



Bachat ka Doosra Naam

Annual Report 2014



Aam Key Aam Guthliyon key Daam

PAKISTAN

INCOME
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 Allied Bank Limited Deutsche Bank AG Habib Metropolitan Bank Limited NIB Bank Limited United Bank Limited Standard Chartered Bank Limited Faysal Bank Limited Bank Al-Falah Limited	
Auditors	M. Yousuf Adil Saleem & Co.-Chartered Accountants Cavis Court, A-35, Block 7 & 8, KCHSU, Sharae Faisal, Karachi-75350	
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 Pakistan Income Fund (PIF), is pleased to present the Annual Report on the affairs of PIF 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.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 8.13% as against its benchmark return of 9.33%.

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 invested 35.5% in PIBs vis-à-vis 4.4% at the beginning and 35.5% in TFCs vis-à-vis beginning allocation of 37.7%.

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

The Net Assets of the Fund as at June 30, 2014 stood at Rs. 1007.82 million as compared to Rs 1,091.89 million as at June 30 2013 registering a decrease of 7.7%.

The Net Asset Value (NAV) per unit as at June 30, 2014 was Rs. 52.04 as compared to opening NAV of Rs. 53.16 per unit as at June 30, 2013 registering an increase of Rs. 1.12 per unit.

Income Distribution

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

Date of distribution	Per unit distribution
	Rs.
September 27, 2013	0.86
December 27, 2013	1.00
March 28, 2014	1.11
June 27, 2014	1.09

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:

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

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

- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 20.3 to the attached financial statements. Below is the details of committee meetings held during the year ended June 30, 2014:

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

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

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

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

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

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

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

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman		-	1,103
2.	Yasir Qadri	Chief Executive Officer		-	27
3.	Mr. Saqib Saleem	Chief Operating Officer & Company Secretary		-	-
4.	Umair Ahmed	Chief Financial Officer		-	-
5.	Asif Mehdi Rizvi	Head of Internal Audit & Compliance			44

External Auditors

The fund's external auditors, Deloitte Touche Tohmatsu Limited, 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 Deloitte Touche Tohmatsu Limited as auditors of the fund for the year ending June 30, 2015.

ACKNOWLEDGMENT

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

For and on behalf of the board



Yasir Qadri
Chief Executive Officer
July 28, 2014

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

Fund Type and Category

Pakistan Income Fund— (PIF) is an open end mutual fund and comes under income scheme. The fund primarily invests in money market and other short term instruments which includes short term corporate debt and government securities. The fund may also invest in medium term assets in order to provide higher returns to unit holders.

Fund Benchmark

The benchmark for 75% 6Month's KIBOR+ 25% 6 Months PKRV.

Investment Objective

The objective of the Fund is to deliver returns primarily from debt and fixed income investments without taking excessive risk.

Manager's Review

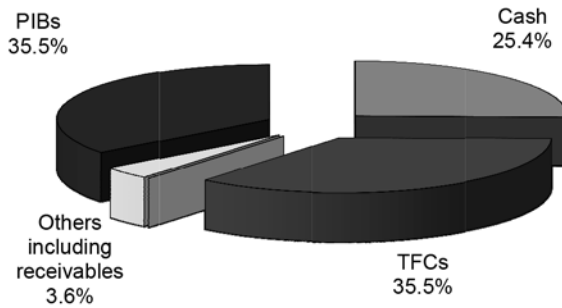
During the period under review the fund managed to generate an annualized return of 8.13% against a bench mark rates of 9.33%, despite keeping funds in well accumulated securities the fund underperformed it's benchmark due to hefty provisions being made against worker's welfare fund liability in this fiscal year.

The fund remained significantly invested in PIBs and TFCs throughout the period with focus on keeping the fund's duration at the maximum optimum level due to no change in discount rate throughout the period. At the year end the fund was invested 35.5% in PIBs and TFCs each and the rest in cash and bank deposits.

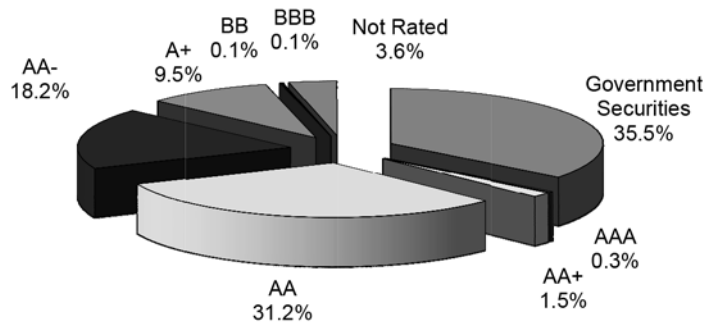
The net assets of the fund stood at PKR 1.007 billion by the end of June 2014, which was down by around 7.7% due to redemption pressures during the period under review.

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, 2014

CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

Head Office

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



TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN INCOME 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 Pakistan Income Fund (the Fund) are of the opinion that MCB - Arif Habib Savings and Investments Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 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 Pakistan Income Fund (the Fund) to comply with the Code of Corporate Governance contained in Regulation no. 35 of Karachi 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.

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

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

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg – Executive Vice Chairman 2. Mr. Yasir Qadri – Chief Executive Officer
Non – Executive Directors	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.

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

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

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**

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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Fax: +92 (0) 21- 3454 1314
Web: www.deloitte.com

**REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE**

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

The responsibility for compliance with the Code is that of the Board of Directors of the Company. 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 Management Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

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

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


Chartered Accountants

Karachi
Date: July, 31, 2014

Member of
Deloitte Touche Tohmatsu Limited

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

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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Web: www.deloitte.com

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **Pakistan Income Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2014, and the income statement, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies together and other explanatory notes.

Management Company's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with 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 International Standards on Auditing 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 auditor's 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.

Member of
Deloitte Touche Tohmatsu Limited

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

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants

Opinion

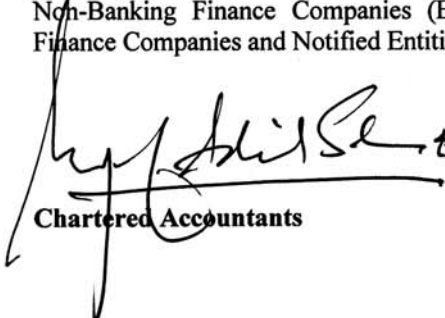
In our opinion, the financial statements give a true and fair view of the state of the Fund's financial position as at June 30, 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other Matter

The financial statements of the Fund for the year ended June 30, 2013 were audited by another firm of Chartered Accountants who vide their report dated August 05, 2013 issued an unqualified opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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



Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Date: July 31, 2014
Karachi

Member of
Deloitte Touche Tohmatsu Limited

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

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
ASSETS			
Balances with banks	5	263,245	504,706
Investments	6	703,027	571,077
Receivable against sale of investments		-	5,039
Profit receivable	7	29,466	17,057
Advance, deposit and prepayments	8	42,043	8,448
Total assets		1,037,781	1,106,327
LIABILITIES			
Payable to Management Company		1,631	1,782
Payable to Central Depository Company of Pakistan Limited - Trustee		167	155
Payable to the Securities and Exchange Commission of Pakistan - annual fee		757	956
Payable on redemption of units		1,414	47
Accrued expenses and other liabilities	9	25,994	11,490
Total liabilities		29,963	14,430
NET ASSETS		<u>1,007,818</u>	<u>1,091,897</u>
Unit holders' fund (as per statement attached)		<u>1,007,818</u>	<u>1,091,897</u>
CONTINGENCIES AND COMMITMENTS	10		
		(Number of units)	
NUMBER OF UNITS IN ISSUE		<u>19,364,435</u>	<u>20,541,603</u>
		(Rupees)	
NET ASSET VALUE PER UNIT	4.20	<u>52.04</u>	<u>53.16</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

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

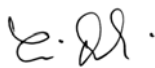

Chief Executive Officer


Director

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

	Note	2014 (Rupees in '000)	2013
INCOME			
Income from government securities		55,975	75,497
Income from term finance certificates		50,752	52,684
Profit on bank deposits		6,502	8,371
Capital (loss) / gain on sale of investments - net		(1,139)	34,003
		112,090	170,555
Net unrealised appreciation on re-measurement of investments at fair value through profit or loss	6.7	5,059	4,368
Total income		117,149	174,923
EXPENSES			
Remuneration of Management Company	11	15,145	19,119
Sales tax and Federal Excise Duty on remuneration of Management Company	12	5,234	3,220
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12	1,704	1,933
Securities and Exchange Commission of Pakistan - annual fee	13	757	956
Legal, professional and other charges		265	400
Settlement and bank charges		496	425
Fees and subscription		217	215
Auditors' remuneration	14	589	663
Printing and related costs		31	132
Provision against non-performing investments - net		2,014	49,829
Total expenses		26,452	76,892
Net income from operating activities		90,697	98,031
Element of loss and capital losses included in the prices of units issued less those in units redeemed		(523)	(4,332)
Provision for Workers' Welfare Fund	9.1	(12,119)	(9,866)
Net income for the year before taxation		78,055	83,833
Taxation	15	-	-
Net income for the year after taxation		78,055	83,833
<i>Other comprehensive income for the year</i>			
Net unrealised appreciation in value of investments classified as 'available for sale'	6.4	107	-
Total comprehensive income for the year		78,162	83,833
Earnings per unit	4.13	-	-

The annexed notes from 1 to 28 form an integral part of these financial statements.



Chief Executive Officer

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




Director

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
Undistributed income brought forward:			
- Realised gains		78,823	100,812
- Unrealised losses		<u>(13,900)</u>	<u>(49,640)</u>
		64,923	51,172
Net element of loss and capital losses for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement		<u>(2,359)</u>	<u>(9,082)</u>
Net income for the year		<u>78,162</u>	<u>83,833</u>
		75,803	74,751
Distributions:	26.1		
Final bonus distribution for the year ended June 30, 2013 at Rs. 1.16 per unit (Date of distribution July 4, 2013)		<u>(23,828)</u>	-
Interim distribution of bonus units for the quarter ended September 30, 2013 at Rs 0.86 per unit (Date of distribution September 27, 2013)		<u>(16,635)</u>	-
Interim distribution of bonus units for the half year ended December 31, 2013 at Rs 1.9286 per unit (Date of distribution December 26, 2013)		<u>(18,827)</u>	(61,000)
Interim distribution of bonus units for the nine months ended March 31, 2014 at Rs 1.11 per unit (Date of distribution March 27, 2014)		<u>(21,006)</u>	-
Final distribution of bonus units for the year ended June 30, 2014 at Rs 1.09 per unit (Date of distribution June 27, 2014)		<u>(20,755)</u>	-
		<u>(101,051)</u>	<u>(61,000)</u>
Undistributed income carried forward		<u>39,675</u>	<u>64,923</u>
Undistributed income carried forward:			
- Realised gains		13,339	78,823
- Unrealised gains / (losses)		<u>26,336</u>	<u>(13,900)</u>
		<u>39,675</u>	<u>64,923</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

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



Chief Executive Officer



Director

**STATEMENT OF MOVEMENT IN UNIT HOLDER'S FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	2014 (Rupees in '000)	2013 (Rupees in '000)
Net assets at beginning of the year	1,091,897	1,300,756
Issue of 1,579,853 units (2013: 4,120,384 units)	85,647	216,981
Redemption of 4,701,355 units (2013: 9,744,761 units)	(248,411)	(514,005)
Issue of 1,944,334 bonus units (2013: 1,172,225)	101,051	61,000
	(61,713)	(236,024)
Element of loss and capital losses included in prices of units issued less those in units redeemed		
· amount representing loss and capital losses - transferred to income statement	523	4,332
· amount representing (loss) that form part of unit holders' fund - transferred to distribution statement	2,359	9,082
	2,882	13,414
Net income for the year transferred from the distribution statement		
Capital (loss) / gain on sale of investments	(1,139)	34,003
Net unrealised appreciation on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	5,059	4,368
Other net operating income	74,135	45,462
Element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing unrealised income	(2,359)	(9,082)
	75,696	74,751
Distributions made during the year (refer distribution statement)	(101,051)	(61,000)
Net unrealised appreciation on re-measurement of investment classified as 'available for sale'	107	-
	<u>1,007,818</u>	<u>1,091,897</u>
	(Number of units)	
NUMBER OF UNITS IN ISSUE	<u>19,364,435</u>	<u>20,541,603</u>
	(Rupees)	
NET ASSET VALUE PER UNIT	<u>52.04</u>	<u>53.16</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

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



Chief Executive Officer



Director

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

	2014 (Rupees in '000)	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	78,055	83,833
Adjustments for non - cash charges and other items		
Net unrealised appreciation in value of investments classified as 'at fair value through profit or loss'	(5,059)	(4,368)
Net element of loss and capital losses prices of units issued less those in units redeemed	523	4,332
Provision for Worker's Welfare Fund	12,119	9,866
Provision against non-performing investments - net	2,014	53,429
	87,652	147,092
(Increase) / decrease in assets		
Investments encashed / (made) - net	(128,798)	442,814
Profit and other receivables	(7,370)	190,000
Advance, deposit and prepayments	(33,595)	2,425
	(169,763)	635,239
Increase / (decrease) in liabilities		
Payable to Management Company	(151)	103
Payable to Central Depository Company of Pakistan Limited - Trustee	12	(5)
Payable to the Securities and Exchange Commission of Pakistan - annual fee	(199)	(237)
Accrued expenses and other liabilities	3,752	(621)
	3,414	(760)
Net cash (used in) / generated from operating activities	(78,697)	781,571
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments from sale and redemption of units	(162,764)	(295,032)
Net cash used in financing activities	(162,764)	(295,032)
Net (decrease) / increase in cash and cash equivalents during the year	(241,461)	486,539
Cash and cash equivalents at the beginning of the year	504,706	18,167
Cash and cash equivalents at the end of the year	263,245	504,706

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The annexed notes from 1 to 28 form an integral part of these financial statements.

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

- 1.1** Pakistan Income Fund ("the Fund") was established under a Trust Deed executed between Arif Habib Investments Limited (Management Company) and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 23 October 2001 and was approved by the Security and Exchange Commission of Pakistan (SECP) on 28 February 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).
- 1.2** Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited effective from 27 June 2011.
- 1.3** The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non Banking Finance Companies (Establishment and Regulations) Rules 2003 through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi, Pakistan.
- 1.4** The Fund is an open ended mutual fund and has been categorised as "Income Scheme" and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.
- 1.5** The Fund primarily invests in money market and other instruments which includes corporate debt and government securities, repurchase agreements and spread transactions. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.
- 1.6** The Pakistan Credit Rating Agency (PACRA) Limited has assigned Management quality rating of AM2 dated April 10, 2014 to the Management Company and "A+(f)" as stability rating dated February 20, 2014 to the Fund.
- 1.7** Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

2. STATEMENT OF COMPLIANCE

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

2.2 New 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.

Standards / amendments / interpretation	Effective date (accounting period beginning on or after)
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 IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	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

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

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

Standards / amendments / interpretation	Effective date (accounting period beginning on or after)
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

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. BASIS OF PREPARATION

3.1 Accounting convention

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

3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

The area where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies primarily related to classification and valuation of investments and impairment there against.

3.3 Functional and presentation currency

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

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

4. SUMMARY OF ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

4.1 Financial assets

The Fund classifies its financial assets in the following categories:

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

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

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

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

b) *'Available-for-sale'*

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

c) *Loans and receivables*

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

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.

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 other comprehensive income until derecognised or impaired, when the accumulated adjustments recognised in other comprehensive are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortised cost less provision for impairment, if any.

Fair value measurement principles

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 3 of 2010, Circular 33 of 2012 and Circular 35 of 2012. The Circulars also specify the criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

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

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 as amended by circular 13 of 2009 and circular 33 of 2012 issued by the SECP. The provisioning policy has been duly formulated and approved by board of directors of the management company.

Basis of valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association of Pakistan, except the Government of Pakistan Ijarah Sukuks, which are valued on the basis of rates announced by Reuters.

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

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

4.2 Regular way contracts

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

4.3 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.

4.4 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. Impairment losses are recognised in Income Statement. Any subsequent decrease in impairment loss on debt securities classified as available-for-sale is recognised in Income Statement.

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

4.5 Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

4.6 Offsetting of financial instruments

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

4.7 Financial liabilities

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

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

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

4.8 Unit holders' fund

Unit holders' fund 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.

4.9 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.

4.10 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) included in prices of units sold less those in units redeemed" is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in Income Statement and the remaining portion of element of income / (loss) and capital gains / (losses) is held in separate reserve account and at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

4.11 Proposed distributions

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

4.12 Provisions

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

4.13 Earnings per unit

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

4.14 Taxation

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

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 asset on unutilized tax losses to the extent that it is no longer probable that the related tax benefit will be realized. However, the Fund has not recognized any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realized or Unrealised, to its unit holders every year.

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

4.15 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions and debt securities (including government securities) is recognised on a time proportion basis using effective interest rate method.
- 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 time proportion basis using effective interest rate method.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

4.16 Expenses

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

4.17 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.

4.18 Foreign currency translation

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

4.19 Other assets

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

4.20 Net asset value per unit

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

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

	Note	2014	2013
		Rupees in '000	
5. BALANCES WITH BANKS			
In current accounts		-	8
In deposit accounts	5.1	<u>263,245</u>	<u>504,698</u>
		<u>263,245</u>	<u>504,706</u>

5.1 These carry mark-up at rates ranging between 6.5% to 10.10% per annum (2013: 6% to 11% per annum).

6. INVESTMENTS

At fair value through profit or loss

Government securities	6.1	<u>301,916</u>	153,998
Listed debt securities	6.2	<u>205,690</u>	279,243
Unlisted debt securities	6.3	<u>128,831</u>	137,836
		636,437	571,077

Available for sale

Government securities	6.4	66,590	-
		<u>703,027</u>	<u>571,077</u>

6.1 Government securities - held for trade

Name of investee company	Face Value				Balance as at June 30, 2014			Market value as a percentage of net assets %	Market value as a percentage of total investment %
	As at July 1, 2014	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2014	Carrying Value	Market value		
-----Rupees in '000'-----									
Treasury Bills - 1 year	-	1,253,000	980,000	273,000	-	-	-	-	-
Treasury Bills - 6 months	-	164,500	-	164,500	-	-	-	-	-
Treasury Bills - 3 months	-	2,196,750	1,440,000	756,750	-	-	-	-	-
Pakistan Investment Bonds -05 years	23,000	-	23,000	-	-	-	-	-	-
Pakistan Investment Bonds -03 years	25,000	862,500	587,500	-	300,000	302,648	301,916	(732)	29.96
GoP Ijara Sukuk Certificate -03 years	105,000	-	105,000	-	-	-	-	-	-
Total	153,000	4,476,750	3,135,500	1,194,250	300,000	302,648	301,916	(732)	29.96
									42.95

	Note	2014	2013
		(Rupees in '000)	
6.2 Listed debt securities			
Less: Provision on July 1			
Pace Pakistan Limited	6.2.1	290,882	361,346
Telecard Limited		<u>36,348</u>	7,490
Trust Investment Bank Limited - III		<u>28,589</u>	24,068
		<u>17,166</u>	31,558
		82,103	31,558
Less: Provision charged during the year			
Pace Pakistan Limited	6.2.1.1	<u>3,403</u>	28,858
Telecard Limited		<u>-</u>	4,521
Trust Investment Bank Limited - III		<u>-</u>	17,166
		3,403	50,545
Add: Reversals during the year			
Telecard Limited		314	-
		<u>205,690</u>	<u>279,243</u>

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

6.2.1 Listed debt securities - term finance certificates

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

Name of investee company	Number of Certificates					Balance as at June 30, 2014				Market value as a percentage of total investment
	As at July 1, 2013	Purchased during the year	Matured during the year	Disposed during the year	As at June 30, 2014	Carrying value*	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	
-----Rupees in '000-----										
Commercial banks										
Askari Bank Limited (18-11-09 issue)	11,000	-	-	-	11,000	55,411	53,463	(1,948)	5.30	7.60
Askari Bank Limited (23-12-11 issue)	52	-	-	10	42	44,714	44,127	(587)	4.38	6.28
Bank Al Falah Limited (20-02-13 issue)	20,131	-	-	6,750	13,381	67,928	67,764	(164)	6.72	9.64
Bank Al-Habib Limited (07-02-07 issue)	5,520	-	-	-	5,520	27,831	27,615	(216)	2.74	3.93
United Bank Limited (08-09-06 issue)	14,612	-	-	-	14,612	12,274	12,166	(108)	1.21	1.73
Financial services										
Escorts Investment Bank Limited (15-03-07 issue)	3,016	-	-	-	3,016	450	555	105	0.06	0.08
Trust Investment Bank (04-07-08 issue)	10,000	-	-	-	10,000	17,166	17,166	-	1.70	2.44
Real state investment and services										
Pace Pakistan Limited (15-02-08 issue) (Refer 6.2.1.1)	10,000	-	-	-	10,000	36,348	39,751	3,403	3.94	5.65
Fixed line telecommunication										
Telecard Limited (27-05-05 issue) (Refer 6.2.1.2)	19,975	-	-	-	19,975	27,255	28,275	1,020	2.81	4.02
Total - 2014	94,306	-	-	6,760	87,546	289,377	290,882	1,505	28.86	41.38
Total - 2013	78,175	25,131	-	9,000	94,306	356,176	361,346	5,170	63.27	33.09

* Carrying value before provision - Provision detail are specified in note 6.2

6.2.1.1

Owing to continuous default on repayment of coupon by the issuer, the Fund classified the said investment as non-performing debt securities. During the year, the Fund has recognised further provision of Rs. 3.403 million as a result of which total provision as at June 30, 2014 becomes 39.751 million against outstanding principal in accordance with circular 1 of 2009 as amended by circular 13 of 2009 and circular 33 of 2012 issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended accrual of mark-up there against.

6.2.1.2

Owing to continuous default on repayment of coupon by the issuer, the Fund classified the said investment as non-performing debt securities. The Fund has recognised provision amounting to Rs. 28.275 million against outstanding principal in accordance with circular 1 of 2009 as amended by circular 13 of 2009 and circular 33 of 2012 issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended accrual of mark-up there against.

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

	2014 (Rupees in '000)	2013 (Rupees in '000)
6.3	128,831	138,911
6.3.1	-	1,075
6.3.1.1	(1,075)	2,884
	1,075	(3,600)
	<u>128,831</u>	<u>137,836</u>

6.3 Unlisted debt securities

Less: Provision of Maple Leaf Cement Factory Limited
On 1 July
Charged during the year
Reversal during the year

6.3.1 Unlisted debt securities - term finance certificates and other securities

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

Name of investee company	Number of Certificates					Balance as at June 30, 2014			Market value as a percentage of net assets %	Market value as a percentage of total investment %
	As at July 1, 2013	Purchased during the year	Matured during the year	Disposed during the year	As at June 30, 2014	Carrying value*	Market value	Appreciation / (diminution)		
Bank Al-Habib Limited. - TFC-4 (30-06-11) Fixed	1,000	-	-	-	1,000	5,636	5,590	(46)	0.55	0.80
Bank Alfalah Limited - TFC4 (02-12-09) Floating	4,500	-	-	-	4,500	23,609	23,163	(446)	2.30	3.29
Engro Fertilizer Limited - PPTFC-1 (18-03-08)	23,100	-	-	3,000	20,100	94,219	98,627	4,408	9.79	14.03
Maple Leaf - Sukuk (03-12-07) (Refer 6.3.1.1)	500	-	-	-	500	1,081	1,451	370	0.14	0.21
Total - 2014	29,100	-	-	3,000	26,100	124,545	128,831	4,286	12.78	18.33
Total - 2013	46,140	500	-	17,540	29,100	140,133	138,911	(1,222)	24.32	12.72

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

6.3.1.1 Maple Leaf Cement Factory Limited defaulted in principal and profit payments on its sukuk bonds in September 2011. As on June 23, 2014, the total provision held against these sukuk bonds amounted to Rs. 1,075 million. However on that date, Mutual Funds Association of Pakistan has classified these Sukuks as "Performing" on the basis that the issuer has cleared all the past dues. Accordingly the Fund has reversed the entire provision against these sukuks, during the year ended June 30, 2014.

* Carrying value before provision - Provision detail are specified in note 6.3

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

6.4 Government securities - available for sale

Name of investee company	Face Value					Balance as at June 30, 2014			Market value as a percentage of net assets %	Market value as a percentage of total investment %
	As at July 1, 2014	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2014	Carrying Value	Market value	Appreciation		
Pakistan Investment Bonds -03 years	-	67,500	-	-	67,500	66,483	66,590	107	6.61	9.47
Total	-	67,500	-	-	67,500	66,483	66,590	107	6.61	9.47

6.5 Movement in provision against debt securities

	2014		2013	
	Listed debt securities	Unlisted debt securities	Listed debt securities	Total
Opening balance	82,103	1,075	83,178	33,349
Add: Change for the year	3,403	-	3,403	53,429
Less: Reversal of provision	314	1,075	1,389	3,600
Change for the year - net	3,089	(1,075)	2,014	49,829
Closing balance	85,192	-	85,192	83,178

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

Name of security	Number of certificates	Face Value	Unredeemed Face value / Redemption value (Rupees)	Mark-up rate (Per annum)	Maturity	Secured / unsecured	Rating
Listed debt securities							
Askari Bank Limited (18-11-09)	11,000	5,000	4,991	6 months KIBOR + 2.5%	18 November 2019	Unsecured	AA-
Askari Bank Limited (23-12-11)	42	1,000,000	999,000	6 months KIBOR + 1.75%	23 December 2021	Unsecured	AA-
Bank Al Falah Limited (20-02-13)	13,381	5,000	4,998	6 months KIBOR + 1.25%	20 February 2021	Unsecured	AA-
Bank Al-Habib Limited (07-02-07)	5,520	5,000	4,986	6 months KIBOR + 1.95%	07 February 2015	Unsecured	AA
United Bank Limited (08-09-06)	14,612	5,000	832	6 months KIBOR + 1.7%	08 September 2014	Unsecured	AA
Escorts Investment Bank Limited (15-03-07)	3,016	5,000	249	8%	15 September 2014	Secured	BB
Trust Investment Bank (04-07-08)	10,000	5,000	1,874	6 months KIBOR + 1.85%	04 July 2013	Unsecured	Non - Rated
Pace Pakistan Limited (15-02-08)	10,000	5,000	2,996	6 months KIBOR + 2%	15 February 2017	Secured	Non - Rated
Telecard Limited (27-05-05)	19,975	5,000	1,083	6 months KIBOR + 3.75%	27 May 2015	Secured	Non - Rated
Unlisted debt securities							
Bank Al-Habib Limited - TFC-4 (30-06-11) Fixed	1,000	5,000	4,994	6 months KIBOR	30 June 2021	Unsecured	AA
Bank Al-Habib Limited - TFC-4 (02-12-09) Floating	4,500	5,000	4,991	6 months KIBOR + 2.5%	02 December 2017	Unsecured	AA-
Engro Fertilizer Limited - PPTFC-1 (18-03-08)	20,100	5,000	5,000	6 months KIBOR + 1.7%	18 March 2018	Secured	A+
Maple Leaf Cement Factory Limited - Sukuk (03-12-07)	500	5,000	3,864	3 month KIBOR+1.0%	03 December 2018	Secured	BBB

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

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

	Note	2014 (Rupees in '000)	2013
6.7	Net unrealised appreciation on re-measurement of investments at fair value through profit or loss		
	Market value of investments	6.1, 6.2.1, 6.3.1 721,629	654,255
	Carrying value of investments	6.1, 6.2.1, 6.3.1 716,570	649,887
		<u>5,059</u>	<u>4,368</u>
7.	PROFIT RECEIVABLE	2014	2013
		(Rupees in '000)	
	Income accrued on term finance and sukuk certificates	10,333	11,278
	Income accrued on government securities	18,544	4,927
	Profit receivable on bank deposits	589	852
		<u>29,466</u>	<u>17,057</u>
8.	ADVANCE, DEPOSIT AND PREPAYMENTS		
	Advance against Pre IPO investments	8.1 33,583	-
	Advance tax	3,927	3,927
	Deposits with		
	- National Clearing Company of Pakistan Limited	8.2 2,625	2,625
	- Central Depository Company of Pakistan Limited	8.3 200	200
	Margin against term finance certificates	8.4 1,603	1,603
	Prepayments	105	93
		<u>42,043</u>	<u>8,448</u>
8.1	This represents advance paid against term finance certificates of Pakistan Mobile Communications Limited. It carries markup at the rate of 6-monthly KIBOR plus 2% per annum.		
8.2	This represents deposit with National Clearing Company of Pakistan Limited in respect of Bond Automated Trading System (BATS).		
8.3	This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.		
8.4	This represents the margin with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated 23 October 2007, issued by the SECP.		
		2014	2013
		(Rupees in '000)	
9.	ACCRUED EXPENSES AND OTHER LIABILITIES		
	Provision for Workers' Welfare Fund	9.1 21,985	9,866
	Federal excise duty	9.2 2,783	162
	Auditors' remuneration	385	370
	Sales load	86	74
	Legal and professional charges	-	150
	Brokerage payable	36	30
	Zakat payable	159	147
	Capital gain tax payable	7	1
	Others	553	690
		<u>25,994</u>	<u>11,490</u>
9.1	The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance), whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, all Collective Investment Schemes (CISs) I mutual funds whose income exceeds Rs.0.5 million in a tax year have been brought within the scope of the WWF Ordinance thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.		

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

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

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

However, as per advice of legal council the stay granted to CIS remains intact and constitution petitions filed by CIS to challenge the WWF contribution have not been affected by the SHC judgement. In view of the aforementioned developments and uncertainties created by decision of SHC, the management company as a matter of abundant caution has charged provision for WWF amounting to Rs. 21.986 million (including Rs. 10,316 million for the prior year charged during the year) till June 30, 2014. 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 Re. 1.14 per unit.

- 9.2 The Finance Act 2013 introduced an amendment to Federal Excise Act 2005 whereby Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. However, Mutual Fund Association of Pakistan (MUFAP) on behalf of Collective Investment Schemes has filed a petition in the Sindh High Court (SHC) challenging the levy of FED on assets management services after the passage of Eighteen Amendment of the Constitution. The petition cited that following the passage of the Eighteenth Amendment of the Constitution, the provincial legislatures have now sole authority to impose such a levy, and that respective provincial legislatures have enacted the Sindh Sales Tax on Services Act, 2011 and the Punjab Sales Tax on Services Act, 2012 to impose the levy in question. The SHC in its short order on C P - D-3547 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 in its books of account and financial statements aggregating to Rs 2.783 million as at June 30, 2014. 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 Re. 0.14 per unit.

10. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2014 and June 30, 2013.

	Note	2014 (Rupees in '000)	2013
11. REMUNERATION OF MANAGEMENT COMPANY			
Management fee	11.1	15,145	19,119
11.1 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. During the year, the Management Company has charged its remuneration at the rate of 1.50% (2013: 1.50%) of the average annual net assets of the Fund. The remuneration is paid to the Management Company on monthly basis in arrears.			
12. REMUNERATION OF CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Trustee fee	12.1	1,704	1,933

- 12.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure as amended by the Trustee of the Fund vide letter no. CDC/T&C-SII/DH/1637/2010 dated 18 December 2010, is applicable based on net assets of the Fund.

Amount of funds under management (Average NAV)	Tariff per annum
Up to Rs. 1 billion	Rs. 0.6 million or 0.17% p.a. of NAV, whichever is higher
Rs. 1 billion to Rs 5 billion	Rs. 1.7 million plus 0.085% p.a. of NAV exceeding Rs. 1 billion
Over Rs. 5 billion	Rs. 5.1 million plus 0.07% p.a. of NAV exceeding Rs. 5 billion

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2014	2013
	(Rupees in '000)	
13. SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE		
Annual fee	<u>757</u>	<u>956</u>
13.1 Under the provisions of the NBFC Regulations, the Fund is required to pay as an annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.		
14. AUDITOR'S REMUNERATION		
Annual audit fee	270	270
Half yearly review fee	150	150
Other certifications	100	210
Out of pocket expenses	<u>69</u>	<u>33</u>
	<u>589</u>	<u>663</u>
15. TAXATION		
15.1 The Fund's income is exempt from Income Tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance) 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. 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 Ordinance. As the management intends to distribute at least 90% of income earned during current year to the unit holders, therefore, no provision for taxation has been recorded in these financial statement.		
15.2 The income tax returns till the tax year 2013 have been filed and are deemed to be assessed under section 120 of the Income Tax Ordinance except for tax years 2008 and 2012 for which Order under section 122(5A) of the Ordinance has been received that the fund is not entitled to the exemption from income tax on the basis that the distribution of bonus shares should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The issue involved has also been raised by the department in other mutual funds. The Fund filed a petition in the Sindh High Court (SHC) against the demands raised in this respect and have obtained a stay order against the payment of tax demand. The Mutual Funds are also contesting the same at different appellate forums of Federal Board of Revenue. 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, is confident that the case would ultimately be decided in favor of the Fund and therefore no provision is required to be made in these financial statements.		

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

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

In accordance with Clause (v) of the investment criteria laid down for 'Income Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at June 30, 2014, the Fund is non-compliant with the above mentioned requirement in respect of the following investments. The securities were in compliance of the circular (i.e. investment grade) at the time of purchase and were subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupon due on respective dates.

Category of non-compliant investment	Type of Investment / Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
-----Rupees in '000'-----						
Investment in debt securities	a) Maple Leaf Cement Factory Limited -Sukuk (note 6.3.1)	1,451	-	1,451	0.14%	0.14%
Investment in debt securities	b) Pace Pakistan Limited (note 6.2.1)	39,751	39,751	-	0.00%	0.00%
Investment in debt securities	c) Telecard Limited (note 6.2.1)	28,275	28,275	-	0.00%	0.00%
Investment in debt securities	d) Escorts Investment Bank (note 6.2.1)	555	-	555	0.06%	0.05%
Investment in debt securities	e) Trust Investment Bank Limited - III (note 6.2.1)	17,166	17,166	-	0.00%	0.00%

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

17. CASH AND CASH EQUIVALENTS

Balances with banks	<u>263,245</u>	<u>504,706</u>
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18. TRANSACTIONS WITH CONNECTED PERSONS / OTHER 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 holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertakings and unit holders holding more than 10% units of the fund

The transactions with connected persons are in the normal course of business and at contracted rates.

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

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

18.1 Details of transactions with related parties / connected persons are as follows:

Management Company		
Remuneration of management company including indirect taxes	20,379	22,339
Front end load	-	1,466
Central Depository Company of Pakistan Limited		
Remuneration and settlement charges for the year	2,200	1,942
MCB Bank Limited		
Profit on Bank Deposits	647	1,471
Bank charges	7	14
Summit Bank Limited		
Profit on Bank Deposits	-	3
Adamjee Life Assurance Company Limited		
Issue of 659,258 units (2013: Nil units)	35,000	-
Issue of 28,187 bonus units (2013: Nil units)	1,466	-
Arif Habib Limited		
Brokerage*	2	-
Directors and Executives of the Management Company		
Issue of 5,931 units (2013: 3,202 units)	310	169
Issue of 1,076 bonus units (2013: 1,534 units)	56	80
Redemption of 33,613 units (2013: 10,650 units)	1,763	554

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

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

18.2 Amounts outstanding at year end

Management Company

Remuneration payable to management company	1,243	1,497
Sales tax payable on management fee	388	286
Sales load payable	86	73

Central Depository Company of Pakistan Limited - Trustee

Remuneration and settlement charges payable	167	155
Security Deposits	200	200

MCB Bank Limited

Bank Balance	2,518	5,072
Profit receivable on bank deposits	36	47

Summit Bank Limited

Bank Balance	-	8
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Adamjee Life Assurance Company Limited

Units held 687,445 (2013: Nil units)	35,775	-
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Directors and Executives of the Management Company

Units held 855 (2013: 27,461 units)	44	1,460
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19. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER:

Details of members of the Investment Committee of the Fund are as follows:

Name	Designation	Qualification	Experience in years
Mr. Yasir Qadri	Chief Executive Officer	MBA	19 Years
Mr. Kashif Rafi	SVP - Head of Fixed Income Investments	MBA & CFA (Level I)	13 Years
Mr. Muhammad Asim	VP - Head of Equities	MBA & CFA	11 Years
Mr. Mohsin Pervaiz	VP - Investments	MBA & CFA (Level I)	13 Years
Ms. Uzma Khan	AVP - Senior Research Analyst	MBA, CFA & FRM	09 Years
Mr. Saad Ahmed	Fund Manager	BS & MBA	09 Years

20. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID:

	2014 (Percentage)
1 Invest Capital Investment Bank Limited	30.70
2 Invest & Finance Securities (Private) Limited	16.03
3 JS Global Capital Limited	11.29
4 C & M Management (Private) Ltd	6.81
5 BMA Capital Management Limited	6.46
6 KASB Securities Limited	6.07
7 Optimus Markets (Private) Limited	5.55
8 ICON Securities (Private) Limited	4.94
9 Invest One Markets Limited	3.91
10 Vector Capital Markets Limited	3.23
	2013 (Percentage)
1 Invest & Finance Securities (Private) Limited	30.08
2 Invest Capital Investment Bank Limited	23.2
3 Elixir Securities Pakistan (Private) Limited	9.82
4 KASB Securities Limited	8.36
5 JS Global Capital Limited	7.71
6 Vector Capital Markets Limited	7.34
7 Optimus Markets (Private) Limited	5.79
8 ICON Securities (Private) Limited	2.51
9 Invest One Markets Limited	2.14
10 BMA Capital Management Limited	2.03

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

21. PATTERN OF UNIT HOLDING

	As at June 30, 2014			
	Number of unit holders	Number of units	Investment amount (Rupees in '000')	Percentage investment
Individuals	890	7,327,299	381,406	37.84%
Associated Companies	1	687,445	35,775	3.55%
Insurance Companies	8	3,233,856	168,290	16.70%
Retirement funds	53	6,850,433	356,497	35.37%
Corporate	22	901,919	46,936	4.66%
Others	2	363,483	18,916	1.88%
	976	19,364,435	1,007,818	100.00%

	As at June 30, 2013			
	Number of unit holders	Number of units	Investment amount (Rupees in '000')	Percentage investment
Individuals	999	9,874,090	524,812	48.06%
Directors	3	24,210	1,288	0.12%
Insurance companies	3	1,654,571	87,957	8.06%
Banks / DFIs	19	1,700,752	90,412	8.28%
Retirement funds	56	6,453,311	343,058	31.42%
Others	24	834,669	44,371	4.06%
	1,104	20,541,603	1,091,897	100.00%

22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS:

During the year, eight board meetings were held on 4th July 2013, 5th August 2013, 23rd October 2013, 31st December 2013, 6th February 2014, 7th March 2014, 21st April 2014, 27th June 2014. Information in respect of attendance by Directors in the meetings is given below :

Name of persons attending the meetings	Designation	Number of meetings			Meetings not attended
		No. of meetings held	Attended	Leave granted	
Mr. Mian Mohammad Mansha	Chairman	8	1	7	104th, 105th, 106th, 107th, 108th, 109th and 111th
Mr. Nasim Beg	Director	8	7	1	106th
Mr. Yasir Qadri	Chief Executive Officer	8	8	0	-
Dr. Syed Salman Ali Shah	Director	8	7	1	107th
Mr. Haroun Rashid	Director	8	6	2	104th and 106th
Mr. Ahmed Jahangir	Director	8	8	0	-
Mr. Samad A. Habib	Director	8	6	2	105th, 109th
Mr. Mirza Mehmood Ahmed	Director	8	7	1	106th
Mr. Saqib Saleem	Company Secretary and COO	8	8	0	-
Mr. Umair Ahmed	Chief Financial Officer	8	8	0	-

23. FINANCIAL RISK MANAGEMENT

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

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

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

23.1 Market risk

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

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

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

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

23.1.1 Currency risk

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

23.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds fixed as well as floating rate debt securities that expose the Fund to cash flow and fair value interest rate risk due to fluctuation in prevailing levels of market interest rates.

As at June 30, 2014, the investment in debt securities exposed to interest rate is detailed in Note 6.6 to these financial statements.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates and sukus exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates and sukus, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.302 million (2013: 1.292 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2014, the Fund holds Pakistan Investment Bonds which are classified as at 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 Financial Market Association of Pakistan (FMAP) on June 30, 2014, with all other variables held constant, total comprehensive income for the year and net assets would be higher by Rs. 4.196 million (2013: higher by Rs 0.22 million). In case of 100 basis points decrease in rates announced by FMAP on June 30, 2014, with all other variables held constant, total comprehensive income for the year and net assets would be lower by Rs. 4.064 million (2013: lower by Rs 0.22 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by FMAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

June 30, 2014						
	Yield / effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to yield / interest risk	Total
Rupees in '000'						
On-balance sheet financial instruments						
Financial Assets						
Balances with banks	6.5% to 10.10%	263,245	-	-	-	263,245
Investments						
at fair value through ' profit and loss - net						
- Government securities	11.25%	-	-	301,916	-	301,916
- Listed debt securities	8% to 15.22%	-	80,485	125,204	-	205,689
- Unlisted debt securities	11.78% to 15%	-	-	128,831	-	128,831
Available for sale						
- Government securities	11.25%	-	-	66,590	-	66,590
		-	80,485	622,541	-	703,026
Profit receivable		-	-	-	29,466	29,466
Advance and deposits		-	-	-	41,938	41,938
		263,245	80,485	622,541	71,404	1,037,675

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

----- June 30, 2014 -----					
Yield / effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to yield / interest risk	Total
----- Rupees in '000' -----					
Financial Liabilities					
Payable to management company	-	-	-	1,631	1,631
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	167	167
Accrued expenses and other liabilities	-	-	-	3,449	3,449
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,247</u>	<u>5,247</u>
On-balance sheet gap	<u>263,245</u>	<u>80,485</u>	<u>622,541</u>	<u>66,157</u>	<u>1,032,428</u>

Off-balance sheet financial instruments -

----- June 30, 2013 -----					
Yield / effective interest rate (%)	Up to three months	More than three months and up to one year	More than one year	Not exposed to yield / interest risk	Total
----- Rupees in '000' -----					
On-balance sheet financial instruments					
Financial Assets					
Balances with banks	6% to 11%	504,706	-	-	504,706
Investments					
at fair value through ' profit and loss - net					
- Government securities	11.25% to 11.50%	23,079	-	25,961	49,040
- Listed debt securities	8% to 14.62%	-	-	279,243	279,243
- Unlisted debt securities	10.29% to 15%	-	-	137,836	137,836
Available for sale					
- Government securities		-	-	-	-
		23,079	-	443,040	466,119
Profit receivable		-	-	17,057	17,057
Advance and deposits		-	-	8,355	8,355
		<u>527,785</u>	<u>-</u>	<u>443,040</u>	<u>996,237</u>

Financial Liabilities					
Payable to management company		-	-	1,782	1,782
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	155	155
Payable on redemption of units		-	-	47	47
Accrued expenses and other liabilities		-	-	933	933
		<u>-</u>	<u>-</u>	<u>2,917</u>	<u>2,917</u>
On-balance sheet gap		<u>527,785</u>	<u>-</u>	<u>443,040</u>	<u>993,320</u>

Off-balance sheet financial instruments -

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

23.1.3 Price risk

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

In case of a 1% increase / decrease in effective yield as on June 30, 2014, the net assets of the Fund would increase / decrease by Rs. 3.71 million, as a result of reduction/increase in Unrealized Gains/(losses).

23.2 Credit risk

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

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

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

The Fund's maximum exposure to credit risk related to receivables at June 30, 2014 and June 30, 2013 is the carrying amounts of following financial assets.

	June 30, 2014	June 30, 2013
	(Rupees in '000')	
Balances with banks	263,245	504,706
Investments	334,521	417,079
Profit and other receivable	29,466	17,057
Advances and deposits	42,043	8,448
	669,275	947,290

The analysis below summaries the credit rating quality of the Fund's financial assets as at June 30, 2014 and June 30, 2013.

Bank Balances by rating category	June 30, 2014	June 30, 2013
AA / A1+	93.13	0.02
AA+ / A1+	5.38	59.32
A / A1	0.00	0.00
AAA / A1+	1.32	1.03
AA- / A1+	0.17	39.63
	100.00	100.00

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

The analysis below summarizes the credit quality of the Fund's investment in term finance certificates and sukuks, term deposit receipts and government securities as at June 30, 2014 and June 30, 2013:

Investments by rating category	June 30, 2014	June 30, 2013
	%	%
Government Securities	52.42	26.92
AAA, AAA-, AAA+	0.00	0.00
AA, AA-, AA+	33.27	53.63
A, A-, A+	14.03	18.93
BBB	0.29	0.53
Non - performing, Unrated	0.00	0.00
	100.00	100.00

Investment in fixed income securities

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

Receivables against sale of units

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

Advances and deposits

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

Concentration of credit risk

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

Settlement risk

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

23.3 Liquidity risk

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

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

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

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

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

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

	30 June 2014			Total
	Up to three months	More than three months and up to one year	More than one year	
	------(Rupees in'000')-----			
Payable to Management Company	1,631	-	-	1,631
Payable to Central Depository Company of Pakistan Limited - Trustee	167	-	-	167
Payable on redemption of units	1,414	-	-	1,414
Accrued expenses and other liabilities	3,449	-	-	3,449
	6,661	-	-	6,661

	30 June 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
	------(Rupees in'000')-----			
Payable to Management Company	1,782	-	-	1,782
Payable to Central Depository Company of Pakistan Limited - Trustee	155	-	-	155
Payable on redemption of units	47	-	-	47
Accrued expenses and other liabilities	933	-	-	933
	2,917	-	-	2,917

23.4 Financial instruments by category

	30 June 2014		Total
	Loans and receivables	Assets at fair value through profit and loss	
	------(Rupees in'000')-----		
Assets			
Balances with banks	263,245	-	263,245
Investments	-	703,027	703,027
Receivable against sale of investments	-	-	-
Income and profit receivable	29,466	-	29,466
Advances and deposits	41,938	-	41,938
	334,649	703,027	1,037,676

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

	30 June 2014		
	Liabilities at fair value through profit and	Other financial liabilities	Total
	------(Rupees in'000')-----		
Liabilities			
Payable to Management Company	-	1,631	1,631
Payable to Central Depository Company of Pakistan Limited- Trustee	-	167	167
Payable against redemption of units	-	1,414	1,414
Accrued expenses and other liabilities	-	3,449	3,449
	<u>-</u>	<u>6,661</u>	<u>6,661</u>

	30 June 2013		
	Loans and receivables	Assets at fair value through profit and	Total
	------(Rupees in'000')-----		
Assets			
Balances with banks	504,706	-	504,706
Receivable against sale of investments	5,039	-	5,039
Investments	-	571,077	571,077
Income and profit receivable	17,057	-	17,057
Advances and deposits	8,355	-	8,355
	<u>535,157</u>	<u>571,077</u>	<u>1,106,234</u>

	30 June 2013		
	Liabilities at fair value through profit and	Other financial liabilities	Total
	------(Rupees in'000')-----		
Liabilities			
Payable to Management Company	-	1,782	1,782
Payable to Central Depository Company of Pakistan Limited- Trustee	-	155	155
Payable against redemption of units	-	47	47
Accrued expenses and other liabilities	-	933	933
	<u>-</u>	<u>2,917</u>	<u>2,917</u>

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

	As at June 30, 2014			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
ASSETS				
Investments	334,521	368,506	-	703,027

	As at June 30, 2013			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
ASSETS				
Investments	417,079	153,998	-	571,077

25. UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

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

In accordance with the risk management policies as stated in note 23, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

26. DISTRIBUTIONS BY THE FUND

26.1 Distributions during the year

	For the year ended 30 June 2014		
	Distribution per unit	Bonus Units	Amount (Rupees in '000)
July 4, 2013	1.16	458,236	23,828
September 27, 2013	0.86	319,890	16,635
December 26, 2013	1.93	363,104	18,827
March 27, 2014	1.11	403,945	21,006
June 27, 2014	1.09	399,128	20,755
		1,944,303	101,051

	For the year ended 30 June 2013		
	Distribution per unit	Bonus Units	Amount (Rupees in '000)
September 27, 2012	1.05	499,440	25,995
December 26, 2012	0.75	348,033	18,112
March 26, 2013	0.71	324,565	16,893
		1,172,038	61,000

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

The Board of Directors on September 22, 2008 have passed a resolution providing standing authorization to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund, in the form of cash or bonus units or in any other form on monthly / quarterly basis. However, the final distributions to the Fund is recommended and approved by the Board of Directors of the Management Company.

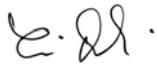
27. OTHER FUNDS MANAGED BY THE FUND MANAGER

Pakistan Cash Management Fund, Pakistan Income Enhancement Fund under the management of MCB-Arif Habib Savings and Investments Limited.

28. DATE OF AUTHORISATION FOR ISSUE

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

**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 LIFE ASSURANCE CO.LTD.(ISF)	1	687,445
Public Sector Companies and Corporations		
	22	901,919
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.		
	7	2,199,475
Individuals		
	890	7,327,300
Trust		
	53	4,186,592
Unitholders holding 5 percent or more Voting interest in the listed company		
NATIONAL REFINERY EXECUTIVE STAFF POST RETIREMENT MEDICAL BENEF	1	1,774,121
NRL MANAGEMENT STAFF PENSION FUND	1	1,253,202
NATIONAL INSURANCE COMPANY LIMITED	1	1,034,381
	976	19,364,435

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

No of Unit Holders	Unit Holdings	Total Units Held
771	1-10000	1,037,652
167	10001-100000	5,642,939
35	100001-1000000	8,622,140
3	1000001-Onwards	4,061,704
<hr/> 976 <hr/>		<hr/> 19,364,435 <hr/>

PERFORMANCE TABLE

Performance Information	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002 *
Total Net Assets Value – Rs. in million	1,008	1,092	1,301	1,814	2,102	2,370	6,070	9,406	5,687	3,707	3,401	1,500	310
Net Assets value per unit – Rupees	52.0400	53.1600	52.0400	53.2000	52.2200	53.0600	51.4800	55.4700	55.1100	54.8500	54.5300	56.7300	51.9400
Highest offer price per unit	54.5800	54.6200	54.6275	54.0598	53.6949	54.0600	54.3600	56.2000	55.8300	55.6000	55.2800	57.5100	54.2700
Lowest offer price per unit	53.2700	52.6300	52.7724	51.9209	51.3634	47.8800	50.9500	50.8000	50.7600	50.6200	51.4700	52.5700	52.4900
Highest Redemption price per unit	53.1100	53.1600	53.8900	53.3300	52.9700	53.3300	53.6300	55.4400	55.0800	54.8500	54.5300	56.7300	51.8300
Lowest Redemption price per unit	51.8400	15.9200	52.0600	51.2200	50.6700	47.2300	50.2600	50.1100	50.0700	49.9400	50.7800	50.2000	50.1300
Distribution per unit (interim) – Rs. (28 Mar-08)				-	-	-	3,3000	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-08)				-	-	1,3000	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-09)				-	1,8700	-	-	-	-	-	-	-	-
Net Assets Value before distribution				-	52,9500	-	-	-	-	-	-	-	-
Net Assets Value after distribution				-	51,0800	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Dec-09)				-	2,0000	-	-	-	-	-	-	-	-
Net Assets Value before distribution				-	52,8200	-	-	-	-	-	-	-	-
Net Assets Value after distribution				-	50,8200	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Mar-10)				-	1,4000	-	-	-	-	-	-	-	-
Net Assets Value before distribution				-	52,0600	-	-	-	-	-	-	-	-
Net Assets Value after distribution				-	50,6600	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (30 Jun-10)				-	1,1000	-	-	-	-	-	-	-	-
Net Assets Value before distribution				-	52,8200	-	-	-	-	-	-	-	-
Net Assets Value after distribution				-	52,2200	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Sep-10)				1,1500	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution				52,5700	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution				51,4200	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Dec-10)				1,4200	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution				53,3300	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution				51,9100	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (29 Mar-11)				1,5000	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution				52,9100	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution				51,4100	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (30 Jun-11)				1,2400	-	-	-	-	-	-	-	-	-
Net Assets Value before distribution				53,2000	-	-	-	-	-	-	-	-	-
Net Assets Value after distribution				51,9600	-	-	-	-	-	-	-	-	-
Distribution per unit (interim) – Rs. (28 Sep-11)			0,8000										
Net Assets Value before distribution			53,0100										
Net Assets Value after distribution			52,2100										
Distribution per unit (interim) – Rs. (26 Jan-12)			1,3700										
Net Assets Value before distribution			53,8300										
Net Assets Value after distribution			52,4600										
Distribution per unit (interim) – Rs. (28 Mar-12)			1,1000										
Net Assets Value before distribution			53,2900										
Net Assets Value after distribution			52,1900										
Distribution per unit (interim) – Rs. (30 Jun-12)			1,4000										
Net Assets Value before distribution			53,2800										
Net Assets Value after distribution			51,8800										
Distribution per unit (interim) – Rs. (27 Sep-12)		1,0500											
Net Assets Value before distribution		53,0900											
Net Assets Value after distribution		52,0400											
Distribution per unit (interim) – Rs. (26 Dec-12)		0,7500											
Net Assets Value before distribution		52,7900											
Net Assets Value after distribution		52,0400											
Distribution per unit (interim) – Rs. (26 Mar-13)		0,7100											
Net Assets Value before distribution		52,7500											
Net Assets Value after distribution		52,0400											
Distribution per unit (interim) – Rs. (04 Jul-12)		1,1600											
Net Assets Value before distribution		53,1600											
Net Assets Value after distribution		52,0000											
Distribution per unit (interim) – Rs. (04 Jul-13)	1,1600												
Net Assets Value before distribution	53,1600												
Net Assets Value after distribution	52,0000												
Distribution per unit (interim) – Rs. (27 Sept -13)	0,8600												
Net Assets Value before distribution	52,8600												
Net Assets Value after distribution	52,0000												
Distribution per unit (interim) – Rs. (26 Dec-13)	1,0000												
Net Assets Value before distribution	52,8500												
Net Assets Value after distribution	51,8500												
Distribution per unit (interim) – Rs. (27 Mar-14)	1,1100												
Net Assets Value before distribution	53,1100												
Net Assets Value after distribution	52,0000												
Distribution per unit (interim) – Rs. (26 Jun-14)	1,0900												
Net Assets Value before distribution	53,0900												
Net Assets Value after distribution	52,0000												
Average Annual Return - %													
One year	8.13	7.16	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Two year	7.64	4.30	9.88	14.10	11.38	9.01	9.97	10.40	9.89	8.56	10.18	-	-
Three year	8.22	3.50	12.18	13.20	10.65	9.57	10.03	10.16	9.07	10.01	-	-	-
Net Income for the period – Rs. in million	78.06	83.83		216.13	283.72	281.27	842.17	918.14	523.84	315.81	284.42	154.30	10.68
Income Distribution – Rs. in million	77.2230	61.0000		194.5510	-	-	-	-	-	-	-	-	-
Total return of the fund	8.13	7.20	9.39	12.50	14.01	8.81	9.23	10.70	10.11	9.63	7.49	13.03	12.76
Dividend distribution	4.99	7.34	9.34	10.62	12.56	7.30	9.50	10.50	10.00	9.60	9.00	12.00	3.50
Capital Growth	3.14	(0.14)	0.05	1.88	1.45	1.51	(0.23)	0.22	0.12	0.04	(1.38)	1.08	1.25

Fund keeps the average duration of its portfolio less than two years.
 * First year of operations from the period 1 March 2002 to 30 June 2002.

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