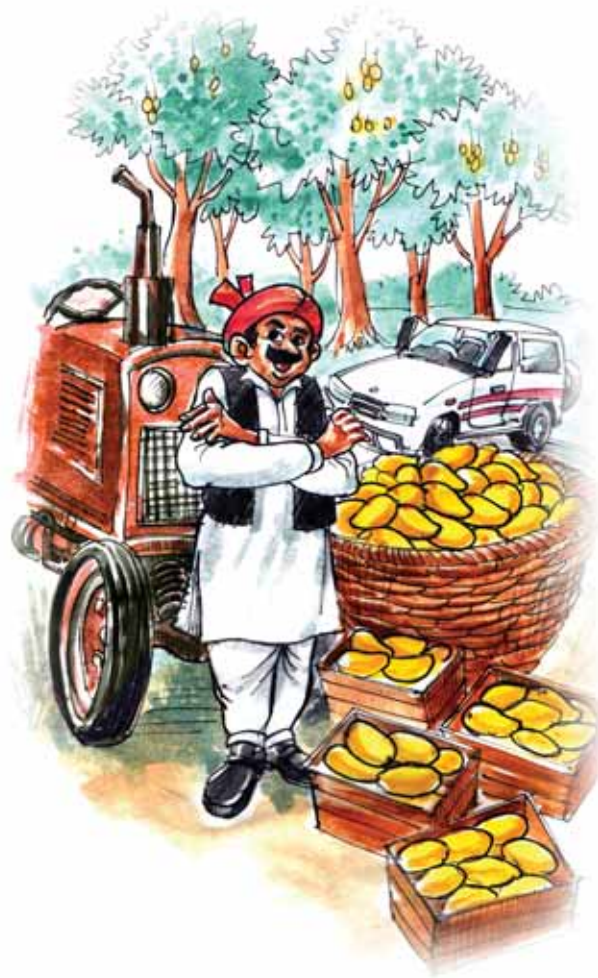




Bachat ka Doosra Naam

**Annual Report
2014**



Sabar Ka Phal Meetha

MCB
DYNAMIC
STOCK FUND

MCB-Arif Habib Savings and Investments Limited

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Vision

To become synonymous with Savings.

Mission

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

Core Values

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

FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Dr. Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman Executive Vice Chairman Chief Executive Officer Director Director Director Director Director
Audit Committee	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib	Chairman Member Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & Chief Operating Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer	Mr. Umair Ahmed	
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 Faysal Bank Limited Bank Al-Falah Limited NIB Bank Limited	
Auditors	KPMG Taseer Haidi & 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	Asset Manager AM2 - Management quality rating assigned by PACRA	

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

The Board of Directors of MCB-Arif Habib Savings and Investments Limited, the Management Company of MCB Dynamic Stock Fund (DSF), is pleased to present the Annual Report on the affairs of DSF for the period from 1 July 2013 to 2 May 2014.

EQUITIES MARKET OVERVIEW

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

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

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

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

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

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

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

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

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

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

FUND PERFORMANCE

MCB-DSF outperformed its benchmark KSE30 index by delivering 31.10% return while KSE 30 index delivered 24.32% return during the period. Overall equity exposure of the fund was increased from beginning exposure of around 80.1% to around 87.5% at the end of the period. The fund changed its investment strategy several times during the period to cope with various sector and company level fundamental developments. During the period under review, the fund mainly reduced its exposure Oil and Gas, Chemicals, Electricity, and Construction & materials while increased its exposure towards Commercial Banks.

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

The Net Asset of the Fund as at May 02, 2014 stood at Rs 1.1928 billion as compared to Rs 886.7 million as at June 30, 2013 registering an increase of 34.52%.

The Net Asset Value (NAV) per unit as at May 02, 2014 was Rs 121.7379 as compared to opening NAV of Rs.131.3430 per unit as at June 30, 2013 registering a decrease of Rs. 9.6051 per unit.

FUTURE OUTLOOK

The country's trade deficit is likely to reduce on account of stable commodity prices, stronger rupee and incremental exports due to GSP plus facility. Also, in consideration of various reforms introduced in FY15, targeted fiscal deficit level of 4.9% doesn't appear as farfetched as it has been in the last few years. The government expects reserve position to improve further on the back pledges made by multilateral agencies, approved project financing and divestment of strategic assets.

Earnings growth is expected to continue in Cement, Autos and Consumer goods sector, amongst others. The rupee appreciation bodes well for Autos and Consumer goods sectors, while higher allocation in PSDP will increase demand for cement. Moreover, expected monetary easing down the line would reignite the market's interest in the leveraged scripts.

Above all, the equity market will continue to attract foreign investors owing to divestment of the government's holding in listed companies and increase in the country's weight in MSCI FM Index.

The Board of Directors of the Management Company, in their meeting decided to merge the Fund and Pakistan premier Fund into Pakistan Stock Market Fund. Securities and Exchange Commission of Pakistan vide its letter SCD/AMCW/MCB-AHSIL/967/2014 dated 24 April 2014 approved the merger of the Fund and Pakistan Premier Fund with and into Pakistan Stock Market Fund with effect from 3 May 2014 . The Management Company has fulfilled all the conditions as outlined by SECP in its letter. The whole of the undertakings of the Fund transferred to and vested in Pakistan Stock Market Fund from 3 May 2014 and all units representing the Fund stood cancelled as at the effective date of merger and the existing unit holders were provided with units of Pakistan Stock Market Fund at the swap ratio of 1.57%.

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.

- 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.

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

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

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

S. No.	Name	Designation	Total Meetings Held	No. of Meetings Attended	Leave granted
1.	Dr. Syed Salman Shah	Chairman	1	1	-
2.	Mr. Haroun Rashid	Member	1	1	-
3.	Mr. Nasim Beg	Member	1	1	-
4.	Mr. Ahmed Jahangir	Member	1	-	1
5.	Mr. Yasir Qadri	Member	1	1	-

2. Meeting of Audit Committee (held on August 02, 2013, October 22, 2013, November 18, 2013, February 04 2014 and April 18,2014)

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

- m. During the year one of the Directors and in total Three Directors, have completed all parts of the program offered by the Pakistan Institute of Corporate Governance. Further Directors have been briefed regarding the changes in laws and regulations impacting the Management Company.
- n. The trades in Units of the Fund carried out by Directors, Chief Executive Officer, Chief Operating Officer and Company Secretary, Chief Financial Officer and Chief Internal Auditor of the Management Company and their spouses and minor children are as under:

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

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer	1025	-	3813
3.	Mr. Saqib Saleem	Chief Operating Officer & Company Secretary	4181	4834	604
4.	Umair Ahmed	Chief Financial Officer	1752	3538	530
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance	-	-	-

Acknowledgment

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

On behalf of Directors,



Yasir Qadri
Chief Executive Officer
Karachi: July 28, 2014

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



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

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

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **MCB Dynamic Stock Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 2 May 2014, and the related income statement, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the period from 1 July 2013 to 2 May 2014, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 2 May 2014, and of its financial performance, its cash flows and transactions for the period from 1 July 2013 to 2 May 2014 in accordance with approved accounting standards as applicable in Pakistan.

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

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



KPMG Taseer Hadi & Co.

Emphasis of matter

We draw attention to note 1.2 to the financial statements which mentions that the Fund and Pakistan Premier Fund have merged with and into Pakistan Stock Market Fund pursuant to approval from Securities and Exchange Commission of Pakistan with effect from 3 May 2014. All units representing the Fund stood cancelled as at the effective date of merger and the existing unit holders have been provided with units of Pakistan Stock Market Fund. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

Date: 28 July 2014

Karachi

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.

Chartered Accountants

Mazhar Saleem

STATEMENT OF ASSETS AND LIABILITIES
AS AT 2 MAY 2014

	<i>Note</i>	2 May 2014	30 June 2013
(Rupees in '000)			
Assets			
Balances with banks	4	65,835	56,970
Dividend and profit receivables	5	7,004	662
Investments	6	1,139,312	824,668
Receivable against sale of investments		7,550	20,591
Security deposits	7	3,951	3,951
Prepayments		22	-
Total assets		1,223,674	906,842
Liabilities			
Payable to Management Company	8	3,684	2,234
Payable to Central Depository Company of Pakistan - Trustee	9	197	151
Payable to Securities and Exchange Commission of Pakistan	10	793	718
Accrued expenses and other liabilities	11	26,167	17,012
Total liabilities		30,841	20,115
Net assets		1,192,833	886,727
Unit holders' fund		1,192,833	886,727
Contingencies and commitments	12		
(Number of units)			
Number of units in issue (face value of units is Rs. 100 each)		9,798,375	6,751,239
(Rupees)			
Net asset value per unit	3.7	121.74	131.34

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

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



Chief Executive Officer



Director

INCOME STATEMENT
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

	<i>Note</i>	For the period from '1 July 2013 'to 2 May 2014	For the year ended 30 June 2013
(Rupees in '000)			
Income			
Capital gain on sale of investments - net		98,294	230,759
Dividend income		47,823	54,140
Income from government securities		4,411	2,018
Profit on bank deposits		6,224	4,865
Other Income		-	5
		156,752	291,787
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	6.1 & 6.2	136,677	55,569
Total income		293,429	347,356
Expenses			
Remuneration of Management Company	8.1	16,688	15,121
Sindh Sales tax and Federal Excise duty on management fee of Management Company	11.2	5,768	2,582
Remuneration of Central Depository Company of Pakistan Limited- Trustee	9.1	1,645	1,512
Annual fee of Securities and Exchange Commission of Pakistan	10	793	718
Auditor's remuneration	13	560	657
Brokerage expenses		5,623	9,578
Other expenses		875	969
Total operating expenses		31,952	31,137
Net operating income for the period / year		261,477	316,219
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		37,329	(2,091)
Provision for workers' welfare fund	11.1	(5,976)	(8,623)
Net income for the period / year before taxation		292,830	305,505
Taxation	14	-	-
Net income for the period / year after taxation		292,830	305,505
Earnings per unit	15		

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

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



Chief Executive Officer



Director

**DISTRIBUTION STATEMENT
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014**

	For the period from 1 July 2013 to 2 May 2014	For the year ended 30 June 2013
	(Rupees in '000)	
Accumulated income / (loss) brought forward:		
- Realised income / (loss)	154,040	(139,073)
- Unrealised income	57,556	21,851
	211,596	(117,222)
Net income for the period /year	292,830	305,505
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing unrealised (diminution) / appreciation	(7,148)	23,313
Distribution to the unit holders of the Fund:		
Final distribution at the rate of Rs. 33.6889 per unit for the year ended 30 June 2013 Declared on 4 July 2013 - Bonus distribution 2,329,055 units	(227,442)	-
Interim distribution at the rate of Rs. 6.0853 per unit for the period ended 2 May 2014 Declared on 2 May 2014 - Bonus distribution 466,887 units	(56,849)	-
Undistributed income carried forward	212,987	211,596
Undistributed income comprising:		
- Realised income	66,703	154,040
- Unrealised income	146,284	57,556
	212,987	211,596

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

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



Chief Executive Officer



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014**

	For the period from 1 July 2013 to 2 May 2014	For the year ended 30 June 2013
	(Rupees in '000)	
Net assets at the beginning of the period	886,727	725,522
Issue of 9,065,793* units (30 June 2013: 4,836,041 units)	991,543	552,687
Redemption of 6,018,657 units (30 June 2013: 6,512,169 units)	(656,647)	(699,078)
	334,896	(146,391)
Net element of (income) / loss and capital gains / (losses) included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	(37,329)	2,091
- amount representing loss / (income) and capital losses / (gains) that forms part of unit holder's fund - transferred to distribution statement	7,148	(23,313)
	(30,181)	(21,222)
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - transferred to distribution statement	(7,148)	23,313
Net income for the year (excluding net unrealised appreciation in on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments - net)	57,859	19,177
Capital gain on sale of investments - net	98,294	230,759
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	136,677	55,569
Total comprehensive income for the year	292,830	305,505
Final distribution for the year ended 30 June 2013 at Rs. 33.6889 per unit Declared on 4 July 2013		
- Bonus distribution 2,329,055 units	(227,442)	-
Final distribution for the period ended 2 May 2014 at Rs. 6.0853 per unit Declared on 2 May 2014		
- Bonus distribution 466,887 units	(56,849)	-
Net assets at end of the year	1,192,833	886,727
	(Rupees)	
Net asset value per unit at the beginning of the period / year	131.34	86.09
Net asset value per unit at the end of the period / year	121.74	131.34

*This includes 2,795,942 (2013: nil) units issued as bonus units.

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

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



Chief Executive Officer



Director

CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

	For the period from 1 July 2013 to 2 May 2014	For the year ended 30 June 2013
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	292,830	305,505
Adjustments for non-cash and other items:		
Capital gain on sale of investments - net	(98,294)	(230,759)
Profit on bank deposits	(6,224)	(4,865)
Dividend income	(47,823)	(54,140)
Net unrealised (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss'	(136,677)	(55,569)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(37,329)	2,091
	(326,347)	(343,242)
	(33,517)	(37,737)
(Increase) / decrease in assets		
Investments	(73,851)	147,229
Receivable against sale of investments	13,041	(20,591)
Profit receivables	(6,342)	1,073
	(67,152)	127,711
(Increase) / decrease in liabilities		
Payable to Management Company	1,450	815
Payable to Central Depository Company of Pakistan - Trustee	46	21
Payable to Securities and Exchange Commission of Pakistan	75	69
Payable against purchase of investments	-	(25,388)
Accrued expenses and other liabilities	9,155	9,099
	10,726	(15,384)
Dividend received	41,979	54,011
Profit received on bank deposits	6,224	4,865
Net cash (used in) / generated from operating activities	(41,740)	133,466
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	707,252	552,687
Payments against redemption of units	(656,647)	(699,078)
Net cash generated from / (used in) from financing activities	50,605	(146,391)
Net increase / (decrease) in cash and cash equivalents	8,865	(12,925)
Cash and cash equivalents at beginning of the period / year	56,970	69,895
Cash and cash equivalents at end of the year	65,835	56,970

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

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



Chief Executive Officer



Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** MCB Dynamic Stock Fund ("The Fund") was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and was approved as a collective investment scheme by the Securities and Exchange Commission of Pakistan ("SECP") on 12 December 2006. It was constituted under a Trust Deed dated 10 November 2006 amended by a Supplemental Trust Deed dated 21 January 2007 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited ("CDC") as the Trustee, also incorporated under the Companies Ordinance, 1984.

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 issue by SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

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 units are listed on the Lahore Stock Exchange.

The Principal activity of the Fund is to make investments in securities listed on stock exchanges. The Fund is an equity fund and its objective is to provide long term capital appreciation.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2' (positive outlook) to the Management Company and has assigned both short-term & long term ranking of "4-Star" to the Fund.

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.

- 1.2** The Board of Directors of the Management Company, in their meeting decided to merge the Fund and Pakistan premier Fund into Pakistan Stock Market Fund. Securities and Exchange Commission of Pakistan vide its letter SCD/AMCW/MCB-AHSIL/967/2014 dated 24 April 2014 approved the merger of the Fund and Pakistan Premier Fund with and into Pakistan Stock Market Fund with effect from 3 May 2014 . The Management Company has fulfilled all the conditions as outlined by SECP in its letter. The whole of the undertakings of the Fund transferred to and vested in Pakistan Stock Market Fund from 3 May 2014 and all units representing the Fund stood cancelled as at the effective date of merger and the existing unit holders were provided with units of Pakistan Stock Market Fund at the swap ratio of 1.57% .

These financial statements present the position and results of the Fund for the period from 1 July 2013 to 2 May 2014.

2. BASIS OF PRESENTATION

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 .

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

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, can not be determined with precision.

Other assets

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

2.5 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 July 2014.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014).
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:
- IAS 24 ‘Related Party Disclosure’. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

2.6 Standards, amendments or interpretations which became effective during the year During the year certain amendments to Standards or new interpretations became effective. However, the amendments or interpretation did not have any material effect on the financial statements of the Fund.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

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 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) 'Available-for-sale'

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

c) Loans and receivables

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

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

Fair value measurement principles

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

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. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the income statement.

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 derecognising 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.

Offsetting of financial instruments

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

3.2 Unit holders' 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 of the day on which funds are received in the Trustee bank accounts during business hours.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

The offer price represents the net asset value per unit as of the close of the business day on which funds are received plus the allowable sales load.

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

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 income / (losses) held in the Unit Holder's Fund 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 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years commencing from March 1, 2007, as per the requirements of the Trust Deed of the Fund.

3.6 Provisions

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

3.7 Net asset value per unit

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

3.8 Taxation

Current

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Discount on purchase of market treasury bills is amortised to income statement using the straight line method
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair through profit or loss' and derivatives are included in the income statement in the period in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the income statement on the date of issue and redemption of units.

3.10 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.

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4. BALANCES WITH BANKS

	2 May 2014	30 June 2013
(Rupees in '000)		
Saving accounts	4.1 65,795	56,929
Current account	40	41
	65,835	56,970

4.1 These carry mark-up at rates ranging between 6.5% to 9% per annum (30 June 2013: 6% to 11.5% per annum).

5. DIVIDEND AND PROFIT RECEIVABLES

Dividend receivable	6,465	621
Profit receivable from saving deposits	539	41
	7,004	662

6. INVESTMENTS

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

- Quoted equity securities	6.1 1,090,406	740,171
- Government securities - market treasury bills	6.2 48,906	84,497
	1,139,312	824,668

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

6.1 Quoted equity securities

Name of the investee company	As at 1 July 2013	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 2 May 2014	Carrying value	Market value	Appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of the investee company
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Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

	-----Number of shares-----					------(Rupees in '000)-----					
Oil and gas											
Attock Petroleum Limited	54,742	32,200	16,588	26,800	76,730	36,423	41,433	5,010	3.47%	3.64%	0.09%
National Refinery Limited	38,000	176,200	-	104,500	109,700	25,836	22,657	(3,179)	1.90%	1.99%	0.14%
Oil and Gas Development Company Limited	189,282	500,300	-	524,000	165,582	43,747	41,811	(1,936)	3.51%	3.67%	0.00%
Pakistan Oilfields Limited	144,417	142,650	-	264,150	22,917	11,606	12,166	560	1.02%	1.07%	0.01%
Pakistan Petroleum Limited	239,131	551,600	77,626	599,100	269,257	54,922	61,030	6,108	5.12%	5.36%	0.01%
Pakistan State Oil Company Limited	251,800	379,800	17,330	408,800	240,130	78,252	97,560	19,308	8.18%	8.56%	0.09%
						250,786	276,657	25,871	23.20%	24.29%	
Chemicals											
Dawood Hercules Corporation Limited	168,500	-	-	168,500	-	-	-	-	0.00%	0.00%	0.00%
Engro Corporation Limited	30,000	875,200	-	616,000	289,200	51,535	58,754	7,219	4.93%	5.16%	0.06%
Engro Fertilizer Limited	-	19,690	-	-	19,690	1,138	1,317	179	0.11%	0.12%	0.00%
Fatima Fertilizers Company Limited	1,850,500	978,000	-	2,270,500	558,000	14,640	18,219	3,579	1.53%	1.60%	0.03%
Fauji Fertilizer Bin Qasim Limited	379,500	-	-	379,500	-	-	-	-	0.00%	0.00%	0.00%
Fauji Fertilizer Company Limited	-	60,000	-	60,000	-	-	-	-	0.00%	0.00%	0.00%
						67,313	78,290	10,977	6.57%	6.88%	
Construction and materials											
Attock Cement Pakistan Limited	-	1,000	-	-	1,000	160	160	-	0.01%	0.01%	0.00%
Cherat Cement Company Limited	574,651	-	15,565	419,000	171,216	9,057	12,042	2,985	1.01%	1.06%	0.16%
D. G. Khan Cement Company Limited	71,406	948,500	-	1,019,906	-	-	-	-	0.00%	0.00%	0.00%
Fauji Cement Company Limited	-	942,500	-	350,000	592,500	8,188	10,387	2,199	0.87%	0.91%	0.04%
Fecto Cement Limited	57,416	-	-	50,000	7,416	356	400	44	0.03%	0.04%	0.01%
Kohat Cement Company Limited	462,333	433,000	129,766	703,000	322,099	25,073	38,929	13,856	3.26%	3.42%	0.21%
Lafarge Pakistan Cement Limited	-	568,000	-	568,000	-	-	-	-	0.00%	0.00%	0.00%
Lucky Cement Limited	117,013	130,000	-	176,713	70,300	24,225	25,036	811	2.10%	2.20%	0.02%
Maple Leaf Cement Factory Limited	352,000	1,951,000	-	730,000	1,573,000	41,569	48,338	6,769	4.05%	4.24%	0.30%
Pioneer Cement Limited	150,000	307,000	-	150,000	307,000	14,519	14,739	220	1.24%	1.29%	0.14%
Crescent Steel & Allied Products Ltd	-	50,000	-	50,000	-	-	-	-	0.00%	0.00%	0.00%
						123,147	150,031	26,884	12.57%	13.17%	
General industries											
Packages Limited	-	119,700	-	12,500	107,200	29,310	43,493	14,183	3.65%	3.82%	0.13%
Thal Limited*	-	45,300	-	42,000	3,300	462	598	136	0.05%	0.05%	0.00%
Tri-Pak Films	-	35,500	-	-	35,500	8,294	6,994	(1,300)	0.59%	0.61%	0.12%
						38,066	51,085	13,019	4.29%	4.48%	
Engineering											
Al-Ghazi Tractors Limited*	500	-	-	500	-	-	-	-	0.00%	0.00%	0.00%
International Industries Limited	-	410,000	-	-	410,000	20,897	21,812	915	1.83%	1.91%	0.34%
						20,897	21,812	915	1.83%	1.91%	
Automobile and parts											
General Tyre and Rubber Company Limited	-	46,500	-	-	46,500	2,910	3,217	307	0.27%	0.28%	-
Pak Suzuki Motor Company Limited	19,000	226,000	-	19,000	226,000	49,594	45,410	(4,184)	3.81%	3.99%	0.27%
						52,504	48,627	(3,877)	4.08%	4.27%	
Food producers											
Engro Foods Limited	-	384,000	-	337,500	46,500	5,475	5,161	(314)	0.43%	0.45%	0.01%

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

Name of the investee company	As at 1 July 2013	Purchases during the period	Bonus / right issue during the period	Sales during the period	As at 2 May 2014	Carrying value	Market value	Appreciation / (diminution)	Market value as percentage of net assets	Market value as percentage of total investments	Par value as percentage of issued capital of the investee company
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Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

	Number of shares					(Rupees in '000)					
Personal goods											
Blessed Textile Limited	37,500	-	-	37,500	-	-	-	-	0.00%	0.00%	0.00%
Ellcot Spinning Mills Limited	98,500	-	-	70,500	28,000	1,817	2,100	283	0.18%	0.18%	0.26%
Faisal Spinning Mills Limited	31,500	-	-	31,500	-	-	-	-	0.00%	0.00%	0.00%
Gadoon Textile Mills Limited	16,000	46,600	-	62,600	-	-	-	-	0.00%	0.00%	0.00%
Nishat Chunian Limited	-	118,500	10,800	128,500	800	44	36	(8)	0.00%	0.00%	0.00%
Nishat Mills Limited	225,500	528,000	-	753,500	-	-	-	-	0.00%	0.00%	0.00%
Kohinoor Textile Mills	-	57,000	-	57,000	-	-	-	-	0.00%	0.00%	0.00%
						1,861	2,136	275	0.18%	0.18%	
Tobacco											
Pakistan Tobacco Company Limited	11,000	-	-	11,000	-	-	-	-	0.00%	0.00%	0.00%
Pharma and Bio Tech											
Abbot Laboratories (Pakistan) Limited	-	40,500	-	-	40,500	17,146	20,913	3,767	1.75%	1.84%	0.04%
Avanceon Limited	-	165,000	-	165,000	-	-	-	-	-	-	0.00%
						17,146	20,913	3,767	1.75%	1.84%	
Fixed line telecommunication											
Pakistan Telecommunication Company Limited	195,000	1,127,000	-	1,322,000	-	-	-	-	0.00%	0.00%	0.00%
Electricity											
Kot Addu Power Company Limited	70,000	2,063,000	-	1,481,000	652,000	38,499	40,105	1,606	3.36%	3.52%	0.07%
Nishat Power Limited	-	183,000	-	100,000	83,000	2,615	2,739	124	0.23%	0.24%	0.02%
Nishat Chunian (Power) Limited	-	110,000	-	110,000	-	-	-	-	0.00%	0.00%	0.00%
Pakgen Power Limited	-	860,000	-	860,000	-	-	-	-	0.00%	0.00%	0.00%
The Hub Power Company Limited	1,235,131	734,500	-	1,658,500	311,131	19,210	17,772	(1,438)	1.49%	1.56%	0.03%
						60,324	60,616	292	5.08%	5.32%	
Banks											
Allied Bank Limited	-	329,500	28,950	252,000	106,450	8,450	13,547	5,097	1.14%	1.19%	0.01%
Bank Al-Falah Limited	1,813,000	2,504,000	-	1,324,000	2,993,000	68,275	82,248	13,973	6.90%	7.22%	0.22%
Bank AL-Habib Limited	1,131,531	231,000	95,803	744,500	713,834	19,060	29,988	10,928	2.51%	2.63%	0.06%
BankIslami Pakistan Limited	100,000	-	-	100,000	-	-	-	-	0.00%	0.00%	0.00%
Faysal Bank Limited	-	2,186,000	-	1,064,000	1,122,000	14,235	18,333	4,098	1.54%	1.61%	0.11%
Habib Bank Limited	151,600	65,000	10,190	49,700	177,090	24,151	32,799	8,648	2.75%	2.88%	0.01%
Habib Metropolitan Bank Limited	-	1,331,000	-	70,000	1,261,000	35,570	39,999	4,429	3.35%	3.51%	0.12%
MCB Bank Limited	16,600	150,900	8,880	75,400	100,980	26,273	28,639	2,366	2.40%	2.51%	0.01%
Meezan Bank Limited	318,025	1,060,000	-	340,000	1,038,025	39,981	41,521	1,540	3.48%	3.64%	0.10%
National Bank Of Pakistan Limited	-	1,493,000	-	1,084,000	409,000	24,734	23,567	(1,167)	1.98%	2.07%	0.02%
United Bank Limited	246,471	683,400	-	748,400	181,471	30,204	33,343	3,139	2.80%	2.93%	0.01%
						290,933	343,984	53,051	28.85%	30.19%	
Non life insurance											
Adamjee Insurance Company Limited	-	15,000	-	15,000	-	-	-	-	0.00%	0.00%	0.00%
IGI Insurance Limited	-	33,300	-	-	33,300	6,727	6,815	88	0.57%	0.60%	0.03%
Pakistan Reinsurance Company Limited	628,000	130,000	-	-	758,000	18,550	24,279	5,729	2.04%	2.13%	0.25%
						25,277	31,094	5,817	2.61%	2.73%	
Total - 2 May 2014						953,729	1,090,406	136,677	91.44%	95.71%	
Total - 30 June 2013						684,622	740,171	55,549	83.47%	89.75%	

* the face value of shares held is Rs. 5 per share

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

6.1.1 Investments include shares with market value aggregating to Rs. 53,137 million (30 June 2013: 61,299 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in term of Circular No. 11 dated 23 October 2007 issued by the Securities and Exchange Commission of Pakistan.

6.1.2 Cost of investment of equity securities is Rs.944.132 million (2013: Rs. 683 million).

6.2 Government securities - Market treasury bills

Issue date / Tenure	As at 1 July 2013	Purchases during the period	Matured during the period	Sales during the period	As at 2 May 2014	Cost as at 2 May 2014	Market value as at 2 May 2014	Appreciation as at 2 May 2014	Market value	
									as a percentage of net assets	as a percentage of total investments
-----Face value-----						------(Rupees in '000)-----				
Treasury Bills - 3 Months	10,000	350,000	85,000	225,000	50,000	48,908	48,906	(2)	4.10%	4.29%
Treasury Bills - 12 Months	75,000			75,000	-			-	0.00%	0.00%
Total - 2 May 2014						48,908	48,906	(2)		
Total - 30 June 2013						84,477	84,497	20		

6.2.1 These Treasury bills have a amortized cost of Rs. 48,895 million (30 June 2013: Rs.83,940 million) maturing up till 24 July 2014 (30 June 2013: 25 July 2013) and carry effective yield ranging between 9.955% per annum (30 June 2013: 9.4114% to 9.4903%).

7. SECURITY DEPOSITS

	2 May 2014	30 June 2013
	(Rupees in '000)	
Security deposits with		
- National Clearing Company of Pakistan Limited	3,751	3,751
- Central Depository Company of Pakistan Limited	200	200
	<u>3,951</u>	<u>3,951</u>

8. PAYABLE TO MANAGEMENT COMPANY

Management fee payable	8.1	2,029	1,459
Sindh Sales tax payable on Management fee	8.2	378	233
Sales load payable		<u>1,277</u>	<u>542</u>
		<u>3,684</u>	<u>2,234</u>

8.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund and, in any case, it shall not exceed the limit prescribed by NBFC Regulations, 2008. During the year, the Management Company has charged remuneration at a rate of 2% (2013: 2%) of the average annual net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears. During 2011, the Local Government (Sindh) has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company.

8.2 Management fee charged during the period is inclusive of 16% General Sales Tax levied by the Government of Sindh.

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

Remuneration payable	9.1	192	146
CDS charges payable		<u>5</u>	<u>5</u>
		<u>197</u>	<u>151</u>

9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. The remuneration is paid to the Trustee monthly in arrears.

As per the Trust Deed and Offering Document, the tariff structure applicable to the Fund in respect of the trustee fee for the period from 1 July 2014 to 2 May 2014 is as follows:

Net Assets	Tariff per annum
Up to Rs. 1,000 million	Rs. 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs. 1,000 million	Rs. 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million

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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 is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

11. ACCRUED AND OTHER LIABILITIES

	2 May 2014	30 June 2013
	(Rupees in '000)	
Auditors' remuneration payable	221	400
Brokerage payable	934	936
Dividend payable	41	41
Provision for workers' welfare fund	11.1 21,056	15,080
Provision for Federal Excise Duty and related taxes	11.2 3,260	163
Others	655	392
	26,167	17,012

11.1 Provision for Worker's Welfare Fund

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements till the year ended 30 June 2011.

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 council 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 institutions 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.

The Management company, as a matter of abundant precaution, decided to retain the entire provision for workers' welfare fund in these financial statements.

11.2 The Finance Act, 2013 introduced an amendment to Federal Excise Act 2005 where by Federal 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 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 Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Services after the eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned

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Rs. 3.260 million as at 2 May 2014. 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 Net Asset Value of the Fund would have been higher by Rs. 0.33 per unit as at 2 May 2014.

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at 2 May 2014.

13. AUDITOR'S REMUNERATION

	For the period from 1 July 2013 to 2 May 2014	For the year ended 30 June 2013
	(Rupees in '000)	
Annual audit fee	232	300
Half yearly review	208	200
Other certifications and services	57	100
Out of pocket expenses	63	57
	560	657

14. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether 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 unrealised 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 period to the unit holders after merger into Pakistan Stock Market Fund in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

15. EARNING PER UNIT

Earning per unit (EPU) has not been disclosed as in the opinion of the management, determination of cumulative 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% net assets 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.

**NOTES TO THE FINANCIAL STATEMENTS
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16.1 Details of transactions with the connected persons / related parties during the period / year are as follows:

	For the period from 1 July 2013 to 2 May 2014	For the year ended 30 June 2013
	(Rupees in '000)	
MCB-Arif Habib Savings and Investments Limited		
Remuneration of Management Company (including indirect taxes)	<u>22,456</u>	<u>17,703</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of Trustee	<u>1,645</u>	<u>1,512</u>
CDC settlement charges	<u>143</u>	<u>157</u>
MCB Bank Limited		
Profit on bank deposits	<u>3,617</u>	<u>1,477</u>
Dividend received	<u>470</u>	<u>232</u>
Bank Charges	<u>19</u>	<u>25</u>
Nishat Mills Limited		
Dividend Received	<u>46</u>	<u>2,457</u>
Nishat Chunian Limited		
Dividend Received	<u>216</u>	
Nishat Chunian Power Limited		
Dividend Received	<u>75</u>	<u>1,468</u>
D.G.Khan Cement Company Limited		
Dividend Received	<u>1,494</u>	<u>724</u>
Adamjee Insurance Company Limited		
Dividend Received	<u>840</u>	<u>56</u>
Pakgen Power Limited		
Dividend Received	<u>-</u>	<u>110</u>
Arif Habib Limited		
Brokerage *	<u>406</u>	<u>705</u>
Summit Capital (Private) Limited		
Brokerage *	<u>63</u>	<u>36</u>

**NOTES TO THE FINANCIAL STATEMENTS
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16.2 Balance outstanding as at period end	2 May 2014	30 June 2013
	(Rupees in '000)	
MCB-Arif Habib Savings and Investments Limited		
Payable to management company	<u>2,075</u>	<u>1,459</u>
Sindh sales tax payable on management fee	<u>332</u>	<u>233</u>
Sales load payable	<u>1,277</u>	<u>542</u>
Central Depository Company of Pakistan Limited - Trustee		
Trustee fee payable	<u>192</u>	<u>146</u>
CDC Settlement charges payable	<u>5</u>	<u>5</u>
Security deposit	<u>200</u>	<u>200</u>
MCB Bank Limited		
Bank balances	<u>59,331</u>	<u>20,033</u>
Profit receivable on bank balances	<u>322</u>	<u>41</u>
100,980 shares held by the Fund (30 June 2013: 16,600 shares)	<u>28,639</u>	<u>4,027</u>
D. G. Khan Cement Company Limited		
Nil shares held by the Fund (30 June 2013: 71,406 shares)	<u>-</u>	<u>5,976</u>
Fatima Fertilizer Company Limited		
558,000 shares held by the Fund (30 June 2013: 1,850,500 shares)	<u>18,219</u>	<u>45,948</u>
Nishat Mills Limited		
Nil shares held by the Fund (30 June 2013: 225,500 shares)	<u>-</u>	<u>21,244</u>
Nishat Chunian Limited		
800 shares held by the Fund (30 June 2013: nil shares)	<u>36</u>	<u>-</u>
Arif Habib Limited		
Brokerage *	<u>95</u>	<u>96</u>

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

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

	For the period from 1 July 2013 to 2 May 2014		For the year ended 30 June 2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
MCB-Arif Habib Savings and Investments Limited	264,676	31,000	-	-
Adamjee Life Assurance Company Limited (Income Multiplier Fund)	691,227	79,100	754,659	86,458
Mandate Under Discretionary Portfolio Services	330,789	38,536	77,394	9,913
Key management personnel	68,853	7,850	63,534	7,847
Bonus units issued to:				
MCB Employees Provident Fund	584,855	59,413	-	-
MCB Employees Pension Fund	448,190	45,530	-	-
D. G. Khan Cement Company Limited Employees Provident Fund	9,902	1,006	-	-
Adamjee Life Assurance Company Limited (Income Multiplier Fund)	339,790	33,865	-	-
Mandate Under Discretionary Portfolio Services	70,943	7,117	-	-
Key management personnel	10,875	1,122	-	-
Units redeemed by:				
MCB Bank Limited	-	-	580,464	63,321
MCB-Arif Habib Savings and Investments Limited	264,676	31,194	-	-
Adamjee Life Assurance Company Limited (Income Multiplier Fund)	1,338,600	140,000	17,668	2,000
Mandate Under Discretionary Portfolio Services	420,012	47,284	5,938	640
Key management personnel	56,902	6,352	52,964	6,251
	2 May 2014	30 June 2013	2 May 2014	30 June 2013
	Units		(Rupees in '000)	
Units held by:				
MCB-Arif Habib Savings and Investments Limited	-	-	-	-
MCB Employees Provident Fund	2,003,715	1,418,860	243,928	186,353
MCB Employees Pension Fund	1,535,501	1,087,311	186,929	142,807
D. G. Khan Cement Company Limited - Employees Provident Fund	33,925	24,023	4,130	3,155
Mandate Under Discretionary Portfolio Services	164,647	182,927	20,044	24,026
Key management personnel	47,160	24,334	5,741	3,196
Adamjee Life Assurance Company Limited (Income Multiplier Fund)	595,240	902,823	72,463	118,577

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

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's activities expose it to a variety of financial risks such as:

- Market risk
- Credit risk and
- Liquidity risk

17.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the SECP.

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

Currency risk

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

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.

Sensitivity analysis for fixed rate instruments

As at 2 May 2014, the Fund holds Treasury Bills which are classified as at 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 Financial Markets Association of Pakistan on 2 May 2014 with all other variables held constant, the net income for the period and net assets would be higher by Rs. 0.121 million (30 June 2013: Rs. 0.055 million). In case of 100 basis points decrease in rates announced by Financial Markets Association of Pakistan on 2 May 2014 with all other variables held constant, the net income for the period and net assets would be lower by Rs. 0.096 million (30 June 2013: Rs. 0.055 million).

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of 2 May 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other price risk

Other price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of Karachi Stock Exchange (KSE) and other respective market indices and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification within specified limits set by internal risk management guidelines.

The fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

A summary analysis of local investments by industry sector, the percentage in relation to Fund's own net assets and the issued capital of the investee company is presented in note 6.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 2 May 2014. The analysis is based on the assumption that KSE-100 index increased by 5% and decreased by 5%, with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE-100 index, having regard to the historical volatility of index of past three years.

At 2 May 2014, the fair value of equity securities exposed to price risk is disclosed in note 6.1.

The impact below arises from the reasonable possible change in the fair value of listed equity securities.

	2 May 2014	30 June 2013
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders and equity investments due to increase / decrease in the KSE-100 index	66,177	34,979

The sensitivity analysis presented is based upon the portfolio composition as at 2 May 2014 and the historical correlation of the securities comprising the portfolio to the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE and other respective market indices, is expected to change over time. Accordingly, the sensitivity analysis prepared as at 2 May 2014 is not necessarily indicative of the effect on the Fund's net assets attributed to unit holders of future movements in the level of the KSE and other respective market indices.

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

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

Exposure to credit risk

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk as at 2 May 2014 is as follows:

	2 May 2014		30 June 2013	
	Statement of Assets and Liabilities	Maximum Exposure	Statement of Assets and Liabilities	Maximum Exposure
	(Rupees in '000)		(Rupees in '000)	
Balances with banks	65,835	65,835	56,970	69,895
Investments	1,139,312	-	824,668	-
Receivable against sale of investments	7,550	-	20,591	-
Dividend and profit receivables	7,004	7,004	662	1,606
Security deposits	3,951	3,951	3,951	3,951
	1,223,652	76,790	906,842	75,452

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

Difference in the balance as per Statement of Assets and Liabilities and maximum exposure in investment is due to the fact that investment in equity securities of Rs. 1,090.406 million (30 June 2013: Rs. 740.171 million) and receivable against sale of investments amounting to Rs. 7.55 million (30 June 2013: Rs. 20.591) are not exposed to credit risk.

Investment in treasury bills amounting to Rs. 48.906 million (30 June 2013: Rs. 84.497 million) do not expose the Fund to credit risk as the counter party to the investment is the Government of Pakistan.

None of the financial assets were considered to be past due or impaired as on 2 May 2014.

Details of credit rating of balance with banks, deposits and other receivables as at 30 June are as follows:

	2 May 2014	30 June 2013
	(Percentage holding)	
AAA	90.12%	0.00%
AA+	0.00%	35.17%
AA	9.86%	64.81%
AA-	0.02%	0.02%
	100.00%	100.00%

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of the Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	2 May 2014		30 June 2013	
	(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
Commercial banks	65,835	85.73%	69,895	92.64%
Others	10,955	14.27%	5,557	7.36%
	76,790	100.00%	75,452	100.00%

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

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:

	2 May 2014			Total
	Up to three months	More than three months and up to one year	More than one year	
----- (Rupees in '000) -----				
Payable to Management Company	3,684	-	-	3,684
Payable to Central Depository Company of Pakistan - Trustee	197	-	-	197
Payable to Securities and Exchange Commission of Pakistan	793	-	-	793
Accrued and other liabilities	5,111	-	-	5,111
	9,785	-	-	9,785
30 June 2013				
	Up to three months	More than three months and up to one year	More than one year	Total
----- (Rupees in '000) -----				
Payable to Management Company	2,397	-	-	1,582
Payable to Central Depository Company of Pakistan - Trustee	151	-	-	130
Payable to Securities and Exchange Commission of Pakistan	718	-	-	649
Accrued and other liabilities	1,769	-	-	1,293
	5,035	-	-	3,654

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

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17.4 Financial instruments by category

As at 2 May 2014, all the financial assets and liabilities 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'.

	As at 2 May 2014		
	Loans and receivables	Assets at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Assets			
Balances with Banks	65,835	-	65,835
Dividend and profit receivables	7,004	-	7,004
Investments	-	1,139,312	1,139,312
Receivable against sale of investments	7,550	-	7,550
Security deposits	3,951	-	3,951
	84,340	1,139,312	1,223,652
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable to Management Company	-	3,684	3,684
Payable to Central Depository Company of Pakistan Limited - Trustee	-	197	197
Accrued and other liabilities	-	5,111	5,111
	-	8,992	8,992

	As at 30 June 2013		
	Loans and receivables	Assets at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Assets			
Balances with Banks	56,970	-	56,970
Dividend and profit receivables	662	-	662
Investments	-	824,668	824,668
Receivable against sale of investments	20,591	-	20,591
Security deposits	3,951	-	3,951
	82,174	824,668	906,842
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable to Management Company	-	2,234	2,234
Payable to Central Depository Company of Pakistan Limited - Trustee	-	151	151
Accrued and other liabilities	-	1,932	1,932
	-	4,317	4,317

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

17.5 Unit holders' fund risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million at 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.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

2 May 2014

	Level 1 (Rupees in '000)	Level 2
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	1,090,406	-
- Fixed income securities	-	48,906

30 June 2013

'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	740,171	-
- Fixed income securities	-	84,497

19. 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:

19.1 Pattern of unit holding

Details of pattern of unit holding as at 2 May 2014

	As at 2 May 2014		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	571	449,796	37.70%
Associated companies / Directors	4	507,450	42.54%
Insurance companies	2	9,851	0.83%
NBFCs	1	15	0.00%
Retirement funds	13	176,679	14.81%
Others	15	49,042	4.12%
	606	1,192,833	100.00%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014**

Details of pattern of unit holding as at 30 June 2013

	As at 30 June 2013		
	Number of unit holders	Investment Amount Rupees in '000	Percentage Investment
Individuals	466	274,895	31.00%
Associated companies / Directors	5	452,091	50.98%
Insurance companies	3	17,110	1.93%
Banks / DFIs	1	13	0.00%
Retirement funds	9	113,277	12.77%
Others	8	29,341	3.31%
	<u>492</u>	<u>886,727</u>	<u>99.99%</u>

19.2 Top ten brokers / dealers by percentage of commission paid

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

	2 May 2014 Percentage
1 Fortune Securities	8.28%
2 Invest & Finance Securities (Pvt) Limited	7.41%
3 Arif Habib Limited	7.21%
4 Jahangir Siddiqui Capital Markets Limited	6.79%
5 Optimus Securities (Pvt) Ltd	6.73%
6 Foundation Securities Limited	5.99%
7 KASB Securities Limited	5.67%
8 Elixir Securities Pakistan (Pvt) Limited	5.20%
9 Topline Securities (Pvt) Limited	5.09%
10 Taurus Securities Limited	4.40%
	2013 Percentage
1 Foundation Securities (Private) Limited	8.92%
2 Arif Habib Limited	8.74%
3 Fortune Securities Limited	8.59%
4 Optimus Capital Management (Private) Limited	7.45%
5 Invest and Finance Securities Limited	6.82%
6 KASB Securities Limited	6.71%
7 JS Global Capital Market Limited	6.59%
8 First Capital Equities Limited	5.66%
9 Elixir Securities Pakistan (Private) Limited	5.49%
10 Habib Metropolitan Financial Services Limited	4.59%

19.3 Attendance at meetings of the Board of Directors

The 104th, 105th, 106th, 107th, 108th, 109th and 110th Board meetings were held on 4 July 2013, 5 August 2013, 23 October 2013, 31 December 2013, 6 February 2014, 7 March 2014 and 21 April 2014 respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014

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

Name of Director	Number of meetings			
	Held	Attended	Leave granted	Meeting not attended
Mr. Mian Mohammad Mansha	7	1	6	104th, 105th , 106th, 107th, 108th and 109th
Mr. Nasim Beg	7	6	1	106th
Mr. Yasir Qadri (Chief Executive Officer)	7	7	-	
Dr. Syed Salman Ali Shah	7	6	1	107th
Mr. Haroun Rashid	7	5	2	104th and 106th
Mr. Ahmed Jahangir	7	7	-	
Mr. Samad A. Habib	7	5	2	105th and 109th
Mr. Mirza Mehmood Ahmed	7	6	1	106th
Mr. M. Saqib Saleem (CFO & Company Secretary)	7	7	-	
Mr. Umair Ahmed (Chief Financial Officer)	7	7	-	

19.4 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	19
Mr. Kashif Rafi	Head of Fixed Income Investment	MBA & CFA level I	13
Mr. Muhammad Asim	Head of Equity	MBA & CFA	11
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA level I	13
Mrs. Uzma Khan	Assistant Vice President - Head of Rese	MBA & CFA	9

19.5 Other funds managed by the fund manager

Mr. Muhammad Asim

Mr. Muhammad Asim is the Manager of the Fund as at year end. He has obtained a Masters degree in Business Administration and is a Certified Financial Analyst. Other funds being managed by him are as follows:

- MCB Dynamic Allocation Fund
- Pakistan Premier Fund
- Pakistan Pension Fund

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JULY 2013 TO 2 MAY 2014**

20. RECLASSIFICATION

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	Accrued expenses and other liabilities (Provision for Federal Excise Duty and related taxes)	<u>163</u>
Remuneration of the management company	Sindh Sales tax and Federal Excise Duty on management fee	<u>2,582</u>

21. DATE OF AUTHORISATION FOR ISSUE

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

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



Chief Executive Officer



Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

MCB-Arif Habib Savings and Investments Limited

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