

Quarterly Report

September 30, 2014
(Unaudited)



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

MCB
DYNAMIC ALLOCATION FUND

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FUND'S INFORMATION

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

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2014

Dear Investor,

On behalf of the Board of Directors, I am pleased to present MCB Dynamic Allocation Fund's accounts review for the first quarter ended September 30th 2014.

ECONOMY AND MONEY MARKET OVERVIEW

Delay in implementation of fiscal reforms and phasing out of subsidies on tariffs, in the presence of lower commodity prices, helped contain inflation, with CPI averaging at 7.52% during 1QFY15. If oil prices, which eased down to a five-year low in October, stays at the current level, inflation is likely to remain on the lower side during FY15.

Surge in imports, mainly petroleum products, along with a slowdown in exports, widened the country's current account deficit to \$1.37 billion during 2MFY15, significantly higher than the deficit of around \$0.58 billion incurred during the same period last fiscal year. Poor law and order situation and energy crisis are the major culprits behind negative growth in exports. At the same time, financial account registered a surplus of \$0.45 billion as compared to a surplus of \$0.19 billion recorded during the corresponding period last year. Improvement in financial account is mainly due to sell-off of financial assets abroad.

The recent political disruption has stalled progress on the completion of economic and fiscal targets set by International Monetary Fund. This along with wide current account deficit and absence of foreign inflows contributed to a drop in foreign reserves to \$13.21 billion as on 26-Sep-14, after touching a high of \$14.6 billion in July. Therefore, the local currency fell by more than 3.2 percent against dollar during 1QFY15.

Although, the government is optimistic on the economic front on the back of tepid inflationary pressures, contained government borrowings and improved debt profile, fragile political situation in the country has been forcing the policy makers to err on the side of caution to arrest decline in foreign reserves. This is evident from the recent monetary policy announcement in which policy makers kept the discount rate unchanged at around 10 percent.

On the heels of structural reforms, the country's performance on the fiscal side improved in FY14 as the country recorded a fiscal deficit of 5.5 percent lower than the year's target of 6.3 percent and the previous year's level of 8.8 percent (included one-off adjustment for circular debt). The major improvement in fiscal account came on the account of abnormal increase in Non-Tax revenue and restrained development expenditures.

In the money market, short term market rates remained on the higher side amid tight liquidity in the system. M2 has contracted by 1.52 percent in the 1QFY15 (till 26th Sep) as opposed to the contraction of 0.65 percent during the same period last year. While Borrowing from SBP increased marginally by Rs19 billion as compared to net increase in borrowing of around Rs 444.7 billion during the same period last year.

PIB rates inched up, as the government looks to move its borrowing from central bank to commercial banks, causing the yield curve to rise sharply upwards from 2 years. Moreover, unprecedented participation was seen with major concentration in a 2-year instrument. The rates are on slightly longer end, albeit higher have shown a rising trend despite controlled inflation because of unprecedented supply.

EQUITIES MARKET OVERVIEW

Local stock market remained volatile in the wake of growing apprehension on the political front during the first quarter of the current fiscal year. The index posted a return of 2.2 percent and 4.1 percent during July and September, respectively, but on account of poor performance in August the benchmark index recorded a total gain of 0.25 percent during the 1QFY15, with KSE-100 index closing at 29,726.39 at the end of the quarter.

Demonstrations and sit-ins across the country took its toll on the stock market's performance during August, but the gradual drop in political temperature in September helped in restoring confidence over the continuity of the current democratic system. Local investors' interest remained subdued. This can be gauged from the fact that the average turnover stood at 131 million shares during 1QFY15 as opposed to the average turnover of 236 million shares during 2HFY14. Although local investors took a cautious stance and preferred to remain on the sideline, foreign investors remained upbeat on the market and remained net buyer with a cumulative net inflow of US\$ 165.77 million during the period under review.

Auto sector and small capital stocks stayed in the limelight, while performance of Oil and Gas, Cement, and Banks remained unimpressive.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2014

FUND PERFORMANCE

The fund posted a return of 2.77% during the period under review while since inception return of fund stood at 40.91%. The fund increased its exposure towards equities from 17.6% to 21.7% at quarter end.

The fund has focused on defensive high yielding stocks. During the quarter, the fund reduced its exposure significantly in Oil & Gas and Electricity sectors from 1.9% and 4.9% respectively to 5.6% and 6.9% respectively at quarter-end.

On the fixed income side, the exposure towards PIBs and TFCs was kept unchanged while the fund doesn't hold any T-bills in light of the current yield curve scenario.

The Net Asset of the Fund as at September 30, 2014 stood at Rs. 800 million as compared to Rs 779 million as at June 30, 2014 registering a an increase of 2.7%. The Net Asset Value (NAV) per unit as at September 30, 2013 was Rs. 73.86.

FUTURE OUTLOOK

The country's import bill is likely to ease off after a lag of few months on the account of lower oil prices. Conversely, weak cotton prices might annul the benefit arising from lower oil prices on the country's trade balance. Although the government is eyeing increase in foreign inflows through pledges made by multilateral agencies, approved project financing and divestment of strategic assets, improvement in reserve position largely hinges on the country's political condition. In the near-term, realization of expected inflows-through divestment of shares of OGDCL and HBL and issuance of dollar-denominated Sukuks would be crucial.

We believe that the sustainability of external account, in the presence of subdued inflationary pressures, would be a key factor in shaping up interest rate direction. Lower commodity price, in the presences of stable local currency and higher base effect, is likely to keep inflationary pressure on the lower side during the year.

With the market expecting interest rates to remain stable and oil prices lower, profitability of power intensive companies such as: Textile and Cement are expected to improve. On the contrary, lower oil prices bode ill for Exploration and Production and Oil Marketing Companies.

In the face of stable fundamentals and better expectation of financial results of manufacturing companies, we expect the bourse to remain range bound in short term amid lack of clarity on the future of the current government. Above all, the equity market will continue to attract foreign investors owing to divestment of the government's holding in the listed companies and increase in the country's weight in MSCI FM Index.

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,



Yasir Qadri

Chief Executive Officer

Dated: October 20, 2014

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2014

	Note	Unaudited September 30, 2014	Audited June 30, 2014
Rupees in '000			
ASSETS			
Balances with bank		201,943	96,667
Investments	4	495,845	510,520
Receivable against sale of investment		43,771	142,712
Dividend and Profit receivables		11,784	19,517
Receivable from National Clearing Company of Pakistan Limited		1,226	15,397
Advances,deposits and prepayments		60,477	8,191
Total assets		815,045	793,004
LIABILITIES			
Payable to the Management Company		3,413	3,820
Payable to Central Depository of Pakistan Limited - Trustee		132	126
Annual fee payable to Securities and Exchange Commission of Pakistan		819	630
Fair value of derivative liability		-	10
Accrued and other liabilities		10,715	9,301
Total liabilities		15,079	13,887
NET ASSETS		799,966	779,117
Unit holders' fund		799,966	779,117
NUMBER OF UNITS IN ISSUE			
		10,830,957	10,840,442
Rupees			
NET ASSET VALUE PER UNIT		73.86	71.87

The annexed notes form an integral part of these financial statements.

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


Chief Executive Officer


Director

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	Note	September 30, 2014	September 30, 2013
		Rupees in '000	
INCOME			
Capital gain /(loss) on sale of investments		10,393	(2,376)
Dividend income		1,369	9,455
Profit on bank deposits and term deposit receipts		5,224	2,234
Income from government securities		10,084	4,512
Income from Term Finance Certificates		756	938
Other Income		6	2
		27,832	14,765
Net unrealised appreciation in the fair value of future contracts		-	884
Net unrealised appreciation / (diminution) on re-measurement of investments classified as ' financial assets at fair value through profit or loss'		91	(3,144)
Total Income		27,924	12,505
EXPENSES			
Remuneration of the Management Company		3,997	2,417
Sindh Sales Tax and Federal Excise Duty on Management Fee		1,335	836
Remuneration of the Trustee		400	176
Annual fee - Securities and Exchange Commission of Pakistan		190	136
Brokerage and settlement charges		1,295	1,302
Auditors' remuneration		158	128
Other expenses		102	173
		7,477	5,168
Net Income from operating activities		20,447	7,337
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed		(211)	2,709
Provision for Workers' Welfare Fund	5	(405)	(201)
Net Income for the period before taxation		19,831	9,845
Taxation	6		-
Net income for the period after taxation		19,831	9,845
Other comprehensive income for the period		1,714	-
Total comprehensive income for the period		21,545	9,845
Earnings per unit	7.2		

The annexed notes form an integral part of these financial statements.

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


Chief Executive Officer


Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	September 30, 2014	September 30, 2013
	Rupees in '000	
Net loss brought forward	(304,929)	(80,704)
Distributions to the unit holders of the Fund:		
Final Distribution at the rate of Rs. 33.6889 per unit declared on 04 July, 2013	-	-
- Cash distribution	-	(87)
- Bonus distribution	-	(66,208)
Element of income/(loss) and capital gains/ (losses) included in the prices of units issued less those in units redeemed - amount forms part of the unit holders' fund	1,583	(99,792)
Total Comprehensive income	21,545	9,845
Undistributed loss carried forward	<u>(281,801)</u>	<u>(236,946)</u>

The annexed notes form an integral part of these financial statements.

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



Chief Executive Officer



Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

	September 30, 2014	September 30, 2013
	Rupees in '000	
Net assets at beginning of the period	779,117	432,680
Issue of 1,005,931 (2013: 3,221,694) units	73,054	233,616
Issue of Bonus nil (2013: 927,719) units	-	66,208
Redemption of 1,015,416 (2013: 664,206) units	(73,961)	(48,387)
	(907)	251,437
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to income statement	211	(2,709)
- amount representing loss that forms part of unit holders' fund - transferred to distribution statement	(1,583)	99,792
	(1,372)	97,083
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income	1,583	(99,792)
Net unrealised (diminution)/ appreciation re-measurement of investment classified as ' financial assets at fair value through profit or loss'	92	(3,144)
Capital gain / (loss) on sale of investments -net	10,393	(2,376)
Profit from other operating activities	9,346	15,366
Total Comprehensive income for the year	19,831	9,845
Net unrealised appreciation in fair value of investments classified as 'at available for sale'	1,714	
Final distributions during the period ended June 30, 2013: On July 04, 2013 at Rs 12.9135 per unit		
- Cash distribution	-	(87)
- Bonus distribution	-	(66,208)
	-	(66,295)
Net assets as at the end of the period	799,966	624,958

The annexed notes form an integral part of these financial statements.

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



Chief Executive Officer



Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	September 30, 2014	September 30, 2013
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the period before taxation	19,831	9,845
Adjustments for non-cash charges and other items:		
Net unrealised diminution on remeasurement of investment classified as 'financial assets at fair value through profit or loss'	(92)	2,260
Amortisation of preliminary expenses and floatation costs	-	-
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed	211	(2,709)
	<u>19,950</u>	<u>9,396</u>
(Increase) / decrease in assets		
Investments - net	16,481	(83,499)
Receivable against sale of Investment	98,942	(33,580)
Dividend and profit receivable	7,733	(5,786)
Advances, deposits prepayments and other receivable	(38,115)	(7,885)
	85,040	(130,750)
Increase / (decrease) in liabilities		
Payable to Management Company	(407)	55
Annual fee payable to Securities and Exchange Commission of Pakistan	189	(97)
Accrued and other liabilities	1,410	2,463
	1,193	2,421
Net cash used in operating activities	<u>106,183</u>	<u>198,968</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from issue of units	73,054	233,616
Net payments on redemption of units	(73,961)	(48,387)
Distribution during the period	-	(87)
Net cash generated from financing activities	(907)	185,141
Net increase in cash and cash equivalents	<u>105,276</u>	<u>66,209</u>
Cash and cash equivalents at the beginning of the period	<u>96,667</u>	<u>68,364</u>
Cash and cash equivalents at the end of the period	<u>201,943</u>	<u>134,573</u>

The annexed notes form an integral part of these financial statements.

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



Chief Executive Officer



Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

1 LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

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

Under circular 7 dated 6 March 2009 issued by the SECP, the Fund is categorised as an Asset Allocation Scheme. The Management Company is in the process of making requisite amendments in relation to categorisation, investment objectives and relevant benchmark in the constitutive documents of the Fund.

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

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' -positive outlook to the Management Company and a rating of '4-Star' to the Fund.

2 Statement of compliance

- 2.1 This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard 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 NBC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). In case where requirements differ, the provisions of or 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) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed.

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 2014.

This condensed interim financial information is unaudited. The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'. The Directors of the asset management company declare that this condensed interim financial information give a true and fair view of the Fund.

The comparatives in the condensed interim statement of assets and liabilities presented in the condensed interim financial information as at 30 September 2014 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2014, 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 30 September 2013.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

2.2 Basis of measurement

This condensed interim financial information have been prepared on the basis of historical cost convention except that investments have been included at fair value.

2.3 Functional and presentation currency

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2014.

4 INVESTMENTS	Note	September 30, 2014	June 30, 2014
		Rupees in '000	
4.1 Held for trading investments			
- Quoted equity securities	4.1.1	120,403	125,962
- Term finance certificates - listed	4.1.2	24,925	24,699
- Government Securities	4.1.3	95,560	95,422
		240,888	246,083
4.2 Available for sale investments			
- Quoted equity securities		-	11,218
- Government Securities		254,957	253,219
		254,957	264,437
		495,845	510,520

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

4 Held for trading investments

4.1.1 Quoted equity securities

Name of investee company	Number of shares				Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2014	Purchases during the period	Bonus/ rights issue	Disposed off during the period	As at September 30, 2014	Carrying value	Market value			
(Rupees in '000)										
Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs 10 each										
Auto Mobile & Parts										
Pak Suzuki Motors Company Limited	-	-	-	-	-	-	-	-	0.00%	0.00%
Construction & Materials										
Lafarge Pakistan Limited	-	2,850,000	-	2,700,000	150,000	2,274	2,477	203	0.31%	0.50%
D.G Khan Cement Limited	-	220,000	-	220,000	-	-	-	-	0.00%	0.00%
Lucky Cement	-	35,500	-	35,500	-	-	-	-	0.00%	0.00%
Maple Leaf Cement	80,000	410,000	-	344,000	146,000	4,064	3,970	(94)	0.50%	0.80%
Pioneer Cement Limited	-	25,000	-	-	25,000	1,318	1,321	3		
						7,656	7,768	112	0.50%	0.80%
Banks										
Askari Bank Limited	-	333,000	-	150,000	183,000	4,065	3,944	(121)	0.49%	0.80%
Bank Al-Falah Limited	524,500	-	-	163,000	361,500	9,941	10,259	318	1.28%	2.07%
Bank Al-Habib Limited	160,000	400,000	-	354,000	206,000	9,373	9,326	(47)	1.17%	1.88%
National Bank of Pakistan	50,000	-	-	50,000	-	-	-	-	0.00%	0.00%
Faysal Bank Limited	150,000	575,000	-	725,000	-	-	-	-	0.00%	0.00%
Habib Metropolitan Bank Limited	402,000	500,000	-	887,000	15,000	450	473	23	0.06%	0.10%
United Bank Limited	180,936	125,200	-	305,200	936	164	176	12	0.02%	0.04%
MCB Bank Limited	-	24,500	-	9,500	15,000	4,214	4,239	25	0.53%	0.85%
					-	-	-	-	0.00%	0.00%
					-	28,207	28,417	210	3.55%	5.73%
Non Life Insurance										
IGI Insurance Company Limited	38,800	-	-	-	38,800	8,836	8,697	(139)	1.09%	1.75%
					-	8,836	8,697	(139)	0	0
General Industries										
Packages Limited	9,700	-	-	9,700	-	-	-	-	0.00%	0.00%
Personal goods										
Nishat (Chunian) Limited	6,000	-	-	6,000	-	-	-	-	0.00%	0.00%
					-	-	-	-	0.00%	0.00%

Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs 10 each

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

Name of investee company	Number of shares				Balance as at September 30, 2014			Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2014	Purchases during the year	Bonus/ rights issue	Disposed off during the year	As at September 30, 2014	Carrying value	Market value	Market value as a percentage of net assets	
Oil and gas									
ATTOCK PETROLEUM LIMITED	-	57,100	-	-	57,100	31,943	30,984	3.87%	6.25%
OIL & GAS DEVELOPMENT CO LTD	-	60,000	-	60,000	-	-	-	0.00%	0.00%
PAKISTAN OILFIELDS LIMITED	-	18,000	-	18,000	-	-	-	0.00%	0.00%
PAKISTAN PETROLEUM LTD	-	195,000	-	130,500	64,500	14,542	14,580	1.82%	2.94%
						46,486	45,564	5.70%	9.19%
Electricity									
HUB POWER COMPANY LTD	310,000	-	-	310,000	-	-	-	0.00%	0.00%
KOT ADDU POWER CO. LTD	327,000	-	-	327,000	-	-	-	0.00%	0.00%
NISHAT CHUNIAN POWER LIMITED	-	-	-	-	-	-	-	0.00%	0.00%
NISHAT POWER LTD	42,000	-	-	42,000	-	-	-	0.00%	0.00%
INDUSTRIAL METALS AND MINNING									
INTERNATIONAL INDUSTRIES	-	190,000	-	112,000	78,000	4,602	5,117	0.64%	1.03%
	-	-	-	-	-	4,602	5,117	0.64%	0
ENGINEERING									
AL-GHAZI TRACTORS	-	23,800	-	12,400	11,400	3,429	3,323	0.42%	0.67%
MILLAT TRACTORS LIMITED	-	38,900	-	-	38,900	21,471	21,517	2.69%	4.34%
						24,900	24,840	3.11%	5.01%
Total as at 30 september 2014						120,686	120,403	11.47%	18.51%
Total - June 30, 2014						174,109	173,961	18.39%	24.81%

4.1.2 Investments include shares with market value aggregating to 10 million that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by the SECP.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

4.1.2 Term finance certificates - listed

Name of investee company	Number of Certificates			Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total Investments
	As at July 01, 2014	Purchased during the year	Disposed during the year	As at September 30, 2014	Cost	Market value		
(Rupees in '000)								
Certificates having a face value of Rs. 5,000 each unless stated otherwise								
Askari Bank Limited III	2,998	-	-	2,998	14,571	14,900	329	6.19%
Bank Alfalah Limited-V	2,000			2,000	10,126	10,025	(101)	4.16%
Total - September 30, 2014					24,697	24,925	227	10.35%
Total - June 30, 2014					25,255	24,699	(556)	4.83%

4.1.3 Government Securities

Pakistan Investment Bond

Name of investee company	Face value			Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total Investments
	As at July 01, 2014	Purchased during the year	Disposed/Matured during the year	As at September 30, 2014	Cost	Market value		
(Rupees in '000)								
PIB-3 years	30,000	-	-	30,000	29,596	29,870	275	3.73%
PIB-5years	65,000	-	-	65,000	65,827	65,690	(137)	8.21%
								27.27%
Total - September 30, 2014					95,423	95,560	138	11.95%
Total - June 30, 2014					95,864	95,422	(442)	12.00%
								19%

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

4.2 Available for sale investments

4.2.1 Quoted equity securities

Name of investee company	Number of shares					Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2014	Purchases during the year	Bonus/ rights issue	Disposed off during the year	As at September 30, 2014	Carrying value	Market value	Appreciation/ (diminution)			
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4.2.2 Government Securities

Name of investee company	Face value				Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total Investments
	As at July 01, 2014	Purchased during the year	Disposed/Matured during the year	As at September 30, 2014	Cost	Market value	Appreciation/ (Diminution)		
<div></div> <div>(Rupees in '000)</div>									
PIB-3 years	232,500	-	-	232,500	229,171	231,495	2,325	28.94%	28.94%
PIB-10years	25,000	-	-	25,000	24,151	23,462	(689)	2.93%	2.93%
Total - September 30, 2014					253,322	254,957	1,636	31.87%	31.87%
Total - June 30, 2014					253,222	253,219	(103)	32.50%	49.60%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

5 ACCRUED AND OTHER LIABILITIES

		September 30, 2014	June 30, 2014
Auditors' remuneration payable		600	442
Brokerage payable		670	546
Provision for Federal Excise Duty and related taxes	5.1	3,171	2,436
Provision for Workers' Welfare Fund	5.2	6,081	5,676
Others		193	201
		10,715	9,301

5.1 PROVISION FOR FEDERAL EXCISE DUTY NAD RELATED TAXES

The Finance Act, 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Services after the eighteenth amendment. The SHC in its short order dated 4 September 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. Rs. 3.171 million as at 30 June 2014. In case, the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED not been recorded in the books of account of the Fund, the Net Asset Value of the Fund would have been higher by Rs 0.29 per unit as at 30 Sep 2014.

5.2 PROVISION FOR WORKERS' WELFARE FUND

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

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

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

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

The Management company, as a matter of abundant precaution, decided to retain the entire provision for workers' welfare fund in these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

6.2 TAXATION

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

7 EARNINGS PER UNIT

Earnings per unit 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.

8 TRANSACTIONS WITH CONNECTED PERSONS

8.1 Connected persons of the Fund include the Management Company, other collective investment, schemes being managed by the Management Company, MCB Bank Limited being the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertaking and investors holding 10% or more units of the Fund.

8.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

8.3 Remuneration payable to the Management Company and the fee payable to the Trustee are determined in accordance with the the provisions of the NBFC Rules 2003, the NBFC Regulations 2008 and Trust Deed respectively.

8.4 Details of transactions and balances at year end with related parties / connected persons, other than those which have been disclosed elsewhere in these financial statements, are as follows:

8.5 Details of the transactions with the connected persons during the period are as follows:

	September 30, 2014 Rupees in '000	September 30, 2013 Rupees in '000
MCB Bank Limited		
- Bank Charges	5	2
- Profit on saving accounts	4,418	508
MCB-Arif Habib Savings and Investments Limited		
- Remuneration of the Management Company (including indirect taxes)	5,332	3,253
- Issued of units nil units (September 30, 2013: 827,401)	-	60,000
- Issued of nil bonus units 211,148 (September 30, 2013:211,148)	-	15,069
Central Depository Company of Pakistan Limited		
- Remuneration of the Trustee	400	400
- CDC settlement charges	31	34
Key management personnel		
- Issued of 23,362 units (September 30, 2013: 251)	1,768	18

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

	September 30, 2014 Rupees in '000	September 30, 2013 Rupees in '000
Arif Habib Corporation		
- Dividend received	-	2,824
D.G Khan Cement Company Limited		
- Issued of nil bonus units (September 30, 2013: 4032 units)	-	288
Dividend received		
MCB Bank Limited	37	-
Next Capital Limited		
- Brokerage *	73	9
8.6 Amount outstanding as at period end	September 30, 2014	June 30 2014
	Rupees in '000	
MCB Bank Limited		
- Bank balances	69,203	94,005
- Profit receivable on saving accounts	1,091	564
MCB-Arif Habib Savings and Investments Limited		
- Remuneration payable to the Management Company	1,512	636
- Sales load payable	1,901	516
- 2,364,412 units held as at September 30, 2014 (June 30, 2014: 2,364,412, units)	174,634	169,934
Central Depository Company of Pakistan Limited		
- Remuneration payable to Trustee	132	126
- Security Deposits	100	100
MCB Bank Limited		
- 1,500 Shares held at September 2014 (June 30, 2014: nil)	4,239	-
D.G Khan Cement Company Limited		
- 29,253 units held at September 2014 (June 30, 2014: 29,253)	2,161	2,102
Adamjee Insurance Company Limited		
- 247,280 units held at September 2014 (June 30, 2014: 247,820)	18,264	17,811
Key Management Personnel		
- 54,703 units held at September 2014 (June 30, 2014: 31,341)	4,040	2,253

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	September 30, 2014	June 30 2014
	Rupees in '000	
Nishat Power Limited		
- nil units held at September 2014 (june 30, 2014: 42,000)	-	1,494
Nishat Chunain Limited		
- nil units held at September 2014 (june 30, 2014: 6,000)	-	254
Arif Habib Limited		
- Brokerage *	-	71

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

9. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue on October 20, 2014 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Director

Please find us on



by typing: **Bachat Ka Doosra Naam**

MCB-Arif Habib Savings and Investments Limited

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

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

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