



MCB-ARIF HABIB
Savings and Investments Limited

ANNUAL REPORT 2019

Funds Under Management of
MCB-Arif Habib Savings and Investments Limited



MCB PAKISTAN SOVEREIGN FUND

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FUND'S INFORMATION

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| Management Company | MCB-Arif Habib Savings & Investments Limited 24th Floor, Centre Point, Off Shaheed-e-Millat Expressway Near K.P.T. Interchange, Karachi. | |
| Board of Directors | Mian Muhammad Mansha Mr. Nasim Beg Mr. Muhammad Saqib Saleem Syed Savail Meekal Hussain Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Qamar Beg | Chairman Vice Chairman Chief Executive Officer Director Director Director Director Director Director |
| Audit Committee | Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Mirza Qamar Beg Mr. Nasim Beg | Chairman Member Member Member |
| Risk Management Committee | Mr. Mirza Qamar Beg Mr. Ahmed Jahangir Mr. Nasim Beg | Chairman Member Member |
| Human Resource & Remuneration Committee | Mr. Mirza Qamar Beg Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Muhammad Saqib Saleem | Chairman Member Member Member Member |
| Chief Executive Officer | Mr. Muhammad Saqib Saleem | |
| Chief Operating Officer & Chief Financial Officer | Mr. Muhammad Asif Mehdi Rizvi | |
| Company Secretary | Mr. Amir Qadir | |
| Trustee | Central Depository Company of Pakistan Ltd. CDC House, 99-B, Block 'B'S.M.C.H.S Main Shahra-e-Faisal Karachi Tel: (92-21) 111-111-500 Fax: (92-21) 34326053 Web: www.cdcpakistan.com | |
| Bankers | Habib Metropolitan Bank Limited United Bank Limited Habib Bank Limited Bank Al Falah Limited Faysal Bank Limited MCB Bank Limited Bank Al Habib Limited Zarai Taraqati Bank Limited National Bank of Pakistan Allied Bank Limited JS Bank Limited | |
| Auditors | Deloitte Yousuf Adil Chartered Accountants Cavish Court, A-35, Block-7 & 8 KCHSU, Shahrah-e-Faisal, Karachi-75350. | |
| Legal Advisor | Bawaney & Partners 3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area Phase VI, D.H.A., Karachi | |
| Transfer Agent | MCB-Arif Habib Savings & Investments Limited 24th Floor, Center point, off Shaheed-e-Millat Express Way Near K.P.T. Interchange, Karachi. | |
| Rating | AM2++Asset Manager Rating assigned by PACRA | |

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2019

Dear Investor,

On behalf of the Board of Directors, we are pleased to present **MCB Pakistan Sovereign Fund** accounts review for the year ended June 30, 2019.

ECONOMY AND MONEY MARKET OVERVIEW

Pakistan's economy inherited myriad of challenges entering into fiscal year 2019, particularly a weak balance of payment and fiscal situation. The macroeconomic imbalances were coped with vigilant policy actions from central bank which resultantly took its toll on the economic growth. Gross Domestic Product (GDP) growth as per the preliminary estimates slowed down to 3.3% compared to 5.2% witnessed during the preceding year. All the three major sectors namely Agriculture, Industrial, and Services witnessed a slowdown posting growth of 0.9%, 1.4% and 4.7% respectively. Agricultural growth faltered as growth in major crops receded, evident from the decline in production of Sugarcane, Cotton & Rice which fell by 19.4%, 17.5% and 3.3% respectively. Industrial growth also weakened as large scale manufacturing (LSM) could not bear the brunt of contractionary policies pursued by central bank to achieve macroeconomic stabilization. LSM posted a decline of 3.7% as industries dependent on government spending and imports faced reduced demand. Among the major LSM sectors, Automobiles and Iron & Steel witnessed a demand contraction of 11.7% and 11.2% respectively. Nevertheless, Services sector provided some rescue to the economic growth, thanks to Finance and Insurance (up 5.4% YoY) and Government Services (up 8.0% YoY). Dollar denominated size of GDP stood at USD ~280 billion compared to USD ~315 billion in the last year, witnessing a contraction of 11%.

At the onset of year, Pakistan was plagued by one of the biggest balance of Payment crisis in its history. While it was facing a Current Account Deficit (CAD) north of USD 19 billion and external repayments worth USD 9 billion, the crisis was compounded by the fact that foreign exchange reserves of mere USD ~10 billion were at hand. Timely policy action by the central bank particularly adjusting the currency by 32% during the year helped in arresting the CAD. Real Effective Exchange Rate (REER) dropped from the overvalued territory in June 18 to become undervalued by 10%. Resultantly, the CAD contracted by 32.1% to USD 13.5 billion during the year. While exports growth did not materialize, improvement in CAD was driven from declining imports of Non-oil goods and services (down 11.8% YoY) and improved remittances (up 9.7% YoY). Default on loan obligations was also averted after Pakistan was successful in getting material inflows (USD ~10 billion) from its friendly allies. Although, narrowing current account deficit along with bilateral flows did provide some breathing space to the balance of payment, State Bank of Pakistan's (SBP) foreign reserves still declined by USD 2.5 billion to USD 7.5 billion due to the gravity of external crisis. At last, Pakistan also signed up for an IMF program during the month of May'19, putting all uncertainty to an end on the external front. The staff level agreement of USD 6.2 billion was reached for a period of three years.

The headline inflation as represented by Consumer Price Index (CPI) accelerated to an average of 7.3% in FY19 compared to 3.9% in the last year. Higher utility tariffs particularly a hike in gas prices (up ~64% YoY) and increased petroleum prices (up ~23% YoY) contributed to the rise in inflation. The regulator allowed for adjustments in utility tariffs as government eliminated the subsidies, while petroleum prices were adjusted after PKR depreciated by more than 30% against USD during the year. Similarly, the lagged impact of PKR depreciation resulted in more pronounced inflation in the second half which increased to an average of 8.6%, compared to 6.0% witnessed in the first half of the fiscal year. In order to control inflation and bring stability to the macroeconomic imbalances, the central bank continued its monetary tightening and increased the interest rates by 575 bps during the course of the year.

Fiscal books of the government continued to deteriorate, with the fiscal deficit reaching an unprecedented 8.9% of the GDP. Total revenue declined by 6% during the year, marred by a sharp drop in non-tax revenue of 44% during the period. Surplus profitability from SBP collapsed to nearly zero, after central bank recorded massive exchange losses due to currency devaluation. Tax collection also remained dismal as YoY collection remained flat, owing to tax exemptions announced in the last budget and a weak economy. On the other hand, total expenditures increased by 11%, despite a 25% cut in development spending. The increase in expenditures was propelled by a surge in current expenditures, particularly as

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the debt servicing costs escalated by 40% YoY due to increase in interest rates. Government relied on domestic sources to fund its deficit, as financing from external sources (Multilateral agencies) dried up since IMF program was not available during the most part of the year. Within the domestic channel, the government relied heavily on central bank borrowing as nearly 70% of the borrowing out of PKR 3 trillion was funded through SBP.

On the money market side, the yield curve shifted on upward trajectory after record monetary tightening by the central bank during the fiscal year. SBP cited rising inflation, twin deficits and declining forex reserves as the prime reasons behind the policy decisions. In the first half of fiscal year, concerns over external front along with unadjusted policy decisions kept market participants at bay from longer tenor instruments. However, by the end of the fiscal year as the policy adjustments were fully in place, market participants drew much comfort which resulted in a massive demand for longer tenor bonds. In fact, the yield curve turned inverted as 10 Year PIB's traded at much lower level compare to short term security papers.

During the year, SBP persistently tried to develop the market for floating rate bonds by conducting regular auctions. The central bank accepted a cumulative amount of PKR 714 billion at a credit spread of 70-75 bps over base rate (6M T-bill yield). On the other hand, the government matured PKR 314 billion of Ijara Sukuks causing a dearth of Shariah Compliant avenues. However, to fund the circular debt, SBP introduced Pakistan Energy SUKUK amounting to PKR 200 billion exclusively for Islamic Banks at 80 bps premium over base rate. Nevertheless, liquidity position throughout the period remained comfortable owing to regular OMOs conducted by SBP.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 7.88% as against its benchmark return of 10.51%. At period-end, the fund increased its exposure in cash to 58.1% from 52.0%.

The Net Assets of the Fund as at June 30, 2019 stood at Rs. 630 million as compared to Rs. 585 million as at June 30, 2018 registering a decline of 7.63%.

The Net Asset Value (NAV) per unit as at June 30, 2019 was Rs. 53.13 as compared to opening NAV of Rs. 55.83 per unit as at June 30, 2018 registering a decrease of Rs. 2.70 per unit.

FUTURE OUTLOOK

Policy adjustments by the central bank will result in macroeconomic consolidation thus restricting the economic growth in low single digits. IMF forecasts Pakistan GDP growth to slow down to 2.5% in FY20, in the wake of tightening policies pursued by the government. Industrial growth will remain muted particularly for the import-driven consumption based sectors. However, export driven industrial companies can provide some respite as the government has incentivized the above, while increased power supply also eliminates bottleneck for them.

Balance of Payment worries are over for now as current account deficit has adjusted to reasonable level since the policy actions taken by the central government. The beginning for the year has been very promising as CAD for July'19 shrank to USD ~600 million, compared to USD ~2,000 million seen during the same period of last year. Our forecast at very conservative assumptions is that CAD will settle at 2.7% of GDP. We have assumed crude oil prices at USD 70 /BBL, which are currently hovering near USD 60/BBL. After signing up for an IMF program, Pakistan will be able to finance its gross finance requirements by tapping into international avenues. Saudi deferred oil facility will also provide a short term buffer to foreign exchange reserves. We expect foreign exchange reserves to increase to USD ~13 billion (up 1.8x) by the end of the current fiscal year. With PKR aligned to its equilibrium levels (Jun'19 REER at 91) and current account deficit in a sustainable range, PKR should now depreciate nominally based on its historical average.

Inflation is expected to pick up to an average of 11.7% in FY20 compared to 7.3% witnessed during the last year. Multiple reason are attributed for the surge in inflation. Firstly, the government is aiming to

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2019

recover the full cost of utilities resulting in the price adjustment of utilities. Secondly, tax exemptions provided to multiple industries have been withdrawn causing a hike in prices. Finally, we have assumed PKR to be north of 170 against USD by the end of fiscal year, while crude oil is assumed at USD 70/BBL which will keep the overall CPI high. Nevertheless, we expect core inflation as represented by Non Food Non Energy (NFNE) to average below 10.0% for the year. We deem that current real interest rate is sufficient to cater for the expected inflation, therefore, in general we do not expect any further increase in interest rates. However, more than expected inflation and any deterioration in fiscal accounts can result in modest tightening in the monetary policy.

On the fiscal side, the government is aiming to limit fiscal deficit at 7.4% of GDP for the year. While the final target for fiscal deficit can evolve, nevertheless, it has to meet the primary condition of IMF for limiting the primary deficit at 0.6% of GDP. For this purpose, FBR is targeting an ambitious tax collection of PKR 5.5 trillion (up 35% YoY). The budget presented in the parliament proposed PKR 600 -700 billion of tax measures, while the remaining amount was kept contingent on FBR efforts and economic growth. On the expenditure side, the government is aiming for austerity measures on the current expenditure side, however, it is aiming for an expansionary Public Sector Development Program (PSDP) of PKR 1.7 trillion (up 40% YoY). We believe the tax collection target to be highly optimistic and expect a shortfall of PKR ~300-400 billion. As a result, the axe can fall on the development spending.

Corporate Governance

The Fund is committed to implement the highest standards of corporate governance. With six (6) non-executive directors including two (2) independent Directors on the Board, as governing body of the Management Company, the Board 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 Pakistan Stock Exchange, which clearly defined the role and responsibilities of Board of Directors and Management.

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

- a. Financial statements present fairly its state of affairs, the results of operations, cash flows and changes in equity.
- b. Proper books of accounts of the Fund have been maintained.
- c. Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting 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 with ongoing efforts to improve it further.
- f. There are no doubts what so ever upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance.
- h. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.

**REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2019**

- i. The statement as to the value of investments of provident/gratuity and pension fund is not applicable on the Fund but applies to the Management Company; hence no disclosure has been made in the Directors' Report.
- j. As at June 30, 2019, the Fund is in compliance with the requirement of Directors' Training Program, as contained in Regulation No. 20 of the Code.
- k. The detailed pattern of unit holding, as required by NBFC Regulations are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in financial statements. Below is the details of committee meetings held during the year ended June 30, 2019:

1. Meeting of the Audit Committee.

During the year, nine (9) meetings of the Audit Committee were held. The attendance of each participant is as follows:

| Name of Persons | Number of meetings held | Number of meetings | | |
|---------------------------------|-------------------------|---------------------|----------|---------------|
| | | Attendance required | Attended | Leave granted |
| 1. Mr. Haroun Rashid (Chairman) | 9 | 9 | 7 | 2 |
| 2. Mr. Ahmed Jahangir | 9 | 9 | 9 | - |
| 3. Mr. Nasim Beg | 9 | 9 | 9 | - |
| 4. Mr. Mirza Qamar Beg | 9 | 9 | 9 | - |

2. Meeting of the Human Resource and Remuneration Committee.

During the year, one (1) meetings of the Human Resource and Remuneration Committee were held. The attendance of each participant is as follows:

| Name of Persons | Number of meetings | Number of meetings | | |
|-------------------------------------|--------------------|---------------------|----------|---------------|
| | | Attendance required | Attended | Leave granted |
| 1. Dr. Syed Salman Shah (Chairman)* | 1 | 1 | 1 | - |
| 2. Mr. Nasim Beg | 1 | 1 | 1 | - |
| 3. Mr. Ahmed Jahangir | 1 | 1 | 1 | - |
| 4. Mr. Haroun Rashid | 1 | 1 | 1 | - |
| 5. Mr. Muhammad Saqib Saleem (CEO) | 1 | 1 | 1 | - |

*Dr. Syed Salman Ali Shah resigned from the Board effective June 10, 2019 and Mirza Qamar Beg was included as a member and also appointed as Chairman of the Committee.

3. Meeting of Risk Management Committee.

During the year, one (1) meetings of the Risk Management Committee were held. The attendance of each participant is as follows:

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| Name of Persons | Number of meetings | Number of meetings | | |
|-----------------------------------|--------------------|---------------------|----------|---------------|
| | | Attendance required | Attended | Leave granted |
| 1. Mr. Mirza Qamar Beg (Chairman) | 1 | 1 | 1 | - |
| 2. Mr. Nasim Beg | 1 | 1 | 1 | - |
| 3. Mr. Ahmed Jahangir | 1 | 1 | 1 | - |

- m. Nil units of the Fund were carried out during the year by Directors, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Company Secretary, and Chief Internal Auditor of the Management Company and their spouses and minor children.

External Auditors

The fund's external auditors, **Deloitte Yousuf Adil Chartered Accountants**, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2020. The audit committee of the Board has recommended reappointment of **Deloitte Yousuf Adil Chartered Accountants** as auditors of the fund for the year ending June 30, 2020.

ACKNOWLEDGMENT

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

On behalf of Directors,



Muhammad Saqib Saleem
Chief Executive Officer
September 13, 2019



Nasim Beg
Director / Vice Chairman

ڈائریکٹرز رپورٹ

عزیز سرمایہ کار

بورڈ آف ڈائریکٹرز کی جانب سے 30 جون 2019ء کو ختم ہونے والے سال کے لیے ایم سی بی پاکستان Sovereign فنڈ کے اکاؤنٹس کا جائزہ پیش خدمت ہے۔

معیشت اور بازار زر کا مجموعی جائزہ

پاکستان کی معیشت کو مالی سال 2019ء میں داخل ہوتے ہوئے بے شمار چیلنجز و رتھ میں ملے، خاص طور پر ادائیگی کے توازن اور مالیات کی کمزور صورتحال۔ گلاں معاشیات کے غیر متوازن عناصر سے نمٹنے کے لیے مرکزی بینک نے چوتھے پالیسی اقدامات کیے جن کے نتیجے میں معاشی ترقی متاثر ہوئی۔ مجموعی ملکی پیداوار (GDP) کی ترقی ابتدائی تخمینوں کے مطابق سال گزشتہ (5.2 فیصد) کے مقابلے میں کم ہو کر 3.3 فیصد رہ گئی۔ تینوں بڑے شعبہ جات یعنی زراعت، صنعت اور سروسز سٹ روی کا شکار ہوئے اور ان کی ترقی کی شرح بالترتیب 0.9 فیصد، 1.4 فیصد اور 4.7 فیصد رہی۔ اہم فصلوں کی نمو میں گراؤٹ کے سبب زرعی ترقی بھی پس ماندگی کا شکار ہوئی جس کا اظہار گئے، کپاس اور چاول کی پیداوار میں بالترتیب 19.4 فیصد، 17.5 فیصد اور 3.3 فیصد کمی سے ہوتا ہے۔ صنعتی ترقی بھی کمزوری کا شکار ہوئی کیونکہ بڑے پیمانے کی پیداوار (LSM) مرکزی بینک کی گلاں معاشیاتی استحکام کے حصول کے لیے اختیار کردہ کانٹریکشنری (حکومتی خرچ یا مالیاتی توسیع کی شرح میں کمی پر مبنی) پالیسیوں کا خمیازہ برداشت نہیں کر سکی۔ LSM میں 3.7 فیصد کمی ہوئی کیونکہ حکومتی خرچ اور درآمدات پر انحصار کرنے والی صنعتوں کو مانگ میں کمی کا سامنا ہوا۔ LSM کے اہم شعبہ جات میں گاڑیوں کے شعبے میں 11.7 فیصد اور لوہے اور اسٹیل کے شعبے میں 11.2 فیصد مانگ کا تضاد ہوا۔ تاہم سروسز کے شعبے نے معاشی ترقی کو کچھ حد تک ڈھال فراہم کیا جس کا سہرہ فائننس اینڈ انشورنس (5.4 فیصد YoY ترقی) اور حکومتی سروسز (8.0 فیصد YoY ترقی) کے سر جاتا ہے۔ GDP کا ڈالر کے اعتبار سے حجم 280 بلین ڈالر تھا جو سال گزشتہ (315 بلین ڈالر) کے مقابلے میں 11 فیصد تضاد ہے۔

سال کے آغاز پر ہی پاکستان اپنی تاریخ کے سب سے بڑے ادائیگی کے توازن کے بحران کا شکار ہوا۔ اگرچہ اسے 19 بلین ڈالر کرنٹ اکاؤنٹ خسارے (CAD) اور 9 بلین ڈالر خارجی ادائیگی نو کا سامنا تھا لیکن یہ بحران شدت اختیار کر گیا کیونکہ غیر ملکی زرمبادلہ کے ذخائر صرف 10 بلین ڈالر رہ گئے تھے۔ مرکزی بینک کے بروقت پالیسی اقدام، خاص طور پر دوران سال روپے میں 32 فیصد ترمیم سے CAD پر قابو پانے میں مدد ملی۔ حقیقی مؤثر شرح مبادلہ (REER) جون 2018ء کے اصل سے زائد قدر کی سطح سے نیچے آئی اور اصل سے 10 فیصد کم قدر کی حامل ہو گئی۔ نتیجتاً CAD دوران سال 32.1 فیصد سکڑ کر 13.5 بلین ڈالر ہو گیا۔ اگرچہ برآمدات میں ترقی نہیں ہو سکی لیکن CAD میں بہتری کے اسباب تیل کے علاوہ والی اشیاء اور سروسز کی درآمدات میں 11.8 فیصد YoY (یور اور یور) کی اور ترسیلات زر میں 9.7 فیصد YoY اضافہ ہے۔ پاکستان کے دوستانہ حلیفوں سے مادی درآمدات زر (10 بلین ڈالر) حاصل کرنے میں کامیابی کے بعد ادائیگی قرض میں کوتاہی بھی ٹل گئی۔ اگرچہ CAD میں کمی کے ساتھ ساتھ رقوم کی دو طرفہ آمدورفت سے ادائیگی کے توازن کا کچھ سانس بحال ہوا لیکن خارجی بحران کی شدت کے باعث اسٹیٹ بینک آف پاکستان (SBP) کے غیر ملکی زرمبادلہ کے ذخائر 2.5 بلین ڈالر کم ہو کر 7.5 بلین ڈالر رہ گئے۔ علاوہ ازیں، ماہ مئی 2019ء کے دوران پاکستان نے بالآخر آئی ایم ایف پروگرام پر دستخط کر دیئے جس سے خارجی میدان میں تمام غیر یقینیوں کا خاتمہ ہو گیا۔ 6.2 بلین ڈالر کا اسٹاف لیول معاہدہ تین برسوں کی مدت کے لیے عمل میں آیا۔

مالی سال 2019ء میں صارفی قیمت کے انڈیکس (CPI) کے مطابق افراط زر مزید تیز رفتار ہو کر 7.3 فیصد کے اوسط تک پہنچ گئی جبکہ گزشتہ سال یہ اوسط 3.9 فیصد تھا۔ افراط زر میں اضافے میں یوٹیلٹیٹیز کے بلند ترین، خاص طور پر گیس کی قیمتوں میں (64 فیصد YoY) اضافہ اور پٹرول کی قیمتوں میں

ڈائریکٹر رپورٹ

(23 فیصد YoY) اضافہ سرگرم عمل ہیں۔ سبسڈیز کے خاتمے کے حکومتی اقدام سے یوٹیلیٹی کے نرخ میں ترمیم کا موقع ملا، جبکہ پٹرول کی قیمتوں میں ترمیم دوران سال روپے کی قدر ڈالر کے مقابلے میں 30 سے زائد فیصد گر جانے کے بعد کی گئی۔ اسی طرح، روپے کی قدر میں کمی کے سبب رفتار اثر کے نتیجے میں افراط زر مالی سال کے نصف ثانی میں شدید تر ہو کر 8.6 فیصد اوسط تک پہنچ گئی جبکہ نصف اول میں 0.6 فیصد تھی۔ افراط زر پر قابو پانے اور گلاں معاشیاتی غیر متوازن عناصر میں استحکام پیدا کرنے کے لیے مرکزی بینک نے مالیاتی سختی کا عمل جاری رکھتے ہوئے انٹریسٹ کی شرحوں میں دوران سال 575 بیسیس پوائنٹس (bps) کا اضافہ کیا۔

حکومت کے مالیاتی اعداد میں پیمانہ سلسلہ جاری رہا اور مالیاتی خسارہ GDP کے 8.9 فیصد تک پہنچ گیا جس کی نظیر نہیں ملتی۔ کل آمدنی میں دوران سال 6 فیصد کمی ہوئی جس کا سبب غیر ٹیکس آمدنی میں دوران مدت 44 فیصد سنگین گراؤ ہے۔ روپے کی قدر میں کمی کے باعث مرکزی بینک کو زرمبادلہ کے خطیر خسارہ جات کا سامنا ہوا اور SBP سے اضافی منافع کے گنجائش تقریباً صفر ہو گئی۔ ٹیکس وصولی بھی مایوس کن رہی کیونکہ گزشتہ بجٹ میں اعلان کردہ ٹیکس استثنائات اور مجموعی طور پر کمزور معیشت کے باعث YoY وصولی میں کوئی اضافہ نہیں ہوا۔ دوسری جانب ترقیاتی خرچ میں 25 فیصد کمی کرنے کے باوجود کل اخراجات میں 11 فیصد اضافہ ہوا۔ اخراجات کے اضافے کو کرنٹ اخراجات میں اضافے نے مزید ہوا دی جس کا اہم سبب انٹریسٹ کی شرحوں میں اضافے کے سبب ادائیگی قرض میں 40 فیصد YoY اضافہ ہے۔ حکومت نے اپنے خسارے کی تلافی کے لیے مقامی ذرائع پر انحصار کیا کیونکہ سال کے اکثر حصے کے دوران آئی ایم ایف پروگرام کی عدم دستیابی کے باعث خارجی ذرائع (کثیر الجہتی ایجنسیاں) غیر مفید ہو گئے تھے۔ مقامی ذرائع میں حکومت نے سب سے زیادہ انحصار سیٹرنل بینک پر کیا کیونکہ 3 ٹریلین روپے قرض میں سے تقریباً 70 فیصد کا انتظام SBP کے ذریعے کیا گیا۔

دوران مالی سال مرکزی بینک کی طرف سے تاحال سب سے زیادہ مالیاتی سختی کے باعث بازار زر کا پیداواری خم بلندی کی طرف مائل ہوا۔ SBP نے بڑھتی ہوئی افراط زر، جڑواں خساروں اور زرمبادلہ کے گھٹتے ہوئے ذخائر کو پالیسی سے متعلق فیصلوں کے عوامل قرار دیا۔ مالی سال کے نصف اول میں خارجی میدان کے ساتھ ساتھ پالیسی کے غیر ترمیم شدہ فیصلوں سے متعلق خدشات نے مارکیٹ کے شرکاء کو طویل ترمیم کے انسٹرومنٹس سے دور رکھا۔ تاہم مالی سال کے اختتام کے قریب جب پالیسی کی ترمیمات پوری طرح نافذ ہو گئیں تب مارکیٹ کے شرکاء نے سکون کا سانس لیا جس کے نتیجے میں طویل ترمیم کے بانڈز کی خطیر مانگ پیدا ہو گئی۔ حتیٰ کہ دس سالہ پاکستان انویسٹمنٹ بانڈز کی تجارت مختصر مدت کے سیکوریٹی پیپرز کے مقابلے میں کافی پست سطح پر ہونے کے سبب پیداواری خم اوندھا ہو گیا۔

دوران سال SBP نے باقاعدہ نیلامیوں کا انعقاد کر کے فلوئنگ ریٹ بانڈز کے لیے مارکیٹ کی ترقی کی مسلسل کوشش کی۔ مرکزی بینک نے base ریٹ (6M ٹریژری بلز پیداوار) کے اوپر 70 سے 75 bps کریڈٹ اسپریڈ پر 714 بلین روپے کی مجموعی رقم قبول کی۔ دوسری جانب حکومت نے 314 بلین روپے کے اجارہ سٹاک میچور کے جس کے سبب شریعت کی تعمیل پر مبنی مواقع کی کمی ہو گئی۔ تاہم گردش قرضے کے لیے رقم کی فراہمی کے لیے SBP نے خاص طور پر اسلاک بینکوں کے لیے base ریٹ کے اوپر 80 پر 200 بلین روپے کے پاکستان انرجی سٹاک متعارف کرائے۔ علاوہ ازیں، SBP کی طرف سے باقاعدہ OMOs کے انعقاد کی بدولت پوری مدت کے دوران نقدیت کی صورتحال تسلی بخش رہی۔

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فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ کا ایک سال پر محیط منافع 7.88 فیصد تھا جبکہ مقررہ معیار 10.51 فیصد تھا۔ اختتام مدت پر فنڈ کی نقد میں شمولیت کو 52.0 فیصد سے بڑھا کر 58.1 فیصد کر دیا گیا۔

30 جون 2019ء کو فنڈ کے net اثاثہ جات 630 ملین روپے تھے جو 30 جون 2018ء (585 ملین روپے) کے مقابلے میں 7.63 فیصد کمی ہے۔

30 جون 2019ء کو net اثاثہ جاتی قدر (NAV) فی یونٹ 53.13 روپے تھی جو 30 جون 2018ء کی ابتدائی NAV (55.83 روپے فی یونٹ) کے مقابلے میں 2.70 روپے فی یونٹ کمی ہے۔

مستقبل کا منظر

مرکزی بینک کی طرف سے پالیسی میں ترمیمات کے نتیجے میں گلاں معاشیاتی یکجہایت عمل میں آئے گی، چنانچہ معاشی ترقی چھوٹے اعداد تک محدود رہے گی۔ حکومت کی اختیار کردہ سختی پر مبنی پالیسیوں کے پیش نظر آئی ایم ایف نے مالی سال 2020ء میں پاکستان کی GDP کی ترقی میں 2.5 فیصد سست روی کی پیش گوئی کی ہے۔ صنعتی ترقی، خاص طور پر درآمدات سے چلنے والے صرف پر مبنی شعبہ جات میں ترقی جمود کا شکار رہے گی۔ تاہم برآمدات سے چلنے والی صنعتی کمپنیوں سے کچھ مہلت ملے گی کیونکہ حکومت نے ان میں ترغیبات متعارف کرائی ہیں، اور توانائی کی فراہمی میں اضافے کی بدولت ان کی رکاوٹیں بھی دور ہوتی ہیں۔

ادائیگی کی توازن کی پریشانیوں فی الوقت ختم ہوگئی ہیں کیونکہ مرکزی حکومت کی طرف سے پالیسی اقدامات کے بعد CAD ترمیم سے گزر کر معقول سطح تک آ گیا ہے۔ سال کا آغاز بہت حوصلہ افزا رہا کیونکہ جولائی 2019ء کا CAD سال گزشتہ کی مماثل مدت کے CAD (2,000 ملین ڈالر) کے مقابلے میں سیکڑ کر 600 ملین ڈالر رہ گیا تھا۔ ہمارے بہت محتاط مفروضوں پر مبنی پیشن گوئی ہے کہ CAD کی سطح GDP کے 2.7 فیصد تک پہنچ کر رک جائے گی۔ ہم نے خام تیل کی قیمتیں 70 ڈالر فی BBL کی سطح پر فرض کی ہیں جو موجودہ طور پر 60 ڈالر فی BBL کے آس پاس ہے۔ ایک آئی ایم ایف پروگرام پر دستخط کرنے کے بعد پاکستان بین الاقوامی مواقع کو استعمال کر کے اپنی مجموعی مالیات کے لیے رقم فراہم کر سکے گا۔ سعودی عرب کی طرف سے تیل کی ملتی شدہ سہولت بھی غیر ملکی زرمبادلہ کے ذخائر کو مختصر المیعاد مطلوبہ توقف فراہم کرے گی۔ ہمیں توقع ہے کہ موجودہ مالی سال کے اختتام تک غیر ملکی زرمبادلہ کے ذخائر بڑھ کر 13 بلین ڈالر تک پہنچ جائیں گے (1.8 ضربے زیادہ)۔ روپے کے توازن کی سطحوں (جون 2019ء REER: 91) تک ہم آہنگ ہونے اور CAD کے پائیدار حد میں ہونے کی وجہ سے روپے کی قدر میں اس کے ماضی کے اوسط کی بنیاد پر اب معمولی کمی ہونی چاہیے۔

مالی سال 2020ء میں افراط زر کا اوسط متوقع طور پر 11.7 فیصد بڑھے گا جو سال گزشتہ کے دوران 7.3 فیصد تھا۔ افراط زر میں اس اضافے کے متعدد عوامل ہیں۔ اول، حکومت یوٹیلٹی کی پوری لاگت وصول کرنے کا ارادہ کر رہی ہے جس کے نتیجے میں یوٹیلٹی کی قیمت میں ترمیمات ہوں گی۔ دوم، متعدد صنعتوں کو فراہم کردہ ٹیکس استثنائات واپس لے لی گئی ہیں جس کے نتیجے میں قیمتوں میں اضافہ ہوا ہے۔ آخری یہ کہ ہم نے مالی سال کے اختتام تک 1 ڈالر کو 170 روپے کے برابر فرض کیا ہے جبکہ خام تیل کو 70 ڈالر فی BBL فرض کیا ہے جس سے مجموعی صارفی قیمت کا انڈیکس (CPI) بلند سطح پر رہے گا۔ علاوہ ازیں، ہمیں اُمید ہے کہ ایشیائی خورد و نوش اور توانائی کے علاوہ والے شعبوں (NFNE) سے ظاہر ہونے والی بنیادی افراط زر کا اوسط زیر بحث سال کے لیے 10.0 فیصد ہوگا۔ ہم سمجھتے ہیں کہ انٹریسٹ کی موجودہ حقیقی شرح متوقع افراط زر کی ضرورت پوری کرنے کے لیے کافی ہوگی، چنانچہ، عمومی طور پر انٹریسٹ کی شرحوں میں مزید اضافہ متوقع نہیں ہے۔ تاہم توقع سے زیادہ افراط زر یا مالیاتی گوشواروں میں کسی تنزیل کے نتیجے میں مانیٹری پالیسی میں معمولی

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سختی عمل میں آسکتی ہے۔

مالیاتی جہت میں حکومت مالیاتی خسارے کو GDP کے 7.4 فیصد تک محدود کرنے کا ارادہ کر رہی ہے۔ اگرچہ مالیاتی خسارے کے حتمی ہدف میں ارتقاء ہو سکتا ہے لیکن حکومت کو بنیادی خسارے کو GDP کے 0.6 فیصد پر محدود کرنے کی آئی ایم ایف کی بنیادی شرط کو پورا کرنا ہے۔ اس مقصد کے لیے فیڈرل بورڈ آف ریونیو (FBR) 5.5 ٹریلین روپے (35 فیصد YoY زیادہ) ٹیکس وصولی کا عزم بلند کیے ہوئے ہے۔ پارلیمنٹ میں پیش کردی جٹ میں 600 سے 700 بلین روپے کے ٹیکس اقدامات کی تجویز دی گئی ہے جبکہ باقی رقم FBR کی کوششوں اور معاشی ترقی پر منحصر رکھی گئی ہے۔ اخراجات کی جہت میں حکومت کرنٹ اخراجات میں سادگی کے اقدامات کا عزم کر رہی ہے تاہم 7.1 ٹریلین روپے (40 فیصد YoY زیادہ) کے ایکسپینڈیچر (یعنی معاشی توسیع پر مبنی) پبلک سیکٹرز ویلپمنٹ پروگرام (PSDP) کا منصوبہ بنا رہی ہے۔ ہم ٹیکس وصولی کی ہدف کو بے حد مثبت خیالی پر مبنی سمجھتے ہوئے 300 سے 400 بلین روپے کی کمی کی توقع کر رہے ہیں جس کے نتیجے میں ترقیاتی خرچ پر ضرب پڑے گی۔

کارپوریٹ گورننس

فنڈ کارپوریٹ گورننس کے اعلیٰ ترین معیارات نافذ کرنے کے لئے پرعزم ہے۔ چھ (6) غیر ایگزیکٹو ڈائریکٹرز بشمول دو (2) خود مختار ڈائریکٹرز پر مشتمل بورڈ، مینجمنٹ کمپنی کے انتظامی ادارے کی حیثیت سے، عمدہ کارپوریٹ گورننس کے لئے یونٹ ہولڈرز کو جو ابہہ ہے۔ انتظامیہ بہترین طریقوں، خاص طور پر غیر ایگزیکٹو ڈائریکٹرز کی خود مختاری کے حوالے سے کارپوریٹ گورننس کے ضابطہء اخلاق کی شقوں کی بدستور تعمیل کر رہی ہے۔ فنڈ پاکستان اسٹاک ایکسچینج کے لسٹنگ قوانین کے مطابق کاروبار جاری رکھنے کے عزم پر قائم ہے جن میں بورڈ آف ڈائریکٹرز اور انتظامیہ کے کردار اور ذمہ داریوں کی وضاحت کی گئی ہے۔

ذیل میں کارپوریٹ گورننس کے ضابطہء اخلاق کی شرائط کی تعمیل کے لئے خصوصی بیانات دیئے جا رہے ہیں:

a. مالیاتی گوشوارے فنڈ کے معاملات کی صورتحال، اس کی سرگرمیوں کے نتائج، نقد کی آمد و رفت اور ایکویٹی میں تبدیلیوں کی منصفانہ عکاسی کرتے ہیں۔
b. فنڈ کی درست بکس آف اکاؤنٹس تیار کی گئی ہیں۔

c. مالیاتی گوشواروں کی تیاری میں درست اکاؤنٹنگ پالیسیوں کا اطلاق کیا گیا ہے اور اکاؤنٹنگ تخمینے معقول اور محتاط اندازوں پر مبنی ہیں۔

d. مالیاتی گوشواروں کی تیاری میں بین الاقوامی مالیاتی رپورٹنگ کے معیار (پاکستان میں اطلاق کی حد تک)، نان بینکنگ فنانس کمپنیز (اسٹیٹسٹمنٹ اینڈ ریگولیشنز) کی دفعات 2003ء، نان بینکنگ فنانس کمپنیز اینڈ نوٹیفائیڈ انٹیلیجنٹ ریگولیشنز 2008ء، متعلقہ ٹرسٹ ڈیڈز کی شرائط اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی جاری کردہ ہدایات کی تعمیل کی گئی ہے۔

e. انٹرنل کنٹرول کا نظام مستحکم خطوط پر استوار اور مؤثر انداز میں نافذ کیا گیا ہے اور اس کی مؤثر نگرانی کی جاتی ہے، اور اسے مزید بہتر بنانے کی کوششیں جاری ہیں۔

f. فنڈ کے کاروبار جاری رکھنے کی صلاحیت میں کوئی شبہات نہیں ہیں۔

g. کارپوریٹ گورننس کی بہترین روایات سے کوئی قابل ذکر انحراف نہیں ہوا ہے۔

h. واجب الاداء ٹیکسز، ڈیوٹیجز، محصولات اور چارجز (اگر کوئی ہیں تو) کو مالیاتی گوشواروں میں مکمل طور پر ظاہر کیا گیا ہے۔

i. پراویڈنٹ / گریجویٹ فنڈ اور پنشن فنڈ میں سرمایہ کاریوں کی مالیت کے اسٹیٹمنٹ کا اطلاق فنڈ پر نہیں ہوتا لیکن مینجمنٹ کمپنی پر ہوتا ہے، چنانچہ ڈائریکٹرز رپورٹ میں اس حوالے سے کوئی معلومات ظاہر نہیں کی گئی ہیں۔

ڈائریکٹرز رپورٹ

j. 30 جون 2019 کے اختتام پر، ڈائریکٹرز ٹریننگ پروگرام کے حوالے سے جو مطالبات کوڈ کے regulation نمبر بیس میں درج ہیں، فنڈ اس سے compliant ہے۔
k. این بی ایف سی کے قواعد و ضوابط کے تحت مطلوب یونٹ ہولڈنگ کا تفصیلی خاکہ ملحق ہے۔
ا. بورڈ آف ڈائریکٹرز کی میٹنگ میں حاضری کی تفصیلات مالیاتی گوشواروں میں ظاہر کی گئی ہیں۔ 30 جون 2019ء کو ختم ہونے والے سال کے دوران ہونے والی کمیٹی میٹنگز کی تفصیلات درج ذیل ہیں:

۱۔ آڈٹ کمیٹی کی میٹنگ

دوران سال آڈٹ کمیٹی کی نو (9) میٹنگز منعقد ہوئیں۔ شرکاء کی حاضری درج ذیل ہے:

| میٹنگز کی تعداد | | | منعقدہ میٹنگز کی تعداد | نام |
|-----------------|-------|--------------|------------------------|------------------------------|
| منظور شدہ رخصت | حاضری | مطلوبہ حاضری | | |
| 2 | 7 | 9 | 9 | ۱۔ جناب ہارون رشید (چیئرمین) |
| - | 9 | 9 | 9 | ۲۔ جناب احمد جہانگیر |
| - | 9 | 9 | 9 | ۳۔ جناب نسیم بیگ |
| - | 9 | 9 | 9 | ۴۔ مرزا محمد قمر بیگ |

۲۔ ہیومن ریسورس اینڈ ریویژن کمیٹی کی میٹنگ

دوران سال ہیومن ریسورس اینڈ ریویژن کمیٹی کی ایک (1) میٹنگ منعقد ہوئی۔ شرکاء کی حاضری درج ذیل ہے:

| میٹنگز کی تعداد | | | منعقدہ میٹنگز کی تعداد | نام |
|-----------------|-------|--------------|------------------------|-----------------------------------|
| منظور شدہ رخصت | حاضری | مطلوبہ حاضری | | |
| - | 1 | 1 | 1 | ۱۔ ڈاکٹر سید سلمان شاہ (چیئرمین)* |
| - | 1 | 1 | 1 | ۲۔ جناب نسیم بیگ |
| - | 1 | 1 | 1 | ۳۔ جناب احمد جہانگیر |
| - | 1 | 1 | 1 | ۴۔ جناب ہارون رشید |
| - | 1 | 1 | 1 | ۵۔ جناب محمد ثاقب سلیم (سی ای او) |

* ڈاکٹر سید سلمان علی شاہ نے 10 جون 2019ء کو بورڈ سے استعفیٰ دیا اور مرزا قمر بیگ ممبر کے طور پر شامل کیا گیا اور کمیٹی کے چیئرمین کے طور پر بھی ان کی تقرری کی گئی۔

ڈائریکٹرز رپورٹ

۳۔ رسک مینجمنٹ کمیٹی کی میٹنگ

دوران سال ہیومن ریسورس اینڈ ریویژن کمیٹی کی ایک (1) میٹنگ منعقد ہوئی۔ شرکاء کی حاضری درج ذیل ہے:

| میٹنگز کی تعداد | | | منعقدہ میٹنگز کی تعداد | نام |
|-----------------|-------|--------------|------------------------|------------------------------|
| منظور شدہ رخصت | حاضری | مطلوبہ حاضری | | |
| - | 1 | 1 | 1 | ۱۔ جناب مرزا تمربگ (چیئرمین) |
| - | 1 | 1 | 1 | ۲۔ جناب نسیم بیگ |
| - | 1 | 1 | 1 | ۳۔ جناب احمد جہانگیر |

m. دوران سال مینجمنٹ کمیٹی کے ڈائریکٹرز، چیف ایگزیکٹو آفیسر، چیف آپریٹنگ آفیسر، چیف فنانشل آفیسر، کمپنی سیکرٹری اور چیف انٹرنل آڈیٹر اور ان کے شریک حیات اور چھوٹے بچوں نے فنڈ کے یونٹس کی کوئی خرید و فروخت نہیں کی۔

خارجی آڈیٹرز

فنڈ کے خارجی آڈیٹرز ڈیلائیٹ یوسف عادل چارٹرڈ اکاؤنٹنٹس نے 30 جون 2020ء کو ختم ہونے والے سال کے لئے فنڈ کے آڈیٹرز کے طور پر کام جاری رکھنے پر رضامندی ظاہر کی ہے۔ بورڈ کی آڈٹ کمیٹی نے 30 جون 2020ء کو ختم ہونے والے سال کے لئے فنڈ کے آڈیٹرز کے طور پر ڈیلائیٹ یوسف عادل چارٹرڈ اکاؤنٹنٹس کی دوبارہ تقرری کی سفارش کی ہے۔

اظہار تشکر

بورڈ آف ڈائریکٹرز فنڈ کے گراں قدر سرمایہ کاروں، سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور فنڈ کے ٹرسٹیوں کی مسلسل معاونت اور پشت پناہی کے لئے شکر گزار ہے۔ علاوہ ازیں، ڈائریکٹرز مینجمنٹ ٹیم کی کوششوں کو بھی خراج تحسین پیش کرتے ہیں۔

من جانب ڈائریکٹرز،



نسیم بیگ
ڈائریکٹر / انس چیئرمین



محمد ثاقب سلیم
چیف ایگزیکٹو آفیسر
13 ستمبر 2019ء

REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2019

Fund Type and Category

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

Fund Benchmark

The benchmark for MSF is 6 month PKRV rates.

Investment Objective

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

Investment Strategy

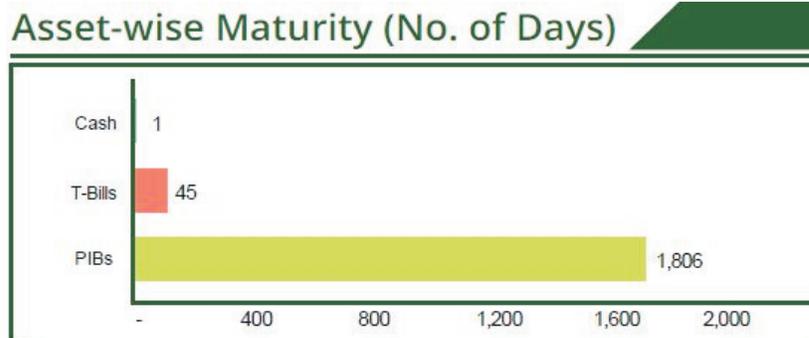
The Fund through active management will aim to provide optimum returns for its Unit Holders by investing in bonds and debt securities issued by the Government of Pakistan as well as Reverse Repurchase transactions (Reverse-REPOs) against government securities. MSF is a long only fund and does not undertake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

Manager's Review

During the period under review, the fund generated an annualized return of 7.88% as against its benchmark return of 10.51%. At period-end, the fund increased its exposure in cash to 58.1% from 52.0%.

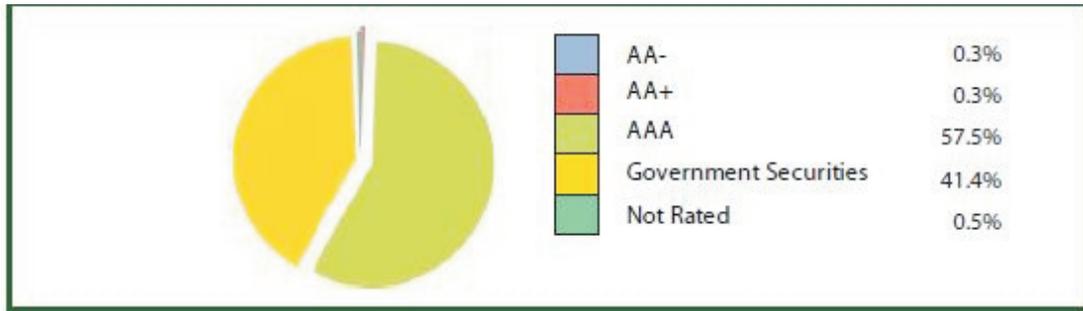
The Net Assets of the Fund as at June 30, 2019 stood at Rs. 630 million as compared to Rs. 585 million as at June 30, 2018 registering a decline of 7.69%.

The Net Asset Value (NAV) per unit as at June 30, 2019 was Rs. 53.13 as compared to opening NAV of Rs. 55.83 per unit as at June 30, 2018 registering a decrease of Rs. 2.70 per unit.



**REPORT OF THE FUND MANAGER
FOR THE YEAR ENDED JUNE 30, 2019**

Asset Quality as of June 30, 2019 (% of total assets)



**Mr. Saad Ahmed
Fund Manager**

TRUSTEE REPORT TO THE UNIT HOLDERS

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) 34326021 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

MCB PAKISTAN SOVEREIGN FUND

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

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Pakistan Sovereign Fund (the Fund) are of the opinion that MCB-Arif Habib Savings and Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2019 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.

Badiuddin Akber
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 18, 2019



INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



Deloitte Yousuf Adil
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Shahrah-e-Faisal
Karachi-75350
Pakistan

Tel: +92 (0) 21 3454 6494-7
Fax: +92 (0) 21- 3454 1314

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INDEPENDENT AUDITOR'S REPORT

To The Unit Holders of MCB Pakistan Sovereign Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **MCB Pakistan Sovereign Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2019, and the income statement, statement of comprehensive income, statement of movement in unit holders' fund and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at June 30, 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund and Management Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* as adopted by the Institute of Chartered Accountants of Pakistan together with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| S. No. | Key audit matter | How the matter was addressed in our audit |
|--------|--|--|
| 1 | Valuation and existence of investments As disclosed in note 5 to the financial statements, investments held at fair value through profit or loss (FVTPL) amounted to Rs. 472.627 million as at June 30, 2019, consisting of Pakistan Investment Bonds and Market Treasury Bills, which represent | We performed the following procedures during our audit of investments: <ul style="list-style-type: none">evaluated design and implementation of controls in place related to purchases and sales of investments; |

Member of
Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



Deloitte Yousuf Adil
Chartered Accountants

| S. No. | Key audit matter | How the matter was addressed in our audit |
|--------|--|---|
| | <p>significant item of the statement of assets and liabilities of the Fund.</p> <p>Considering the above, the existence and valuation are significant areas during our audit due to which we have considered this as a Key Audit Matter.</p> | <ul style="list-style-type: none">independently tested valuations to ensure that the investments are valued as per the valuation methodology disclosed in the accounting policies;independently matched securities held by the Fund with the securities appearing in the Investor Portfolio Securities account statement;tested purchases and sales on a sample basis to obtain evidence regarding movement of the securities; andany differences identified during our testing that were over our acceptable threshold were investigated further. |

Other Matter

The financial statements of the Fund for the year ended June 30, 2018 were audited by another firm of Chartered Accountants who through their report dated September 14, 2018 expressed an unmodified opinion thereon.

Information Other than the Financial Statements and Auditor's Report Thereon

Management Company is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management Company and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, Management Company is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management Company either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Member of
Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



Deloitte Yousuf Adil
Chartered Accountants

Those Charged with Governance of the Management Company are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Management Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Company.
- Conclude on the appropriateness of Management Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged with Governance of the Management Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance of the Management Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Member of
Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

From the matters communicated with Those Charged with Governance of the Management Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is Hena Sadiq.

Deloitte Yousuf Adil
Chartered Accountants =

Date: September 23, 2019

Place: Karachi

Member of
Deloitte Touche Tohmatsu Limited

**STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2019**

| | Note | June 30, 2019 ----- (Rupees in '000) ----- | June 30, 2018 |
|--|------|--|-------------------|
| ASSETS | | | |
| Bank balances | 4 | 663,697 | 592,954 |
| Investments | 5 | 472,627 | 542,864 |
| Profit receivable | 6 | 2,822 | 2,172 |
| Advances, prepayments and other receivables | 7 | 3,094 | 2,818 |
| Total assets | | 1,142,240 | 1,140,808 |
| LIABILITIES | | | |
| Payable to MCB-Arif Habib Savings and Investments Limited - Management Company | 8 | 816 | 477 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 9 | 96 | 90 |
| Payable to the Securities and Exchange Commission of Pakistan | 10 | 491 | 739 |
| Payable against purchase of investments | | 467,813 | 514,487 |
| Dividend payable | | 3,965 | - |
| Accrued expenses and other liabilities | 11 | 39,415 | 40,034 |
| Total liabilities | | 512,596 | 555,827 |
| NET ASSETS | | 629,644 | 584,981 |
| UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED) | | 629,644 | 584,981 |
| CONTINGENCIES AND COMMITMENTS | 12 | | |
| | | ----- (Number of units) ----- | |
| NUMBER OF UNITS IN ISSUE | | 11,850,746 | 10,477,317 |
| | | ----- (Rupees) ----- | |
| NET ASSETS VALUE PER UNIT | | 53.13 | 55.83 |

The annexed notes from 1 to 25 form an integral part of these financial statements.

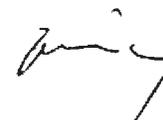
For MCB-Arif Habib Savings and Investments Limited
(Management Company)



Chief Executive Officer



Chief Financial Officer



Director

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2019

| | | June 30, 2019 | June 30, 2018 |
|---|------|------------------------------|------------------|
| | Note | ----- (Rupees in '000) ----- | |
| INCOME | | | |
| Loss on sale of investments - net | | (5,613) | (1,010) |
| Income from Government securities | | 50,406 | 47,280 |
| Markup on deposits with banks | | 15,249 | 15,908 |
| Unrealised diminution on re-measurement of investments at fair value through profit or loss' - net | 5.3 | (763) | (406) |
| Other income | | 1,557 | - |
| Total income | | 60,836 | 61,772 |
| EXPENSES | | | |
| Remuneration of MCB-Arif Habib Savings and Investments Limited - Management Company | 8.1 | 6,299 | 6,295 |
| Sindh sales tax on remuneration of Management Company | 8.2 | 819 | 818 |
| Allocated expense and related taxes | 8.3 | 654 | 1,113 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 9.1 | 980 | 1,412 |
| Sindh Sales Tax on remuneration of Trustee | 9.2 | 129 | 184 |
| Annual fee of Securities and Exchange Commission of Pakistan | 10 | 491 | 739 |
| Provision against Sindh Workers' Welfare Fund | 11.1 | 998 | 997 |
| Auditors' remuneration | 13 | 601 | 600 |
| Brokerage, printing and bank charges | | 361 | 289 |
| Legal and other professional charges | | 579 | 470 |
| Total expenses | | 11,911 | 12,917 |
| Net income for the year from operating activities | | 48,925 | 48,855 |
| Taxation | 14 | - | - |
| Net income for the year after taxation | | 48,925 | 48,855 |
| Allocation of net income for the year: | | | |
| Net income for the year after taxation | | 48,925 | 48,855 |
| Income already paid on units redeemed | | (16,141) | (21,002) |
| | | 32,784 | 27,853 |
| Accounting income available for distribution: | | | |
| Relating to capital gains | | - | - |
| Excluding capital gains | | 32,784 | 27,853 |
| | | 32,784 | 27,853 |
| Earnings per unit | 3.15 | | |

The annexed notes from 1 to 25 form an integral part of these financial statements.

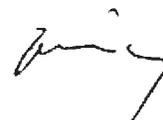
**For MCB-Arif Habib Savings and Investments Limited
(Management Company)**



Chief Executive Officer



Chief Financial Officer



Director

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019**

| | June 30, 2019 ----- (Rupees in '000) ----- | June 30, 2018 ----- (Rupees in '000) ----- |
|---|--|--|
| Net income for the year after taxation | 48,925 | 48,855 |
| Other comprehensive income for the year: | | |
| Item that may be reclassified to income statement in subsequent period: | | |
| Unrealised diminution on re-measurement of investments classified as 'available for sale' | - | (436) |
| Total comprehensive income for the year | 48,925 | 48,419 |

The annexed notes from 1 to 25 form an integral part of these financial statements.

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



Chief Executive Officer



Chief Financial Officer



Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2019

| | For year ended June 30, | | | | | | | |
|---|-------------------------|--|----------|----------------|------------------|--|------------|----------------|
| | 2019 | | | | 2018 | | | |
| | (Rupees in '000) | | | | | | | |
| Capital Value | Accumulated loss | Unrealised appreciation / (diminution) on available-for-sale investments | Total | Capital Value | Accumulated loss | Unrealised (losses) / gains on available for sale investment | Total | |
| Net assets at beginning of the year | 1,310,356 | (725,494) | 119 | 584,981 | 2,104,177 | (753,347) | 555 | 1,351,385 |
| Adoption of IFRS 9 (note 3.1) | - | 119 | (119) | - | - | - | - | - |
| Issue of 23,555,156 units (2018: 5,293,522 units): | | | | | | | | |
| - Capital value (at net asset value per unit at the beginning of the year) | 1,250,308 | - | - | 1,250,308 | 281,242 | - | - | 281,242 |
| - Element of income | 110,921 | - | - | 110,921 | 9,176 | - | - | 9,176 |
| | 1,361,229 | - | - | 1,361,229 | 290,418 | - | - | 290,418 |
| Redemption of 22,181,727 units (2018: 20,251,903 units): | | | | | | | | |
| - Capital value (at net asset value per unit at the beginning of the year) | (1,177,406) | - | - | (1,177,406) | (1,075,973) | - | - | (1,075,973) |
| - Amount paid out of element of income - Relating to 'Net income for the period after taxation' | (97,579) | (16,141) | - | (113,720) | (8,266) | (21,002) | - | (29,268) |
| | (1,274,985) | (16,141) | - | (1,291,126) | (1,084,239) | (21,002) | - | (1,105,241) |
| Final distributions for the year ended June 30, 2018 (including additional units at the rate of Rs. 2.75 per unit (Declared on July 04, 2018) | (960) | (27,853) | - | (28,813) | - | - | - | - |
| Total comprehensive income for the year | - | 48,925 | - | 48,925 | - | 48,855 | (436) | 48,419 |
| Final distributions for the year ended June 30, 2019 (including additional units at the rate of Rs. 4.13 per unit (Declared on June 27, 2019) | (13,215) | (32,337) | - | (45,552) | - | - | - | - |
| Net income for the year less distribution | (14,175) | (11,265) | - | (25,440) | - | 48,855 | (436) | 48,419 |
| Net assets as at the end of the year | 1,382,425 | (752,781) | - | 629,644 | 1,310,356 | (725,494) | 119 | 584,981 |
| Undistributed loss brought forward | | | | | | | | |
| - Realised | | (725,088) | | | | (753,344) | | |
| - Unrealised | | (406) | | | | (3) | | |
| | | (725,494) | | | | (753,347) | | |
| Adoption of IFRS 9 | | 119 | | | | | | |
| Accounting income available for distribution | | | | | | | | |
| - Relating to capital gains | | - | | | | - | | |
| - Excluding capital gains | | 32,784 | | | | 27,853 | | |
| | | 32,784 | | | | 27,853 | | |
| Distributions during the year | | (60,190) | | | | - | | |
| Undistributed loss carried forward | | (752,781) | | | | (725,494) | | |
| Undistributed loss carried forward | | | | | | | | |
| - Realised | | (752,018) | | | | (725,088) | | |
| - Unrealised | | (763) | | | | (406) | | |
| | | (752,781) | | | | (725,494) | | |
| | --- (Rupees) --- | | | | --- (Rupees) --- | | | |
| Net assets value per unit as at beginning of the year | 55.83 | | | | 55.13 | | | |
| Net assets value per unit as at end of the year | 53.13 | | | | 55.83 | | | |

The annexed notes from 1 to 25 form an integral part of these financial statements.

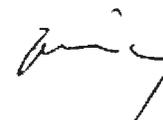
For MCB-Arif Habib Savings and Investments Limited (Management Company)



Chief Executive Officer



Chief Financial Officer



Director

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2019

| | Note | June 30, 2019 ----- (Rupees in '000) ----- | June 30, 2018 |
|---|------|--|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | 48,925 | 48,855 |
| Adjustments for: | | | |
| Unrealised diminution on re-measurement of investments at fair value through profit or loss' - net | | 763 | 406 |
| Provision against Sindh Workers' Welfare Fund | | 998 | 997 |
| | | <u>50,686</u> | <u>50,258</u> |
| Decrease / (Increase) in assets | | | |
| Investments - net | | 22,821 | 646,787 |
| Profit receivable | | (650) | 2,494 |
| Advances, prepayments and other receivables | | (276) | 156 |
| | | <u>21,895</u> | <u>649,437</u> |
| Increase / (decrease) in liabilities | | | |
| Payable to the Management Company | | 339 | (918) |
| Payable to the Trustee | | 6 | (127) |
| Payable to the Securities and Exchange Commission of Pakistan | | (248) | (3,210) |
| Payable against purchase of investments | | (46,674) | (431,208) |
| Dividend payable | | 3,965 | - |
| Accrued expenses and other liabilities | | (1,617) | (12,777) |
| | | <u>(44,229)</u> | <u>(448,240)</u> |
| Net cash generated from operating activities | | <u>28,352</u> | <u>251,455</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Receipts from issuance of units | | 1,347,054 | 290,418 |
| Payments on redemption of units | | (1,291,126) | (1,105,241) |
| Distribution made during the year | | (60,190) | - |
| Net cash used in financing activities | | <u>(4,262)</u> | <u>(814,823)</u> |
| Net increase / (decrease) in cash and cash equivalents during the year | | <u>24,090</u> | <u>(563,368)</u> |
| Cash and cash equivalents at beginning of the year | | 1,107,480 | 1,670,848 |
| Cash and cash equivalents at end of the year | 16 | <u>1,131,570</u> | <u>1,107,480</u> |

The annexed notes from 1 to 25 form an integral part of these financial statements.

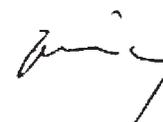
For MCB-Arif Habib Savings and Investments Limited
(Management Company)



Chief Executive Officer



Chief Financial Officer



Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Pakistan Sovereign Fund (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited as Management Company and Habib Metropolitan Bank Limited as Trustee. Pursuant to the merger of MCB Asset Management Limited and Arif Habib Investment Limited, the name of the Management Company has been changed from Arif Habib Investments Limited to MCB–Arif Habib Savings and Investments Limited with effect from June 27, 2011. During the year ended June 30, 2010, Habib Metropolitan Bank Limited retired as the Trustee of the Scheme and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from November 23, 2009. The Trust Deed was executed on December 24, 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 07, 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules)].

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through certificate of registration issued by SECP. The registered office of the Management Company is situated at 24th Floor, Centre Point, off. Shaheed-e-Millat Expressway, Near KPT Interchange, Karachi, Pakistan.

The Board of Directors have approved that the Fund should be categorised as 'Income Scheme' as per the categories defined by the Securities and Exchange Commission of Pakistan Circular 7 of 2009 dated March 06, 2009. The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the Funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The Fund is listed on the Pakistan Stock Exchange Limited.

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

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM2++' dated April 08, 2019 to the Management Company and has assigned stability rating of 'AA-(f)' dated June 27, 2019 to the Fund. The Fund consists of a 'Perpetual' (the scheme).

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017 (the Act);
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984;
- The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the requirements of the Trust Deed.

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed have been followed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

2.2 New accounting standards, amendments and IFRS interpretations that are effective for the year ended June 30, 2019

The following standards, amendments and interpretations are effective for the year ended June 30, 2019. 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 and impact of IFRS 9 as disclosed in note 3.1.

| | Effective from accounting period beginning on or after: |
|--|--|
| IFRS 9 'Financial Instruments' - This standard will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date. | July 01, 2018 |
| IFRS 15 'Revenue from Contracts with Customers' - This standard will supersede IAS 18, IAS 11, IFRIC 13, 15 and 18 and SIC 31 upon its effective date. | July 01, 2018 |
| IFRS 4 'Insurance Contracts': Amendments regarding the interaction of IFRS 4 and IFRS 9. | January 01, 2018 |
| Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions | January 01, 2018 |
| Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property | January 01, 2018 |
| IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency. | January 01, 2018 |

Certain annual improvements have also been made to a number of IFRSs.

2.3 New accounting standards, amendments and IFRS interpretations that are not yet effective

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

| | Effective from accounting period beginning on or after: |
|---|---|
| IFRS 16 'Leases': This standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date. | January 01, 2019 |
| Amendments to IFRS 3 'Business Combinations' - Amendments regarding the definition of business | January 01, 2020 |
| Amendments to IFRS 9 'Financial Instruments' - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities | January 01, 2019 |
| Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture | Effective from accounting period beginning on or after a date to be determined. Earlier application is permitted. |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| | Effective from accounting period beginning on or after: |
|--|--|
| Amendments to References to the Conceptual Framework in IFRS Standards | January 01, 2020 |
| Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Amendments regarding the definition of material | January 01, 2020 |
| Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements. | January 01, 2019 |
| Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. | January 01, 2019 |
| IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. | January 01, 2019 |

Certain annual improvements have also been made to a number of IFRSs.

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 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

2.4 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in the application of its accounting policies. The estimates, judgments and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis.

The areas involving a degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements are as follows:

- Classification and valuation of financial assets (notes 3.1 and 5)
- Impairment of financial assets (note 3.1)
- Classification and valuation of financial liabilities (note 3.1)
- Taxation (notes 3.8 and 14)

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

2.5 Basis of measurement

These financial statements have been prepared under the historical cost convention except for investments that are measured at fair value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

2.6 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency. Amounts presented in the financial statements have been rounded off to the nearest thousand rupees, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as explained in note 3.1 to these financial statements.

3.1 Impact of initial application of IFRS 9 Financial Instruments

- 3.1.1 During the current financial year, the Fund has applied IFRS 9 Financial Instruments issued in July 24, 2017 and the related consequential amendments to other IFRS Standards that are effective for an annual period ending on or after June 30, 2019 based on adoption date communicated by Securities and Exchange Commission of Pakistan. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Fund has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Fund's financial statements are described below except the General Hedge Accounting which the Fund does not apply. The Fund has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Fund has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is July 01, 2018. Accordingly, the Fund has applied the requirements of IFRS 9 to instruments that continue to be recognised as at July 01, 2018 and has not applied the requirements to instruments that have already been derecognised as at July 01, 2018. Comparative amounts in relation to instruments that continue to be recognised as at July 01, 2018 have not been restated as allowed by IFRS 9.

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

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

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Fund may make the following irrevocable election/designation at initial recognition of a financial asset;

- the Fund may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Fund has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from unit holders' fund to income statement as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to undistributed income directly.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. Please see para (b) below for applicability of impairment requirements of IFRS 9.

The Management has reviewed and assessed the Fund's existing financial assets as at July 01, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Fund's financial assets as regards their classification and measurement.

- The Fund's investment in debt instruments that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTPL because they are held within a business model whose objective is primarily to sell the bonds. The change in the fair value on these redeemable notes will be recorded in the profit or loss account;
- there is no change in the measurement of the Fund's investments in government securities that were held for trading under IAS 39; those instruments were and continue to be measured in the same manner under the new classification of IFRS 9 i.e. at FVTPL;
- the Fund's investment in government securities that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTPL because they are held within a business model whose objective is primarily to sell the securities. The change in the fair value on these securities will be recorded in the income statement;
- financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost, continue to be measured at amortised cost using effective interest rate method under the new classification of IFRS 9 "Amortised Cost" as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The evaluation of the performance of the Fund has been performed on fair value basis for the entire portfolio, as reporting to the key management personnel and to the investors is in the form of net asset value (NAV). The investment portfolio of financial assets is also managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. Consequently, all the investments are measured at fair value through profit or loss. For other financial assets which are held for collection continue to be measured at amortised cost.

None of the other reclassifications of financial assets have had any impact on the Fund's statement of assets and liabilities, income statement, other comprehensive income or total comprehensive income in either year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

(b) Impairment of financial assets

The SECP/Commission has through its letter no. SCD/AMCW/RS/MUFAP/2017-148 dated November 21, 2017 has deferred the applicability of the impairment requirements of IFRS 9 for debt securities on mutual funds. Therefore the Fund will not be subject to the impairment provisions of IFRS 9 on debt securities.

For financial assets other than debt securities measured at amortised cost, IFRS 9 requires recognition of impairment based on expected credit loss (ECL) model rather than incurred credit loss model as previously required under IAS 39. Under IFRS 9, the Fund is required to measure loss allowance equal to an amount equal to lifetime ECL or 12 months ECL based on credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

However, majority of the assets of the Fund exposed to credit risk pertain to counter parties which have high credit rating or where credit risk has not been increased since initial recognition. Therefore, management believes that the impact of ECL would be very minimal and hence, the same has not been accounted for in these financial statements.

(c) Classification and measurement of financial liabilities

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

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

The application of IFRS 9 has had no impact on the classification and measurement of the Fund's financial liabilities because the Fund does not have any financial liabilities designated as FVTPL.

(d) Disclosures in relation to the initial application of IFRS 9

The table below shows impact of change in accounting policies due to adoption of IFRS 9:

| Financial assets and financial liabilities | Original classification as per IAS 39 | New classification as per IFRS 9 | Carrying amount as per IAS 39 as on June 30, 2018 | Carrying amount on initial adoption of IFRS 9 on July 01, 2018 | Effect on July 01, 2018 on Retained Earnings |
|--|---------------------------------------|----------------------------------|---|--|--|
|--|---------------------------------------|----------------------------------|---|--|--|

Financial assets

| | | | | | |
|---|-----|-------|---------|---------|-----|
| Bank balances | LR | AC | 592,954 | 592,954 | - |
| Government securities - Pakistan investment bonds | HFT | FVTPL | 16,889 | 16,889 | - |
| Government securities - Pakistan investment bonds | AFS | FVTPL | 11,449 | 11,449 | 119 |
| Government securities - Treasury bills | HFT | FVTPL | 514,526 | 514,526 | - |
| Profit receivable | LR | AC | 2,172 | 2,172 | - |
| Other receivables | LR | AC | 5 | 5 | - |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| Financial assets and financial liabilities | Original classification as per IAS 39 | New classification as per IFRS 9 | Carrying amount as per IAS 39 as on June 30, 2018 | Carrying amount on initial adoption of IFRS 9 on July 01, 2018 | Effect on July 01, 2018 on Retained Earnings |
|--|---------------------------------------|----------------------------------|---|--|--|
|--|---------------------------------------|----------------------------------|---|--|--|

Financial liability

| | | | | | |
|---|-----|----|---------|---------|---|
| Payable to the Management Company | OFL | AC | 424 | 424 | - |
| Payable to the Trustee | OFL | AC | 80 | 80 | - |
| Payable against purchase of investments | OFL | AC | 514,487 | 514,487 | - |
| Dividend payable | OFL | AC | - | - | - |
| Accrued expenses and other liabilities | OFL | AC | 2,261 | 2,261 | - |

- "LR" is loans and receivables

- "AC" is amortised cost

- "HFT" is held for trading

- "FVTPL" is fair value through profit or loss

- "OFL" is other financial liabilities

3.1.2 Fair value measurement principles and provision

The fair value of financial instruments is determined as follows:

Basis of valuation of government securities:

The government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system (PKRV / PKISRV rates) which are based on the remaining tenor of the securities.

3.1.3 Transition to IFRS 9 Financial Instruments

Accounting policies applied to financial instruments prior to July 01, 2018.

Classification

The Fund classifies its financial assets in the following categories: 'at fair value through profit or loss', loans and receivables, and 'available for sale'. The classification depends on the purpose for which the financial assets were acquired. The management determines the appropriate classification of its financial assets at the time of initial recognition and re-evaluates this classification on a regular basis.

(a) Investments as 'at fair value through profit or loss'

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

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

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

(b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

(c) Available for sale

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

Measurement

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

Subsequent to initial recognition, instruments classified as financial assets '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 at fair value through profit or loss' are recognised in the Income Statement. The changes in the fair value of instruments classified as 'available for sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are transferred to Income Statement through other comprehensive income.

Financial assets classified as 'loans and receivables' are carried at amortised cost using the effective yield method, less impairment losses, if any.

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

3.2 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturity of three months or less, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value.

3.3 Financial liabilities

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

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

3.4 Offsetting of financial assets and liabilities

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

3.5 Provisions

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

3.6 Taxation

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

3.7 Dividend distribution and appropriations

Dividend distributions and appropriations are recorded in the period in which these are approved by the Board of Directors of the Management Company. Based on the Mutual Funds Association of Pakistan's (MUFAP) guidelines duly consented by the SECP, distribution for the year also includes portion of income already paid on units redeemed during the year.

Regulation 63 of the NBFC Regulations requires the Fund to distribute 90% of the net accounting income other than capital gains to the unit holders.

Distributions declared subsequent to the year end / reporting date are considered as non-adjusting events and are recognised in the financial statements of the period in which such distributions are declared and approved by the Board of Directors of the Management Company.

3.10 Issue and redemption of units

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

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications during business hours of 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, and charges on redemption, if applicable.

Element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. Further, the element of income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution.

3.11 Net asset value per unit

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

3.12 Revenue recognition

- Gain or loss on sale of investment is accounted for in the income statement in the period in which it arises.
- Unrealised gain / loss arising on revaluation of investments classified as 'at fair value through profit or loss' is included in the income statement in the period in which it arises.
- Income / profit from bank balances and investments in government securities is recognised on a time proportionate basis using effective interest rate method.

3.13 Transaction costs

Transaction costs incurred to acquire assets at FVTPL are immediately recognised as expenses in the income statement.

3.14 Expenses

All expenses chargeable to the Fund including remuneration of the Management Company, Trustee fee and annual fee of the SECP are recognised in the Income Statement on an accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

3.15 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.

| | Note | June 30, 2019 | June 30, 2018 |
|--------------------------------|------|------------------------------|-----------------------|
| | | ----- (Rupees in '000) ----- | |
| 4. BANK BALANCES | | | |
| Balances with banks in: | | | |
| In savings accounts | 4.1 | 660,792 | 592,134 |
| In current accounts | | <u>2,905</u> | <u>820</u> |
| | 4.2 | <u><u>663,697</u></u> | <u><u>592,954</u></u> |

4.1 These carry mark-up at rates ranging between 10.25% to 13% (2018: 3.75% to 7.20%) per annum.

4.2 These include a balance of Rs. 5.359 (2018: Rs.1.44) million held with MCB Bank Limited (a related party).

| | Note | June 30, 2019 | June 30, 2018 |
|--|-------|------------------------------|-----------------------|
| | | ----- (Rupees in '000) ----- | |
| 5. INVESTMENTS | | | |
| Financial assets 'at fair value through profit or loss' | | | |
| Government securities - Pakistan investment bonds | 5.1.1 | 4,754 | 28,338 |
| Government securities - Treasury bills | 5.1.2 | <u>467,873</u> | <u>514,526</u> |
| | | <u><u>472,627</u></u> | <u><u>542,864</u></u> |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

5.1 Financial assets 'at fair value through profit or loss'

5.1.1 Government securities - Pakistan Investment Bonds

| Name of security | Date of issue | Face value | | | As at June 30, 2019 | | | Market value | |
|---|---------------|---------------------|---------------------------|--------------------------------|---------------------|----------------|--------------|-------------------------------|--------------------------------------|
| | | As at July 01, 2018 | Purchased during the year | Sold / matured during the year | As at June 30, 2019 | Carrying value | Market value | As a percentage of net assets | As a percentage of total investments |
| Pakistan Investment Bonds - 10 years | 19-Jul-12 | 15,200 | - | 15,200 | - | - | - | - | - |
| | 9-Aug-18 | - | 340,000 | 340,000 | - | - | - | - | - |
| | 21-Feb-19 | - | 50,000 | 50,000 | - | - | - | - | - |
| | 19-Jul-12 | 50 | - | 50 | - | - | - | - | - |
| Pakistan Investment Bonds - 20 years (note 5.1.1.1) | 10-Jun-04 | 5,500 | - | - | 5,500 | 5,577 | 4,754 | (823) | 0.76 |
| Pakistan Investment Bonds - 3 years | 12-Jul-18 | - | 665,000 | 665,000 | - | - | - | - | - |
| Pakistan Investment Bonds - 5 years | 12-Jul-18 | - | 50,000 | 50,000 | - | - | - | - | - |
| | 18-Jul-13 | 480 | - | 480 | - | - | - | - | - |
| | 26-Mar-15 | 5,000 | - | 5,000 | - | - | - | - | - |
| As at June 30, 2019 | | | | | | 5,577 | 4,754 | (823) | |
| As at June 30, 2018 | | | | | | 28,667 | 28,338 | (329) | |

5.1.1.1 This will mature latest by June 10, 2024 and carry interest at the rate of 10%.

5.1.2 Government securities - Treasury Bills

| Name of security | Date of issue | Face value | | | As at June 30, 2019 | | | Market value | |
|---|---------------|---------------------|---------------------------|--------------------------------|---------------------|----------------|----------------|-------------------------------|--------------------------------------|
| | | As at July 01, 2018 | Purchased during the year | Sold / matured during the year | As at June 30, 2019 | Carrying value | Market value | As a percentage of net assets | As a percentage of total investments |
| Market treasury bills - 3 months | 7-Jun-18 | 520,000 | - | 520,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 6-Dec-18 | - | 1,125,000 | 1,125,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 10-May-18 | - | 420,000 | 420,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 19-Jul-18 | - | 720,000 | 720,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 2-Aug-18 | - | 1,490,000 | 1,490,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 11-Oct-18 | - | 450,000 | 450,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 6-Dec-18 | - | 1,200,000 | 1,200,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 3-Jan-19 | - | 400,000 | 400,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 17-Jan-19 | - | 580,000 | 580,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 14-Feb-19 | - | 1,450,000 | 1,450,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 11-Apr-19 | - | 100,000 | 100,000 | - | - | - | - | - |
| Market treasury bills - 3 months | 9-May-19 | - | 1,675,000 | 1,675,000 | - | - | - | - | - |
| Market treasury bills - 3 months (note 5.1.2.1) | 23-May-19 | - | 1,500,000 | 1,025,000 | 475,000 | 467,813 | 467,873 | 60 | 74.31 |
| As at June 30, 2019 | | | | | | 467,813 | 467,873 | 60 | |
| As at June 30, 2018 | | | | | | 514,482 | 514,526 | 44 | |

5.1.2.1 This will mature latest by August 15, 2019 and carry effective yield at the rate 12.745% per annum.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

| | Note | June 30, 2019 | June 30, 2018 |
|---|---------------|------------------------------|------------------|
| | | ----- (Rupees in '000) ----- | |
| 5.3 Net unrealised appreciation in value of investments at fair value through profit or loss | | | |
| Market value as at June 30 | 5.1.1 & 5.1.2 | 472,627 | 531,415 |
| Carrying value as at June 30 | 5.1.1 & 5.1.2 | <u>(473,390)</u> | <u>(531,819)</u> |
| | | <u>(763)</u> | <u>(404)</u> |

6. PROFIT RECEIVABLE

Profit receivable on:

| | | | |
|-----------------------|-----|--------------|--------------|
| Deposits with banks | 6.1 | 2,790 | 1,002 |
| Government securities | | <u>32</u> | <u>1,170</u> |
| | | <u>2,822</u> | <u>2,172</u> |

6.1 This includes a balance of Rs.0.84 (2018: Rs.0.86) million receivable on balances held with MCB Bank Limited (a related party).

| | Note | June 30, 2019 | June 30, 2018 |
|--|------|------------------------------|------------------|
| | | ----- (Rupees in '000) ----- | |
| 7. ADVANCE, PREPAYMENTS AND OTHER RECEIVABLES | | | |
| Advance tax | | 2,833 | 2,813 |
| Prepayment | | 183 | - |
| Other receivables | | <u>78</u> | <u>5</u> |
| | | <u>3,094</u> | <u>2,818</u> |

8. PAYABLE TO MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED - MANAGEMENT COMPANY

| | | | |
|--|-----|------------|------------|
| Management remuneration payable | 8.1 | 672 | 375 |
| Sindh Sales Tax on management remuneration payable | 8.2 | 87 | 49 |
| Payable against allocated expenses | 8.3 | <u>57</u> | <u>53</u> |
| | | <u>816</u> | <u>477</u> |

8.1 The management fees is being calculated on the lower of 10% of the Fund's operating revenue or 1.5% of average daily net assets subject to minimum fee of 0.5% of average daily net assets.

8.2 Sales tax on management remuneration has been charged at the rate of 13% (2018: 13%).

8.3 Up till June 19, 2019, in accordance with the provisions of the NBFC Regulations, 2008 (as amended vide S.R.O 1160(I) / 2015 dated November 25, 2015), the Management Company was entitled to charge expenses related to registrar services, accounting, operations and valuation services, related to a Collective Investment Scheme (CIS) at the rate of 0.1% of the average annual net assets of the scheme or actual whichever is less. During the year, SECP, vide SRO no. 639 (I)/2019 dated June 20, 2019, has removed the maximum cap of 0.1%. Accordingly, the Management Company has charged expenses at the rate of 0.1% per annum of the average annual net assets of the Fund being lower than actual expenses chargeable to the Fund, from July 01, 2018 to June 19, 2019 and actual expenses related to registrar services, accounting, operations and valuation services to the CIS with effect from June 20, 2019.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| | Note | June 30, 2019 | June 30, 2018 |
|---|---|---|------------------|
| | | ----- (Rupees in '000) ----- | |
| 9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE | | | |
| Trustee remuneration payable | 9.1 | 85 | 80 |
| Sindh Sales Tax on remuneration of the trustee | 9.2 | 11 | 10 |
| | | 96 | 90 |
| | | | |
| 9.1 | The Trustee, CDC is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Documents as per the tariff specified therein, based on the daily net assets value of the Fund. As per the Trust Deed and Offering Document the tariff structure applicable to the Fund in respect of trustee fee is as follows: | | |
| | Average net assets value | Tariff per annum | |
| | Up to Rs.1 billion | 0.15% per annum of net assets | |
| | Rs.1 billion to Rs.10 billion | Rs.1.5 million plus 0.075% p.a. of net assets exceeding Rs.1 billion | |
| | Over Rs.10 billion | Rs.8.25 million plus 0.06% p.a. of net assets exceeding Rs.10 billion | |
| 9.2 | Sales tax on remuneration of the Trustee has been charged at the rate of 13% (2018: 13%). | | |
| | | | |
| 10. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | | | |
| | Note | June 30, 2019 | June 30, 2018 |
| | | ----- (Rupees in '000) ----- | |
| Annual fee payable to the SECP | 10.1 | 491 | 739 |
| | | 491 | 739 |
| | | | |
| 10.1 | Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as an income scheme is required to pay as annual fee to the SECP, an amount equal to 0.075% of the average daily net assets of the Fund. | | |
| | | | |
| 11. ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| | Note | June 30, 2019 | June 30, 2018 |
| | | ----- (Rupees in '000) ----- | |
| Provision against Sindh Workers' Welfare Fund | 11.1 | 5,511 | 4,513 |
| Provision for Federal Excise Duty and related tax on | | | |
| - Management fee | 11.2 | 29,028 | 29,028 |
| - Sales load | | 4,170 | 4,170 |
| Withholding tax payable | | 57 | 62 |
| Auditors' remuneration | | 346 | 366 |
| Brokerage | | 68 | 33 |
| Others | | 235 | 1,862 |
| | | 39,415 | 40,034 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

11.1 Provision for Sindh Workers' Welfare Fund (SWWF)

The Supreme Court of Pakistan passed a judgment on November 10, 2016, which upheld the view of Lahore High Court, declaring the insertion of amendments through Finance Acts 2006 and 2008 pertaining to Workers' Welfare Fund (WWF) as unlawful and there by striking down the amendments introduced through these Finance Acts. The Federal Board of Revenue has filed a petition in the Supreme Court against the said judgment, which is pending hearing.

Mutual Fund Association of Pakistan (MUFAP), on behalf of all Asset Management Companies (AMCs), obtained a legal opinion dated December 5, 2016 on the matter, according to which there is no longer any basis in law to claim WWF payments from the mutual funds under the WWF Ordinance. After deliberating the position, The Mutual Fund Association of Pakistan (MUFAP) decided that the provision for WWF held for the period from January 1, 2013 to June 30, 2015 be reversed effective January 12, 2017.

Furthermore, the Sindh Revenue Board (SRB) had written to mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after December 31, 2013. MUFAP reviewed the issue and based on an opinion dated August 2016 decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. MUFAP wrote to SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. SRB on November 11, 2016 responded back that as mutual funds are included in definition of financial institutions in The Financial Institutions (Recovery of Finance) Ordinance, 2001, SWWF is payable by them. MUFAP has taken up the matter with the Sindh Finance Ministry to have mutual funds excluded from SWWF.

MUFAP has also obtained a legal opinion that SWWF, if applicable, can only be applied from the date of enactment of SWWF Act, 2014, i.e. May 21, 2015. Accordingly, on January 12, 2017, MUFAP instructed to provide for SWWF with effect from May 21, 2015, while the efforts to exclude mutual funds for SWWF continue. The aggregate balance of SWWF provision in the book of accounts of the Fund as on June 30, 2019 is Rs. 5.5 million. Had this provision not been made, the NAV of the Fund would have been higher by Re.0.47 per unit (June 30, 2018 Re.0.43 per unit).

The SECP has also concurred with the directions issued by MUFAP through its letter no. SCD/AMCW/MUFAP/2017 - 405 dated February 01, 2017.

11.2 Federal Excise Duty and related tax payable

The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from June 13, 2013. As the asset management services rendered by the Management Company of the Fund were already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company was of the view that further levy of FED was not justified.

On September 4, 2013, a Constitutional Petition was filed in the Honourable Sindh High Court (SHC) jointly by various asset management companies, together with their representative Collective Investment Schemes through their trustees, challenging the levy of FED.

On July 16, 2016, the SHC passed an order whereby all notices, proceedings taken or pending, orders made, duty recovered or actions taken under the Federal Excise Act, 2005 in respect of the rendering or providing of services (to the extent as challenged in any relevant petition) were set aside. In response to this, the Deputy Commissioner Inland Revenue has filed a Civil Petition for leave to appeal in the Supreme Court of Pakistan which is pending adjudication.

With effect from July 1, 2016, FED on services provided or rendered by non-banking financial institutions dealing in services which are subject to provincial sales tax has been withdrawn by the Finance Act, 2016.

In view of the above, the Fund has discontinued making further provision in respect of FED on remuneration of the Management Company and sales load with effect from July 1, 2016. However, the provision for FED made prior to this period has been maintained by the Fund which at June 30, 2019 aggregates to Rs. 29.028 (2018: Rs. 29.028) million. Had the provision for FED not been recorded in the financial statements of the Fund, the net assets value of the Fund as at June 30, 2019 would have been higher by Rs.2.45 (2018: Rs.1.14) per unit.

12. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at June 30, 2019 and June 30, 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| | June 30, 2019 | June 30, 2018 |
|-----------------------------------|------------------------------|------------------|
| | ----- (Rupees in '000) ----- | |
| 13. AUDITORS' REMUNERATION | | |
| Annual audit fee | 270 | 270 |
| Half yearly review fee | 142 | 142 |
| Income certification | 50 | 58 |
| | 462 | 470 |
| Sales tax | 37 | 38 |
| Out of pocket expenses | 102 | 92 |
| | 601 | 600 |

14. TAXATION

The Fund's income is exempt from income tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income available for distribution for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders by way of cash dividend. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulation, 2008, the Fund is required to distribute 90% of the net accounting income available for distribution other than capital gains to the unit holders in cash. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Since the management has distributed the income available for distribution by the Fund to the unit holders in cash in the manner as explained above. Accordingly, no provision for taxation has been made in these financial statements.

15. TOTAL EXPENSE RATIO

Total Expense Ratio of the Fund is 1.58% as on June 30, 2019 (2018: 1.31%) and this includes 0.13% (2018: 0.29%) representing Government Levy, Sindh Worker's Welfare Fund and SECP Fee. This ratio is within the maximum limit of 2.5% (2018: 2%) prescribed under the NBFC Regulation 60 (5) for a collective investment scheme categorised as an income scheme.

| | | June 30, 2019 | June 30, 2018 |
|---------------------------------------|-------|------------------------------|------------------|
| | Note | ----- (Rupees in '000) ----- | |
| 16. CASH AND CASH EQUIVALENTS | | | |
| Bank balances | 4 | 663,697 | 592,954 |
| Government securities - Treasury bill | 5.1.2 | 467,873 | 514,526 |
| | | 1,131,570 | 1,107,480 |

17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Related parties / connected persons of the Fund include MCB-Arif Habib Savings and Investments Limited (being the Management Company) and its related entities, the Central Depository Company of Pakistan Limited (being the Trustee of the Fund), other collective investment schemes and pension schemes managed by the Management Company, any entity in which the Management Company, its CISs or their connected persons have material interest, any person or trust beneficially owning (directly or indirectly) ten percent or more of the capital of the Management Company or the net assets of the Fund and directors and their close family members, key management personnel and officers of the Management Company.

Transactions with related parties / connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration of the Management Company and the Trustee is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed respectively.

The details of transactions carried out by the Fund with connected persons / related parties and balances with them at the year end are as follows:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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

| | For the year ended June 30, 2019 | | | | | | For the year ended June 30, 2018 | | | | | |
|--|----------------------------------|-----------------|-----------|---------------------|---------------------|-----------------|----------------------------------|---------------------|---------------------|-----------------|----------|---------------------|
| | As at July 01, 2018 | Issued for cash | Redeemed | As at June 30, 2019 | As at July 01, 2018 | Issued for cash | Redeemed | As at June 30, 2019 | As at July 01, 2018 | Issued for cash | Redeemed | As at June 30, 2019 |
| | Units (Rupees in '000) | | | | | | | | | | | |
| DG Khan Cement company Limited | 6 | 1 | - | 7 | - | - | - | - | - | - | - | - |
| MCB Arif Habib Savings And Investments Limited | - | 4,270,255 | 4,270,255 | - | - | 241,312 | 241,483 | - | - | 241,312 | 241,483 | - |
| Security General Insurance Company Limited | - | 1,767,097 | 1,767,097 | - | - | 100,000 | 100,230 | - | - | 100,000 | 100,230 | - |
| Mandate under discretionary portfolio services | 452,075 | 2,330,921 | 2,782,995 | 1 | 25,241 | 131,640 | 155,806 | 0 | - | 131,640 | 155,806 | 0 |
| Key management personnel | 7 | 41,663 | 41,670 | - | - | 2,346 | 2,354 | - | - | 2,346 | 2,354 | - |
| Unitholders holding 10% or more | 1,650,797 | 220,624 | - | 1,871,421 | 92,164 | 11,711 | 99,431 | - | - | 11,711 | 99,431 | - |
| | | | | | | | | | | | | |
| | Units (Rupees in '000) | | | | | | | | | | | |
| Mandate under discretionary portfolio services | 47,579 | 436,634 | - | 484,213 | 2,528 | 11 | 27,034 | - | - | 11 | - | 27,034 |
| Key management personnel | 11,048 | 7 | 11,048 | 7 | 587 | - | - | - | - | - | - | - |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| | June 30, 2019 | June 30, 2018 |
|--|------------------------------|------------------|
| Note | ----- (Rupees in '000) ----- | |
| 17.2 Details of transactions with related parties / connected persons during the year | | |
| MCB Arif Habib Savings and Investment Limited - Management Company | | |
| Remuneration (including indirect taxes) | 7,118 | 7,113 |
| Expense allocated by the Management Company | 654 | 1,113 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration (including indirect taxes) | 1,109 | 1,596 |
| MCB Bank Limited - Parent of the Management Company | | |
| Mark-up on bank deposits | 149 | 33 |
| Bank charges | 15 | 4 |
| Sale of securities having face value of Rs. 500,000,000 (2018: Nil) | 492,009 | - |
| Silk Bank Limited - Common Directorship | | |
| Purchase of securities having face value of Rs.300,000,000 (2018: Nil) | 287,804 | - |
| Sale of securities having face value of Rs.250,000,000 (2018: 900,000,000) | 248,901 | 903,871 |
| Arif Habib Limited - Subsidiary of Associated Company | | |
| Brokerage and settlement charges* | - | 10 |
| 17.3 Balances outstanding at year end: | | |
| MCB-Arif Habib Savings and Investments Limited - Management Company | | |
| Remuneration payable | 672 | 375 |
| Sales tax on remuneration payable | 87 | 49 |
| Expenses allocated by the Management Company | 57 | 53 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration payable (including indirect taxes) | 85 | 80 |
| Sales tax on remuneration payable | 11 | 10 |
| MCB Bank Limited - Parent of the Management Company | | |
| Balances with bank** | 5,359 | 1,442 |
| Mark-up receivable on bank deposits | 84 | 91 |
| Sales load payable | 72 | - |
| Arif Habib Limited - Subsidiary of Associated Company | | |
| Brokerage and settlement charges payable* | - | 1 |

* The amount disclosed represents the amount of brokerage paid / payable 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.

** This includes Rs. 2.47 (2018: 0.62) million in deposit accounts carrying profit at the rate of 10.25% (2018: 3.75%) per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 - 'Fair Value Measurement' establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurement where such measurements are required as permitted by other IFRSs. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the close of trading i.e. period end date. The estimated fair value of all other financial assets and financial liabilities is considered not significantly different from book value as these are short term in nature.

The following table shows financial instruments recognized at fair value based on:

- Level 1:** quoted prices in active markets for identical assets or liabilities;
- Level 2:** those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3:** those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table show the carrying amount and fair values of financial assets and financial liabilities including the levels in the fair value hierarchy.

| | June 30, 2019 | | | | | | | |
|--|-----------------------------------|---|----------------|----------------|------------|----------------|----------|----------------|
| | Carrying amount | | | | Fair value | | | |
| | Fair value through profit or loss | Fair value through other comprehensive income | Amortized cost | Total | Level 1 | Level 2 | Level 3 | Total |
| ----- (Rupees in '000) ----- | | | | | | | | |
| Financial assets measured at fair value | | | | | | | | |
| Market treasury bills | 467,873 | - | - | 467,873 | - | 467,873 | - | 467,873 |
| Pakistan investment bonds | 4,754 | - | - | 4,754 | - | 4,754 | - | 4,754 |
| | <u>472,627</u> | <u>-</u> | <u>-</u> | <u>472,627</u> | <u>-</u> | <u>472,627</u> | <u>-</u> | <u>472,627</u> |

Financial assets not measured at fair value

| | | | | |
|-------------------|----------|----------|----------------|----------------|
| Bank balances | - | - | 663,697 | 663,697 |
| Profit receivable | - | - | 2,822 | 2,822 |
| Other receivables | - | - | 78 | 78 |
| | <u>-</u> | <u>-</u> | <u>666,597</u> | <u>666,597</u> |

Financial liabilities not measured at fair value

| | | | | |
|---|----------|----------|----------------|----------------|
| Payable to the Management Company | - | - | 729 | 729 |
| Payable to the Trustee | - | - | 85 | 85 |
| Payable against purchase of investments | - | - | 467,813 | 467,813 |
| Accrued and other liabilities | - | - | 649 | 649 |
| | <u>-</u> | <u>-</u> | <u>469,276</u> | <u>469,276</u> |

| | June 30, 2018 | | | | | | | |
|--|--|--------------------|---|----------------|------------|----------------|----------|----------------|
| | Carrying amount | | | | Fair value | | | |
| | Fair value through profit or loss - held for trading | Available-for-sale | Loans and receivables / Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| ----- (Rupees in '000) ----- | | | | | | | | |
| Financial assets measured at fair value | | | | | | | | |
| Market treasury bills | 514,526 | - | - | 514,526 | - | 514,526 | - | 514,526 |
| Pakistan investment bonds | 16,889 | 11,449 | - | 28,338 | - | 28,338 | - | 28,338 |
| | <u>531,415</u> | <u>11,449</u> | <u>-</u> | <u>542,864</u> | <u>-</u> | <u>542,864</u> | <u>-</u> | <u>542,864</u> |

Financial assets not measured at fair value

| | | | | |
|-------------------|----------|----------|----------------|----------------|
| Bank balances | - | - | 592,954 | 592,954 |
| Profit receivable | - | - | 2,172 | 2,172 |
| Other receivables | - | - | 5 | 5 |
| | <u>-</u> | <u>-</u> | <u>595,131</u> | <u>595,131</u> |

Financial liabilities not measured at fair value

| | | | | |
|---|----------|----------|----------------|----------------|
| Payable to the Management Company | - | - | 424 | 424 |
| Payable to the Trustee | - | - | 80 | 80 |
| Payable against purchase of investments | - | - | 514,487 | 514,487 |
| Accrued and other liabilities | - | - | 2,261 | 2,261 |
| | <u>-</u> | <u>-</u> | <u>517,252</u> | <u>517,252</u> |

During the year ended June 30, 2019, there were no transfers between levels of fair value measurements, and no transfer into and out of level 3 fair value measurements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

19. 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 other 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 mentioned risks. The Board of Directors of the 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 Government securities and investments in other money market instruments.

19.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the 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 the regulations laid down by the SECP, the NBFC regulations and the NBFC rules.

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

19.1.1 Currency risk

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

19.1.2 Yield / Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As of June 30, 2019, the Fund is exposed to such risks on bank balances and investments in government securities that expose the Fund to fair value interest rate risk.

As of June 30, 2019 details of Fund's interest bearing financial instruments were as follows:

| | Note | June 30, 2019 ----- (Rupees in '000) ----- | June 30, 2018 |
|--|-------|--|------------------|
| Variable rate instruments (financial asset) | | | |
| Bank balance | 4 | 660,792 | 592,134 |
| Government securities - Pakistan investment bonds | 5.1.1 | 4,754 | 28,338 |
| | | 1,133,419 | 1,134,998 |
| Fixed rate instruments (financial assets) | | | |
| Government securities - Treasury Bills | 5.1.2 | 467,873 | 514,526 |

a) Sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / decreased the profit before taxation and total comprehensive income by Rs 6.66 million (2018: Rs 5.92 million) and consequently statement of movement in unit holders' fund would be affected by the same amount. The analysis assumes that all other variables remain constant.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2019, the Fund holds Market Treasury Bill which is classified as 'fair value through profit or loss', exposing the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in rates announced by the Financial Market Association of Pakistan (FMAP) on June 30, 2019, the net income for the year and net assets would be lower / higher by Rs. 4.68 million (2018: Rs. 5.15 million)

Yield / interest rate sensitivity position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The composition of the Fund investment may change over time. Accordingly, the sensitivity analysis prepared as at June 30, 2019 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

| Particulars | As at June 30, 2019 | | | | | Total |
|---|------------------------|----------------------------------|---|--------------------|--------------------------------|------------------|
| | Effective yield / rate | Exposed to yield / interest risk | | | Not exposed to yield rate risk | |
| | | Upto three months | More than three months and up to one year | More than one year | | |
| | % | (Rupees in '000) | | | | |
| On-balance sheet financial instruments | | | | | | |
| Financial assets | | | | | | |
| Bank balances | 10.25 to 13 | 660,792 | - | - | 2,905 | 663,697 |
| Investments classified as: | | | | | | |
| 'At fair value through profit or loss' | | | | | | |
| - Government securities | 10 to 12.75 | 467,873 | - | 4,754 | - | 472,627 |
| Profit receivable | | - | - | - | 2,822 | 2,822 |
| Other receivables | | - | - | - | 78 | 78 |
| Sub total | | 1,128,665 | - | 4,754 | 5,805 | 1,139,224 |
| Financial liabilities | | | | | | |
| Payable to the Management Company | | - | - | - | 729 | 729 |
| Payable to the Trustee | | - | - | - | 85 | 85 |
| Payable against purchase of investments | | - | - | - | 467,813 | 467,813 |
| Accrued expenses and other liabilities | | - | - | - | 649 | 649 |
| Sub total | | - | - | - | 469,276 | 469,276 |
| On-balance sheet gap | | 1,128,665 | - | 4,754 | (463,471) | 669,948 |
| Total profit rate sensitivity gap | | 1,128,665 | - | 4,754 | (463,471) | 669,948 |
| Cumulative profit rate sensitivity gap | | 1,128,665 | 1,128,665 | 1,133,419 | | |

| Particulars | As at June 30, 2018 | | | | | Total |
|---|------------------------|----------------------------------|---|--------------------|--------------------------------|------------------|
| | Effective yield / rate | Exposed to yield / interest risk | | | Not exposed to yield rate risk | |
| | | Upto three months | More than three months and up to one year | More than one year | | |
| | % | (Rupees in '000) | | | | |
| On-balance sheet financial instruments | | | | | | |
| Financial assets | | | | | | |
| Bank balances | 3.75 to 7.20 | 592,134 | - | - | 820 | 592,954 |
| Investments classified as: | | | | | | |
| 'At fair value through profit or loss - held for trading' | | | | | | |
| - Government securities | 5.96 to 6.72 | 514,526 | - | 16,889 | - | 531,415 |
| 'Available for sale' | | | | | | |
| - Government securities | 9.52 to 12.00 | - | - | 11,449 | - | 11,449 |
| Profit receivable | | - | - | - | 2,172 | 2,172 |
| Other receivables | | - | - | - | 5 | 5 |
| Sub total | | 1,106,660 | - | 28,338 | 2,997 | 1,137,995 |
| Financial liabilities | | | | | | |
| Payable to the Management Company | | - | - | - | 424 | 424 |
| Payable to the Trustee | | - | - | - | 80 | 80 |
| Payable against purchase of investments | | - | - | - | 514,487 | 514,487 |
| Accrued expenses and other liabilities | | - | - | - | 2,261 | 2,261 |
| Sub Total | | - | - | - | 517,252 | 517,252 |
| On-balance sheet gap | | 1,106,660 | - | 28,338 | (514,255) | 620,743 |
| Total profit rate sensitivity gap | | 1,106,660 | - | 28,338 | (514,255) | 620,743 |
| Cumulative profit rate sensitivity gap | | 1,106,660 | 1,106,660 | 1,134,998 | | |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

19.1.3 Price risk

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

19.2 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 bank balances and other financial assets at amortised cost. The credit risk on the fund is limited because the counterparties are financial institutions with reasonably high credit ratings. Investments in Pakistan investment bond and market treasury bills 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 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 is the carrying amounts of following financial assets.

| | June 30, 2019 | | June 30, 2018 | |
|------------------------------|--|------------------|--|------------------|
| | Balance as per statement of assets and liabilities | Maximum exposure | Balance as per statement of assets and liabilities | Maximum exposure |
| ----- (Rupees in '000) ----- | | | | |
| Bank balances | 663,697 | 663,697 | 592,954 | 592,954 |
| Investments | 472,627 | - | 542,864 | - |
| Profit receivable | 2,822 | 2,822 | 2,172 | 2,172 |
| Other receivables | 78 | 46 | 5 | 5 |
| | 1,139,224 | 666,565 | 1,137,995 | 595,131 |

Difference in the balance as per the statement of assets and liabilities and maximum exposure is due to the fact that investments in Government securities of 472.627 million (2018: Nil) including profit receivable on such government securities of Rs. 0.032 million (2018: Rs 1.170 million) is not exposed to credit risk.

The analysis below summaries the credit rating quality of the Fund's financial assets with banks as at June 30, 2019.

Bank Balances by rating category

| Rating | 30 June, 2019 | | June 30, 2018 | |
|--------|----------------|------------|----------------|------------|
| | Rupees in '000 | % | Rupees in '000 | % |
| AAA | 656,340 | 98.89 | 442,255 | 74.59 |
| AA+ | 3,583 | 0.54 | 1,123 | 0.19 |
| AA- | 3,746 | 0.56 | 149,566 | 25.22 |
| AA | 28 | - | 10 | - |
| | 663,697 | 100 | 592,954 | 100 |

Above ratings are on the basis of available ratings assigned by PACRA and VIS Credit Rating Company Limited (Formally JCR-VIS Credit Rating Company Limited) as of June 30, 2019.

Investment in fixed income securities

Investments in market treasury bills and Pakistan investment bonds 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 investment.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Concentration of credit risk

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

All of the Fund's concentration of credit risk at the end of financial year 2019 and 2018 are with commercial banks.

Settlement risk

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

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

19.3 Liquidity risk

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

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

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

| | Within 1 month | Over 1 to 3 months | Over 3 to 12 months | Over 1 to 5 years | Total |
|---|-------------------------------|-----------------------|------------------------|----------------------|-----------|
| 2019 | ----- (Rupees in '000') ----- | | | | |
| Financial assets | | | | | |
| Bank balances | 663,697 | - | - | - | 663,697 |
| Investments | - | 467,873 | - | 4,754 | 472,627 |
| Profit receivable | 2,822 | - | - | - | 2,822 |
| Other receivables | 78 | - | - | - | 78 |
| | 666,597 | 467,873 | - | 4,754 | 1,139,224 |
| Financial liabilities | | | | | |
| Payable to the Management Company | 729 | - | - | - | 729 |
| Payable to the Trustee | 85 | - | - | - | 85 |
| Payable against purchase of investments | 467,813 | - | - | - | 467,813 |
| Accrued expenses and other liabilities | 649 | - | - | - | 649 |
| | 469,276 | - | - | - | 469,276 |
| | 197,321 | 467,873 | - | 4,754 | 669,948 |
| 2018 | ----- (Rupees in '000') ----- | | | | |
| Financial assets | | | | | |
| Bank balances | 592,954 | - | - | - | 592,954 |
| Investments | - | 514,526 | - | 28,338 | 542,864 |
| Profit receivable | 2,172 | - | - | - | 2,172 |
| Other receivables | 5 | - | - | - | 5 |
| | 595,131 | 514,526 | - | 28,338 | 1,137,995 |
| Financial liabilities | | | | | |
| Payable to the Management Company | 424 | - | - | - | 424 |
| Payable to the Trustee | 80 | - | - | - | 80 |
| Payable against purchase of investments | 514,487 | - | - | - | 514,487 |
| Accrued expenses and other liabilities | 2,261 | - | - | - | 2,261 |
| | 517,252 | - | - | - | 517,252 |
| | 77,879 | 514,526 | - | 28,338 | 620,743 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

20. 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. Muhammad Saqib Saleem | Chief Executive Officer | FCA & FCCA | 22 |
| Mr. Muhammad Asim | Chief Investment Officer | MBA & CFA | 16 |
| Mr. Awais Abdul Sattar | Head of Research | MBA & CFA | 8 |
| Mr. Saad Ahmed | Fund Manager | MBA | 14 |
| Syed Mohammad Usama Iqbal | Fund Manager | B.Com & Master in Economics | 16 |

20.1 Mr. Saad Ahmed is the fund manager. Details of the other funds being managed by him are as follows:

- Alhamra Daily Dividend Fund;
- MCB Cash Management Optimizer Fund;
- Pakistan Cash Management Fund;
- MCB DCF Income Fund; and
- Pakistan Income Enhancement Fund.

21. TOP BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

| | | June 30, 2019 (Percentage) |
|----|--|----------------------------------|
| 1 | Continental Exchange (Private) Limited | 24.25% |
| 2 | Invest One Markets (Private) Limited | 20.52% |
| 3 | Al Hoqani Securities (Private) Limited | 13.67% |
| 4 | EFG Hermes Pakistan Limited | 7.60% |
| 5 | Bright Capital (Private) Limited | 7.26% |
| 6 | C and M Management (Private) Limited | 6.60% |
| 7 | Summit Capital (Private) Limited | 5.76% |
| 8 | ICON Securities (Private) Limited | 4.58% |
| 9 | First Capital Securities Limited | 4.57% |
| 10 | Vector Capital (Private) Limited | 2.36% |
| | | June 30, 2018 (Percentage) |
| 1 | Invest Capital Markets Limited | 23.93% |
| 2 | Investone Markets (Private) Limited | 16.82% |
| 3 | Paramount Capital (Private) Limited | 12.66% |
| 4 | Mageta Capital (Private) Limited | 7.63% |
| 5 | Arif Habib Limited | 7.23% |
| 6 | C And M Management (Private) Limited | 6.28% |
| 7 | BMA Capital Management Limited | 5.64% |
| 8 | Pearl Securities Limited | 5.52% |
| 9 | Icon Securities (Private) Limited | 4.87% |
| 10 | Bright Capital (Private) Limited | 3.69% |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

22. PATTERN OF UNIT HOLDINGS

| | As at June 30, 2019 | | | |
|--------------------|------------------------|-------------------|-------------------|-----------------------|
| | Number of unit holders | Number of units | Investment amount | Percentage investment |
| | (Rupees in '000) | | | % |
| Individuals | 516 | 6,504,457 | 345,589 | 54.88% |
| Associated company | 1 | 6 | - | 0.00% |
| Retirement funds | 12 | 4,220,974 | 224,265 | 35.62% |
| Others | 26 | 1,125,309 | 59,790 | 9.50% |
| | 555 | 11,850,746 | 629,644 | 100.00% |

| | As at June 30, 2018 | | | |
|------------------|------------------------|-------------------|-------------------|-----------------------|
| | Number of unit holders | Number of units | Investment amount | Percentage investment |
| | (Rupees in '000) | | | % |
| Individuals | 565 | 6,292,964 | 351,356 | 60.06% |
| Retirement funds | 14 | 3,275,458 | 182,879 | 31.26% |
| Others | 21 | 908,895 | 50,746 | 8.68% |
| | 600 | 10,477,317 | 584,981 | 100.00% |

23. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 143rd, 144th, 145th, 146th, 147th, 148th, 149th and 150th meeting of the Board of Directors were held on August 17, 2018, September 14, 2018, October 22, 2018, October 26, 2018, April 15, 2019, April 19, 2019, June 17, 2019 and June 27, 2019 respectively. Information in respect of attendance by the directors and other persons in the meetings is given below:

| Name of persons attending the meetings | Designation | Number of Meetings Held | Number of meetings | | | Meetings Not Attended |
|--|-------------------------|-------------------------|---------------------|----------|---------------|---|
| | | | Attendance required | Attended | Leave Granted | |
| Mian Muhammad Mansha | Chairman | 8 | 8 | 2 | 6 | 143 rd , 145 th , 146 th , 147 th , 149 th & 150 th |
| Nasim Beg | Director | 8 | 8 | 8 | - | - |
| Ahmed Jahangir | Director | 8 | 8 | 8 | - | - |
| Samad A. Habib | Director | 8 | 8 | 6 | 2 | 145 th & 150 th |
| Dr. Syed Salman Ali Shah * | Director | 8 | 6 | 6 | - | - |
| Haroun Rashid | Director | 8 | 8 | 5 | 3 | 143 rd , 145 th , 149 th |
| Mirza Qamar Beg | Director | 8 | 8 | 8 | - | - |
| Muhammad Saqib Saleem | Chief Executive Officer | 8 | 8 | 8 | - | - |

* Resigned on June 10, 2019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

24. UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

25. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 13, 2019 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Chief Financial Officer



Director

**PATTERN OF UNITS HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2019**

| No. of Unit Holders | Unit Holdings | Total Units Held |
|----------------------------|----------------------|-------------------------------|
| 405 | 0-10000 | 609,333 |
| 130 | 10001 – 100000 | 4,089,008 |
| 19 | 100001 – 1000000 | 5,280,985 |
| 1 | 1000001 onwards | 1,871,421 |
| <hr/> 555 <hr/> | | <hr/> 11,850,746 <hr/> |

PERFORMANCE TABLE FOR THE YEAR ENDED JUNE 30, 2019

| Performance Information | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------|-------|--------|---------|--------|
| Total Net Assets Value – Rs. in million | 630 | 585 | 1,351 | 8,691 | 3,193 |
| Net Assets value per unit – Rupees | 53.13 | 55.83 | 53.13 | 53.20 | 53.06 |
| Closing Offer Price | 54.03 | 56.78 | 54.03 | 54.28 | 54.18 |
| Closing Repurchase Price | 51.33 | 55.83 | 53.13 | 53.20 | 53.06 |
| Highest offer price per unit | 58.18 | 56.78 | 57.20 | 57.95 | 59.23 |
| Lowest offer price per unit | 53.34 | 54.03 | 53.96 | 54.13 | 51.08 |
| Highest Redemption price per unit | 57.21 | 55.83 | 56.25 | 56.80 | 58.04 |
| Lowest Redemption price per unit | 53.10 | 53.13 | 53.06 | 53.06 | 50.06 |
| Distribution per unit – Rs. * | 6.88 | - | 3.20 | 3.74 | 5.25 |
| Average Annual Return - % | | | | | |
| One year | 7.88 | 5.08 | 5.89 | 7.30 | 16.58 |
| Two year | 6.48 | 5.49 | 6.60 | 11.94 | 12.92 |
| Three year | 6.28 | 6.09 | 9.92 | 11.05 | 12.714 |
| Net Income for the year – Rs. in million | 48.92 | 48.85 | 56.97 | 86.29 | 273.95 |
| Distribution made during the year – Rs. in million | 74.36 | - | 62.21 | 141.23 | 119.58 |
| Accumulated Capital Growth – Rs. in million | (25.44) | 48.85 | (5.25) | (54.94) | 154.37 |
| Weighted average Portfolio Duration (days) | 47 | 123 | 65 | 347 | 730 |

* Date of Distribution

| 2019 | |
|----------|------|
| Date | Rate |
| 4-Jul-18 | 2.75 |

| 2018 | |
|------|------|
| Date | Rate |
| - | Nil |

| 2017 | |
|---------------|------|
| Date | Rate |
| June 21, 2017 | 3.20 |

| 2016 | |
|---------------|-------|
| Date | Rate |
| June 25, 2016 | 3.735 |

| 2015 | |
|---------------|------|
| Date | Rate |
| June 25, 2015 | 5.25 |

Disclaimer

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

MCB-Arif Habib Savings and Investments Limited

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