



Bachat ka Doosra Naam

Annual Report 2014



Paanchon Unglian Ghee Main

MCB DYNAMIC ALLOCATION FUND

MCB-Arif Habib Savings and Investments Limited

TABLE OF CONTENTS

1	Vision Mission & Core Values	02
2	Fund's Information	03
3	Report of the Director of Management Company	04
4	Report of the Fund Manager	09
5	Trustee Report to the Unit Holders	11
6	Statement of Compliance with the Code of Corporate Governance	12
7	Review Report to the Unit Holders on the Statement of Compliance with the best Practices of the Code of Corporate Governance	14
8	Independent Auditors Report to the Unit Holders	15
9	Statement of Assets and Liabilities	17
10	Income Statement	18
11	Statement of Comprehensive Income	19
12	Distribution Statement	20
13	Statement of Movement in Unit Holders' Fund	21
14	Cash Flow Statement	22
16	Notes to and Forming part of the Financial Statements	23
17	Pattern of holding as per Requirement of Code of Corporate Governance	51
18	Pattern of Units Holding by Size	52
19	Performance Table	53

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 Stadnard Chartered Bank Limited United Bank Limited Bank Al Falah Limited Faysal Bank Limited NIB Bank Limited	
Auditors	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

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

Dear Investor,

The Board of Directors of MCB-Arif Habib Savings and Investments Limited, the Management Company of MCB Dynamic Allocation Fund (DAF), is pleased to present the Annual Report on the affairs of DAF for the year ending June 30, 2014.

ECONOMY AND MONEY 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.

EQUITIES MARKET OVERVIEW

KSE-100 index rose by a remarkable 41% in FY14 as against an average annual growth of 46% recorded during the past three fiscal years. Aided by smooth political transition and improving fundamentals, the stock market started the year on a positive note. The market touched an all-time high (intraday) of around 29,789.85 on 2nd June, 2014.

This double-digit growth in performance has helped the local equity market to shine as one of the best performing markets in the world. Pakistan ranked first amongst Asian Frontier markets in FY14 as MSCI Pakistan gained 23% outpacing Bangladesh, 21%; Vietnam, 13%;

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

and Sri Lanka, -1%.

The volumes remained healthy with an average daily market turnover of around 216 million shares during the year, nearly 1.2 times higher than the average volume during the past three fiscal years. Foreign investors remained net buyers given that the market closed its fiscal year recording net foreign inflows of around \$261.8 million as opposed to the net inflow of around \$552.6 million in FY13

A combination of smooth political transition, successful political transition, entry into IMF program and foreign inflows helped the stock market climb strongly during the year. In addition, monetary easing in developed countries also played a catalyst as they continued to facilitate the flow of funds towards the developing countries.

Moreover, a combination of improving economic indicators, strong inherent bottom line growth and healthy payouts helped keep the investors' interest alive in the stock market. The rally remained broad based, but interest largely remained in Pharmaceuticals, Banks and Automobile sectors.

Pharmaceutical stocks managed to lead the pack on the heels of upward revision in drugs prices, while rupee appreciation towards the latter half of the fiscal year improved the margins of automobile companies. The successful entry into GSP plus program brought few profitable textile companies into limelight in the face of rupee appreciation which bodes negative for textile companies and Cement companies thrived on widening of margins owing to increase in cement prices and lower coal prices.

FUND PERFORMANCE

The fund posted a return of 11.95% during the period under review while since inception return of fund stood at 37.11%. On the equities front fund changed its overall equity and sector allocations several times in response to varying investment climate. End of the period equity allocation of fund was around 17.6% as compared to beginning of the period allocation of around 35.8%. The fund has remained focused on maintaining a balance between defensive high yielding and growth stocks. During the period under review, the fund mainly reduced its exposure Oil and Gas, Banks, Chemicals, Electricity, and Pharma and Biotech while increased its exposure towards General Industries & Non-Life insurance.

On the fixed income side, the fund significantly increased its exposure in Government papers to 43.4% from 29.2% at June 30, 2013 in order to capitalize on the downward adjustments in the yield curve that resulted in sizeable capital gains. Duration of fixed income portfolio was adjusted several times during the period to capitalize on the fluctuating liquidity and interest rates in the market. TFC exposure was reduced from 7.9% to 3.1% during the period.

The Net Asset of the Fund as at June 30, 2014 stood at Rs.779 million as compared to Rs 433 million as at June 30, 2013 registering a increase of 79.91%.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs.71.8713 as compared to opening NAV of Rs.84.2804 per unit as at June 30, 2013 registering a decrease of Rs. 12.4091 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.

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable

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

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

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

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

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

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	-

* During the period Mr. Nasim Beg retired from audit committee and Mr.Ahmed Jahangir has been appointed as a member of audit Committee.

- 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:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Yasir Qadri	Chief Executive Officer	28,052	-	3,129
3.	Mr. Saqib Saleem	Chief Operating Officer & Company Secretary	-	-	-
4.	Umair Ahmed	Chief Financial Officer			
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance			

External Auditors

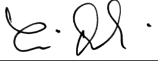
The fund's external auditors, KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2015. The audit committee of the Board has recommended reappointment of KPMG Taseer Hadi & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2015.

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

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in MCB-Arif Habib Savings and Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Lahore Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board



Yasir Qadri

Chief Executive

Karachi: July 28, 2014

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

Fund Type and Category

MCB Dynamic Allocation Fund MCB DAF is an Open-End Asset Allocation Scheme for which SECP categorization in process.

Fund Benchmark

MCB DAF is an absolute return fund and has no benchmark. Applicable from November 03, 2014 following benchmark would be used:

Weighted average of KSE 100 index, 6 months PKRV, 6 months KIBOR and Minimum Savings Rate as per amount invested in equities, Government securities, other debt & fixed income investments and cash and cash equivalents respectively on a particular time period.

Investment Objective

MCB Dynamic Allocation Fund is an asset allocation fund and its objective is to aim at providing a high absolute return by investing in equity and debt markets.

Investment Strategy

The fund will aim to achieve the above-mentioned objective by investing up to 100% in equity securities or up to 100% in debt securities according to the market conditions.

Manager's Review

The fund posted a total return of 11.95% during the year under review, while since inception return of the fund stood at 37.11%. The fund continued to follow a risk-averse strategy and hence preferred to take defensive equity market exposures.

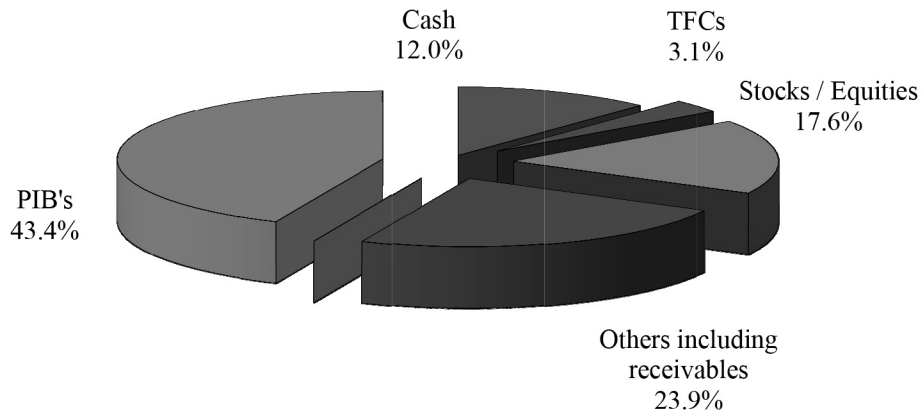
The fund opened the year with an equity exposure of 22%. As the market continued to progress, the fund kept on realizing capital gains and reduced its equity exposure, hence ended the year with an equity exposure of around 17.6%. The focus was maintained on defensive high dividend yielding stocks with attractive valuations.

On the fixed income front, the exposure towards government securities was also managed according to the market conditions and their relative risk-return profile. The fund decreased its exposure in TFCs mainly in banking sector to around 3.1% at year end from around 7.8%.

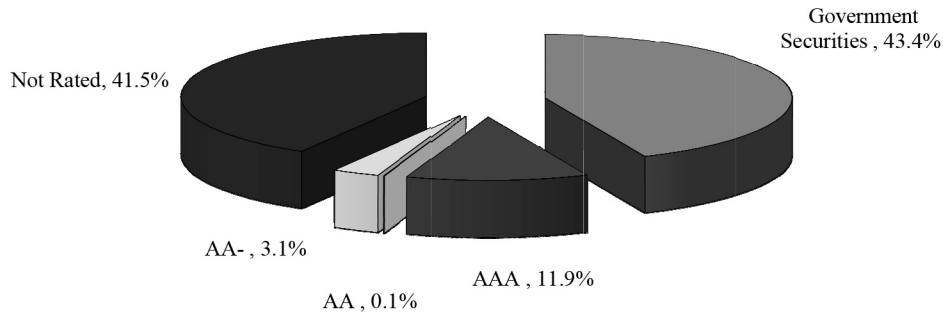
Net Assets of the fund increased to PKR 779 million as on June 30, 2014 from PKR 433 million as on June 30, 2013, depicting a healthy increase of 1.8x.

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2014

Asset Allocation as on June 30, 2014 (% of total assets)



Asset Quality as on June 30, 2014 (% of total assets)



Mr. Muhammad Asim, CFA
Fund Manager

Karachi: July 28, 2014

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2014

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



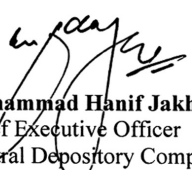
TRUSTEE REPORT TO THE UNIT HOLDERS

MCB DYNAMIC ALLOCATION FUND

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

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Dynamic Allocation Fund (the Fund) are of the opinion that MCB - Arif Habib Savings and Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

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


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

Karachi: October 13, 2014



STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

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

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

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

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib	1. Mian Mohammad Mansha


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

- The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
- All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- During the period no casual vacancy occurred on the Board of the Management Company
- The Management Company has prepared a ‘Code of Conduct’ and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
- The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board.
- The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- During the year 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.
- There have been no appointments of Chief Operating Officer and Company Secretary, Chief Financial Officer and Head of Internal Audit during the year. However, during the year, Chief Executive Officer has been re-appointed and his remuneration has been revised and approved by the Board.
- The Directors’ Report for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2014

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

On behalf of the Board



Yasir Qadri
Chief Executive

Karachi: July 28, 2014

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



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

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

**Review report to the Unit holders of MCB Dynamic Allocation Fund (“the Fund”) on
Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (“the Code”) prepared by the Board of Directors of MCB-Arif Habib Savings and Investments Limited (“the Management Company”) of the Fund for the year ended 30 June 2014 to comply with the requirements of Listing Regulation No. 35 of Lahore Stock Exchange Limited, where the Fund is listed.

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code as applicable for the Fund for the year ended 30 June 2014.

Date: 28 July 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co. is 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.
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 Allocation Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2014, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in Unit Holders' Fund, cash flow statement for the year ended 30 June 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 30 June 2014, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

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

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



KPMG Taseer Hadi & Co.

Report on Other Legal and Regulatory Requirements

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

Date: 28 July 2014

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2014**

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Assets			
Balances with banks	4	96,667	68,364
Investments	5	510,520	340,218
Dividend and profit receivables	6	19,517	3,687
Receivable against sale of investments		142,712	10,128
Receivable from National Clearing Company of Pakistan Limited		15,397	12,764
Advances and deposits	7	8,191	4,284
Total assets		793,004	439,445
Liabilities			
Payable to Management Company	8	3,820	1,094
Payable to Central Depository of Pakistan Limited - Trustee	9	126	59
Payable to Securities and Exchange Commission of Pakistan	10	630	233
Fair value of derivative liability		10	243
Accrued and other liabilities	11	9,301	5,136
Total liabilities		13,887	6,765
Net assets		779,117	432,680
Unit holders' fund		779,117	432,680
Contingencies and commitments	12		
		(Number of units)	
Number of units in issue (face value of units is Rs. 100 each)		10,840,442	5,133,825
		(Rupees)	
Net asset value per unit	3.6	71.87	84.28

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 YEAR ENDED 30 JUNE 2014**

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Income			
Capital gain on sale of investments - net		35,358	26,077
Dividend income		13,673	7,775
Profit on bank deposits		8,796	3,689
Income from government securities		38,011	10,321
Income from term finance certificates		3,104	3,876
Other income		26	48
		<u>98,968</u>	<u>51,786</u>
Net unrealised diminution in the fair value of future contracts		(10)	(243)
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'	5.1.1 to 5.1.3	<u>3,740</u>	(16)
Total income		102,698	51,527
Expenses			
Remuneration of the management company	8.1	12,812	3,672
Sindh Sales tax and Federal Excise Duty on management fee	11.2	4,428	646
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9.1	1,323	700
Annual fee to Securities and Exchange Commission of Pakistan	10	630	233
Brokerage and settlement charges		4,556	2,663
Amortisation of preliminary expenses		-	707
Auditor's remuneration	13	724	637
Other expenses		313	397
Total operating expenses		<u>24,786</u>	<u>9,655</u>
Net operating income for the year		<u>77,912</u>	<u>41,872</u>
Net element of income and capital gains included in prices of units issued less those in units redeemed		7,617	29,502
Provision for workers' welfare fund	11.1	(1,711)	(1,590)
Net income for the year before taxation		<u>83,818</u>	<u>69,784</u>
Taxation	14	-	-
Net income for the year after taxation		<u>83,818</u>	<u>69,784</u>
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

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Net income for the year after taxation	83,818	69,784
Other comprehensive income:		
<i>Items that are or may be reclassified subsequently to income statement</i>		
Net unrealised diminution in investments classified as available-for-sale investments	(82)	-
Total comprehensive income for the year	83,736	69,784

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 YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Accumulated loss brought forward:		
- Realised (loss)	(86,264)	(42,278)
- Unrealised income	5,560	641
	(80,704)	(41,637)
Total comprehensive income	83,736	69,784
Element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - amount representing unrealised (diminution)	(163,443)	(108,851)
Final distribution for the year ended 30 June 2013 at the rate of Rs. 12.9135 per unit (Date of distribution: 4 July 2013)		
- Cash distribution	(87)	-
- Bonus distribution 927,719 units	(66,208)	-
Final distribution at the rate of Rs. 8.0011 per unit for the year ended 30 June 2014 (Date of distribution: 27 June 2014)		
-Cash distribution	(47)	-
-Bonus distribution 1,089,780 units	(78,176)	-
	(144,518)	-
Accumulated loss carried forward	(304,929)	(80,704)
Accumulated loss comprising:		
- Realised (loss)	(308,883)	(86,264)
- Unrealised income	3,954	5,560
	(304,929)	(80,704)

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 YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Net assets at the beginning of the year	432,680	100,404
Issue of 9,281,200 units (2013: 5,288,327 units)	696,165	416,082
Issue of 2,017,499 bonus units relating to the year ended 30 June 2014 (2013: nil units)	144,385	-
Redemption of 5,592,082 units (2013: 1,574,964 units)	(425,714)	(124,088)
	414,836	291,994
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) and capital (gains) transferred to income statement	(7,617)	(29,502)
- amount representing loss and capital losses that forms part of unit holder's fund - transferred to distribution statement	163,443	108,851
	155,826	79,349
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - transferred to distribution statement	(163,443)	(108,851)
Net income for the year [excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss', future contracts and capital gain on sale of investments - net]	44,730	43,966
Capital gain on sale of investments - net	35,358	26,077
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and future contracts	3,730	(259)
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at available for sale'	(82)	-
Total comprehensive income for the year	83,736	69,784
Distributions during the year	(144,518)	-
Net assets at end of the year	<u>779,117</u>	<u>432,680</u>
	(Rupees)	
Net asset value per unit at the beginning of the year	<u>84.28</u>	<u>70.69</u>
Net asset value per unit at the end of the year	<u>71.87</u>	<u>84.28</u>

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 YEAR ENDED 30 JUNE 2014**

	2014 (Rupees in '000)	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	83,818	69,784
Adjustments for non-cash and other items:		
Dividend income	(13,673)	(7,775)
Net unrealised (appreciation) / diminution in fair value of investments classified as 'financial assets at fair value through profit or loss'	(3,730)	259
Amortisation of preliminary expenses	-	707
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(7,617)	(29,502)
	(25,020)	(36,311)
	58,798	33,473
(Increase) / decrease in assets		
Investments	(299,237)	(276,030)
Profit and other receivable	(15,889)	(2,414)
Receivable from National Clearing Company of Pakistan Limited	(2,633)	(11,803)
Advances and deposits	(3,907)	(184)
	(321,666)	(290,431)
Increase / (decrease) in liabilities		
Payable to Management Company	2,726	1,006
Payable to Central Depository of Pakistan Limited - Trustee	67	-
Payable to Securities and Exchange Commission of Pakistan	397	(17)
Fair value of derivative liability	(233)	243
Accrued and other liabilities	4,165	1,831
	7,122	3,063
Dividend income received	13,732	7,705
Net cash (used in) operating activities	(242,014)	(246,190)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	696,165	416,082
Distribution paid	(134)	-
Payments against redemption of units	(425,714)	(124,088)
Net cash generated from financing activities	270,317	291,994
Net increase in cash and cash equivalents	28,303	45,804
Cash and cash equivalents at beginning of the year	68,364	22,560
Cash and cash equivalents at end of the year	96,667	68,364

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 YEAR ENDED 30 JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Dynamic Allocation Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and Non Banking Finance Companies and Notified Entities Regulations, 2007 and was approved as an open end investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on 17 December 2007. It was constituted under a Trust Deed dated 22 November 2007 between MCB Asset Management Company Limited (MCB-AMC) as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

Pursuant to 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 Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.

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.

Under circular 7 dated 6 March 2009 issued by the SECP, the Fund is categorised as an Asset Allocation Scheme. The Management Company is in the process of making requisite amendments in relation to categorisation, investment objectives and relevant benchmark in the constitutive documents of the Fund. The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' (positive outlook) to the Management Company and has assigned a short-term ranking of "4-Star" & long-term of "4-Star" to the Fund.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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.

2.3 Functional and presentation currency

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 interpretations did not have any material effect on the financial statements of the Fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

b) Loans and receivables

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

c) 'Available-for-sale'

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

d) Financial liabilities

Financial liabilities, other than those as 'at fair value through profit or loss', are measured at 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 financial assets.

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

Measurement

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

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 debt securities

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

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

Basis of valuation of government securities

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

Securities under repurchase/ resale agreements

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

Impairment

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement.

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 Preliminary expenses

Preliminary expenses represent expenditure incurred prior to the commencement of operations of the Fund. These costs have been amortised over a period of five years commencing from March 16, 2008, as per the requirement of the Trust Deed of the Fund.

3.3 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.

3.4 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 AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

3.5 Accrued and other liabilities

Accrued and other liabilities are recognised initially at fair value and subsequently stated at amortised cost.

3.6 Net asset value per unit

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

3.7 Issue and redemption of units

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

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

3.8 Element of income / (loss) and capital gains / (losses) included in the 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.

3.9 Revenue recognition

- Mark-up on term finance certificates, government securities and money market placements are recognised on an accrual basis.
- Realized capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised capital gain/ (losses) arising on re-measurement of investments classified as Financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profits on bank deposits are recognised on an accrual basis.
- Dividend income on equity securities is recognised when the right to receive dividend is established.
- 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

This represents balance in saving accounts and carry Mark-up rates ranging from 6% to 9% per annum (2013: 6% to 11.5% per annum)

5. INVESTMENTS

2014 **2013**
(Rupees in '000)

5.1 Held for trading investments

- Quoted equity securities	<i>5.1.1</i>	125,962	173,961
- Term finance certificates - listed	<i>5.1.2</i>	24,699	35,219
- Government Securities	<i>5.1.3</i>	95,422	131,038
		246,083	340,218

5.2 Available for sale investments

- Quoted equity securities	<i>5.2.1</i>	11,218	-
- Government Securities	<i>5.2.2</i>	253,219	-
		264,437	-
		510,520	340,218

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

5.1 Held for trading investments

5.1.1 Quoted equity securities

Name of investee company	As at 1 July 2013	Purchased during the period	Bonus/ rights issue during the period	Sales during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	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
-----Number of shares----- (Rupees in '000)											
Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.											
Oil and gas											
Attock Petroleum Limited	13,500	78,250	10,570	102,320	-	-	-	-	-	-	-
Attock Refinery Limited	23,500	25,000	-	48,500	-	-	-	-	-	-	-
National Refinery Limited	-	25,000	-	25,000	-	-	-	-	-	-	-
Oil and Gas Development Company Limited	14,600	281,700	-	296,300	-	-	-	-	-	-	-
Pakistan Oilfields Limited	15,000	75,400	-	90,400	-	-	-	-	-	-	-
Pakistan Petroleum limited	133,000	344,500	-	477,500	-	-	-	-	-	-	-
Pakistan State Oil Company Limited	66,000	809,700	3,200	878,900	-	-	-	-	-	-	-
Chemicals											
Engro Corporation Limited	216,500	930,700	-	1,147,200	-	-	-	-	-	-	-
Engro Fertilizers limited	-	2,470	-	2,470	-	-	-	-	-	-	-
Fatima Fertilizers Company Limited	446,500	683,000	-	1,129,500	-	-	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	152,000	131,500	-	283,500	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	-	133,500	-	133,500	-	-	-	-	-	-	-
I.C.I. Pakistan Limited	-	-	-	-	-	-	-	-	-	-	-
Construction & Materials											
Cherat Cement Company Limited	-	111,000	-	111,000	-	-	-	-	-	-	-
D. G. Khan Cement Company Limited	-	1,327,000	-	1,327,000	-	-	-	-	-	-	-
Pioneer Cement Limited	-	469,000	-	469,000	-	-	-	-	-	-	-
Fauji Cement Company Limited	384,500	461,500	-	846,000	-	-	-	-	-	-	-
Maple Leaf Cement	-	1,601,500	-	1,521,500	80,000	2,397	2,404	7	0.31%	0.47%	0.05%
Kohat Cement Company Limited	123,000	75,500	-	198,500	-	-	-	-	-	-	-
Lucky Cement Limited	-	45,000	-	45,000	-	-	-	-	-	-	-
						2,397	2,404	7	0.31%	0.47%	
General Industries											
Packages Limited	-	102,600	-	92,900	9,700	3,420	4,865	1,445	0.62%	0.95%	0.58%
						3,420	4,865	1,445	0.62%	0.95%	

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Name of investee company	As at 1 July 2013	Purchased during the period	Bonus/ rights issue during the period	Sales during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	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
-----Number of shares----- (Rupees in '000)											
Auto Mobile and Parts											
Indus Motors Company Limited	-	-	-	-	-	-	-	-	-	-	-
Millat Tractors Limited	-	-	-	-	-	-	-	-	-	-	-
Pak Suzuki Motor Company Limited	19,000	35,300	-	54,300	-	-	-	-	-	-	-
Food Producers											
Engro foods Company Limited	76,000	200,500	-	276,500	-	-	-	-	-	-	-
Personal Goods											
Blessed Textile Limited	-	-	-	-	-	-	-	-	-	-	-
Kohinoor Textile Mills	-	47,500	-	47,500	6,000	255	254	(1)	0.03%	0.05%	0.01%
Nishat Chunian Limited	-	56,000	-	50,000	-	-	-	-	-	-	-
Nishat Mills Limited	8,000	854,800	-	862,800	-	255	254	(1)	0.03%	0.05%	-
Pharma And Bio Tech											
Abbot Laboratories (Pakistan) Limited	-	16,000	-	16,000	-	-	-	-	-	-	-
Fixed Line Telecommunication											
Neiscol Technologies limited	21,500	3,000	-	24,500	-	-	-	-	-	-	-
Pakistan Telecommunication Company Limited "A"	257,000	1,434,500	-	1,691,500	-	-	-	-	-	-	-
Electricity											
Kot Addu Power Company Limited	-	1,070,000	-	743,000	327,000	19,647	19,306	(341)	2.48%	3.78%	0.22%
Nishat Chunian Power Limited	-	600,000	-	600,000	-	-	-	-	-	-	-
Pakgen Power Limited	-	405,000	-	405,000	-	-	-	-	-	-	-
Nishat Power Limited	-	1,020,500	-	978,500	42,000	1,312	1,494	182	0.19%	0.29%	0.01%
The Hub Power Company Limited	150,000	2,074,000	-	1,914,000	310,000	17,738	18,209	471	2.34%	3.57%	0.03%
						38,697	39,009	312	5.01%	7.64%	
Banks											
Askari Bank Limited	15,528	-	-	15,528	-	-	-	-	-	-	-
The Bank of Punjab	-	7,500	-	7,500	-	-	-	-	-	-	-
Bank Al-Falah Limited	410,500	1,339,500	-	1,225,500	524,500	14,660	14,423	(237)	1.85%	2.83%	0.04%
Allied Bank Limited	-	134,500	2,100	136,600	-	-	-	-	-	-	-
Bank AL-Habib Limited	138,000	554,500	-	532,500	160,000	6,760	7,197	437	0.92%	1.41%	0.01%
Faysal Bank limited	-	436,000	-	286,000	150,000	2,438	2,423	(15)	0.31%	0.47%	0.01%
Habib Metropolitan Bank	-	402,000	-	-	402,000	11,866	12,940	1,074	1.66%	2.53%	0.04%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Name of investee company	As at 1 July 2013	Purchased during the period	Bonus/ rights issue during the period	Sales during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	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
-----Number of shares----- (Rupees in '000)											
MCB Bank Limited	-	100,800	5,920	106,720	-	-	-	-	-	-	-
Meezan Bank Limited	950	345,000	-	345,950	-	-	-	-	-	-	-
National Bank Of Pakistan	-	915,000	-	865,000	50,000	3,017	3,112	95	0.40%	0.61%	0.01%
United Bank Limited	4,000	616,036	-	439,100	180,936	28,781	30,499	1,718	3.91%	5.97%	0.25%
						67,522	70,594	3,072	9.05%	13.82%	
Non Life Insurance											
Adamjee Insurance Company Limited	11,500	50,500	-	62,000	-	-	-	-	-	-	-
IGI Insurance Limited	-	82,200	-	43,400	38,800	8,933	8,836	(97)	1.13%	1.73%	0.25%
Pakistan Reinsurance Company Limited	28,500	-	-	28,500	-	-	-	-	-	-	-
						8,933	8,836	(97)	1.13%	1.73%	
Financial Services											
Arif Habib limited	-	1,129,500	-	1,129,500	-	-	-	-	-	-	-
						-	-	-	0.00%	0.00%	
Multitiilities (Gas and Water)											
Sui Northern Gas Pipelines Limited	-	2,500	-	2,500	-	-	-	-	-	-	-
Sui Southern Gas Pipelines Limited	-	1,000	-	1,000	-	-	-	-	-	-	-
						-	-	-	-	-	-
Total - 30 June 2014						121,224	125,962	4,738	15.84%	24.66%	
Total - 30 June 2013						174,109	173,961	(148)	30.22%	38.45%	

5.1.1.1 Investments include shares with market value aggregating of Rs. 17.51 million (30 June 2013: 13.98 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.

5.1.1.2 Cost of investment of equity securities is Rs.121.22 million (2013: Rs. 174.11 million).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

5.1.2 Term finance certificates - listed

Name of investee company	Issue Date	As at 1 July 2013	Purchased during the year	Sold / matured during the year	As at 30 June 2014	Carrying cost as at 30 June 2014	Market value as at 30 June 2014	Appreciation/ (Diminution)	Market value		Face value percentage in relation to the size of the issue
									as a percentage of net assets	as a percentage of total investments	
Number of certificates											
Askari Bank Limited-III	18-Nov-09	2,998	-	-	2,998	15,102	14,571	(531)	1.87%	2.85%	0.50%
NIB Bank Limited	5-Mar-08	2,000	-	2,000	-	-	-	-	-	-	-
Bank Alfalah Limited-V	20-Feb-13	2,000	-	-	2,000	10,153	10,128	(25)	1.30%	1.98%	0.20%
Total - 30 June 2014						25,255	24,699	(556)	3.17%	4.83%	
Total - 30 June 2013						35,860	35,219	(641)	8.14%	10.36%	

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

5.1.2.1 These Term Finance Certificates have a cost of Rs. 24,950 million (2013: 30,628 million) .

5.1.2.2 Significant terms and conditions of Term Finance Certificates are as follows:

	Mark-up-rate (per annum)	Issue date	Maturity date	Rating
Askari Bank limited-III	6 months KIBOR 2.50%	18-Nov-09	18-Nov-19	AA-
Bank Alfalah Limited-V	6 months KIBOR 1.25%	20-Feb-13	20-Feb-21	AA-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

5.1.3 Government Securities

Particulars	As at 1 July 2013	Purchased during the year	Sold during the year	Matured during the year	As at 30 June 2014	Carrying value as at 30 June 2014	Market Value as at 30 June 2014	Appreciation / (diminution)		Market value as a percentage of net assets	Market value as a percentage of total investments
-----Face value----- (Rupees in '000)-----											
Treasury Bills											
Treasury bills - 12 Months	85,000	330,000	285,000	130,000	-	-	-	-	-	-	-
Treasury bills - 3 Months	-	1,467,400	665,000	802,400	-	-	-	-	-	-	-
Total - 30 June 2014											
Total - 30 June 2013						78,380	78,571	191		18.16%	23.09%
Pakistan Investment Bonds											
PIB - 3 years	25,000	952,500	947,500	-	30,000	29,751	29,596	(155)		3.80%	5.80%
PIB - 5 years	-	65,000	-	-	65,000	66,113	65,826	(287)		8.45%	12.89%
PIB - 10 years	25,000	-	25,000	-	-	-	-	-		-	-
Total - 30 June 2014						95,864	95,422	(442)		12%	19%
Total - 30 June 2013						51,885	52,467	582		12%	15%
Total of investment in Government Securities - 30 June 2014						95,864	95,422	(442)		12%	19%
Total of investment in Government Securities - 30 June 2013						130,265	131,038	773		30%	38%

5.1.3.1 These treasury bills have a cost of nil (2013: Rs 77,792 million) maturing up till nil (2013: 12 June 2014) and carry effective yield ranging between nil (2013: 9.2075% to 9.4110% per annum).

5.1.3.2 These Pakistan Investment Bonds have a cost of Rs. 95,864 million (2013: Rs 51,885 million) maturing till 18 July 2016 (2013: 19 July 2015) and carry interest at the rate of 11.25% to 12% (2013: 11.25% to 12%) per annum.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

5.2 Available for sale investments

5.2.1 Quoted equity securities

Name of investee company	As at 1 July 2013	Purchased during the year	Sold during the year	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	Appreciation/ (Diminution)	Market value		Par value as percentage of issued capital of the investee company
								as a percentage of net assets	as a percentage of total investments	
Pakistan Petroleum limited	-	50,000	-	50,000	11,197	11,218	21	1.44%	2.20%	0.06%
Total - 30 June 2014					11,197	11,218	21	1.44%	2.20%	
Total - 30 June 2013					-	-	-	-	-	-

Unless stated otherwise, the holdings are in ordinary shares of Rs. 10 each.

-----Number of shares----- (Rupees in '000)-----

5.2.1.1 Cost of investment of equity securities is Rs.11.197 million (2013: nil).

5.2.2 Government Securities

Particulars	As at 1 July 2013	Purchased during the year	Sold during the year	Matured during the year	As at 30 June 2014	Carrying value as at 30 June 2014	Market Value as at 30 June 2014	Appreciation / (diminution)	Market value	
									as a percentage of net assets	as a percentage of total investments
Pakistan Investment Bonds										
PIB - 3 years	-	257,500	25,000	-	232,500	229,171	229,369	198	29.44%	44.93%
PIB - 10 years	-	25,000	-	-	25,000	24,151	23,850	(301)	3.06%	4.67%
Total of investment in Government Securities - 30 June 2014						253,322	253,219	(103)	32.50%	49.60%
Total of investment in Government Securities - 30 June 2013						-	-	-	-	-

5.2.2.1 These Pakistan Investment Bonds have a cost of Rs. 253.322 million (2013: nil) maturing till 19 July 2022 (2013: nil) and carry interest at the rate of 11.25% to 12% (2013: 11.25% to 12%) per annum.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

6. DIVIDEND AND PROFIT RECEIVABLES	2014	2013
	(Rupees in '000)	
Dividend receivable	42	101
Interest receivable on term finance certificates	633	961
Profit receivable on government securities	17,885	2,596
Profit receivable on saving deposits	957	29
	19,517	3,687
7. ADVANCES AND DEPOSITS		
Advances against offer for sale in relation to Initial Public Offer	3,907	-
Security deposits with		
- National Clearing Company of Pakistan Limited	4,184	4,184
- Central Depository Company of Pakistan Limited	100	100
	8,191	4,284
8. PAYABLE TO MANAGEMENT COMPANY		
Management fee payable	8.1	1,258
Sindh sales tax payable on management fee	8.2	201
Sales load payable		516
		3,820

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 from 28 August at a rate of 2% (2013: 1.5 %) 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 year is inclusive of 16% General Sales Tax levied by the Government of Sindh.

9. PAYABLE TO CENTRAL DEPOSITORY OF PAKISTAN LIMITED - TRUSTEE

Remuneration payable	9.1	126	57
CDS charges payable		-	2
		126	59

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 year ended 30 June 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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

	2014	2013
	(Rupees in '000)	
Auditors' remuneration payable	442	400
Brokerage payable	546	366
Provision for Workers' Welfare Fund	11.1 5,676	3,965
Provision for Federal Excise Duty and related taxes	11.2 2,436	58
Others	201	347
	9,301	5,136

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 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 notices till next date of hearing. In view of uncertainty regarding the applicability of FED

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

11.2 on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. Rs. 2.436 million as at 30 June 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. 0.22 per unit as at 30 June 2014.

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at 30 June 2014

13. AUDITOR'S REMUNERATION

	2014	2013
	(Rupees in '000)	
Annual audit fee	338	300
Half yearly review	208	200
Other certifications and services	120	100
Out of pocket expenses	58	37
	724	637

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 year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

15. EARNINGS PER UNIT

Earning per unit has not been disclosed as in the opinion of the management, determination of cumulative weighted average number of outstanding units for calculating loss per unit 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 AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

	2014	2013
	(Rupees in '000)	
MCB-Arif Habib Savings and Investments Limited		
Remuneration of the Management Company (including indirect taxes)	<u>17,240</u>	<u>4,318</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	<u>1,323</u>	<u>700</u>
CDC settlement charges	<u>304</u>	<u>36</u>
MCB Bank Limited		
Dividend received	<u>212</u>	<u>90</u>
Profit on bank deposits	<u>4,119</u>	<u>362</u>
Bank Charges	<u>17</u>	<u>14</u>
D.G Khan Cement Company Limited		
Dividend received	<u>335</u>	<u>436</u>
Nishat Mills Limited		
Dividend received	<u>58</u>	<u>373</u>
Nishat Power Limited		
Dividend received	<u>468</u>	<u>-</u>
Nishat Chunian Power Limited		
Dividend received	<u>212</u>	<u>516</u>
Fatima Fertilizer Company Limited		
Dividend received	<u>134</u>	<u>138</u>
Arif Habib Limited		
Brokerage *	<u>443</u>	<u>123</u>

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

MCB-Arif Habib Savings and Investments Limited		
Remuneration payable to Management Company	<u>1,258</u>	<u>498</u>
Sales tax payable on remuneration of Management Company	<u>201</u>	<u>80</u>
Sales load payable	<u>2,361</u>	<u>516</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable to the Trustee	<u>126</u>	<u>59</u>
Security Deposits	<u>100</u>	<u>100</u>
MCB Bank Limited		
Bank deposits	<u>94,005</u>	<u>10,902</u>
Profit receivable	<u>564</u>	<u>29</u>
Fatima Fertilizer Company Limited		
Nil Shares held by the fund (2013: 446,500 Shares)	<u>-</u>	<u>11,087</u>
Nishat Mills Limited		
Nil Shares held by the fund (2013: 8,000 Shares)	<u>-</u>	<u>754</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

	2014	2013
	(Rupees in '000)	
Nishat Power Limited		
42,000 Shares held by the fund (2013: nil shares)	<u>1,494</u>	<u>-</u>
Nishat Chunian Limited		
6,000 Shares held by the fund (2013: nil shares)	<u>254</u>	<u>-</u>
Adamjee Insurance Company Limited		
Nil shares held by the fund (2013: 11,500 shares)	<u>-</u>	<u>875</u>
Arif Habib Limited		
Brokerage *	<u>71</u>	<u>23</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.

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

	2014		2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
MCB-Arif Habib Savings and Investments Limited	<u>1,299,132</u>	<u>95,000</u>	<u>1,820,071</u>	<u>135,000</u>
Key management personnel	<u>28,052</u>	<u>2,050</u>	<u>1,386</u>	<u>113</u>
Mandate under Discretionary Portfolio services	<u>-</u>	<u>-</u>	<u>64,981</u>	<u>5,000</u>
Adamjee Life Assurance Company Limited	<u>261,587</u>	<u>20,000</u>	<u>-</u>	<u>-</u>
Bonus units issued to:				
MCB-Arif Habib Savings and Investments Limited	<u>448,402</u>	<u>32,089</u>	<u>-</u>	<u>-</u>
D. G. Khan Cement Company Limited (Employees Provident Fund)	<u>6,968</u>	<u>498,342</u>	<u>-</u>	<u>-</u>
Adamjee Life Assurance Company Limited	<u>24,867</u>	<u>1,784</u>	<u>-</u>	<u>-</u>
Key management personnel	<u>3,396</u>	<u>244</u>	<u>-</u>	<u>-</u>
Units redeemed by:				
MCB-Arif Habib Savings and Investments Limited	<u>550,040</u>	<u>42,000,000</u>	<u>653,153</u>	<u>50,000</u>
Adamjee Life Assurance Company Limited	<u>38,634</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Mandate under Discretionary Portfolio services	<u>-</u>	<u>-</u>	<u>64,981</u>	<u>5,339</u>
Key management personnel	<u>1,493</u>	<u>117</u>	<u>-</u>	<u>-</u>
	2014	2013	2014	2013
	Units		(Rupees in '000)	
Units held by:				
MCB-Arif Habib Savings and Investments Limited	<u>2,364,412</u>	<u>1,166,918</u>	<u>169,934</u>	<u>98,348</u>
D. G. Khan Cement Company Limited Employees Provident Fund)	<u>29,253</u>	<u>22,285</u>	<u>2,102</u>	<u>1,878</u>
Adamjee Life Assurance Company Limited	<u>247,820</u>	<u>-</u>	<u>17,811</u>	<u>-</u>
Key management personnel	<u>31,341</u>	<u>1,386</u>	<u>2,253</u>	<u>117</u>

17. FINANCIAL RISK MANAGEMENT

The Fund's objective in managing risks is the creation and protection of participants' value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Monitoring and controlling risks is primarily set up to be performed based on limits established by the internal controls set on different activities of the fund by the Board of Directors through specific directives and constitutive documents. These controls and limits reflect the business strategy and market environment of the Fund as well as the level of the risk that the Fund is willing to accept. In addition, the Fund monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks type and activities.

The Fund primarily invests in Government Securities, Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

- 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 Securities and Exchange Commission of Pakistan.

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

Currency risk

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

a) Sensitivity analysis for fixed rate instruments

As at 30 June 2014, the Fund holds Pakistan Investment Bonds 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 the Financial Market Association on 30 June 2014, the net income for the year and net assets would be lower by Rs. 6.248 million (2013: Rs. 1.885 million). In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2014, the net income for the year and net assets would be higher by Rs. 6.665 million (2013: Rs. 2,005 million).

b) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2014, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.05 million (2013: Rs. 0.05 million).

Currency risk 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 30 June 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 and available for sale. 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.

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 5.1.1 & 5.2.1 .

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at 30 June. 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 30 June, the fair value of equity securities exposed to price risk is disclosed in note 5.1.1 & 5.2.1.

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

	2014	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	<u>6,428</u>	<u>8,783</u>

The sensitivity analysis presented is based upon the portfolio composition as at 30 June 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 30 June 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 30 June is as follows:

	2014		2013	
	Statement of Assets and Liabilities	Maximum Exposure	Statement of Assets and Liabilities	Maximum Exposure
	(Rupees in '000)		(Rupees in '000)	
Balances with banks	96,667	96,667	68,364	68,364
Investments	510,520	24,699	340,218	35,219
Receivable against sale of investments	142,712	-	10,128	-
Dividend and profit receivables	19,517	19,517	3,687	3,687
Receivable from National Clearing Company of Pakistan Limited	15,397	-	12,764	-
Security deposits	8,191	8,191	4,284	4,284
	793,004	149,074	439,445	111,554

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. 137.18 million (2013: 173.961 million) and receivable against sale of investment amounting to Rs. 10.128 (2013: 10.128 million) are not exposed to credit risk.

Investment in Government securities amounting to Rs. 348.64 million (2013: 131.038 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 30 June 2014.

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

	2014	2013
	(Percentage holding)	
AAA	99.49%	0.00%
AA+	0.01%	15.94%
AA	0.49%	84.04%
AA-	0.01%	0.02%
	100.00%	100.00%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The analysis below summarises the credit quality of the Fund's investment in term finance certificates as at 30 June:

	2014	2013
	(Percentage holding)	
AA	58.99%	0.00%
AA-	41.01%	71.74%
A+	0.00%	28.26%
	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:

	30 June 2014		30 June 2013	
	(Rupees in '000)	Percentage	(Rupees in '000)	Percentage
Commercial banks	121,366	81.41%	103,583	92.85%
Others	27,708	18.59%	7,971	7.15%
	149,074	100.00%	111,554	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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

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

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

	30 June 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	3,820	-	-	3,820
Payable to Central Depository of Pakistan Limited - Trustee	126	-	-	126
Payable to Securities and Exchange Commission of Pakistan	630			630
Fair value of derivative liability	10			10
Accrued and other liabilities	1,189	-	-	1,189
	5,775	-	-	5,775
	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	1,094	-	-	1,094
Payable to Central Depository of Pakistan Limited - Trustee	59	-	-	59
Payable to Securities and Exchange Commission of Pakistan	233	-	-	233
Fair value of derivative liability	243	-	-	243
Accrued and other liabilities	1,113	-	-	1,113
	2,742	-	-	2,742

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

17.4 Financial instruments by category

As at 30 June 2014, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

As at 30 June 2014			
Loans and receivables	Assets at fair value through profit or loss	Assets classified as available for sale	Total
----- (Rupees in '000) -----			
Assets			
Balances with banks	96,667	-	96,667
Investments	-	246,083	246,083
Dividend and profit receivables	19,517	-	19,517
Receivable against sale of investments	142,712	-	142,712
Receivable from National Clearing Company of Pakistan Limited	15,397	-	15,397
Security deposits	8,191	-	8,191
	<u>282,484</u>	<u>246,083</u>	<u>793,004</u>
----- (Rupees in '000) -----			
Liabilities			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Payable to the Management Company	-	3,820	3,820
Payable to Central Depository of Pakistan Limited - Trustee	-	126	126
Fair value of derivative liability	10	-	10
Accrued and other liabilities	-	1,189	1,189
	<u>10</u>	<u>5,135</u>	<u>5,145</u>
----- (Rupees in '000) -----			
As at 30 June 2013			
Loans and receivables	Assets at fair value through profit or loss	Assets classified as available for sale	Total
----- (Rupees in '000) -----			
Assets			
Balances with banks	68,364	-	68,364
Investments	-	340,218	340,218
Dividend and profit receivables	3,687	-	3,687
Receivable against sale of investments	10,128	-	10,128
Receivable from National Clearing Company of Pakistan Limited	12,764	-	12,764
Security deposits	4,284	-	4,284
	<u>99,227</u>	<u>340,218</u>	<u>439,445</u>
----- (Rupees in '000) -----			
Liabilities			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Payable to the Management Company	-	1,094	1,094
Payable to Central Depository of Pakistan Limited - Trustee	-	59	59
Fair value of derivative liability	243	-	243
Accrued and other liabilities	-	1,113	1,113
	<u>243</u>	<u>2,266</u>	<u>2,509</u>
----- (Rupees in '000) -----			

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 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 to be maintained all the time during the life of the scheme. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

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

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.

30 June 2014

	Level 1	Level 2
	(Rupees in '000)	
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	125,962	-
- Term finance certificates- Listed	-	35,219
- Government securities		131,038
'Available for sale'		
- Quoted equity securities	11,218	
- Government securities		253,219

30 June 2013

'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	173,961	-
- Term finance certificates- Listed	-	35,219
- Government securities	-	131,038

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:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

19.1 Pattern of unit holding

Details of pattern of unit holding as at 30 June 2014

	As at 30 June 2014		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	1,154	378,154	48.53%
Associated companies / Directors	3	189,847	24.37%
Insurance companies	2	59,678	7.66%
Retirement funds	19	105,638	13.56%
Others	5	45,800	5.88%
	1,183	779,117	100.00%

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	1,136	175,120	40.47%
Associated companies / Directors	2	100,226	23.16%
Insurance companies	1	10,451	2.42%
Retirement funds	18	133,651	30.89%
Others	4	13,232	3.06%
	1,161	432,680	100.00%

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 year are as follows:

	2014 Percentage
1 Arif Habib Limited	10.43%
2 Invest and Finance Securities Ltd	9.53%
3 JS Global Capital Ltd.	8.93%
4 KASB Securities Ltd.	7.08%
5 Optimus Capital Management Private Limited	6.96%
6 Topline Securities (Pvt) Limited	4.78%
7 D.J.M. Securities (Private) Limited	4.47%
8 Elixir Securities Pakistan (Private) Limited	4.37%
9 Fortune Securities Limited	4.21%
10 Next Capital Limited	3.33%
	2013 Percentage
1 Invest and Finance Securities Limited	18.55%
2 Fortune Securities Limited	9.27%
3 Arif Habib Limited	6.63%
4 KASB Securities Limited	6.53%
5 Foundation Securities (Private) Limited	6.13%
6 Taurus Securities Pakistan (Private) Limited	6.08%
7 BMA Capital Management Company Limited	6.00%
8 Elixir Securities Pakistan (Private) Limited	5.17%
9 Invisor Securities (Private) Limited	3.74%
10 Optimus Capital Management (Private) Limited	3.62%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

19.3 Attendance at meetings of the Board of Directors

The 104th, 105th, 106th, 107th, 108th, 109th, 110th and 111th Board meetings were held on 4 July 2013, 5 August 2013, 23 October 2013, 31 December 2013, 6 February 2014, 7 March 2014, 21 April 2014 and 27 June 2014 respectively.

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

Name of Director	Number of meetings			Meeting not
	Held	Attended	Leave	
Mr. Mian Mohammad Mansha	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	8	7	1	106th
Mr. Yasir Qadri (Chief Executive Officer)	8	8	-	
Dr. Syed Salman Ali Shah	8	7	1	107th

Name of Director	Number of meetings			Meeting not
	Held	Attended	Leave	
Mr. Haroun Rashid	8	6	2	104th and 106th
Mr. Ahmed Jahangir	8	8	-	
Mr. Samad A. Habib	8	6	2	105th and 109th
Mr. Mirza Mehmood Ahmed	8	7	1	106th
Mr. M. Saqib Saleem (CEO & Company Secretary)	8	8	-	
Mr. Umair Ahmed (Chief Financial Officer)	8	8	-	

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 / Fund Manager	MBA & CFA	11
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA level I	13
Mrs Uzma Khan	Assistant Vice President-Senior Research Analyst	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:

- Pakistan Pension Fund

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 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>58</u>
Remuneration of the management company	Sindh Sales tax and Federal Excise Duty on management fee	<u>646</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

**PATTERN OF HOLDING AS PER REQUIREMENT OF CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2014**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		
D.G. KHAN CEMENT COMPANY LTD EMPLOYEES PROVIDENT FUND TRUST	1	29,252
ADAMJEE LIFE ASSURANCE CO. LTD. (IMF)	1	247,820
MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED	1	2,364,413
Public Sector Companies and Corporations	3	45,259
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.		
	1	59,188
Individuals	1,154	5,261,536
Trust	20	1,492,790
Unitholders holding 5 percent or more Voting interest in the listed company		
GREENSTAR SOCIAL MARKETING PAKISTAN(G) LTD.	1	569,025
ALFALAH INSURANCE COMPANY	1	771,159
	1,183	10,840,442

**PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2014**

No of Unit Holders	Unit Holdings	Total Units Held
1048	1-10000	1,135,128
119	10001-100000	3,025,738
15	100001-1000000	4,315,163
1	1000001-Onwards	2,364,413
<hr/> 1183 <hr/>		<hr/> 10,840,442 <hr/>

PERFORMANCE TABLE

Performance Information	2014	2013	2012	2011	2010	2009	2008
Total Net Assets Value – Rs. in million	779.117	432.68	104.40	333.00	403.04	714.089	1,689.89
Net Assets value per unit – Rupees	71.8713	84.28	70.69	69.84	78.23	67.02	87.65
Highest offer price per unit	83.0489	88.46	78.62	83.63	87.47	90.16	105.99
Lowest offer price per unit	74.4947	73.1	68.11	68.81	69.09	54.42	87.2
Highest Redemption price per unit	79.6964	84.89	76.33	82.37	84.85	87.46	102.81
Lowest Redemption price per unit	71.4875	70.91	66.12	67.78	67.02	52.79	84.58
Distribution per unit (annual) – Rs.	8.0011	12.91	5.21	12.50	10.089	-	-
Net Assets Value before distribution	79.6964	84.28	76.18	82.26	78.23	N/a	N/a
Net Assets Value after distribution	71.6953	71.37	70.97	69.76	68.14	N/a	N/a
Average Annual Return - %							
One year	11.9455	19.2	8.70	20.86	16.7	-23.5	-12.35
Two year (inception date Mar 11, 2008)	33.4727	14.8	15.70	41.07	-10.8	-33	N/a
Three year	45.0267	18.9	17.80	7.87	-21.8	N/a	N/a
Net Income / (loss) for the period – Rs. in million	83.818	69.78	8.12	58.66	57.73	-219.766	-238.15
Income Distribution – Rs. in million	78.223	66.3	6.91	50.56	51.981	-	-
Accumulated Capital Growth – Rs. in million	5.595	3.48	1.21	5.75	-	-	-

Disclaimer

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

Please find us on



by typing: **Bachat Ka Doosra Naam**

MCB-Arif Habib Savings and Investments Limited

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

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

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

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

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