. 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 not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.27 per unit.

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

On 15 July 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on 14 December 2010, the Ministry filed its response against the Constitutional Petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

During the year ended 30 June 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions filed by companies other than mutual funds declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, do not suffer from any constitutional or legal infirmity.

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment.

Furthermore, in the Finance Act, 2015, the mutual funds have been excluded from the levy of WWF. As this change has been made in the definition of the term 'Industrial Establishment' as defined in the Workers' Welfare Fund Ordinance, 1971, the change may appear to apply prospectively. Accordingly, the management is of the view that this change is applicable from 01 July 2015 and has stopped making further provision of WWF in pursuant to the said amendment of the Finance Act 2015. Hence, the matter regarding previous years would either need to be clarified by FBR or would be resolved through courts. The Management company, as a matter of abundant precaution, has decided to retain the provision for WWF in these financial statements. Had the said provision of WWF not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.70 per unit.

11.3 Subsequently paid by the Fund to the taxation authorities.

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at 30 June 2015 except as disclosed in note 14 to these financial statements.

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

13. AUDITORS' REMUNERATION

	30 June 2015	30 June 2014
	(Rupees in '000)	
Annual audit fee	270	260
Half yearly review fee	135	130
Other certification and services	108	104
Out of pocket expenses	42	77
	555	571

14. TAXATION

14.1 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 Regulation, 2008, the fund is required to distribute 90% of the net accounting income other than capital gains 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 has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

14.2 The income tax returns till the tax year 2014 have been filed under self assessment scheme and are deemed to be assessed under section 120 of the Income Tax Ordinance except for tax year 2012 for which Order under section 122(1) of the Ordinance has been received that the fund is not entitled to the exemption from income tax. The Tax Department considers that distribution of bonus units should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The Fund filed an appeal before Commissioner Inland Revenue (Appeals). However, as a matter of abundant caution the fund has also obtained stay against the said orders.

The management, based on the tax advice obtained by Mutual Funds Association of Pakistan from various tax advisors and under legal guidance of more than one legal counsels considers that if any orders are passed by the department those would be incorrect and based on erroneous understanding of the law. Further, the Commissioner Inland Revenue (Appeals), in case of certain mutual funds including MCB Pakistan Sovereign Fund has also given decision in favour of funds. Therefore, no provision is required to be made in these financial statements.

15. EARNINGS PER UNIT

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

16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of the NBFC Regulations 2008 and constitutive documents of the Fund.

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

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

16.1 Details of transactions with the connected persons / related parties during the year are as follows:

	2015	2014
	(Rupees in '000)	
MCB Arif Habib Savings and Investment Limited		
Remuneration to the Management Company (including indirect taxes)	90,010	16,278
Sindh sales tax registration charges	8	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	5,354	1,511
MCB Bank Limited		
Profit on bank deposits	12,546	646
Bank charges	57	19

16.2 Balance outstanding as at the year end are as follows:

MCB Arif Habib Savings and Investment Limited		
Management fee payable	4,994	2,086
Sindh sales tax payable on management fee	748	334
Sales load payable	2,448	282
Legal and professional charges payable	100	-
Central Depository Company of Pakistan Limited		
Remuneration payable	462	213
MCB Bank Limited		
Bank deposits	1,213,765	4,497
Profit receivable	1,885	85

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

16.3 Transactions during the year with connected persons / related parties in the units of the Fund:

	For the year ended 30 June 2015		For the year ended 30 June 2014	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
MCB Arif Habib Savings and Investment Limited	6,806,825	366,287	1,520,878	77,000
Adamjee Insurance Company Limited - Investment Department	29,393,739	1,604,148	13,893,771	700,000
Adamjee Life Assurance Company Limited (IMF)	1,699,046	92,000	1,007,328	51,000
Adamjee Life Assurance Company Limited (ISF)	7,381,982	390,778	1,956,550	99,000
Adamjee Life Assurance Company Limited (ISF-II)	3,583,484	191,440	1,042,287	53,000
Adamjee Life Assurance Company Limited - NUIL Fund	4,891,070	258,199	2,049,693	104,000
Gul Ahmed Energy Limited*	47,745,496	2,585,805	6,754,066	350,000
Jubilee General Insurance Company Limited	-	-	2,991,244	152,018
Key management personnel	108,635	6,008	39,819	2,010
Mandate under Discretionary Portfolio Services	1,963,988	108,234	131,505	6,600
Bonus units issued to:				
MCB Arif Habib Savings and Investment Limited	-	-	79,683	3,984
MCB AMC Staff Provident Fund	-	-	1,031	51
Adamjee Life Assurance Company Limited (IMF)	-	-	14,387	719
Adamjee Life Assurance Company Limited (ISF)	-	-	48,942	2,447
Adamjee Insurance Company Limited - Investment Department	-	-	761,181	38,059
Adamjee Life Assurance Company Limited (ISF-II)	-	-	28,116	1,406
Adamjee Life Assurance Company Limited - NUIL Fund	-	-	51,192	2,560
Gul Ahmed Energy Limited*	-	-	352,309	17,615
Jubilee General Insurance Company Limited	-	-	210,235	10,511,769
Key management personnel	-	-	5,543	277
Mandate under Discretionary Portfolio Services	-	-	2,769	139

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

	For the year ended 30 June 2015		For the year ended 30 June 2014	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units redeemed by:				
MCB Arif Habib Savings and Investment Limited	8,375,967	472,217	823,262	41,491
MCB AMC Staff Provident Fund	-	-	38,374	1,923
Adamjee Life Assurance Company Limited (IMF)	1,988,205	114,954	355,625	18,007
Adamjee Life Assurance Company Limited (ISF)	4,427,192	255,664	179,856	9,000
Adamjee Life Assurance Company Limited (ISF-II)	2,144,981	123,567	295,566	15,000
Adamjee Insurance Company Limited - Investment Department	39,551,263	2,238,505	9,404,120	472,151
Adamjee Life Assurance Company Limited - NUIL Fund	3,134,321	180,976	474,102	24,000
Gul Ahmed Energy Limited*	40,068,598	2,225,111	4,341,880	219,940
Jubilee General Insurance Company Limited	-	-	4,187,054	211,279
Key management personnel	68,159	3,665,860	8,205	410
Mandate under Discretionary Portfolio Services	3,426,627	191,674	80,113	4,032
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
	Units		(Rupees in '000)	
Units held by:				
MCB Arif Habib Savings and Investment Limited	-	1,569,144	-	791,845
Adamjee Insurance Company Limited - Investment Department	-	10,157,603	-	508,286
Adamjee Life Assurance Company Limited (IMF)	376,932	666,090	20,000	33,331
Adamjee Life Assurance Company Limited (ISF)	4,839,388	1,884,598	256,778	94,305
Adamjee Life Assurance Company Limited (ISF-II)	2,213,339	774,837	117,440	38,773
Adamjee Life Assurance Company Limited - NUIL Fund	3,462,102	1,705,353	183,699	85,336
Gul Ahmed Energy Limited*	12,769,694	5,092,796	677,560	254,884
Key management personnel	134,305	82,797	7,126	4,143
Mandate under Discretionary Portfolio Services	3,767,160	93,392	199,886	4,673

* These persons became connected persons / related parties during the year due to acquiring unit holding of more than 10% of net assets of the Fund

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

17. FINANCIAL RISK MANAGEMENT

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

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund activates exposes it to a variety of financial risks:

- Market risk
- Credit risk and
- Liquidity risk

17.1 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.

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

Currency risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds fixed rate instrument in the form of government securities that expose the Fund to fair value interest rate risk.

As at 30 June, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	30 June 2015	30 June 2014
	(Rupees in '000)	
Fixed rate instruments		
Treasury bills	247,687	24,659
Pakistan Investment Bonds	2,628,142	1,737,813
	<u>2,875,829</u>	<u>1,762,472</u>

Sensitivity analysis for fixed rate instruments

As at 30 June 2015, the Fund does not hold any variable rate instruments and is not exposed to cash flow interest rate risk.

Sensitivity analysis for variable rate instruments

As at 30 June 2015, the Fund holds Market Treasury Bills which are classified as fair value through profit or loss, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on 30 June 2015, the net income for the year and net assets would be lower by Rs. 2.406 million (2014: Rs. 0.0390 million). In case of 100 basis points decrease in rates announced by the Financial Market Association on 30 June 2015, the net income for the year and net assets would be higher by Rs. 2.406 million (2014: Rs. 0.034 million).

As at 30 June 2015, the Fund also holds Pakistan Investment Bonds which are classified as fair value through profit or loss and available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on 30 June 2015, the net income for the year and net assets would be lower

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

by Rs. 64.873 million (2014: Rs. 28.576 million). In case of 100 basis points decrease in rates announced by the Financial Market Association on 30 June 2015, the net income for the year and net assets would be higher by Rs. 35.891 million (2014: Rs. 29.230 million).

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

Other Price Risk

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. Since the Fund is not allowed to invest in equity securities, hence it is not exposed to equity price risk.

17.2 Credit Risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfil their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

Credit risk management

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed and the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

Exposure to credit risk

Is summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at 30 June is as follows:

	30 June 2015		30 June 2014	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Balances with banks	1,382,582	1,382,582	684,905	684,905
Investments	2,875,829	-	1,762,472	-
Profit receivables	96,842	2,599	91,369	2,703
Advances and prepayments	2,086	-	2,055	-
	4,357,339	1,385,181	2,540,801	687,608

Difference in the balance as per Statement of Assets and Liabilities and maximum exposure in investment is due to the fact that investment in government securities (including profit receivables) of Rs. 2,970 million (2014: Rs. 1,851 million) and advances and prepayments of Rs. 2.086 million (2014: 2.055 million) are not exposed to credit risk.

None of the financial assets were considered to be past due or impaired as on 30 June 2015.

Details of credit rating of balance with banks as at 30 June are as follows:

Bank Balance Percentages by rating category	30 June 2015	30 June 2014
AA+	87.79%	56.15%
AA	12.13%	42.69%
AAA	0.08%	1.16%
	100.00%	100.00%

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

Concentration of credit risk

Concentration is the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

All of the Fund's concentration of credit risk at the end of financial year 2015 and 2014 are with commercial banks.

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 an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

17.3 Liquidity risk

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

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

In order to manage the Fund's overall liquidity, the Fund may also 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 liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

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.

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2015			
	Upto three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Liabilities				
Payable to Management Company	8,290	-	-	8,290
Payable to Trustee	462	-	-	462
Payable against purchase of Investments	1,069,911			1,069,911
Accrued and other liabilities	1,664	-	-	1,664
	<u>1,080,327</u>	<u>-</u>	<u>-</u>	<u>1,080,327</u>

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

	30 June 2014			
	Upto three months	More than three months and upto one year	More than one year	Total
	----- (Rupees in '000) -----			
Liabilities				
Payable to Management Company	3,160	-	-	3,160
Payable to Trustee	213	-	-	213
Accrued and other liabilities	844	-	-	844
	<u>4,217</u>	<u>-</u>	<u>-</u>	<u>4,217</u>

Units of the Fund are redeemable on demand at the holder's option, however, the Fund does not anticipate significant redemption of units.

17.4 Financial instruments by category

As at 30 June 2015, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

	30 June 2015			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	----- (Rupees in '000) -----			
Assets				
Balances with banks	1,382,582	-	-	1,382,582
Investments	-	249,843	2,625,986	2,875,829
Profit receivables	96,842	-	-	96,842
	<u>1,479,424</u>	<u>249,843</u>	<u>2,625,986</u>	<u>4,355,253</u>

	30 June 2015			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total	
	----- (Rupees in '000) -----			
Liabilities				
Payable to Management Company	-	8,290	8,290	
Payable to Trustee	-	462	462	
Payable against purchase of Investments	-	1,069,911	1,069,911	
Accrued and other liabilities	-	1,664	1,664	
	<u>-</u>	<u>1,080,327</u>	<u>1,080,327</u>	

	30 June 2014			
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	Total
	----- (Rupees in '000) -----			
Assets				
Balances with banks	684,905	-	-	684,905
Investment	-	1,214,453	548,019	1,762,472
Profit receivables	91,369	-	-	91,369
	<u>776,274</u>	<u>1,214,453</u>	<u>548,019</u>	<u>2,538,746</u>

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

	30 June 2014	
	Liabilities at fair value through profit or loss	Other financial liabilities
	----- (Rupees in '000) -----	
Liabilities		
Payable to Management Company	-	3,160
Payable to Trustee	-	213
Accrued and other liabilities	-	844
	-	4,217

18. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

	As at 30 June 2015		
	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
<i>'At fair value through profit or loss' - held for trading</i>			
Fixed income securities	-	249,843	-
<i>'Available for sale'</i>			
Fixed income securities	-	2,625,986	-
	As at 30 June 2014		
	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
<i>'At fair value through profit or loss' - held for trading</i>			
Fixed income securities	-	1,214,453	-
<i>'Available for sale'</i>			
Fixed income securities	-	548,019	-

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

19. UNIT HOLDERS'S FUND RISK MANAGEMENT

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

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

20. SUPPLEMENTARY NON FINANCIAL INFORMATION

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

20.1 Pattern of unit holding

Details of pattern of unit holding

	As at 30 June 2015		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	275	890,339	27.88%
Associated companies	5	658,645	20.63%
Insurance companies	2	175,000	5.48%
Retirement funds	19	397,950	12.46%
Public Limited companies	6	1,064,619	33.34%
Others	1	6,431	0.21%
	308	3,192,984	100.00%

Details of pattern of unit holding

	As at 30 June 2014		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	260	253,903	10.17%
Associated companies	7	1,068,504	42.80%
Insurance companies	4	331,165	13.27%
Retirement funds	12	50,891	2.04%
Public Limited companies	11	528,272	21.16%
Others	6	263,726	10.56%
	300	2,496,461	100.00%

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

20.2 Top ten brokers / dealers by percentage of commission paid

Details of commission paid by the fund to top ten brokers by percentage during the year are as follows:

	30 June 2015 Percentage
1 Invest Capital Markets Limited	25.50%
2 Invest One Markets Private Limited	21.87%
3 JS Global Capital Limited	14.02%
4 Next Capital Limited	8.31%
5 Vector Capital Pvt Limited	5.46%
6 KASB Securities Limited	4.43%
7 C And M Management Private Limited	3.02%
8 Global Securities Pakistan Limited	2.88%
9 BMA Capital Management Limited	2.53%
10 Invest And Finance Securities Limited	2.52%
	30 June 2014 Percentage
1 Invest Capital Markets Limited	35.09%
2 JS Global Capital Limited	13.96%
3 Icon Securities (Private) Limited	10.04%
4 BMA Capital Management Limited	9.56%
5 Invest One Markets (Private) Limited	8.55%
6 Invest & Finance Securities Limited	6.58%
7 KASB Securities Limited	5.31%
8 Optimus Markets (Private) Limited	3.18%
9 C & M Management (Private) Limited	1.71%
10 Vector Capital (Private) Limited	1.54%

20.3 Attendance at meetings of the Board of Directors

The 112th, 113th, 114th, 115th, 116th, and 117th Board meetings were held on 28 July 2014, 9 September 2014, 20 October 2014, 2 February 2015, 24 April 2015 and 22 June 2015 respectively.

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

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	6	1	5	112th, 113th, 114th, 115th, and 117th
Mr. Nasim Beg	6	6	-	-
Mr. Yasir Qadri (Chief Executive Officer)	6	6	-	-

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
Dr. Syed Salman Ali Shah	6	4	2	115th and 116th
Mr. Haroun Rashid	6	3	3	114th, 115th and 116th
Mr. Ahmed Jahangir	6	6	-	-
Mr. Samad A. Habib	6	4	2	114th and 115th
Mr. Mirza Mehmood Ahmed	6	3	3	112th, 113th and 116th
Mr. M. Saqib Saleem (Chief Financial Officer & Company Secretary)	6	6	-	-
Mr. Umair Ahmed (Chief Financial Officer)	6	4	-	Resigned in March 2015

20.4 Particulars of investment committee and fund manager

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

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	20
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA (Level I)	14
Mr. Muhammad Asim	Vice President - Head of Equities	MBA & CFA	12
Mr. Saad Ahmed	Senior Manager -Fixed Income	MBA	8
Mrs. Manal Iqbal	Senior Assistant Vice President - Head of Research	MBA & CFA	6

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

20.5 Other funds managed by the fund manager

Mr. Saad Ahmed

Mr. Saad Ahmed is the Manager of the Fund as at year end. He has obtained a Masters degree in Business

Administration . Other funds being managed by him are as follows:

- MCB Dynamic Cash Fund ; and
- MCB Cash Management Optimizer

21. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified for the purposes of comparison and better presentation as follows:

Reclassification from component	Reclassification to component	(Rupees in '000)
Payable to Management Company - Sales	Accrued expenses and other liabilities -	458
load payable	Provision for Federal Excise Duty on load	

22. DATE OF AUTHORISATION FOR ISSUE

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

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



Chief Executive Officer



Director

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

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
ADAMJEE LIFE ASSURANCE CO.LTD.(ISF)	1	4,839,388
ADAMJEE LIFE ASSURANCE CO. LTD.-NUIL FUND	1	3,462,102
ADAMJEE LIFE ASSURANCE CO.LTD.ISF-II	1	2,213,339
ADAMJEE LIFE ASSURANCE CO. LTD. (IMF)	1	376,932
 Directors - Mr. Yasir Qadri	 1	 124,670
 Public Sector Companies and Corporations	 6	 11,766,885
 Banks and Insurance Companies	 1	 2,826,988
 Individuals	 274	 16,655,179
 Others	 21	 5,145,630
 Unitholders holding 5 percent or more Voting interest in the listed company		
Gul Ahmed Energy Ltd	1	12,769,694
	308	60,180,807

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

No. of Unit Holder	Unit holdings	Total Units Held
61	1-10000	851,991
189	10001-100000	6,869,728
47	100001-1000000	12,666,107
11	1000001 onwards	39,792,981
308		60,180,8097

PERFORMANCE TABLE

	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
	(Rupees in '000)			
Net Assets	3,192,984	2,496,460	6,103,530	6,103,530
Net Income	273,949	119,891	594,614	631,240
	(Rupees per unit)			
Net Asset Value per Unit	53.06	50.04	51.38	50.07
Interim distribution per unit *	-	3.53	4.57	-
Final distribution per Unit*	5.25	0.92	1.38	-
Year end offer price per unit	54.14	51.07	52.37	50.07
Year end repurchase price per unit	53.06	50.04	51.31	50.07
Highest offer price	59.23	53.15	53.36	51.75
Lowest offer price	51.08	50.44	50.16	49.71
Highest repurchase price per unit	58.04	52.08	52.56	51.75
Lowest repurchase price per unit	50.06	49.98	50.07	49.71
	(Percentage)			
Total return of the Fund	16.58	9.26	12.30	11.30
Capital growth	11.33	4.81	0.40	0.82
Income Distribution	5.25	4.45	11.90	10.48
Average annual return				
One Year	16.58	9.26	12.30	11.30
Weighted average portfolio duration	730 Days	438 Days	63 Days	63 Days

Disclaimer

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

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



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MCB-Arif Habib Savings and Investments Limited

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

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

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

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

URL: www.mcbah.com, **Email:** info@mcbah.com