



Bachat ka Doosra Naam

**Annual Report
2014**



Hing lagey na phatkari, rang bhi chowka

METROBANK
**PAKISTAN SOVEREIGN
FUND**

MCB-Arif Habib Savings and Investments Limited

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Vision

To become synonymous with Savings.

Mission

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

Core Values

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

FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors	Mian Mohammad Mansha	Chairman
	Mr. Nasim Beg	Executive Vice Chairman
	Mr. Yasir Qadri	Chief Executive Officer
	Dr. Syed Salman Ali Shah	Director
	Mr. Haroun Rashid	Director
	Mr. Ahmed Jahangir	Director
	Mr. Samad A. Habib	Director
	Mr. Mirza Mahmood Ahmad	Director
Audit Committee	Mr. Haroun Rashid	Chairman
	Mr. Ahmed Jahangir	Member
	Mr. Samad A. Habib	Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah	Chairman
	Mr. Nasim Beg	Member
	Mr. Haroun Rashid	Member
	Mr. Ahmed Jahangir	Member
	Mr. Yasir Qadri	Member
Company Secretary & Chief 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 Habib Metropolitan Bank Limited Bank Al-Falah Limited United Bank Limited Allied Bank Limited Faysal Bank Limited	
Auditors	KPMG Taseer Haidi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	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 Metro-bank Pakistan Sovereign Fund, is pleased to present the Annual Report on the affairs 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.

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

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 9.26% as against its benchmark return of 9.11%, an out performance of 0.15% due to well-timed accumulation of Government papers well ahead of the adjustments in the yield curve.

In order to capitalize on changing interest rate scenario during the year, fund increased its exposure in T-Bills during 1HFY14 while exposure towards PIBs was increased in latter half of FY14. At period-end, the fund was 68.3% invested in PIBs and 1.0% in T-Bills.

The Net Assets of the Fund as at June 30, 2014 stood at Rs.2496.46 million as compared to Rs.1270.38 million as at June 30, 2013 registering an increase of 96.5%.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 50.04 as compared to opening NAV of Rs.51.38 per unit as at June 30, 2013 registering a decrease of Rs. 1.34 per unit.

Income Distribution

During the period The Management Company has announced the following interim distribution:

<u>Date of distribution</u>	<u>Per unit distribution</u>
	Rs.
September 27, 2013	0.53
December 27, 2013	0.96
March 27, 2014	2.04
June 27, 2014	0.92

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 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:

- Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- Proper books of accounts of the Fund have been maintained during the year.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are

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

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)

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

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

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

* 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.

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

- 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	18,834	-	4,936
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.

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

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

Fund Benchmark

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

Investment Objective

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

Investment Strategy

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

Manager's Review

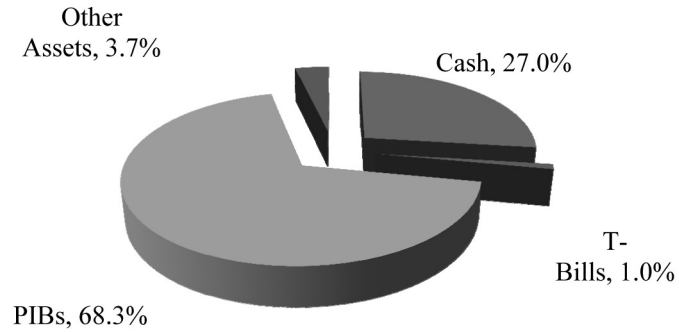
MSF Perpetual was able to generate an annualized return of 9.26% during the year under review as against the fund's benchmark return of 9.11% during the same period, an outperformance of 0.15%.

During the year, the fund capitalized strongly on PIBs mainly as the activity increased significantly in PIBs providing the fund manager sufficient opportunities for profit yearning transactions whereas T-bills were kept mainly for the purpose of liquidity management and mitigating risk. The fund's year end allocation were around 1% in treasury bills, 68.3% in PIBs and the rest in cash & bank deposits. The fund increased its duration significantly to take advantage owing to a stagnant discount rate and attractive yields being offered on longer duration instruments. Following the interest rate direction, the fund kept on bringing its portfolio duration up significantly, taking portfolio duration up to 438 days by end of FY14 in the anticipation of status quo in discount rates.

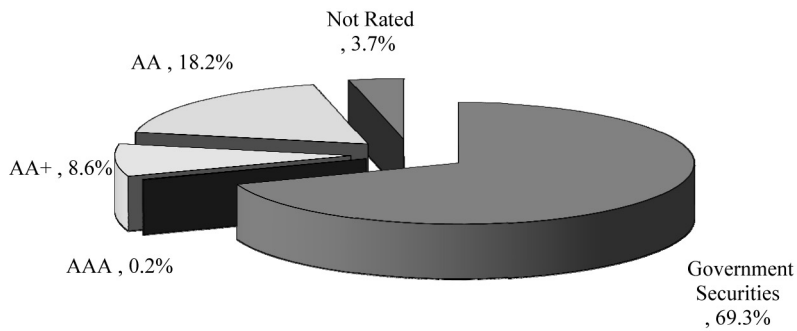
During the year under review, the net assets of the fund increased significantly from 1.3bn last fiscal year to 2.4bn.

**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 of June 30, 2014 (% of total assets)



Mr. Kashif Rafi
Fund Manager

Karachi: July 28, 2014

TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2013

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

METROBANK – PAKISTAN SOVEREIGN FUND

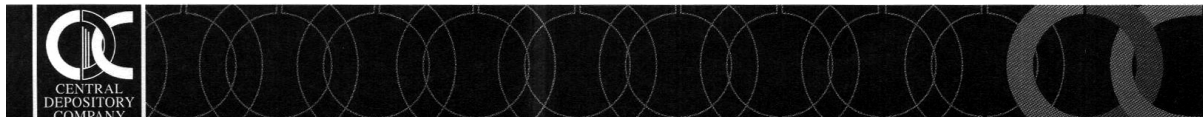
Report of the Trustee pursuant to Regulation 41(h) and clause 9 of schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of Metrobank - Pakistan Sovereign Fund (the Fund) are of the opinion that MCB - Arif Habib Savings and Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 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 MetroBank Pakistan Sovereign Fund (“the fund”) to comply with the Code of Corporate Governance contained in Regulation no.35 of Islamabad Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

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

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

2. The Directors have confirmed that none of them is serving as a director in more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies, where applicable)
3. All the resident Directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy occurred on the Board of the Management Company
5. The Management Company has prepared a ‘Code of Conduct’ and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. 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.
10. 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.

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

11. 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.
12. The financial statements were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
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

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Internet www.kpmg.com.pk

**Review report to the Unit holders of MetroBank Pakistan Sovereign 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 Islamabad 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., 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 **Metrobank Pakistan Sovereign Fund – Perpetual** ("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

Mazhar Taseer Hadi, Sr.

**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	684,905	195,220
Investments	5	1,762,472	1,271,200
Profit receivable	6	91,369	17,861
Advances and prepayments	7	2,055	2,046
Total assets		2,540,801	1,486,327
Liabilities			
Payable to Management Company	8	3,160	2,601
Payable to Central Depository Company of Pakistan Limited - Trustee	9	213	211
Payable to Securities and Exchange Commission of Pakistan	10	894	3,848
Payable against purchase of Investments		-	174,013
Accrued and other liabilities	11	40,073	35,266
Total liabilities		44,340	215,939
Net assets		2,496,461	1,270,388
Unit holders' fund		2,496,461	1,270,388
Contingencies and commitments	12		
		(Number of Units)	
Number of units in issue (face value of units is Rs. 50 each)		49,885,250	24,724,228
		(Rupees)	
Net asset value per unit	3.7	50.04	51.38

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

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



Chief Executive Officer




Director

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

	<i>Note</i>	2014	2013
		(Rupees in '000)	
Income			
Income from government securities		113,512	463,430
Capital (loss) / gain on sale of government securities - net		(5,238)	182,483
Income from reverse repurchase transactions of government securities		48	-
Profit on bank deposits		9,487	41,568
		<u>117,809</u>	<u>687,481</u>
Net unrealised (diminution) / appreciation on re-measurement of investment classified as 'at fair value through profit or loss'	5.1	(452)	7,109
Total income		<u>117,357</u>	<u>694,590</u>
Expenses			
Remuneration of Management Company	8.1	12,097	50,593
Sindh Sales tax and Federal Excise Duty on Management Fee	8.2 & 11.1	3,261	8,325
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9	1,511	4,509
Annual fee to Securities and Exchange Commission of Pakistan	10	894	3,757
Brokerage expenses		568	2,273
Auditor's remuneration	13	571	828
Other expenses		863	608
Total operating expenses		<u>20,685</u>	<u>70,893</u>
Net operating income for the year		<u>96,672</u>	<u>623,697</u>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		25,666	(18,213)
Provision for workers' welfare fund	11.2	(2,447)	(10,870)
Net income for the year before taxation		<u>119,891</u>	<u>594,614</u>
Taxation	14	-	-
Net income for the year after taxation		<u>119,891</u>	<u>594,614</u>
Earnings per unit	15		

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

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



Chief Executive Officer



Director

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

2014 2013
(Rupees in '000)

Net income for the year after taxation

119,891 594,614

Other comprehensive income:

*Items that are or may be reclassified subsequently
to income statement*

Net unrealised appreciation in investments classified as
'available for sale'


170	-
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Total comprehensive income for the year

<u>120,061</u>	<u>594,614</u>
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The notes 1 to 22 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Undistributed income brought forward:		
- Realised income / (loss)	27,408	(3,043)
- Unrealised income	6,766	11,634
	34,174	8,591
Total comprehensive income for the year	120,061	594,614
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - amount representing unrealised (diminution)	(96)	(6,802)
Distributions to the unit holders of the Fund:		
Final Distribution for the year ended 30 June 2013: Rs 1.38 per Unit declared on 4 July 2013		
- Bonus distribution 682,389 units	(34,119)	-
Interim distribution at the rate of Rs. 0.53 (2013: Rs. 2.51) per unit declared on 27 September 2013		
- Bonus distribution of 173,913 units	(8,696)	(308,409)
- Cash distribution	-	(24,058)
Interim distribution at the rate of Rs. 0.96 (2013: Rs. 1.20) per unit declared on 26 December 2013		
- Bonus distribution of 201,043 units	(10,052)	(158,195)
Interim distribution at the rate of Rs. 2.04 (2013: Rs. 0.86) per unit declared on 26 March 2014		
- Bonus distribution of 1,158,223	(57,911)	(71,567)
Final Distribution for the year ended 30 June 2014: Rs 0.92 per Unit declared on 28 June 2014		
- Bonus distribution 823,347 units	(41,167)	-
	(151,945)	(562,229)
Undistributed income carried forward	2,194	34,174
Undistributed income carried forward:		
- Realised income	2,476	27,408
- Unrealised (loss) / income	(282)	6,766
	2,194	34,174

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

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



Chief Executive Officer



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
Net assets at the beginning of the year	1,270,388	6,103,531
Issue of 73,876,210 units (2013: 49,384,460 units)	3,748,444	2,533,660
Issue of 3,038,915 bonus units (2013: 10,748,370 units)	151,945	538,171
Redemption of 51,754,103 units (2013: 157,307,353 units)	(2,616,766)	(7,955,572)
	1,283,623	(4,883,741)
Net element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed:		
- amount representing (income) / loss and capital (gains) / losses transferred to income statement	(25,666)	18,213
- amount representing loss that forms part of unit holder's fund transferred to distribution statement	96	6,802
	(25,570)	25,015
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed - transferred to distribution statement	(96)	(6,802)
Net income for the year (excluding net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital gains on sale of investments)	125,581	405,022
Capital (loss) / gain on sale of investments - net	(5,238)	182,483
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'	(452)	7,109
Net unrealised appreciation in fair value of investments classified as 'at available-for-sale'	170	-
	120,061	594,614
Distribution during the period	(151,945)	(562,229)
Net assets at end of the year	2,496,461	1,270,388
Net assets value at the beginning of the year	51.38	50.07
Net assets value at the end of the year	50.04	51.38

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

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


Chief Executive Officer


Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014**

	2014	2013
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	119,891	594,614
Adjustments for non cash and other items:		
Net unrealised diminution / (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss'	452	(7,109)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(25,666)	18,213
	(25,214)	11,104
Net cash generated from operations before working capital changes	94,677	605,718
(Increase) / decrease in assets		
Investments	(491,554)	3,222,931
Profit receivable	(73,508)	4,519
Advances and prepayments	(9)	(91)
	(565,071)	3,227,359
Increase / (decrease) in liabilities		
Payable to Management Company	559	(3,554)
Payable to the Central Depository Company of Pakistan Limited - Trustee	2	(199)
Payable to Securities and Exchange Commission of Pakistan	(2,954)	(60)
Payable against purchase of Investments	(174,013)	174,013
Accrued and other liabilities	4,807	12,094
	(171,599)	182,294
Net cash (used in) / generated from operating activities	(641,993)	4,015,371
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	3,748,444	2,533,660
Payments against redemption of units	(2,616,766)	(7,955,572)
Cash distribution	-	(24,058)
Net cash generated from / (used in) financing activities	1,131,678	(5,445,970)
Net increase / (decrease) in cash and cash equivalents	489,685	(1,430,599)
Cash and cash equivalents at beginning of the year	195,220	1,625,819
Cash and cash equivalents at end of the year	684,905	195,220

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

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



Chief Executive Officer



Director

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

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

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

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

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

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

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' to the MCB-Arif Habib Savings and Investments Limited, the Asset Management Company and has assigned stability rating of "AA- (f)" (Double A minus ; fund rating) to the Fund.

The Fund consists of a 'Perpetual' (the scheme). In addition, the Fund had also issued other sub-scheme which matured as follows:

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

2.4 Critical accounting estimates and judgments

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

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

Investments stated at fair value and derivative financial instruments

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

Other assets

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

2.5 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2014

The following standards, amendments and interpretations are effective for the year ended June 30, 2014. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures, if any.

<i>Standards / amendments / interpretations</i>	<i>Effective from accounting period beginning on or after</i>
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information.	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction.	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities.	January 01, 2013

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

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

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

<i>Standards / amendments / interpretations</i>	<i>Effective from accounting period beginning on or after</i>
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IFRIC 21 - Levies	January 01, 2014
Amendment of IAS 19 'Employee Benefits' - Employee Contributions	July 01, 2014
Amendment of IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment'	January 01, 2016
Amendment of IAS 41 'Agriculture' and IAS 16 'Property, Plant and Equipment'	January 01, 2016
Annual Improvements 2010-2012 and 2011-2013 cycle	Various

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

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:

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

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

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

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

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

b) **Loans and receivables**

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

c) **Available for sale**

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

d) **Financial liabilities**

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

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

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

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

Basis of valuation of debt securities

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

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

of non-performing debt securities.

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

Basis of valuation of government securities

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

Securities under repurchase/ resale agreements

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

Impairment

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

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

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

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for 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 assets and liabilities

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

3.2 Unit holders' funds

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

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

3.4 Issue and redemption of units

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

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the Unit Holder's Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

3.6 Provisions

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

3.7 Net asset value per unit

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

3.9 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.

3.10 Revenue recognition

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

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

3.11 Expenses

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

3.12 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.

3.13 Other assets

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

3.14 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

		2014	2013
		(Rupees in '000)	
Saving accounts	4.1	684,900	195,215
Current account		5	5
		684,905	195,220

4.1 These carry mark-up at rates ranging between 6.5% to 10.35% per annum (2013: 6% to 12.25% per annum).

5. INVESTMENTS

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

Pakistan investment bonds	5.1.1	1,189,794	408,386
Market treasury bills	5.1.1	24,659	697,919
Government of Pakistan Ijara Sukuku	5.1.1	-	164,895
		1,214,453	1,271,200

5.2 Available-for-Sale

Pakistan investment bonds	5.1.2	548,019	-
		1,762,472	1,271,200

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

5.1 Investments at fair value through profit or loss'

5.1.1 Government Securities

	Face value			As at 30 June 2014			Market value	
	As at 1 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Carrying value	Market value	As a percentage of net assets	As a percentage of total investments
Pakistan Investment Bond 'at fair value through profit or loss'								
PIB - 3 years	225,000	3,545,000	(2,570,000)	1,200,000	1,190,245	1,189,794	48%	68%
PIB - 5 years	25,000	25,000	(50,000)	-	-	-	-	-
PIB - 10 years	147,700	-	(147,700)	-	-	-	-	-
Total - 30 June 2014					1,190,245	1,189,794		
Total - 30 June 2013					402,305	408,386		
Market Treasury Bills								
Treasury bills - 3 months	175,000	5,630,270	5,780,270	25,000	24,660	24,659	1%	1%
Treasury bills - 6 months	-	1,737,000	1,737,000	-	-	-	-	-
Treasury bills - 12 months	554,400	1,205,000	1,759,400	-	-	-	-	-
Total - 30 June 2014					24,660	24,659		
Total - 30 June 2013					697,204	697,919		
Government of Pakistan Ijara Sukuk								
Ijarah sukuk VIII - 3 years	164,500	-	164,500	-	-	-	-	-
Total - 30 June 2014								
Total - 30 June 2013					164,582	164,895		
Total of investments in Government Securities - 30 June 2014					1,214,905	1,214,453		
Total of investments in Government Securities - 30 June 2013					1,264,091	1,271,200		

5.1.1.1 These Pakistan Investment Bonds have a cost of Rs. 1,190 million (2013: 402.07) maturing till 18 July 2016 (2013: 19 July 2022) and carry interest at the rate of 11.25% (2013: 8% to 12%) per annum.

5.1.1.2 These Treasury bills have a cost of Rs. 24,486 million (2013: Rs. 697,204 million) maturing up till 21 August 2014 (2013: 12 June 2014) and carry effective yield at the rate of 9.74% per annum (2013: 8.97% to 9.85%).

5.1.1.3 These Government of Pakistan Ijarah Sukuk Bonds have a cost of Rs. Nil million (2013: 164,582).

5.2 Investments classified as available for sale'

5.2.1 Government Securities

	Face value			As at 30 June 2014			Market value	
	As at 1 July 2013	Purchases during the year	Sales / matured during the year	As at 30 June 2014	Carrying value	Market value	As a percentage of net assets	As a percentage of total investments
Pakistan Investment Bond 'available-for-sale'								
PIB - 3 years	-	1,330,500	(775,000)	555,500	547,849	548,019	22%	31%
Total - 30 June 2014					547,849	548,019		
Total - 30 June 2013					-	-		
Total of investments in Government Securities - 30 June 2014					547,849	548,019		
Total of investments in Government Securities - 30 June 2013					-	-		

5.2.1.1 These Pakistan Investment Bonds have a cost of Rs. 547,84 million (2013: Nil) maturing till 18 July 2016 and carry interest at the rate of 11.25% per annum.

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

6. PROFIT RECEIVABLE	2014	2013
	(Rupees in '000)	
Profit receivable on bank deposits	2,703	120
Profit receivable on government securities	88,666	17,741
	91,369	17,861
7. ADVANCES AND PREPAYMENTS		
Advance tax	1,955	1,955
Prepaid Stability Rating-PACRA	100	91
	2,055	2,046
8. PAYABLE TO MANAGEMENT COMPANY		
Management fee payable	8.1 2,086	2,141
Sindh sales tax payable on management fee	8.2 334	343
Sales load payable	740	117
	3,160	2,601

8.1 Under the provisions of the NBFC Regulations, 2008, the Management Company of the Fund is entitled to a remuneration, during the first five years of the Fund of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund and, in any case, it shall not exceed the limit prescribed by the NBFC Regulations, 2008. The management fees is being calculated on the lower of 10% of the Fund's operating revenue or 1.5% of average daily net assets subject to minimum fee of 0.5% (2013: 0.5%) of average daily net assets. The remuneration is paid to the Management Company on a monthly basis in arrears.

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

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

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2014 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	1.5 million per annum
On an amount exceeding Rs 1,000 million	0.075% of net assets

10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

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

11. ACCRUED EXPENSES AND OTHER LIABILITIES	2014	2013
	(Rupees in '000)	
Auditors' remuneration payable	364	470
Legal and professional charges payable	-	100
Brokerage payable	265	129
Provision for Federal Excise Duty and related taxes	11.1 2,567	198
Provision for workers' welfare fund	11.2 36,662	34,215
Others	215	154
	40,073	35,266

11.1 The Finance Act, 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the levy of Federal Excise Duty on Asset Management Services after the Eighteenth Amendment. The SHC in its short order of September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 2.567 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 NAV of the Fund would have been higher by Rs. 0.051 per unit.

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

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

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

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

The Management company, as a matter of abundant precaution, has decided to retain the entire provision for WWF in these financial statements.

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

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at 30 June, 2014 except as disclosed in note 14 to these financial statements.

13. AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Annual audit fee	260	352
Half yearly review fee	130	204
Other certification and services	104	200
Out of pocket expenses	77	72
	571	828

14. TAXATION

14.1 The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the fund is required to distribute 90% of the net accounting income other than 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.

14.2 The income tax returns till the tax year 2013 have been filed under self assessment scheme and are deemed to be assessed under section 120 of the Income Tax Ordinance except for tax year 2012 for which Order under section 122(1) of the Ordinance has been received that the fund is not entitled to the exemption from income tax. The Tax Department considers that distribution of bonus units should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The Fund filed an appeal before Commissioner (Appeals). However, as a matter of abundant caution the fund has also obtained stay against the said orders.

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

15. EARNINGS PER UNIT

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

16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

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

**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 Investment Limited		
Remuneration to the Management Company (including indirect taxes)	<u>16,278</u>	<u>58,918</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	<u>1,511</u>	<u>4,509</u>
Habib Metropolitan Bank Limited		
Profit on bank deposits	<u>279</u>	<u>8,424</u>
Bank charges	<u>166</u>	<u>361</u>
MCB Bank Limited		
Profit on bank deposits	<u>646</u>	<u>2,722</u>
Bank charges	<u>19</u>	<u>6</u>

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

MCB Arif Habib Savings and Investment Limited		
Management fee payable	<u>2,086</u>	<u>2,141</u>
Sindh sales tax payable on management fee	<u>334</u>	<u>343</u>
Sales load payable	<u>740</u>	<u>117</u>
Central Depository Company of Pakistan Limited		
Remuneration payable	<u>213</u>	<u>211</u>
Habib Metropolitan Bank Limited		
Bank deposits	<u>165,263</u>	<u>842</u>
Profit receivable	<u>40</u>	<u>6</u>
MCB Bank Limited		
Bank deposits	<u>4,497</u>	<u>4,200</u>
Profit receivable	<u>85</u>	<u>22</u>

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

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

	For the year ended 30 June 2014		For the year ended 30 June 2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
MCB Arif Habib Savings and Investment Limited	1,520,878	77,000	1,433,849	72,427
Habib Metropolitan Bank Limited	6,434,420	325,000	3,965,107	200,000
Suraj Cotton Mills Limited	-	-	3,912,948	200,000
MCB AMC Staff Provident Fund	-	-	37,343	1,900
Adamjee Insurance Company Limited - Investment Department	13,893,771	700,000	4,906,771	250,000
Adamjee Life Assurance Company Limited (IMF)	1,007,328	51,000	-	-
Adamjee Life Assurance Company Limited (ISF)	1,956,550	99,000	58,962	3,000
Adamjee Life Assurance Company Limited (ISF-II)	1,042,287	53,000	-	-
Adamjee Life Assurance Company Limited - NUIL Fund	2,049,693	104,000	78,570	4,000
Gul Ahmed Energy Limited*	6,754,066	350,000	2,328,301	118,574
Key management personnel	39,819	2,010	66,264	3,444
Mandate under Discretionary Portfolio Services	131,505	6,600	39,231	2,000
Bonus units issued to:				
MCB Arif Habib Savings and Investment Limited	79,683	3,984	27,806	1,392
Habib Metropolitan Bank Limited	390,659	19,533	3,081,342	154,283
Suraj Cotton Mills Limited	107,997	5,340	-	-
MCB AMC Staff Provident Fund	1,031	51	-	-
Adamjee Life Assurance Company Limited (IMF)	14,387	719	-	-
Adamjee Life Assurance Company Limited (ISF)	48,942	2,447	-	-
Adamjee Insurance Company Limited - Investment Department	761,181	38,059	-	-
Adamjee Life Assurance Company Limited (ISF-II)	28,116	1,406	-	-
Adamjee Life Assurance Company Limited - NUIL Fund	51,192	2,560	-	-
Gul Ahmed Energy Limited*	352,309	17,615	-	-
Key management personnel	5,543	277	8,419	422
Mandate under Discretionary Portfolio Services	2,769	139	-	-

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

	For the year ended 30 June 2014		For the year ended 30 June 2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units redeemed by:				
MCB Arif Habib Savings and Investment Limited	823,262	41,491	669,810	33,792
Habib Metropolitan Bank Limited	6,662,762	337,533	41,308,938	2,111,365
Suraj Cotton Mills Limited	4,020,945	201,365	-	-
MCB AMC Staff Provident Fund	38,374	1,923	-	-
Adamjee Life Assurance Company Limited (IMF)	355,625	18,007	-	-
Adamjee Life Assurance Company Limited (ISF)	179,856	9,000	-	-
Adamjee Life Assurance Company Limited (ISF-II)	295,566	15,000	-	-
Adamjee Insurance Company Limited - Investment Department	9,404,120	472,151	-	-
Adamjee Life Assurance Company Limited - NUIL Fund	474,102	24,000	-	-
Gul Ahmed Energy Limited*	4,341,880	219,940	-	-
Key management personnel	8,205	410	86,099	4,364
Mandate under Discretionary Portfolio Services	80,113	4,032	-	-
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	Units		(Rupees in '000)	
Units held by:				
MCB Arif Habib Savings and Investment Limited	1,569,144	791,845	78,520	40,685
Habib Metropolitan Bank Limited	4,595,286	4,432,969	229,948	227,766
Suraj Cotton Mills Limited	-	3,912,948	-	201,047
MCB AMC Staff Provident Fund	-	37,343	-	1,919
Adamjee Insurance Company Limited - Investment Department	10,157,603	4,906,771	508,286	252,110
Adamjee Life Assurance Company Limited (IMF)	666,090	-	33,331	-
Adamjee Life Assurance Company Limited (ISF)	1,884,598	58,962	94,305	3,029
Adamjee Life Assurance Company Limited (ISF-II)	774,837	-	38,773	-
Adamjee Life Assurance Company Limited - NUIL Fund	1,705,353	78,570	85,336	4,037
Gul Ahmed Energy Limited*	5,092,796	2,328,301	254,844	119,628
Key management personnel	82,797	45,640	4,143	2,345
Mandate under Discretionary Portfolio Services	93,392	39,231	4,673	2,016

* These persons became connected persons / related parties during the year.

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

17. FINANCIAL RISK MANAGEMENT

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

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

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

- Market risk
- Credit risk and
- Liquidity risk

17.1 Market risk

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

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board and regulations laid down by the Securities and Exchange Commission of Pakistan.

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

Currency Risk

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

Interest rate risk

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

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

	2014	2013
	(Rupees in '000)	
Fixed rate instruments		
Treasury bills	24,659	697,919
Pakistan Investment Bonds	<u>1,737,813</u>	<u>408,386</u>
	1,762,472	1,106,305
Variable rate instruments		
Term finance certificates	-	-
Government of Pakistan - Ijara Sukuk	-	164,895
	-	164,895
	<u>1,762,472</u>	<u>1,271,200</u>

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

Sensitivity analysis for fixed rate instruments

As at 30 June 2014, the Fund does not hold any variable rate instruments and is not exposed to cash flow interest rate risk.

Sensitivity analysis for variable rate instruments

As at 30 June 2014, the Fund holds Market Treasury Bills which are classified as fair value through profit or loss, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on 30 June 2014, the net income for the year and net assets would be lower by Rs. 0.0390 million (2013: Rs. 3.272 million). In case of 100 basis points decrease in rates announced by the Financial Market Association on 30 June 2014, the net income for the year and net assets would be higher by Rs. 0.034 million (2013: Rs. 3.305 million).

As at 30 June 2014, the Fund also holds Pakistan Investment Bonds which are classified as fair value through profit or loss and available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on 30 June 2014, the net income for the year and net assets would be lower by Rs. 28.576 million (2013: Rs. 7.223). In case of 100 basis points decrease in rates announced by the Financial Market Association on 30 June 2014, the net income for the year and net assets would be higher by Rs. 29.230 million (2013: Rs. 7.460).

The composition of the Fund's investment portfolio and rates announced by the Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Since the Fund is not allowed to invest in equity securities, hence it is not exposed to equity price risk.

17.2 Credit Risk

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

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

Credit risk management

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

Exposure to credit risk

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:

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

	2014		2013	
	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure	Statement of Assets and Liabilities (Rupees in '000)	Maximum Exposure
Balances with banks	684,905	684,905	195,220	195,220
Investments	1,762,472	-	1,271,200	-
Profit receivables	91,369	2,703	17,861	120
Advances and prepayments	2,055	100	2,046	2,046
	<u>2,540,801</u>	<u>687,708</u>	<u>1,486,327</u>	<u>197,386</u>

Difference in the balance as per Statement of Assets and Liabilities and maximum exposure in investment is due to the fact that investment in government securities (including profit receivables) of Rs. 1,851 million (2013: Rs. 1,289 million) are not exposed to credit risk.

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:

Bank Balance Percentages by rating category

	2014
AA+	56.15%
AA	42.69%
AAA	1.16%
	<u>100.00%</u>
	2013
AA+	4.49%
AA	95.51%
	<u>100.00%</u>

Concentration of credit risk

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

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	687,608	99.99%	195,340	98.96%
Others	100	0.01%	2,046	1.04%
	<u>687,708</u>	<u>100.00%</u>	<u>197,386</u>	<u>100.00%</u>

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

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

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

17.3 Liquidity risk

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

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

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

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

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

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

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

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

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

	30 June 2013			Total
	Upto three months	More than three months and upto one year	More than one year	
	----- (Rupees in '000) -----			
Liabilities				
Payable to Management Company	2,601	-	-	2,601
Payable to Trustee	211	-	-	211
Payable against purchase of Investments	174,013	-	-	174,013
Accrued and other liabilities	853	-	-	853
	<u>177,678</u>	<u>-</u>	<u>-</u>	<u>177,678</u>

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

17.4 Financial instruments by category

As at 30 June 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'.

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

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

	30 June 2013			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for Sale	
	----- (Rupees in '000) -----			
Assets				
Balances with banks	195,220	-	-	195,220
Investment	-	1,271,200	-	1,271,200
Profit receivables	17,861	-	-	17,861
	<u>213,081</u>	<u>1,271,200</u>	<u>-</u>	<u>1,484,281</u>

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

	30 June 2013		Total
	Liabilities at fair value through profit or loss	Other financial liabilities	
	----- (Rupees in '000) -----		
Liabilities			
Payable to Management Company	-	2,799	2,799
Payable to Trustee	-	211	211
Payable against purchase of Investments		174,013	174,013
Accrued and other liabilities	-	853	853
	-	177,876	177,876

18. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

	As at 30 June 2014			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<i>'At fair value through profit or loss' - held for trading</i>				
Fixed income securities		1,214,453	-	1,214,453
Variable income securities		-	-	-
<i>'Available for sale'</i>				
Fixed income securities		548,019	-	548,019
Variable income securities		-	-	-
	As at 30 June 2013			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<i>'At fair value through profit or loss' - held for trading</i>				
Fixed income securities		1,106,305	-	1,106,305
Variable income securities		164,895	-	164,895

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

19. UNIT HOLDERS'S FUND RISK MANAGEMENT

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

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

20. SUPPLEMENTARY NON FINANCIAL INFORMATION

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

20.1 Pattern of unit holding

Details of pattern of unit holding

	As at 30 June 2014		
	Number of unit holders	Investment Amount (Rupees in '000)	Percentage Investment
Individuals	260	253,903	10.17%
Associated companies	7	1,068,504	42.79%
Insurance companies	4	331,165	13.27%
Retirement funds	12	50,891	2.04%
Public Limited companies	11	528,272	21.16%
Others	6	263,726	10.57%
	300	2,496,461	100.00%

Details of pattern of unit holding

	As at 30 June 2013		
	Number of unit holders	Investment Amount Rupees in '000	Percentage Investment
Individuals	144	58,315	4.59%
Associated companies	5	301,780	23.75%
Directors	1	1,935	0.15%
Insurance companies	2	227,352	17.90%
Bank / DFIs	1	227,766	17.93%
Retirement funds	2	2,937	0.23%
Public Limited companies	2	320,675	25.24%
Others	6	129,628	10.21%
	163	1,270,388	100.00%

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

20.2 Top ten brokers / dealers by percentage of commission paid

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

	2014 Percentage
1 Invest Capital Markets Limited	35.09%
2 JS Global Capital Limited	13.96%
3 Icon Securities (Private) Limited	10.04%
4 BMA Capital Management Limited	9.56%
5 Invest One Markets (Private) Limited	8.55%
6 Invest & Finance Securities Limited	6.58%
7 KASB Securites Limited	5.31%
8 Optimus Markets (Private) Limited	3.18%
9 C & M Management (Private) Limited	1.71%
10 Vector Capital (Private) Limited	1.54%
	Percentage
1 Invest & Finance Securities Limited	38.11%
2 Invest Capital Markets Limited	34.24%
3 KASB Securitas Limited	7.74%
4 Optimus Markets (Private) Limited	4.46%
5 Global Securities Pakistan Limited	2.85%
6 Summit Capital (Private) Limited	2.51%
7 Alfalah Securities (Private) Limited	2.23%
8 Icon Securities (Private) Limited	2.07%
9 BMA Capital Management Limited	1.36%
10 C & M Management (Private) Limited	1.21%

20.3 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 attended
	Held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	8	1	7	104th, 105th, 106th, 107th, 108th, 109th, and 111th
Mr. Nasim Beg	8	7	2	106th
Mr. Yasir Qadri (Chief Executive Officer)	8	8	-	
Dr. Syed Salman Ali Shah	8	7	1	107th
Mr. Haroun Rashid	8	6	2	104th and 106th

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
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 (CFO & Company Secretary)	8	8	-	
Mr. Umair Ahmed (Chief Financial Officer)*	8	8	-	

20.4 Particulars of investment committee and fund manager

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

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	19
Mr. Kashif Rafi	Senior Vice President - Investments	MBA & CFA (level I)	13
Mr. Muhammad Asim	Vice President - Head of Equities	MBA & CFA	11
Mrs. Uzma Khan	Assistant Vice President - Head of Research	MBA & CFA	9
Mr. Mohsin Pervez	Vice President - Investments	MBA & CFA (Level I)	13

20.5 Other funds managed by the fund manager

Mr. Kashif Rafi

Mr. Kashif Rafi 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 (level 1). Other funds being managed by him are as follows:

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

21. CORRESPONDING FIGURES

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

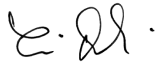
Reclassification from component	Reclassification to component	(Rupees in '000)
Payable to Management Company	Accrued expenses and other liabilities - (Federal excise duty and related taxes payable on management fee)	198
Remuneration of the Management	Sindh Sales tax and Federal Excise Duty on Management Fee	8,325

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

22. 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		
ADAMJEE INSURANCE CO. LTD-INVESTMENT DEPARTMENT	1	10,157,524
HABIB METROPOLITAN BANK LIMITED	1	4,595,287
ADAMJEE LIFE ASSURANCE CO.LTD.(ISF)	1	1,884,598
ADAMJEE LIFE ASSURANCE CO. LTD.-NUIL FUND	1	1,705,353
MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED	1	1,569,142
ADAMJEE LIFE ASSURANCE CO.LTD.ISF-II	1	774,837
ADAMJEE LIFE ASSURANCE CO. LTD. (IMF)	1	666,091
Yasir Qadri	0	0
Public Sector Companies and Corporations	11	10,556,726
Banks and Insurance Companies	2	924,968
Individuals	260	5,073,629
Trust	17	1,192,260
Unitholders holding 5 percent or more Voting interest in the listed company		
GUL AHMED ENERGY LTD	1	5,092,797
JUBILEE GENERAL INSURANCE COMPANY LIMITED	1	3,046,282
PREMIER INSURANCE LIMITED	1	2,645,758
	300	49,885,250

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

No of Unit Holders	Unit Holdings	Total Units Held
161	1-10000	483,102
106	10001-100000	3,344,011
22	100001-1000000	7,404,041
11	1000001-Onwards	38,654,096
<hr/> 300 <hr/>		<hr/> 49,885,250 <hr/>

PERFORMANCE TABLE

	June 30, 2014 (Rupees in '1000)	June 30, 2013 (Rupees in '1000)	June 30, 2012 (Rupees in '1000)
Net Assets	2,496,460	6,103,530	6,103,530
Net Income	119,891	594,614	631,240
	(Rupees per unit)	(Rupees per unit)	(Rupees per unit)
Net Asset Value per Unit	50.0400	51.3800	50.0700
Interim distribution per unit *	3.5300	4.5700	-
Final distribution per Unit*	0.9200	1.3800	-
Year end offer price per unit	51.0700	52.3700	50.0700
Year end repurchase price per unit	50.0400	51.3100	50.0700
Highest offer price	53.1500	53.3600	51.7500
Lowest offer price	50.4400	50.1600	49.7100
Highest repurchase price per unit	52.0800	52.5600	51.7500
Lowest repurchase price per unit	49.9800	50.0700	49.7100
	(Percentage)	(Percentage)	(Percentage)
Total return of the Fund	9.26	12.30	11.30
Capital growth	4.81	0.40	0.82
Income Distribution	4.45	11.90	10.48
Average annual return			
One Year	9.26	12.30	11.30
Waeighted average portfolio duration	438 Days	63 Days	63 Days

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and

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MCB-Arif Habib Savings and Investments Limited

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