

Quarterly Report

September 30, 2014

(Unaudited)



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

**PAKISTAN
INCOME ENHANCEMENT 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 Depository Company of Pakistan Limited CDC House, 990B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Habib Metropolitan Bank Limited Bank Al-Falah Limited Faysal Bank Limited United Bank Limited Standard Chartered Bank Pakistan Limited NIB Bank Limited	
Auditors	KPMG Taseer Haidi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

REPORT OF THE 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 Pakistan Income Enhancement 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.

FUND PERFORMANCE

During the quarter under review, the fund generated an annualized return of 11.11% as against its benchmark return of 9.42%. The fund outperformed its benchmark by 1.69%.

During the period under review, the fund reduced its exposure in TFCs to 12.6% from 15.3%, increased its exposure in T-Bills to 8.1%, and slightly maintained its exposure in PIBs around 63%.

The Net Asset of the Fund as at September 30, 2014 stood at Rs. 1,815 million as compared to Rs 1,677 million as at June 30, 2014 registering an increased of 8.2%.

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

The Net Asset Value (NAV) per unit as at September 30, 2014 was Rs. 52.48 as compared to opening NAV of Rs.51.05 per unit as at June 30, 2013 registering an increase of Rs. 1.43 per unit.

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 banks		253,291	315,888
Investments	4	1,554,851	1,306,124
Income and profit receivable		34,089	61,533
Deposits, prepayments and other receivable		696	728
Advance against subscription of TFC		-	18,083
Preliminary expenses and floatation costs		-	-
Total assets		1,842,927	1,702,356
LIABILITIES			
Payable against redemption of units		565	565
Payable to Management Company		2,555	3,103
Payable to Central Depository Company of Pakistan Limited - Trustee		388	182
Payable to Securities and Exchange Commission of Pakistan		318	867
Accrued expenses and other liabilities	5	23,635	20,473
Total liabilities		27,461	25,190
NET ASSETS		1,815,466	1,677,166
Unit holders' fund		1,815,466	1,677,166
Number of units			
NUMBER OF UNITS IN ISSUE		34,593,490	32,856,013
Rupees			
NET ASSET VALUE PER UNIT		52.48	51.05

The annexed notes form an integral part of these condensed interim 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	2013
		(Rupees in '000)	
INCOME			
Capital gain on sale of investments - net		(1,062)	(1,781)
Income from term finance and sukuk certificates		12,354	8,353
Income from government securities		37,131	22,838
Profit on bank deposits		2,361	1,785
		50,784	31,195
Provision against non-performing investment		(3,893)	(800)
Net unrealised appreciation on re-measurement of investments classified as financial assets at 'fair value through profit or loss'		9,165	1,100
		56,056	31,495
EXPENSES			
Remuneration of Management Company		6,359	5,458
Sale tax and Federal Excise Duty on remuneration of Management Company		2,124	1,040
Remuneration of Central Depository Company of Pakistan Limited -Trustee		575	488
Annual fee - Securities and Exchange Commission of Pakistan		318	241
Settlement, bank and other charges		105	152
Amortisation of preliminary expenses and floatation costs		-	32
Auditors' remuneration		124	113
Other Expenses		236	138
Total Expenses		9,841	7,662
Net Income from operating activities		46,215	23,833
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		2,982	(288)
Net Income for the period before taxation		49,197	23,545
Taxation	6	-	-
Provision for Workers' Welfare Fund	5.2	(984)	(3,336)
Net income for the period after taxation		48,213	20,209
Other comprehensive income for the period			
Net Unrealized appreciation on re-measurement of Investment classified as "available for sale"		1,328	-
Total comprehensive income for the period		49,541	20,209
Earnings per unit	7		

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

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


Chief Executive Officer


Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	Note	September 30	
		2014	2013
		Rupees in '000	
Undistributed income brought forward		33,808	47,223
Final Distribution:			
(2013: 'Re 0.86 per unit)			
- Bonus units		-	(21,867)
- Cash distribution		-	-
		33,808	25,356
Net element of income losses			
included in the prices of units issued less those in units redeemed		1,884	(2,617)
Total comprehensive income for the period		49,541	23,545
Interim Distribution for the quarter ended September 30, 2013			
Issue of Nil bonus units (2013: 433,644 units)			
- Issue of bonus units		-	(22,041)
- Cash Distribution			
Undistributed income carried forward		85,233	24,243

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

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


Chief Executive Officer


Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

	Note	September 30	
		2014	2013
		----- Rupees in '000 -----	
Net assets at beginning of the period		1,677,166	1,318,681
Issue of 9,137,935 units (2013: 3,261,948 units)		472,456	166,535
Redemption of 7,400,458 units (2013: 6,741,430 units)		(380,715)	(344,201)
		91,740	(177,666)
Final Distribution (2013: 428,766 bonus units) Bonus units		- 91,740	(21,867) (199,532)
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed transferred to income statement - net		1,884	(2,617)
- Amount representing (losses)/ gain transferred to income statement		(2,982)	288
- Amount representing loss and capital losses that form part of unitholders' fund transferred to distribution statement		(1,884)	2,617
Capital gain / (loss) on sale of investments - net		(1,062)	(1,781)
Unrealised (diminution) / appreciation in value of investments at market value through profit or loss - net		(9,165)	(1,100)
Other net income for the period		59,768 49,541	23,089 20,209
Interim Distribution for the quarter ended September 30, 2013			
Issue of Nil bonus units (2013: 433,644 bonus units)			
- Bonus Distribution		-	(22,041)
- Cash Distribution		-	-
Final Distribution (2013: 428,766 bonus units) Bonus units		-	21,867
Issue of Nil bonus units (2013: 433,644 bonus units)		-	22,041
- Bonus Distribution		-	21,867
Net assets at the end of the period		1,815,466	1,161,512

The annexed notes form an integral part of these condensed interim 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	2013
	(Rupees) '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period before taxation	48,213	20,209
Adjustments for non-cash charges and other items:		
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(2,982)	288
Amortization of preliminary expenses	-	31
Net unrealised appreciation / (diminution) on re - measurement of investments classified as 'financial assets at fair value through profit or loss'	(9,165)	(1,100)
Provision for non-performing assets	(3,893)	800
	32,173	20,228
(Increase)/ decrease in assets		
Investments - net	(234,340)	220,286
Advance against subscription of TFC	18,083	-
Income receivable	27,444	3,136
Deposits, prepayments and other receivable	32	31
	(188,781)	223,453
(Decrease) / increase in liabilities		
Payable to the Management Company	(548)	(2,331)
Payable to the Trustee	206	6
Annual fee payable to the Securities and Exchange Commission of Pakistan	(549)	(368)
Payable against purchase of investments	-	-
Payable against redemption of units	3,162	5,135
Accrued expenses and other liabilities	2,271	2,442
	(154,337)	246,123
Net cash (used in) / generated from from operating activities		
	(154,337)	246,123
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts against issue of units	472,455	166,535
Payment against redemption of units	(380,715)	(344,201)
	91,740	(177,666)
Dividend paid		
Net cash generated / (used in) from financing activities	91,740	(177,666)
Net (decrease) / increase in cash and cash equivalents during the period	(62,597)	68,457
Cash and cash equivalents at beginning of the period	315,888	287,079
Cash and cash equivalents at end of the period	253,291	355,536

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

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


Chief Executive Officer


Director

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 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 generate returns from aggressive investment strategy in the debt and fixed income"

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

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) , the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations, 2008) and directives issued by the SECP. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations, 2008 and the said directives shall prevail.

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.

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'. This condensed interim financial information are unaudited. The Directors of the asset management company declare that this condensed interim financial information give a true and fair view of the Fund.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

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.

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 applied for the preparation of this condensed interim financial information 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.

	Note	(Un-audited) September 30, 2014	(Audited) June 30, 2014
		----- Rupees in '000 -----	
4 INVESTMENTS			
At fair value through profit or loss			
- Government securities	4.1	1,078,160	623,729
- Term finance and sukuk certificates	4.2		
- Listed Debt securities	4.3	121,043	133,098
- Unlisted Debt securities	4.4	<u>111,644</u>	<u>109,623</u>
		1,310,847	866,450
Available-for-sale			
- Government securities	4.8	<u>244,004</u>	439,674
		<u><u>1,554,851</u></u>	<u><u>1,306,124</u></u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

4.1 Government Securities

Issue date	Tenor	Face value				Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2014	Purchases during the period	Sales / Matured during the period	Balance as at September 30, 2014	Cost	Market value	Appreciation / (Diminution)		
Rupees in '000										
Market Treasury Bills										
Treasury bills - 3 months	3 Months	-	600,000	450,000	150,000	149,207	149,185	(22)	8.22	9.59
						149,207	149,185	(22)	8.22	9.59
Pakistan Investment Bonds										
Pakistan Investment Bonds	3 Years	625,000	1,183,500	873,500.00	935,000	923,497	928,975	5,478	51.17	59.75
						923,497	928,975	5,478	51.17	59.75
Total as at September 30, 2014						1,072,704	1,078,160	5,456		
Total as at June 30, 2014						623,497	623,729	232		

4.2 Debt Securities

Name of the investee company	Issue date	Balance as at July 1, 2014	Purchases during the year	Sales / matured during the year	As at September 30, 2014	Balance as at September 30, 2014			---- Market Value ----		
						Carrying Value	Market value	Appreciation / (diminution)	As a percentage of net assets	As a percentage of total investments	
						----- (Rupees in '000) -----					
Certificates having a face value of Rs. 5,000 each unless stated otherwise											
<u>Listed</u>											
Bank AL-Habib Limited	7-Feb-07	5,050	-	-	5,050	12,632	12,620	(12)	0.70	0.81	
PACE Pakistan Limited (Note 4.2.1)	15-Feb-08	15,000	-	-	15,000	57,071	57,071	-	3.14	3.67	
Askari Bank Limited	18-Nov-09	6,000	-	-	6,000	29,161	29,819	658	1.64	1.92	
Escorts Investment Bank Limited	15-Mar-07	6,000	-	6,000	-	-	-	-	-	-	
Askari Bank Limited	23-Dec-11	45	-	-	45	47,279	48,624	1,345	2.68	3.13	
Bank Alfalah Limited	20-Feb-13	5,981	-	-	5,981	30,283	29,980	(303)	1.65	1.93	
						176,426	178,114	1,688			
<u>Unlisted</u>											
Engro Fertilizer Limited	18-Mar-08	12,900	-	-	12,900	63,298	64,339	1,041	3.54	4.14	
Bank Alfalah Limited (Floating)	2-Dec-09	9,000	-	-	9,000	46,325	47,305	980	2.61	3.04	
						109,623	111,644	2,021			
<u>Sukuk Bonds - Unlisted</u>											
Eden Housing Limited (Note 4.2.2)	31-Mar-08	10,415	-	-	10,415	5,866	5,866	-	0.32	0.38	
Pak Elektron Limited (Note 4.2.3)	28-Sep-07	8,000	-	-	8,000	16,319	16,319	-	0.90	1.05	
						22,185	22,185	-			
Total as at September 30, 2013						308,234	311,943	3,709			
Total as at June 30, 2013						246,645	241,288	(5,357)			

- 4.2.1** Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. During the period, the Fund has recognised further provision amounting to Rs. 2,549 million against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.
- 4.2.2** Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. During the period, the Fund has recognised further provision amounting to Rs. 1.137 million in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.
- 4.2.3** Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities. During the year, the Fund has recognised further provision amounting to Rs. 0.207 million against outstanding principal in accordance with provisioning circular issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of markup there against.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

4.3 Listed debt securities - term finance certificates

		September 2014 (Rupees in '000)	June 2014
		178,114	187,620
Less: Provision of Pace Pakistan Limited			
On 1 July		54,522	54,522
Charged during the year	4.2.1	2,549	-
		57,071	54,522
		121,043	133,098

4.4 UnListed debt securities - term finance certificates

Less: Provision as on 1 July		133,829	130,464
Eden Housing Limited		4,729	11,076
Pak Elektron Limited		16,112	16,112
		20,841	27,188
Less: Provision charged during the year			
Eden Housing Limited	4.2.2	1,137	-
Pak Elektron Limited	4.2.3	207	-
		1,344	-
Add: Reversal of provision during the year			
Eden Housing Limited		-	6,347
		111,644	109,623

4.5 Movement in provision against debt securities

	September 2014		
	Listed securities	Unlisted debt securities	Total
	(Rupees in '000)		
Opening balance	54,522	20,841	75,363
Add : Charge for the period	2,549	1,344	3,893
Less: Reversal of provision	-	-	-
Charge for the period - net	2,549	1,344	3,893
Closing balance	57,071	22,185	79,256

4.6 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated 6 March 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Board has approved the category of the fund as "Income Scheme".

In accordance with clause (v) of the investment criteria laid down for 'Income Scheme' in circular no. 7 of 2009, the Fund is required not to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at 31 March 2012, the Fund is non-compliant with the above mentioned requirement in respect of the following investments:

Name of non-compliant investment	Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
		(Rupees in '000)			%	%
Investment in debt securities	PACE Pakistan Limited	57,071	57,071	-	-	-
Investment in debt securities	Eden Housing Limited	5,866	5,866	-	-	-
Investment in debt securities	Pak Elektron Limited	16,319	16,319	-	-	-

4.7 At the time of purchase, the said securities were in compliance of the circular (i.e. investment grade) and were subsequently downgraded to non investment grade by MUFAP.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

4.8 Government Securities - 'available-for-sale'

Issue date	Tenor Face value				Balance as at September 30, 2014			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2014	Purchases during the period	Sales / Matured during the period	Balance as at September 30, 2014	Cost	Market value	Appreciation / (Diminution)		
Pakistan Investment Bonds	3 Years	421,500	-	200,000	221,500	218,068	220,542	2,474	12.15	14.18
Pakistan Investment Bonds	10 Years	25,000	-	-	25,000	24,151	23,462	(689)	1.29	1.51
						242,219	244,004	1,785	13.44	15.69
Total as at September 30, 2014						242,219	244,004	1,785		
Total as at June 30, 2014						439,217	439,674	457		

**Unaudited
September
2014** **Audited
June 30
2014**

5 ACCRUED EXPENSES AND OTHER LIABILITIES

(Rupees in '000)

Federal excise duty payable	5.1	4,557	3,387.00
Provision for Workers' Welfare Fund	5.2	16,811	15,827
Auditors' remuneration		488	364
Zakat payable		680	680
Brokerage payable		136	97
Capital gain tax payable		13	3
Others		950	115
		23,635	20,473

5.1 Federal Excise Duty on remuneration of Management Company

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 Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the eighteenth amendment. The SHC in its short order dated 4 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 financial information aggregating to Rs. 4,557 million as at 30 September 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. 0.13 per unit as at 30 September 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, challenging the applicability of WWF to the CISs, which is pending for adjudication.

Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on 14 December 2010, the Ministry filed its response against the Constitutional Petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

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

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

In view of the afore mentioned developments and uncertainties created by the recent decision by Honourable Sindh High Court, the Management company, as a matter of abundant precaution, has decided to retain the entire provision for WWF. During the quarter the Fund charged Rs.0.984 million on account of WWF. The aggregate amount of WWF charged as on September 30, 2014 is Rs. 16.811 million. If the same were not made the NAV of the fund would have been higher by Rs. 0.49 per unit.

6 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 (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.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

8 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

Performance fee payable to the Management Company is determined in accordance with the provisions of the Non Banking Finance Companies and Notified Entities Regulation, 2008 and constitutive documents of the Fund.

Other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

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

8.1 Details of transactions with connected persons are as follows:

	Unaudited	
	September 30	
	2014	2013
	----- Rupees in '000 -----	
MCB - Arif Habib Savings & Investments Limited		
Remuneration of management company including indirect taxes	8,483	6,498
MCB Bank Limited		
Profit on bank deposits	593	1,141
Bank Charges	7	6
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the period	575	488
CDS charges	2	3
Key management personnel		
Issue of 23,812 units (2013: Nil units)	1,230	-
Redemption of 25,523 units (2013: 2,845 units)	1,326	145
Issue of Nil units (2013: 1,151 units)	-	59
Adamjee Life Assurance Company Limited-Nuil Fund		
Issue of Nil bonus units (2013: 5,033 Bonus units)	-	256
Adamjee Insurance Company Limited		
Issue of 6,773,107 units (2013: Nil units)	350,000	-
Redemption of 3,900,917 units (2013: Nil units)	200,000	-
Arif Habib Limited - Brokerage house		
Brokerage*	-	1

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

8.2	Amount outstanding as at period / year end	Unaudited September 30, 2014	Audited June 30, 2014
		----- Rupees in '000 -----	
	MCB - Arif Habib Savings & Investments Limited		
	Remuneration payable to management company	2,222	1,975
	Sindh Sales tax On management fee	333	316
	Front end load payable	824	812
	MCB Bank Limited		
	Bank balance at the end of the period / year	238,693	13,172
	Profit receivable	234	591
	Central Depository Company of Pakistan Limited - Trustee		
	Remuneration payable	388	182
	Security deposit	200	200
	Key management personnel		
	Units held 30,001 units (June 2014: 31,712 units)	1,574	1,619
	Adamjee Life Assurance Company Limited-Nuil Fund		
	Units held 893 units (June 2014: 893 units)	47	46
	Adamjee Insurance Company Limited		
	Units held 12,843,686 units (June 2014: 9,971,496 units)	674,037	509,004
	Mandate Under Discretionary Portfolio Services		
	Units held 208,103 units (June 2014: 208,103 units)	10,921	10,624
	Attock Cement Pakistan Limited (10% or more than holding)		
	Units held 4,279,146 units (June 2014: 4,279,146 units)	224,570	218,433

9 DATE OF AUTHORISATION FOR ISSUE

These condensed interim 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.

UAN: 111-468-378 (111-INVEST): Karachi, Lahore, Islamabad & Multan.

***BACHAT CENTER:** 0800-622-24 (0800-MCB-AH), Fax: (+92-21)32276898, 32276908

URL: www.mcbah.com, Email: info@mcbah.com