

Quarterly Report

September 30, 2014
(Unaudited)



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

PAKISTAN INCOME FUND

CONTENTS

| | |
|--|----|
| Fund's Information | 25 |
| Report of the Directors of the Management Company | 26 |
| Condensed Interim Statement of Assets and Liabilities | 28 |
| Condensed Interim Income Statement (Un-audited) | 29 |
| Condensed Interim Distribution Statement (Un-audited) | 30 |
| Condensed Interim Statement of Movement in Unit Holders' Funds (Un-audited) | 31 |
| Condensed Interim Cash Flow Statement (Un-audited) | 32 |
| Notes to and forming part of the Condensed Interim Financial Statements (Un-audited) | 33 |

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 Allied Bank Limited Deutsche Bank AG Habib Metropolitan Bank Limited NIB Bank Limited United Bank Limited Standard Chartered Bank Limited Faysal Bank Limited Bank Al-Falah Limited | |
| Auditors | M. Yousuf Adil Saleem & Co.-Chartered Accountants Cavis Court, A-35, Block 7 & 8, KCHSU, Sharae Faisal, Karachi-75350 | |
| Legal Advisor | Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530 | |
| Transfer Agent | MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi | |
| Rating | AM2 - Management Quality Rating assigned by PACRA | |

REPORT OF THE 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 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 11.13% as against its benchmark return of 9.78%, an over performance of 1.35%.

The fund has divested its investments towards GoP Ijarah Sukuk during the quarter while exposure towards T-Bills decreased to 0% while allocation in cash and equivalents remained stagnant at 25.5% to better align with stable discount rate. The fund marginally reduced exposure towards TFC's to around 29.8%

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

The Net Asset of the Fund as at September 30, 2014 stood at Rs. 1,017 million as compared to Rs 1,008 million as at June 30 2014 registering a slight increase of around 1%. The Net Asset Value (NAV) per unit as at September 30, 2014 was Rs. 53.50.

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

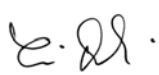
CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

AS AT SEPTEMBER 30, 2014

| | | (Unaudited) September 2014 | (Audited) June 2014 |
|--|------|-----------------------------------|---------------------------|
| | Note | (Rupees in '000) | |
| ASSETS | | | |
| Balances with banks | | 266,358 | 263,245 |
| Investments | 4 | 753,292 | 703,027 |
| Profit receivable | | 17,769 | 29,466 |
| Advance, deposit and prepayments | | 8,600 | 42,043 |
| Total assets | | 1,046,019 | 1,037,781 |
| LIABILITIES | | | |
| Payable to Management Company | | 1,716 | 1,631 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | 167 | 167 |
| Payable to the Securities and Exchange Commission of Pakistan - annual fee | | 191 | 757 |
| Payable on redemption of units | | 47 | 1,414 |
| Accrued expenses and other liabilities | 5 | 26,958 | 25,994 |
| Total liabilities | | 29,079 | 29,963 |
| NET ASSETS | | 1,016,940 | 1,007,818 |
| Unit holders' fund (as per statement attached) | | 1,016,940 | 1,007,818 |
| (Number of units) | | | |
| NUMBER OF UNITS IN ISSUE | | 19,008,760 | 19,364,435 |
| (Rupees) | | | |
| NET ASSET VALUE PER UNIT | | 53.50 | 52.04 |

The annexed notes from 1 to 8 form an integral part of this condensed interim financial information.

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


 Chief Executive Officer


 Director

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

| | Note | September 2014 (Rupees in '000) | 2013 |
|---|------|---------------------------------------|---------------|
| INCOME | | | |
| Income from government securities | | 10,895 | 13,147 |
| Income from term finance certificates | | 10,673 | 11,508 |
| Profit on bank deposits | | 1,485 | 2,166 |
| Capital gain / (loss) on sale of investments - net | | 7,369 | (1,451) |
| | | <u>30,423</u> | <u>25,370</u> |
| Net unrealised appreciation on re-measurement of investments at fair value through profit or loss | | 6,418 | 2,473 |
| Total income | | <u>36,842</u> | <u>27,843</u> |
| EXPENSES | | | |
| Remuneration of Management Company | | 3,822 | 3,489 |
| Sales tax and Federal Excise Duty on remuneration of Management Company | | 1,277 | 1,843 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | | 431 | 439 |
| Securities and Exchange Commission of Pakistan - annual fee | | 191 | 198 |
| Settlement and bank charges | | 103 | 161 |
| Fees and subscription | | 48 | - |
| Auditors' remuneration | | 126 | 126 |
| Printing and related costs | | - | - |
| Provision against non-performing investments - net | | 3,052 | 2,341 |
| Other Expenses | | - | 138 |
| Total expenses | | <u>9,050</u> | <u>8,735</u> |
| Net income from operating activities | | <u>27,792</u> | <u>19,108</u> |
| Element of loss and capital losses included in the prices of units issued less those in units redeemed | | (229) | (471) |
| Provision for Workers' Welfare Fund | 5.1. | (551) | (1,438) |
| Net income for the year before taxation | | <u>27,012</u> | <u>17,199</u> |
| Taxation | 6. | - | - |
| Net income for the year after taxation | | <u>27,012</u> | <u>17,199</u> |
| <i>Other comprehensive income for the year</i> | | | |
| Net unrealised appreciation in value of investments classified as 'available for sale' | 4.4 | 617 | - |
| Total comprehensive income for the year | | <u>27,629</u> | <u>17,199</u> |

The annexed notes from 1 to 8 form an integral part of this condensed interim financial information.

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

| | September 2014 | 2013 |
|---|-------------------|----------|
| Note | (Rupees in '000) | |
| Undistributed income brought forward: | 39,675 | 64,923 |
| Net element of loss and capital losses for the year included in prices of units issued less those in units redeemed - transferred to Distribution Statement | (725) | (1,765) |
| Net income for the year | 27,629 | 17,198 |
| | 26,904 | 15,433 |
| Distributions: | | |
| Final bonus distribution for the year ended June 30, 2013 at Rs. 1.16 per unit | - | (23,828) |
| | - | (23,828) |
| Interim distribution at the rate of Re. 0.86 per unit for the quarter ended Septmeber 30,2013. Issue of Bonus Units | | (16,634) |
| Undistributed income carried forward | 66,579 | 39,894 |

The annexed notes from 1 to 8 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

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

| | September 2014 | 2013 (Rupees in '000) |
|---|-------------------|--------------------------|
| Net assets at beginning of the year | 1,007,818 | 1,091,897 |
| Issue of 659,996 units (2013: 895,383 units) | 34,774 | 47,051 |
| Issue of Final bonus units (2013: 458,236 @ 1.16 Per Unit) | - | 23,828 |
| Issue of 319,890 interim bonus units @ 0.86 Per Unit for the quarter ended 30 September 2013 (2012: 499,519 @ 1.05 Per Unit) | - | 16,634 |
| Redemption of 1,015,671 units (2013: 2,556,085 units) | (53,510) | (133,879) |
| | (18,736) | (46,365) |
| Element of loss and capital losses included in prices of units issued less those in units redeemed | | |
| · amount representing loss and capital losses - transferred to income statement | 229 | 471 |
| · amount representing (loss) that form part of unit holders' fund - transferred to distribution statement | 725 | 1,765 |
| | 954 | 2,236 |
| Final distribution: (2013: Rs. 1.16 per unit - Date of distribution: 4 July 2013) | | |
| - Cash Distribution | | |
| - Issue of bonus units | - | (23,828) |
| Interim distribution at the rate of Re. 0.86 per unit for the quarter ended 30 September 2013 - Date of distribution: 27 September 2013 (30 September 2012: Rs. 1.05 per unit) | | |
| - Cash Distribution | | |
| - Bonus units | - | (16,634) |
| | | (40,463) |
| Element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing unrealised income | (725) | (1,765) |
| Net income for the year transferred from the distribution statement | | |
| Capital (loss) / gain on sale of investments | 7,369 | (1,451) |
| Net unrealised appreciation on re-measurement of investment classified as 'financial assets at fair value through profit or loss' | 6,418 | 2,473 |
| Other net operating income | 13,224 | 16,177 |
| | 27,012 | 17,199 |
| Net unrealised appreciation on re-measurement of investment classified as 'available for sale' | 617 | - |
| | 1,016,940 | 1,022,739 |

The annexed notes from 1 to 8 form an integral part of this condensed interim financial information.

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


Chief Executive Officer

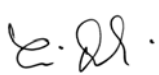

Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

| | September | |
|--|------------------|-----------------|
| | 2014 | 2013 |
| | (Rupees in '000) | |
| Note | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 27,012 | 17,199 |
| Adjustments for non - cash charges and other items | | |
| Net unrealised appreciation in value of investments classified as 'at fair value through profit or loss' | (6,418) | (2,473) |
| Net element of loss and capital losses prices of units issued less those in units redeemed | 229 | 471 |
| Other Expenses | - | 2,341 |
| | <u>21,374</u> | <u>17,538</u> |
| (Increase) / decrease in assets | | |
| Investments enched / (made) - net | (43,229) | (123,173) |
| Profit and other receivables | 11,697 | 7,343 |
| Advance, deposit and prepayments | 33,443 | 5,039 |
| | 1,911 | (110,791) |
| Increase / (decrease) in liabilities | | |
| Payable to Management Company | 176 | (505) |
| Payable to Central Depository Company of Pakistan Limited - Trustee | (0) | (14) |
| Payable to the Securities and Exchange Commission of Pakistan - annual fee | (566) | (758) |
| Payable on redemption of units | (1,367) | 1,410 |
| Accrued expenses and other liabilities | 322 | 2,612 |
| | <u>(1,435)</u> | <u>2,745</u> |
| Net cash (used in) / generated from operating activities | <u>21,849</u> | <u>(90,508)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net payments from sale and redemption of units | (18,736) | (86,828) |
| Net cash used in financing activities | (18,736) | (86,828) |
| Net (decrease) / increase in cash and cash equivalents during the year | 3,113 | (177,336) |
| Cash and cash equivalents at the beginning of the year | 263,245 | 504,706 |
| Cash and cash equivalents at the end of the year | <u>266,358</u> | <u>327,370</u> |

The annexed notes from 1 to 8 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

1. LEGAL STATUS AND NATURE OF BUSINESS

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

2. STATEMENT OF COMPLIANCE

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

These condensed interim financial information does not include all the information and disclosures required for full annual financial statement and should be read in conjunction with the financial statements for the year ended 30 June 2014

The disclosure made in this condensed interim financial information have, however, been limited based on the requirement of International Accounting Standard 34: 'Interim Financial Reporting'. These 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.

2.2 Basis of measurement

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

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

2.3 Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual published financial statement of the Fund for the period ended 30 June 2014.

| | | (Unaudited) September, 30 2014 | (Audited) June, 30 2014 |
|---|------|---|--------------------------------------|
| | Note | Rupees in '000 | |
| 4. INVESTMENTS | | | |
| <i>At fair value through profit or loss</i> | | | |
| Government securities | 4.1 | 374,027 | 301,916 |
| Listed debt securities | 4.2 | 180,919 | 205,690 |
| Unlisted debt securities | 4.3 | 131,138 | 128,831 |
| | | 686,084 | 636,437 |
| <i>Available for sale</i> | | | |
| Government securities | 4.4 | 67,208 | 66,590 |
| | | 753,292 | 703,027 |

4.1 Government securities - held for trade

| Name of investee company | Face Value | | | | | Balance as at Sep 30, 2014 | | | Market value as a percentage of net assets % | Market value as a percentage of total investment % |
|---------------------------------------|--------------------|---------------------------|--------------------------|-------------------------|---------------------|----------------------------|--------------|------------|---|---|
| | As at July 1, 2014 | Purchased during the year | Disposed during the year | Matured during the year | As at June 30, 2014 | Carrying Value | Market value | Diminution | | |
| | | | | | | | | | | |
| -----Rupees in '000'----- | | | | | | | | | | |
| Treasury Bills - 1 year | - | - | - | - | - | - | - | - | - | - |
| Treasury Bills - 6 months | - | - | - | - | - | - | - | - | - | - |
| Treasury Bills - 3 months | - | 425,000 | 200,000 | 225,000 | - | - | - | - | - | - |
| Pakistan Investment Bonds -05 years | 23,000 | - | 23,000 | - | - | - | - | - | - | - |
| Pakistan Investment Bonds -03 years | 300,000 | 400,000 | 325,000 | - | 375,000 | 371,735 | 374,027 | 2,292 | 36.78 | 49.65 |
| GoP Ijara Sukuk Certificate -03 years | 105,000 | - | 105,000 | - | - | - | - | - | - | - |
| Total | 428,000 | 825,000 | 548,000 | 225,000 | 375,000 | 371,735 | 374,027 | 2,292 | 36.78 | 49.65 |

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

| | | (Unaudited) September, 30 2014 | (Audited) June, 30 2014 |
|---|--------------|---|--------------------------------------|
| | Note | Rupees in '000 | |
| 4.2 Listed debt securities | 6.2.1 | 266,111 | 290,882 |
| Less: Provision on July 1 | | | |
| Pace Pakistan Limited | | 39,751 | 36,348 |
| Telecard Limited | | 28,275 | 28,589 |
| Trust Investment Bank Limited - III | | 17,166 | 17,166 |
| | | 85,192 | 82,103 |
| Less: Provision charged during the year | | | |
| Pace Pakistan Limited | | - | 3,403 |
| Telecard Limited | | - | - |
| Trust Investment Bank Limited - III | | - | - |
| | | - | 3,403 |
| Add: Reversals during the year | | | |
| Telecard Limited | | - | 314 |
| | | 180,919 | 205,690 |

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

4.2.1 Listed debt securities - term finance certificates

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

| Name of investee company | Number of Certificates | | | | | Balance as at Sept 30, 2014 | | | Market value as a percentage of net assets | Market value as a percentage of total investment |
|--|------------------------|---------------------------|-------------------------|--------------------------|---------------------|-----------------------------|--------------|-----------------------------|--|--|
| | As at July 1, 2014 | Purchased during the year | Matured during the year | Disposed during the year | As at Sept 30, 2014 | Carrying value* | Market value | Appreciation / (diminution) | | |
| Rupees in '000- | | | | | | | | | | |
| Commercial banks | | | | | | | | | | |
| Askari Bank Limited (18-11-09 issue) | 11,000 | - | - | - | 11,000 | 53,463 | 54,668 | 1,205 | 5.38 | 7.26 |
| Askari Bank Limited (23-12-11 issue) | 42 | - | - | - | 42 | 44,127 | 45,383 | 1,256 | 4.46 | 6.02 |
| Bank Al Falah Limited (20-02-13 issue) | 13,381 | - | - | - | 13,381 | 67,750 | 67,073 | (677) | 6.60 | 8.90 |
| Bank Al-Habib Limited (07-02-07 issue) | 5,520 | - | - | - | 5,520 | 13,808 | 13,795 | (13) | 1.36 | 1.83 |
| United Bank Limited (08-09-06 issue) | 14,612 | - | 14,612 | - | - | - | - | - | - | - |
| Financial services | | | | | | | | | | |
| Escorts Investment Bank Limited (15-03-07 issue) | 3,016 | - | 3,016 | - | - | - | - | - | - | - |
| Trust Investment Bank (04-07-08 issue) | 10,000 | - | - | - | 10,000 | 17,166 | 17,166 | - | 1.69 | 2.28 |
| Real state investment and services | | | | | | | | | | |
| Pace Pakistan Limited (15-02-08 issue) | 10,000 | - | - | - | 10,000 | 39,751 | 39,751 | - | 3.91 | 5.28 |
| Fixed line telecommunication | | | | | | | | | | |
| Telecard Limited (27-05-05 issue) | 19,975 | - | - | - | 19,975 | 28,275 | 28,275 | - | 2.78 | 3.75 |
| Total -September 2014 | | | | | | | | | | |
| 87,546 - 17,628 - 69,918 264,340 266,111 1,771 26.17 35.33 | | | | | | | | | | |
| Total - June 2014 | | | | | | | | | | |
| 94,306 - - 6,760 87,546 289,377 290,882 1,505 28.86 41.38 | | | | | | | | | | |

* Carrying value before provision - Provision detail are specified in note 4.2

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

4.3

Unlisted debt securities

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

| September 2014 | June 2014 |
|-------------------|--------------|
| (Rupees in '000) | |
| 4.3.1 | 128,831 |
| 131,138 | 128,831 |

| | |
|---------|---------|
| - | 1,075 |
| - | - |
| - | (1,075) |
| - | - |
| 131,138 | 128,831 |

4.3.1

Unlisted debt securities - term finance certificates and other securities

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

| Name of investee company | Number of Certificates | | | | Balance as at Sept 30, 2014 | | | Market value as a percentage of net assets % | Market value as a percentage of total investment % |
|---|------------------------|---------------------------|-------------------------|--------------------------|-----------------------------|-----------------|---------------------------|--|--|
| | As at July 1, 2014 | Purchased during the year | Matured during the year | Disposed during the year | As at Sept 30, 2014 | Carrying value* | Market value (diminution) | | |
| Rupees in '000- | | | | | | | | | |
| Bank Al-Habib Limited. - TFC-4 (30-06-11) Fixed | 1,000 | - | - | - | 1,000 | 5,591 | 5,780 | 189 | 0.57 |
| Bank Alfalah Limited - TFC4 (02-12-09) Floating | 4,500 | - | - | - | 4,500 | 23,163 | 23,653 | 490 | 2.33 |
| Engro Fertilizer Limited - PPTFC-1 (18-03-08) | 20,100 | - | - | - | 20,100 | 98,627 | 100,249 | 1,622 | 9.86 |
| Maple Leaf - Sukuk (03-12-07) | 500 | - | - | - | 500 | 1,404 | 1,456 | 52 | 0.14 |
| Total -September 2014 | 26,100 | - | - | - | 26,100 | 128,785 | 131,138 | 2,353 | 12.90 |
| Total - June 2014 | 29,100 | - | - | 3,000 | 26,100 | 124,545 | 128,831 | 4,286 | 18.33 |

4.4 Government securities - available for sale

4.5 Movement in provision against debt securities

Opening balance
Add : Charge for the year
Less: Reversal of provision
Charge for the year - net

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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

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

| Category of non-compliant investment | Type of Investment / Name of Company | Value of investment before provision | Provision held, if any | Value of investment after provision | Percentage of net assets | Percentage of gross assets |
|--------------------------------------|---|--------------------------------------|------------------------|-------------------------------------|--------------------------|----------------------------|
| -----Rupees in '000'----- | | | | | | |
| Investment in debt securities | a) Maple Leaf Cement Factory Limited -Sukuk | 1,456 | - | 1,456 | 0.14% | 0.14% |
| Investment in debt securities | b) Pace Pakistan Limited | 39,751 | 39,751 | - | 0.00% | 0.00% |
| Investment in debt securities | c) Telecard Limited | 28,275 | 28,275 | - | 0.00% | 0.00% |
| Investment in debt securities | e) Trust Investment Bank Limited - III | 17,166 | 17,166 | - | 0.00% | 0.00% |

5. ACCRUED EXPENSES AND OTHER LIABILITIES

| | Note | Septmeber 30 2014 | June30 2014 |
|-------------------------------------|------|----------------------|----------------|
| (Rupees in '000) | | | |
| Provision for Workers' Welfare Fund | 5.1 | 22,537 | 21,985 |
| Federal excise duty | 5.2 | 3,395 | 2,783 |
| Auditors' remuneration | | 148 | 385 |
| Sales load | | - | 86 |
| Legal and professional charges | | - | - |
| Brokerage payable | | 83 | 36 |
| Zakat payable | | 161 | 159 |
| Capital gain tax payable | | 7 | 7 |
| Others | | 589 | 553 |
| | | <u>26,959</u> | <u>25,994</u> |

5.1. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance), whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, all Collective Investment Schemes (CISs) I mutual funds whose income exceeds Rs.0.5 million in a tax year have been brought within the scope of the WWF Ordinance thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

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

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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2014

However, as per advice of legal council the stay granted to CIS remains intact and constitution petitions filed by CIS to challenge the WWF contribution have not been affected by the SHC judgement. In view of the aforementioned developments and uncertainties created by decision of SHC, the management company as a matter of abundant caution has charged provision for WWF amounting to Rs. 0.551 million during the period september 30, 2014. Had the said provision of FED not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Re. 1.19 per unit.

- 5.2. The Finance Act 2013 introduced an amendment to Federal Excise Act 2005 whereby Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. However, Mutual Fund Association of Pakistan (MUFAP) on behalf of Collective Investment Schemes has filed a petition in the Sindh High Court (SHC) challenging the levy of FED on assets management services after the passage of Eighteenth Amendment of the Constitution. The petition cited that following the passage of the Eighteenth Amendment of the Constitution, the provincial legislatures have now sole authority to impose such a levy, and that respective provincial legislatures have enacted the Sindh Sales Tax on Services Act, 2011 and the Punjab Sales Tax on Services Act, 2012 to impose the levy in question. The SHC in its short order on C P - D-3547 of September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED in its books of account and condensed interim financial information aggregating to Rs 3.395 million as at September 30, 2014. Had the said provision of FED not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Re. 0.18 per unit.

6. TAXATION

The Fund's income is exempt from Income Tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 (the Ordinance) subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised, is distributed amongst the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under Clause 11A of Part IV of the Second Schedule to the Ordinance. As the management intends to distribute at least 90% of income earned by the year end to the unit holders, therefore, no provision for taxation has been recorded in this condensed interim financial information.

The income tax returns till the tax year 2013 have been filed and are deemed to be assessed under section 120 of the Income Tax Ordinance except for tax years 2008 and 2012 for which Order under section 122(5A) of the Ordinance has been received that the fund is not entitled to the exemption from income tax on the basis that the distribution of bonus shares should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The issue involved has also been raised by the department in other mutual funds. The Fund filed a petition in the Sindh High Court (SHC) against the demands raised in this respect and have obtained a stay order against the payment of tax demand. The Mutual Funds are also contesting the same at different appellate forums of Federal Board of Revenue. The management based on the tax advice obtained by Mutual Funds Association of Pakistan from various tax advisors and under legal guidance of more than one legal counsels, is confident that the case would ultimately be decided in favor of the Fund and therefore no provision is required to be made in these condensed interim financial information.

7. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

Related parties / connected persons of the Fund include the Management Company, other collective investment schemes managed by the Management Company, MCB Bank Limited being holding company of the Management Company, the Trustee, directors and key management personnel and other associated undertakings and unit holders holding more than 10% units of the fund

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

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

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

| | | Septmebr 30 2014 | 2013 (Rupees in '000) |
|------------|---|---------------------|--------------------------|
| 7.1 | Details of transactions with related parties / connected persons are as follows: | | |
| | Management Company | | |
| | Remuneration of management company including indirect taxes | 5,098 | 5,332 |
| | Front end load | - | 7 |
| | Central Depository Company of Pakistan Limited | | |
| | Remuneration and settlement charges for the year | 534 | 439 |
| | MCB Bank Limited | | |
| | Profit on Bank Deposits | 321 | 135 |
| | Bank charges | 2 | 1 |
| | Next Capital | | |
| | Brokerage* | 4 | - |
| | Mandate under Discretionary Portfolio Services | | - |
| | Units held 117,464 (2014: Nil units) | 6,135 | - |
| | Issue of Nil bonus units (2013: 1,534 units) | - | - |
| | Redemption of Nil units (2013: 10,650 units) | - | - |
| | Directors and Executives of the Management Company | | |
| | Issue of Nil units (2013: 3,202 units) | - | 169 |
| | Issue of Nil bonus units (2013: 1,534 units) | - | 80 |
| | Redemption of Nil units (2013: 10,650 units) | - | 554 |

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


| | | September 30 2014 | June 30 2014 |
|------------|---|----------------------|-----------------|
| 7.2 | Amounts outstanding at year end | | |
| | Management Company | | |
| | Remuneration payable to management company | 1,248 | 1,243 |
| | Sales tax payable on management fee | 468 | 388 |
| | Sales load payable | 92 | 86 |
| | Central Depository Company of Pakistan Limited - Trustee | | |
| | Remuneration and settlement charges payable | 167 | 167 |
| | Security Deposits | 200 | 200 |
| | MCB Bank Limited | | |
| | Bank Balance | 12,910 | 2,518 |
| | Profit receivable on bank deposits | 105 | 36 |
| | Summit Bank Limited | | |
| | Bank Balance | - | - |
| | Adamjee Life Assurance Company Limited | | |
| | Units held 687,445 (2014: 687,445 units) | 36,777 | 35,775 |
| | Mandate under Discretionary Portfolio Services | | |
| | Units held 117,464 (2014: Nil units) | 6,284 | - |
| | Directors and Executives of the Management Company | | |
| | Units held 855 (2014: 855 units) | 46 | 44 |

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

8. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial information 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