

## Quarterly Report

March 31, 2014  
(Unaudited)



**Funds Under Management  
of  
MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Ltd.)*

**PAKISTAN  
INCOME ENHANCEMENT FUND**

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## FUND'S INFORMATION

<b>Management Company</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman Executive Vice Chairman Chief Executive Officer Director Director Director Director Director
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource Committee</b>	Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Operating Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Umair Ahmed	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	Habib Metropolitan Bank Limited MCB Bank Limited Bank Al Falah Limited Faysal Bank Limited Standard Chartered Bank (Pakistan) Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2 Beaumont Road, Karachi - 75530	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Transfer Agent</b>	<b>MCB-Arif Habib Savings and Investments Limited</b> (Formerly: Arif Habib Investments Limited) 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 - Management Quality Rating assigned by PACRA	

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2014

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Dear Investor,

On behalf of the Board of Directors, I am pleased to present **Pakistan Income Enhancement Fund's** accounts review for the nine months ended March 31<sup>st</sup> 2014.

### ECONOMY AND MONEY MARKET OVERVIEW

Despite implementation of fiscal reforms, inflation managed to remain in the single digit with CPI averaging around 8.64% during the first nine months of current fiscal year. The Current Account balance remained in pressure posting a deficit of \$2.02 billion during the 8MFY14 as opposed to deficit of USD \$0.83 billion reported in corresponding period last year. Last year's saving grace came in the form of proceeds under Coalition Support Funds (CSF) where the country received \$1.806bn in 1HFY13 as opposed to inflows of \$675 million received during the first nine months of the current fiscal year.

During the year, the country successfully managed to enter into a three-year \$6.6 billion loan program with IMF. Out of total financing of around \$2.2 billion scheduled for FY14 under IMF Extended Fund Facility (EFF), the country received three tranches of around \$540 million each during 9MFY14. While out of total \$3 billion repayments to IMF due in FY14, the government repaid around \$2.52 billion to IMF during 9MFY14.

The reserves remained under pressure given that the country was scheduled to repay \$4.524 billion to foreign donors during 9MFY14. However, generosity on the part of multilateral agencies and close allies helped improve reserve balance to \$9.86 billion as on 28-March-2014 from the nine-month low of \$7.59 billion touched on 7-February-2014. Not to mention, the country received \$1.5 billion from a friendly country in March 2014. Hence, the local currency managed to appreciate to Rs98 against dollar towards the end of the 3QFY14 after touching a record low of Rs108.6 against dollar on 5-December-2013.

Although the government had twice announced 50 bps hikes in the discount rate in the monetary policy held in September and November, decrease in inflationary pressures and improvement in foreign reserve balance during 3QFY14 point towards monetary easing down the line.

The Money Market was moderately short of liquidity during FY14 where on numerous occasions financial institutions utilized ceiling in order to manage liquidity efficiently. The yield curve adjusted significantly upwards during the ongoing fiscal year, with 6-month PKRV at around 10% as on 31- March 2014 as opposed to 8.92% as on 30-June- 2013.

PKRV for PIBs remained volatile during the year. Despite stable to declining interest rate outlook on account of increase in foreign reserves balance, which resulted in Rupee appreciation and appeased inflationary pressures, interest rate on PIB increased towards the end of the 3QFY14 on the back of the government's growing appetite to raise money through longer tenure papers. This can be gauged from the fact that the Government managed to raise a total of Rs 974bn through PIB auction in 3QFY14 as opposed to the target of Rs 180 billion.

M2 has expanded by 5.14% during the 9MFY14 (till 28th March) as opposed to expansion of 8.83% during the same period last year. At the same time, the net borrowing from the banking system increased by Rs 502.7 billion as opposed to Rs 856.5 billion raised during the same period last year.

### EQUITIES MARKET OVERVIEW

Stock market started FY14 on a positive note on the back of smooth political transition. Though steep rupee depreciation had kept stock market under pressure during August and September, recovery in foreign reserve balance towards the end of 3QFY14 lifted the benchmark index to 27,159.91 by the end of March, 2014, marking a growth of 29.3% since the start of the current fiscal year.

A combination of improving economic indicators, strong inherent bottom line growth and healthy payouts helped keep the investors' interest alive in the stock market. The rally remained broad based, but interest largely remained in Textile, Construction & Materials, Oil & Gas, Pharmaceuticals and Power Sectors on the heels of success in getting GSP+ status, increase in margins of cement companies, increase in oil production and significant rupee depreciation during the 1HFY14.

Foreigners remained net buyers during the period with a cumulative net inflow of \$ 22.8 million, while the average turnover stood at around 214 million shares during the 9MFY14 as opposed to 170 million shares during the same period last year.

## REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE NINE MONTHS AND QUARTER ENDED MARCH 31, 2014

### FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 8.62% as against its benchmark return of 8.20%, an outperformance of 42bps.

In order to capitalize on interest rate scenario the fund increased its portfolio duration by increasing allocation towards PIBs while reducing exposure towards T-Bills. At period-end, the fund was 59.1% invested in PIBs as compared to 7.8% at the beginning of the period, 11.1% invested in T-Bills as compared to 44.8% at the beginning and 23.8% invested in TFCs vis-à-vis beginning allocation of 19.6%.

The Net Asset of the Fund as at March 31, 2014 stood at Rs.1,093.4 million as compared to Rs 1,318.7 million as at June 30, 2013 registering a decrease of 17.09%.

The Net Asset Value (NAV) per unit as at March 31, 2014 was Rs. 51.24 as compared to opening NAV of Rs.51.86 per unit as at June 30, 2013 registering a decrease of Rs. 0.62 per unit.

### Income Distribution

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

<u>Date of distribution</u>	<u>Per unit distribution</u>
	Rs.
July 25, 2013	0.2900
August 23, 2013	0.3000
September 25, 2013	0.3200
October 25, 2013	0.3200
November 25, 2013	0.3300
December 24, 2013	0.3000
January 24, 2014	0.3900
February 25, 2014	0.3500
March 25, 2014	0.3600

### FUTURE OUTLOOK

The government expects reserve position to improve further towards the end of the ongoing fiscal year on the back of significant improvement in foreign direct investments and pledges made by multilateral agencies. The country is scheduled to pay more than \$1.2 billion to external official creditors in the last quarter, while the government is eyeing to raise foreign inflows through Euro bonds, 3G auction, and outstanding payments from Etisalat.

Earnings growth is expected to continue in E&P, Power and Cement sector, while the rupee appreciation bodes well for pharmaceutical and chemical companies. Rupee strengthening after a long slide has contributed towards a change in the outlook. The budgeted implications of a stronger rupee will unfold in the next few months. Going forward, fixed income funds are expected to strengthen on the back of widening gaps between short and mid-term yields.

### ACKNOWLEDGMENT

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

For and on behalf of the board



**Yasir Qadri**

Chief Executive Officer

Karachi: April 21, 2014

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)**  
**AS AT 31 MARCH 2014**

	(Unaudited)	(Audited)
Note	31 March 2014	30 June 2013
	(Rupees in '000)	
<b>Assets</b>		
Balances with bank	44,691	287,079
Investments	6 1,029,917	1,031,865
Advance against subscription of Term Finance Certificates	7 18,083	-
Income and profit receivable	21,062	13,214
Deposits, prepayments and other receivables	1,884	1,818
Preliminary expenses and floatation costs	-	31
<b>Total assets</b>	<u>1,115,637</u>	<u>1,334,007</u>
<b>Liabilities</b>		
Payable against redemption of units	565	565
Payable to Management Company	1,862	4,069
Payable to Central Depository Company of Pakistan Limited - Trustee	129	149
Payable to Securities and Exchange Commission of Pakistan - Annual fee	589	609
Accrued expenses and other liabilities	8 19,049	9,934
<b>Total liabilities</b>	<u>22,194</u>	<u>15,326</u>
<b>Contingency</b>	9	
<b>Net assets</b>	<u>1,093,443</u>	<u>1,318,681</u>
<b>Unit holders' fund</b>	<u>1,093,443</u>	<u>1,318,681</u>
	(Number of units)	
<b>Number of units in issue</b>	<u>21,338,606</u>	<u>25,426,838</u>
	(Rupees)	
<b>Net assets value per unit</b>	<u>51.24</u>	<u>51.86</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
 Chief Executive Officer

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


  
 Director



# CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

	Note	Nine months ended 31 March		Quarter ended 31 March	
		2014	2013	2014	2013
		----- (Rupees in '000) -----			
<b>Income</b>					
Capital (loss) / gain on sale of investments - net		(1,135)	26,407	710	(1,963)
Income from term finance and sukuk certificates		24,019	31,814	8,373	7,561
Income from government securities		51,386	31,514	13,193	11,332
Income from term deposit receipts and commercial papers		-	505	-	0
Profit on bank deposits		4,947	4,500	2,000	2,042
Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'		6,011	6,055	8,338	2,839
Reversal / (provision) of principal against non-performing exposures	6.4	2,929	(55,176)	-	(594)
<b>Total income</b>		<b>88,157</b>	<b>45,620</b>	<b>32,614</b>	<b>21,218</b>
<b>Expenses</b>					
Remuneration of Management Company		11,773	8,734	3,251	2,845
Sales tax and Federal Excise Duty on remuneration of Management Company		4,069	1,397	1,125	455
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,269	990	368	322
Annual fee - Securities and Exchange Commission of Pakistan		589	437	163	143
Provision for Workers' Welfare Fund		6,643		1,356	-
Securities transaction cost		173	313	106	56
Settlement and bank charges		260	307	90	82
Fees and subscriptions		159	151	47	53
Legal and professional charges		27		7	18
Auditors' remuneration		385	371	128	127
Amortization of preliminary expenses and floatation costs		31	150	0	49
Printing and related costs		190	175	46	16
<b>Total expenses</b>		<b>25,569</b>	<b>13,025</b>	<b>6,688</b>	<b>4,167</b>
		<b>62,588</b>	<b>32,595</b>	<b>25,926</b>	<b>17,051</b>
Net element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(1,982)	2,050	(1,608)	(360)
<b>Net income for the period before taxation</b>		<b>60,606</b>	<b>34,645</b>	<b>24,318</b>	<b>16,691</b>
Taxation	10	-	-	-	-
<b>Net income for the period after taxation</b>					
<b>Other comprehensive (loss) / income for the period</b>					
Unrealised appreciation on re-valuation of investments classified as 'available-for-sale' - net		209		209	
<b>Total comprehensive income for the period</b>		<b>60,815</b>	<b>34,645</b>	<b>24,527</b>	<b>16,691</b>
<b>Earnings per unit</b>	11				

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
Chief Executive Officer

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

  
Director





# CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

	Note	Nine months ended 31 March		Quarter ended 31 March	
		2014	2013	2014	2013
		----- (Rupees in '000) -----			
Net assets at the beginning of the period		1,318,681	991,307	880,553	814,267
Issue of 10,672,885 units (2013: 7,526,763 units) and 6,760,804 units (2013: 5,531,319 units) for the nine months and quarter ended respectively		547,189	102,208	347,511	71,706
Issue of 428,766 bonus units for the year ended 30 June 2013		21,867	-	-	-
Issue of 1,172,447 bonus units (2013: 800,184 bonus units) and 396,255 bonus units (2013: 344,086 bonus units) for the nine months and quarter ended respectively	12	59,651	23,410	20,206	11,520
Redemption of 16,362,330 units (2013: 13,015,132 units) and 3,145,230 units (2013: 3,395,983 units) for the six months and quarter ended respectively		(835,224)	(494,705)	(160,756)	(279,619)
		(206,517)	(369,087)	206,961	(196,393)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:					
- amount representing loss / (income) and capital losses / (gains) - transferred to the Income Statement		1,982	(2,050)	1,608	360
- amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement		4,088	8,579	5,483	(4,537)
		6,070	6,529	7,091	(4,177)
Net unrealised gain / (loss) during the period in the market value of investments classified as available-for-sale		209	-	209	-
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement		(4,088)	(8,579)	(5,483)	4,537
Net income / (loss) for the period (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital gains / (loss) on sale of investments)		55,730	2,182	15,270	15,814
Capital (loss) / gain on sale of investments - net		(1,135)	26,407	710	(1,963)
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'		6,011	6,055	8,338	2,839
		60,606	34,645	24,318	16,691
<b>Distributions to the unit holders of the Fund</b>					
Final distribution:					
Final distribution for the year ended 30 June 2013 at the rate of Re. 0.86 per unit -					
Date of distribution: 5 July 2013					
- Issue of 428,766 bonus units		(21,867)	-	-	-
Interim distributions:	12				
- Cash distribution		-	(242)	-	(38)
- Issue of 1,172,447 bonus units (2013: 800,184 units) and 396,255 bonus units (2013: 344,086 units) for the six months and quarter ended respectively		(59,651)	(23,410)	(20,206)	(11,520)
		(81,518)	(23,652)	(20,206)	(11,558)
Net assets as at the end of the period		1,093,443	631,163	1,093,443	623,367

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

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

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Director

# CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

	Nine months ended 31 March		Quarter ended 31 December	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	<b>60,606</b>	34,645	<b>24,318</b>	16,691
<i>Adjustments for non cash and other items:</i>				
Net unrealised diminution / (appreciation) in value of investments classified as 'at fair value through profit or loss'	<b>(6,011)</b>	(6,055)	<b>(8,338)</b>	(2,839)
Net element of loss / (income) and capital losses / (gains) prices of units issued less those in units redeemed	<b>1,982</b>	(2,050)	<b>1,608</b>	360
Amortization of preliminary expenses and floatation costs	<b>31</b>	150		49
Provision for Workers' Welfare Fund	<b>6,643</b>	-	<b>1,356</b>	-
(Reversal) / provision of principal against non-performing exposures	<b>(2,929)</b>	55,176	<b>-</b>	594
	<b>60,323</b>	81,867	<b>18,944</b>	14,856
<b>Decrease / (increase) in assets</b>				
Investments	<b>11,097</b>	2,917	<b>(324,465)</b>	(142,925)
Advance against subscription of Term Finance Certificates	<b>(18,083)</b>	-	<b>(3,500)</b>	-
Income and profit receivable	<b>(7,848)</b>	10,397	<b>(2,233)</b>	1,585
Deposits, prepayments and other receivables	<b>(66)</b>	(31)	<b>(152)</b>	(113)
	<b>(14,900)</b>	13,284	<b>(330,350)</b>	(141,452)
<b>(Decrease) / increase in liabilities</b>				
Payable against purchase of investments	<b>-</b>	-	<b>-</b>	-
Payable to Management Company	<b>(2,207)</b>	(342)	<b>(65)</b>	227
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>(20)</b>	(30)	<b>(1)</b>	22
Payable to Securities and Exchange Commission of Pakistan - Annual fee	<b>(20)</b>	(556)	<b>163</b>	143
Accrued expenses and other liabilities	<b>2,472</b>	(35)	<b>834</b>	(63)
	<b>225</b>	(964)	<b>931</b>	328
<b>Net cash generated from operating activities</b>	<b>45,648</b>	94,187	<b>(310,475)</b>	(126,268)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	<b>-</b>	(242)	<b>-</b>	-
Receipts from issuance of units	<b>547,189</b>	388,812	<b>347,511</b>	284,508
Payments on redemption of units	<b>(835,224)</b>	(671,731)	<b>(160,756)</b>	(173,926)
<b>Net cash used in financing activities</b>	<b>(288,035)</b>	(283,161)	<b>186,755</b>	110,582
Net (decrease) / increase in cash and cash equivalents during the period	<b>(242,388)</b>	(188,974)	<b>(123,720)</b>	(15,686)
Cash and cash equivalents at beginning of the period	<b>287,079</b>	441,793	<b>168,411</b>	268,505
<b>Cash and cash equivalents at end of the period</b>	<b>44,691</b>	252,819	<b>44,691</b>	252,819

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

  
Chief Executive Officer

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

  
Director

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Income Enhancement Fund (the Fund) was established through a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 July 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 26 June 2008 in accordance with Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

Pursuant to the merger of MCB-Asset Management Company and Arif Habib Investments Limited, the name of the Management Company (Arif Habib Investments Limited being the surviving entity) has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Fund is an open-ended mutual fund listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. Unit holders are divided into plan "A" and plan "B". The unit holders under plan "A" are entitled for bonus units as well as cash dividend, whereas unit holders under plan "B" are entitled for cash dividend. The Fund has been categorised as "Aggressive Fixed Income" scheme by the Board of Directors of the Asset Management Company in pursuant to Circular 7 of 2009 dated 6 March 2009 issued by the SECP.

Pakistan Credit Rating Agency (PACRA) has assigned asset manager rating of 'AM2' to the Management Company and A+(f) - as stability rating to the Fund.

"The objective of the Fund is to deliver returns from aggressive investment strategy in the debt and" fixed income markets.

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

**2.1.1** This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and provisions of and directives issued under the 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). In case where requirements differ, the provisions of / or directives issued under the Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

**2.1.2** This condensed interim financial information does not include all the information and disclosures

required for full annual financial statements and should be read in conjunction with the financial statements for the year ended 30 June 2013.

**2.1.3** This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors of the Fund. The Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

**2.1.4** The comparatives in the condensed interim statement of assets and liabilities presented in this condensed interim financial information as at 31 March 2014 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2013, where as the comparative in condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund, and condensed interim cash flow statement are extracted from unaudited condensed interim financial information for the period ended 31 March 2013.

### 2.1.5 Functional and presentation currency

This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.

## **NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014**

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

- 3.1** The accounting policies and methods of computation adopted for the preparation of this condensed interim financial information are same as those applied in the preparation of the financial statements of the Fund for the year ended 30 June 2013. At present the Fund has no item to be reported in other comprehensive income; hence net income for the period equals to total comprehensive income for the period.
- 3.2** Amendments to certain existing standards and interpretations on approved accounting standards which were effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund.

### **4. ESTIMATES AND JUDGMENTS**

- 4.1** The preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.
- 4.2** In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2013.

### **5. FINANCIAL RISK MANAGEMENT**

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the Fund as at and for the year ended 30 June 2013.

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

6. INVESTMENTS		(Unaudited) 31 March 2014 (Rupees in '000)		(Audited) 30 June 2013 (Rupees in '000)	
	<i>Fixed income and other debt securities</i>				
	<i>'At fair value through profit or loss' held for trading</i>				
	- Government securities				
				6.1	376,253
					762,340
	- <i>Term finance and sukuk certificates</i>				
	Listed debt securities			6.2	134,680
	Unlisted debt securities			6.3	112,469
	<i>'Available for Sale'</i>				
	- Government securities			6.5	406,515
					-
					1,029,917
					1,031,865
6.1	Government securities - 'at fair value through profit or loss' held for trading				
	Issue date	Tenor	Face value	Balance as at 31 March 2014	Market value as a percentage of net assets
			Balance as at 1 July 2013	Carrying value	Market value as a percentage of total investments
	<i>Pakistan Investment Bond</i>				
	22 July 2010	3 years	29,400	-	-
	18 August 2011	3 years	50,000	202,314	-
	19 July 2012	3 years	25,000	200,000	18.52
	18 July 2013	3 years	502,500	49,585	4.60
				251,899	868
	<i>Government of Pakistan Ijara Sukuk</i>				
	18 September 2012	3 years	40,000	-	-
	<i>Market Treasury Bills</i>				
	Treasury bills - 3 months		6,000	123,533	11.29
	Treasury bills - 6 months		-	-	-
	Treasury bills - 12 months		659,000	-	-
				123,533	-
				123,487	(46)
	Total as at 31 March 2014		725,000	375,432	822
	Total as at 30 June 2013		75,000	760,592	1,749
6.2	Listed debt securities - term finance certificates				
	<i>Listed debt securities</i>				
	Less: Provision of Pace Pakistan Limited				
	On 1 July				
	Charged during the year				
				6.2.1	189,202
					208,233
					54,522
					11,236
					43,286
					54,522
					134,680
					153,711

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

6.2.1 Name of the investee company	Profit / mark-up percentage	Number of certificates		Balance as at 31 March 2014			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value percentage in relation to the size of the issue
		As at 1 July 2013	Purchases during the period	Sales / matured during the period	As at 31 March 2014	Carrying cost			
(Rupees in '000)									
Certificates have a face value of Rs.5,000 each unless stated otherwise.									
<b>Listed debt securities</b>									
Bank AL Habib Limited I	11.04%	4,950	100	-	5,050	25,463	2.33	2.47	1.68
PACE Pakistan Limited (Note 6.2.1.1)	-	15,000	-	-	15,000	54,522	4.99	5.29	3.49
Askari Bank Limited III	12.20%	6,000	-	-	6,000	30,231	2.77	2.94	1.00
Escorts Investment Bank Limited	8.00%	6,000	-	-	6,000	1,100	0.10	0.11	0.60
NIB Bank Limited **	-	3,399	-	3,399	-	-	-	-	-
Askari Bank Limited IV*	11.90%	45	-	-	45	47,915	4.33	4.60	4.50
Bank Alfalah Limited	10.36%	5,981	-	-	5,981	30,362	2.79	2.96	0.60
<b>Total as at 31 March 2014</b>						<b>188,786</b>	<b>189,202</b>	<b>416</b>	
<b>Total as at 30 June 2013</b>						202,113	208,233	6,120	

\*Face value of the investment is Rs. 1,000,000 each

\*\*During the year, the issuer has made call option to existing TFCs holders as a result the Fund has received the outstanding principal from the issuer.

**6.2.1.1** Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. The Fund had recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan (SECP) and provision policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

## 6.3 Unlisted debt securities - term finance certificates and sukuk bonds

**Unlisted debt securities**  
Less: Provision as on 1 July  
Eden Housing Limited  
Pak Elektron Limited  
  
Less: Provision charged during the year  
Eden Housing Limited  
Pak Elektron Limited  
  
Add: Reversal of provision during the year  
Eden Housing Limited

(Unaudited) 31 March 2014 (Rupees in '000)	(Audited) 30 June 2013 (Rupees in '000)
6.3.1	136,728
11,076	12,982
16,112	3,903
27,188	16,885
-	2,976
-	12,209
-	15,185
2,929	4,882
112,469	115,814



# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

## 6.3.1 Name of the investee company

Name of the investee company	Profit / mark-up percentage	Number of certificates		Balance as at 31 March 2014			Market value as a percentage of net assets	Market value as a percentage of total investments	Face value percentage in relation to the size of the issue
		As at 1 July 2013	Purchases during the period	Sales / matured during the period	As at 31 March 2014	Carrying cost			
----- (Rupees in '000) -----									
Certificate have a face value of Rs. 5,000 each unless stated otherwise									
<b>Unlisted debt securities</b>									
Engro Fertilizer Limited	11.13%	12,900	-	-	12,900	60,469	64,207	3,738	5.87
Bank Alfalah Limited (Floating)	12.58%	9,000	-	-	9,000	47,227	48,262	1,035	4.41
Jahangir Siddiqui & Company Limited	-	3,250	-	3,250	-	-	-	-	-
						107,696	112,469	4,773	
<b>Sukuk Bonds - Unlisted</b>									
Eden Housing Limited - Sukuk (Note 6.3.1.1)	-	10,415	-	-	10,415	8,147	8,147	-	0.75
Pak Elektron Limited - Sukuk (Note 6.3.1.2)	-	8,000	-	-	8,000	16,112	16,112	-	1.47
						24,259	24,259	-	
<b>Total as at 31 March 2014</b>						<b>131,955</b>	<b>136,728</b>	<b>4,773</b>	
<b>Total as at 30 June 2013</b>						140,035	143,002	2,967	

6.3.1.1 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. The Fund had recognised full provision against such exposure in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan (SECP) and provision policy of the Fund duly approved by the Board of Directors of the Management Company alongwith suspension of further accrual of markup there against. During the period the Fund has received Rs. 2.929 million against outstanding principal and reversed the provision to that extent.

6.3.1.2 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. The Fund had recognised full provision against outstanding principal in accordance with provisioning circular issued by the Securities and Exchange Commission of Pakistan (SECP) and provision policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

## 6.4 Movement in provision against debt securities

	31 March 2014	
	Listed debt securities	Unlisted debt securities (Rupees in '000)
Opening balance	54,522	27,188
Add : Charge for the year	-	-
Less: Reversal of provision	-	2,929
Charge for the year - net	-	(2,929)
Closing balance	54,522	24,259
	81,710	78,781

## 6.5 Government securities - 'Available for Sale'

Issue date	Tenor	Face value				Balance as at 31 March 2014		Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at 1 July 2013	Purchases during the period	Sales / matured during the period	Balance as at 31 March 2014	Carrying value	Appreciation/ (diminution)		
----- (Rupees in '000) -----									
<i>Pakistan Investment Bond</i>									
18 July 2013	3 years	-	412,500	-	412,500	406,306	209	37.18	39.47
<b>Total as at 31 March 2014</b>						<b>406,306</b>	<b>209</b>		
<b>Total as at 30 June 2013</b>						-	-		

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

### 7. ADVANCE AGAINST SUBSCRIPTION OF TERM FINANCE CERTIFICATES

This represents advance provided against issue of privately placed issue of term finance certificates of Pakistan Mobile Communications Limited in terms of investment agreement dated 17 September 2013 entered with Pakistan Mobile Communications Limited (PMCL). The advance is unsecured and carries mark up at the rate of 6 months KIBOR + 2.00% per annum (30 June 2013: Nil). The Fund has committed to subscribe 7,000 TFCs having face value of Rs. 5,000 each with total amount of Rs. 35 million.

### 8. ACCRUED EXPENSES AND OTHER LIABILITIES

		(Unaudited) 31 March 2014	(Audited) 30 June 2013
		(Rupees in '000)	
Federal exercise duty payable	8.1	2,354	-
Provision for Workers' Welfare Fund	9	15,139	8,495
Auditors' remuneration		213	325
Zakat payable		680	680
Legal and professional charges		171	144
Brokerage payable		41	15
Capital gain tax payable		4	9
Others		447	266
		<u>19,049</u>	<u>9,934</u>

- 8.1 The Finance Act 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the eighteenth amendment. The SHC in its short order of September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in this condensed interim financial information aggregating to Rs. 2.354 million as at March 31, 2014. In case the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED and related taxes were not recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.11 per unit as at 31 March 2014.

### 9. CONTINGENCY

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

In 2011, a single judge of the Lahore High Court (LHC) issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down. Subsequent to the year ended 30 June 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity. However in 2013, the Larger Bench of the SHC issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

constitutional or legal infirmity. As the matter relating to levy of WWF on CISs is currently pending in the SHC, the Management Company has decided to retain and continue with the provision for WWF in its books of account and financial statements aggregating to Rs. 15.139 million as at March 31, 2014. Had the said provision of WWF not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Rs. 0.71 per unit.

### 10. 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 for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified \*Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealised capital gains / loss to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company intends to distribute at least 90 percent of the Fund's accounting income for the year ending 30 June 2014 as reduced by capital gains (whether realised or unrealised) to its unit holders.

### 11. EARNINGS PER UNIT

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

### 12. INTERIM DISTRIBUTIONS

The Fund makes distribution on a monthly basis and has made following distributions during the period.

Date	Rate per unit	Bonus *		Cash Distribution** (Rupees in '000)	Total
		Units	Amount		
25 July 2013	Re. 0.2900	144,449	7,352	-	7,352
23 August 2013	Re. 0.3000	144,857	7,354	-	7,354
25 September 2013	Re. 0.3200	144,337	7,335	-	7,335
25 October 2013	Re. 0.3200	120,186	6,110	-	6,110
25 November 2013	Re. 0.3300	119,972	6,097	-	6,097
24 December 2013	Re. 0.3000	102,391	5,197	-	5,197
24 January 2014	Re. 0.3900	132,632	6,754	-	6,754
25 February 2014	Re. 0.3500	116,193	5,908	-	5,908
25 March 2014	Re. 0.3600	147,431	7,544	-	7,544
		<b>1,172,447</b>	<b>59,651</b>	<b>-</b>	<b>39,445</b>

\* Bonus units have been distributed to unit holders under plan A

\*\* Cash dividends have been distributed to unit holders under plan B

As per clause 12 of Trust Deed and clause 6 of Part VI of the Offering Document, the Management Company on behalf of the Fund on monthly basis (except June) distributes bonus / dividend. The Board of Directors on 22nd September 2008 have passed a resolution providing standing authorisation to the Chief Executive Officer to approve and declare interim dividends out of profit earned by the Fund up to the 25th of each month. SECP vide letter no. NBFC - II.DD / AHIL / Misc-734 / 2009 has approved the this arrangement.

### 13. TRANSACTIONS WITH CONNECTED PERSONS

Related parties / connected persons of the Fund include the Management Company, its related entities, Central Depository Company of Pakistan Limited (being the Trustee of the Fund), other Funds managed by the Management Company and Directors, Key Management Personnel and Officers of the Management Company, and Unit Holders having more than 10% holding in the Fund.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014

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

### 13.1 Details of the transactions with connected persons are as follows:

	Nine months ended 31 March		Quarter ended 31 March	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
<b>MCB-Arif Habib Savings and Investments Limited (Formerly: Arif Habib Investments Limited)</b>				
Remuneration (including indirect taxes)	<u>15,842</u>	<u>10,131</u>	<u>4,376</u>	<u>3,300</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration	<u>1,269</u>	<u>990</u>	<u>368</u>	<u>322</u>
CDS charges	<u>9</u>	<u>6</u>	<u>3</u>	<u>3</u>
<b>MCB Bank Limited</b>				
Bank charges	<u>14</u>	<u>5</u>	<u>3</u>	<u>5</u>
Profit on bank deposits	<u>2,081</u>	<u>803</u>	<u>331</u>	<u>163</u>
<b>Summit Bank Limited</b>				
Profit on bank deposits	<u>-</u>	<u>27</u>	<u>-</u>	<u>15</u>
<b>Arif Habib Limited - Brokerage House</b>				
Brokerage expense	<u>7</u>	<u>-</u>	<u>4</u>	<u>-</u>
<b>Other Related Parties:</b>				
<b>Directors and Executives of the Management Company</b>				
Issue of 23,565 units (2013: 21,302 units) and 11,063 units (2013: 21,302 units) for the nine months and quarter ended respectively	<u>1,203</u>	<u>1,097</u>	<u>567</u>	<u>1,097</u>
Issue of 1,194 bonus units (2013: 108,817 bonus units) and bonus 43 units (2013: 108,385 units) for the six months and quarter ended respectively	<u>61</u>	<u>5,569</u>	<u>2</u>	<u>5,547</u>
Redemption of 52,529 units (2013: 37,401 units) and 5,018 units (2013: 36 units) for the six months and quarter ended respectively	<u>2,684</u>	<u>1,929</u>	<u>257</u>	<u>2</u>

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014**

	<b>Nine months ended 31 March</b>		<b>Quarter ended 31 March</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>----- (Rupees in '000) -----</b>			
<b>*Adamjee Life Assurance Company Limited - Nuil Fund</b>				
Issue of NIL units (2013: 136,879 units) and NIL units (2013: Nil units) for the nine months and quarter ended respectively	<u>-</u>	<u>7,000</u>	<u>-</u>	
Issue of 5,067 bonus units (2013: 4,121 bonus units) and bonus 19 units (2013: 3,128 units) for the nine months and quarter ended respectively	<u>258</u>	<u>210</u>	<u>1</u>	<u>160</u>
Redemption of 147,261 units (2012: nil units) and Nil units (2012: nil units) for the nine months and quarter ended respectively	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>*Adamjee Insurance Company Limited</b>				
Issue of 3,881,234 units (2013: Nil units) and 3,881,234 units (2013: Nil units) for the nine months and quarter ended respectively	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
Issue of 27,306 bonus units (2013: Nil bonus units) and bonus 27,306 units (2013: Nil units) for the nine months and quarter ended respectively	<u>1,397</u>	<u>-</u>	<u>1,397</u>	<u>-</u>
<b>Mr. Najeel Butt (10% or more holding)</b>				
Issue of 160,107 bonus units (2013: 107,940 bonus units) and 47,171 bonus units (2013: 45,186 bonus units) for the nine months and quarter ended respectively	<u>8,150</u>	<u>5,524</u>	<u>2,405</u>	<u>2,307</u>
Redemption of 13,712 units (2013: nil units) and Nil units (2013: nil units) for the nine months and quarter ended respectively	<u>700</u>	<u>-</u>	<u>700</u>	<u>-</u>

**13.2 Amounts outstanding as at period / year end**

	<b>(Unaudited) 31 March 2014</b>	<b>(Audited) 30 June 2013</b>
	<b>(Rupees in '000)</b>	
<b>MCB-Arif Habib Savings and Investments Limited (Formerly: Arif Habib Investments Limited)</b>		
Management fee payable	<u>1,148</u>	<u>1,403</u>
Sindh sales tax payable on management fee	<u>184</u>	<u>225</u>
Front-end load payable	<u>530</u>	<u>2,272</u>
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Security deposit	<u>200</u>	<u>200</u>
Remuneration payable	<u>129</u>	<u>149</u>

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE NINE MONTHS AND QUARTER ENDED 31 MARCH 2014**

	(Unaudited) 31 March 2014	(Audited) 30 June 2013
	(Rupees in '000)	
<b>MCB Bank Limited</b>		
Balance with bank	38,893	44,800
Accrued profit on bank deposit	237	134
<b>Summit Bank Limited</b>		
Balance with bank	-	71
<b>Directors and executives of the Management Company</b>		
Units held 6,088 units (30 June 2013: 33,858 units)	-	1,756
<b>*Adamjee Life Assurance Company Limited</b>		
Units held 872 (30 June 2013: 143,065)	45	7,419
<b>*Adamjee Insurance Company Limited</b>		
Units held 3,908,540 (30 June 2013: Nil)	200,274	-
<b>Mr. Najeem Butt (10% or more holding)</b>		
Units held 2,212,769 (30 June 2013: 2,066,374)	113,382	107,129

\* These discretionary portfolio are managed by the Management Company.

**14. DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorised for issue on 21 April 2014 by the Board of Directors of the Management Company.

**15. GENERAL**

Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. No significant changes to corresponding figures have been made during the period.

  
\_\_\_\_\_  
Chief Executive Officer

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

  
\_\_\_\_\_  
Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

**MCB-Arif Habib Savings and Investments Limited**  
*(formerly: Arif Habib Investments Limited)*

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