

Quarterly Report

September 30, 2015
(Unaudited)



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

AM2 Plus by PACRA

**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 Financial Officer	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 99-B 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 Habib Bank Limited Faysal Bank Limited United Bank Limited National Bank of Pakistan Limited Standard Chartered Bank Pakistan 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 3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area, Phase VI, DHA, Karachi.	
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 MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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, 2015.

Economy and Money Market Overview

Benefits of more than 50 percent drop year on year in crude oil prices are visible in the macroeconomic score card positively nudging the Balance of Payment, Foreign Exchange Reserves, Inflation, Interest rates and the Fiscal deficit. A net benefit of more than USD 1 billion is visible in the trade account during first two months of fiscal year which has offset the otherwise slower exports. In the same period, Balance of Payment Account also remained stable where a near USD 394 million Current Account deficit has been largely offset by Financial and Capital Account Inflows. During the same period last year, the country had a negative balance of payment of near USD 729 million mainly derived from a current account deficit of about USD 1,456 million. With controlled current account deficit, the support of IMF tranche, CSF flows and multilateral flows, reserves remained firm near USD 18.5 billion (Sep-18) mark giving resilience to PKR which underwent relatively lesser depreciation in the fragile environment prevailing in the emerging markets. Although, the local fuel prices were cushioned by increase in taxes, yet the drop in crude oil along with other commodity prices, kept the inflation contribution from food and other sectors at lower levels. During the first quarter, headline inflation average remained near 1.6% which along with strong external account position, created comfortable space for another 50 basis point cut in policy rate in September monetary policy. M2 growth remained mildly negative on FY15 to date basis (18-Sep) which reflects the seasonal adjustment where NDA continually supported by a net govt. borrowing of about PKR 255 billion with a muted contribution from NFA in absence of any major net inflows. Money markets remained cautiously optimistic about further cut in discount rate and its sustainability. Yield Curve has thus recently witnessed a slight increase in slope with longer dated bonds remaining relatively less responsive to the change in policy rate. Increasingly the markets continue to remain cautious primarily due to low quality of market liquidity which has been reliant on OMO injections and the expected uptick in inflation as 2nd half FY16 inflation is expected to remain near 6% largely due to low base effect.

Fund Performance

During the quarter under review, the fund generated an annualized return of 12.95% as against its benchmark return of 8.55%. The fund outperformed its benchmark by 4.4%.

During the period under review, the fund reduced its exposure in TFCs to 5.7% from 18.5%, increased its exposure in T-Bills and PIBs to 13.3% and 68.9%.

The Net Assets of the Fund as at September 30, 2015 stood at Rs. 2,738 million as compared to Rs 969 million as at June 30, 2015 registering an increase of 182.6%.

The Net Asset Value (NAV) per unit as at September 30, 2015 was Rs. 54.73 as compared to opening NAV of Rs. 53.00 per unit as at June 30, 2015 registering an increase of Rs. 1.73 per unit.

Future Outlook

Oil prices have improved the economic scorecard significantly particularly the external account and inflation while providing an opportunity to address the chronic energy issues along with fiscal management. Most of the indicators have improved passively however critical indicators which still lack significant improvement include Credit off take and Capital Expenditure along with FDI. Despite conducive macro environment, growth is yet to pick up and we hope the China Pakistan Corridor provides the required growth impetus for investment to pick up. Government still remains significantly dependent on domestic borrowing to fund fiscal deficit and still progress has remained slow on key reforms including energy, privatization and revenue generation. Security situation has also improved which however remains a long and continuing challenge with potential risks to infrastructure plans going forward.

REPORT OF THE DIRECTORS OF MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2015

With stable macro environment and pace expected to pick up on the infrastructure projects, we expect the environment to remain conducive for capital markets. We expect the full year inflation to remain below 4.5% as remainder year inflation is expected to gradually pick up and thus provides a stable interest rate outlook. Budgeted target for economic growth appear achievable while fiscal deficit may marginally exceed due to challenges in revenue collection despite significant reduction in subsidies.

With Policy Rate at 6% and SBP committed to contain the money market volatility and liquidity through continuous OMO support, we expect stable environment for short term papers and medium term bonds while longer dated bonds would respond to further confirmations on external account including trade account and exchange rate which in turn would remain dependent on commodity prices and multilateral flows.

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 16, 2015

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

AS AT SEPTEMBER 30, 2015

	Note	Unaudited September 30, 2015 Rupees in '000	Audited June 30, 2015
ASSETS			
Balances with banks		59,076	114,375
Investments	6	2,689,350	873,759
Income and profit receivable		26,430	24,754
Deposits, prepayments and other receivable		360	637
Total assets		2,775,216	1,013,525
LIABILITIES			
Payable against redemption of units		2,079	4,589
Payable to Management Company		4,795	2,021
Payable to Central Depository Company of Pakistan Limited - Trustee		297	156
Payable to Securities and Exchange Commission of Pakistan		383	1,187
Accrued expenses and other liabilities	7	30,159	36,864
Total liabilities		37,713	44,817
NET ASSETS		2,737,503	968,708
Unit holders' fund		2,737,503	968,708
Number of units			
NUMBER OF UNITS IN ISSUE		50,022,248	18,276,832
Rupees			
NET ASSET VALUE PER UNIT		54.73	53.00

The annexed notes from 1 to 11 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, 2015

	Note	September 30	
		2015	2014
		(Rupees in '000)	
INCOME			
Capital gain/(loss) on sale of investments - net		2,555	(1,062)
Income from term finance and sukuk certificates		7,015	12,354
Income from government securities		38,422	37,131
Profit on Placement		1,235	
Profit on bank deposits		2,227	2,361
		51,454	50,784
Reversal/ (provision) against debt security		309	(3,893)
Net unrealised appreciation on re-measurement of investments classified as financial assets at 'fair value through profit or loss'		71	9,165
		51,834	56,056
EXPENSES			
Remuneration of Management Company		7,747	6,359
Sales Tax and Federal Excise Duty on remuneration of Management Company		2,504	2,124
Remuneration of Central Depository Company of Pakistan Limited -Trustee		746	575
Annual fee - Securities and Exchange Commission of Pakistan		383	318
Settlement and bank charges		150	105
Auditors' remuneration		154	124
Other Expenses		235	236
Total Expenses		11,919	9,841
Net Income from operating activities		39,915	46,215
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed			
- from realized / unrealized capital gain		5,709	563
- from other income		11,291	2,419
		17,000	2,982
Provision for Workers' Welfare Fund	7.2	-	(984)
Net Income for the period before taxation		56,915	48,213
Taxation	8	-	-
Net income for the period after taxation		56,915	48,213

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


 Chief Executive Officer

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


 Director

**CONDENSED INTERIM OTHER COMPREHENSIVE INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Note	September 30	
		2015	2014
		(Rupees in '000)	
Net income for the period after taxation		56,915	48,213
Other comprehensive income for the period			
Net unrealized appreciation on re-measurment of investments classified as "available for sale"		20,314	1,328
Total comprehensive income for the period		<u>77,229</u>	<u>49,541</u>
Earnings per unit	9		

The annexed notes from 1 to 11 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, 2015**

	September 30	
	2015	2014
	Rupees in '000	
Undistributed income brought forward	59,260	33,808
Net element of income and capital gains included in the prices of units issued less those in units redeemed	104,295	1,884
Total comprehensive income for the period	77,229	49,541
Undistributed income carried forward	240,784	85,233

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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




Director

**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	September 30	
	2015	2014
	Rupees in '000	
Net assets at beginning of the period	968,708	1,677,166
Issue of 36,807,138 units (2014: 9,137,935 units)	1,981,620	472,455
Redemption of 5,061,722 units (2014: 7,400,458 units)	(273,054)	(380,715)
	1,708,566	91,740
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		
- Amount representing (losses)/ gains transferred to income statement	(17,000)	(2,982)
- Amount representing loss and capital losses that form part of unitholders' fund transferred to distribution statement	(104,295)	(1,884)
	(121,295)	
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealised income	104,295	1,884
Capital gain / (loss) on sale of investments - net	2,555	(1,062)
Unrealised appreciation / (diminution) in value of investments at market value through profit or loss - net	71	(9,165)
Other net income for the period	54,289	59,768
	56,915	49,541
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'	20,314	-
Net assets as at end of period	2,737,503	1,815,465

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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




Director

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	September 30	
	2015	2014
	(Rupees) '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period before taxation	56,915	48,213
Adjustments for non-cash charges and other items:		
Element of (income) and capital (gains) included in prices of units issued less those in units redeemed	(17,000)	(2,982)
Amortization of preliminary expenses		
Net unrealised (appreciation) on re - measurement of investments classified as 'financial assets at fair value through profit or loss'	(71)	(9,165)
Reversal/ (provision) against debt security	309	(3,893)
	40,153	32,173
(Increase)/ decrease in assets		
Investments - net	(1,795,515)	(234,340)
Advance against subscription of TFC	-	18,083
Income receivable	(1,676)	27,444
Deposits, prepayments and other receivable	277	32
	(1,796,914)	(188,781)
(Decrease) / increase in liabilities		
Payable to the Management Company	2,774	(548)
Payable to the Trustee	141	206
Annual fee payable to the Securities and Exchange Commission of Pakistan	(804)	(549)
Payable against purchase of investments		
Payable against redemption of units	(2,510)	-
Accrued expenses and other liabilities	(6,705)	3,162
	(7,104)	2,271
Net cash (outflow) from operating activities	(1,763,865)	(154,337)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts against issue of units	1,981,620	472,455
Payment against redemption of units	(273,054)	(380,715)
	1,708,566	91,740
Net cash generated from financing activities	1,708,566	91,740
Net (decrease) in cash and cash equivalents during the period	(55,299)	(62,597)
Cash and cash equivalents at beginning of the period	114,375	315,888
Cash and cash equivalents at end of the period	59,076	253,291

The annexed notes from 1 to 11 form an integral part of these condensed interim financial statements.


 Chief Executive Officer

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


 Director

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

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 Fund is to generate returns from aggressive investment strategy in the debt & fixed income markets.

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

2 BASIS OF PREPARATION

2.1 Statement of Compliance

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 2015.

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 is unaudited. The Directors of the asset management company declare that this condensed interim financial information gives 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 2015 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2015, 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

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

unaudited condensed interim financial information for the period ended 30 September 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 (unaudited) 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

3.1 "The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of financial statements for the year ended 30 June 2015."

3.2 "Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not result in change to the Fund's operation or a change in accounting policies of the Fund."

4 ESTIMATES & JUDGEMENTS

"The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the year ended 30 June 2015."

5 FINANCIAL RISK MANAGEMENT

"The Fund's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2015."

	Note	(Un-audited) September 30, 2015	(Audited) June 30, 2015
		----- Rupees in '000 -----	
6 INVESTMENTS			
At fair value through profit or loss			
- Government securities	6.1	370,104	67,838
- Term finance and sukuk certificates	6.2		
- Listed Debt securities		75,432	75,267
- Unlisted Debt securities		81,446	112,101
		<u>156,879</u>	<u>187,368</u>
Available-for-sale			
- Government securities	6.5	1,912,368	468,553
		<u>1,912,368</u>	<u>468,553</u>
Loans & receivables	6.6	250,000	150,000
		<u>2,689,350</u>	<u>873,759</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

6.1 Government Securities- 'At fair value through profit or loss' - Held for trading

Issue date	Tenor Face value				Balance as at September 30, 2015			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2015	Purchases during the period	Sales / Matured during the period	Balance as at September 30, 2015	Cost	Market value	Appreciation / (Diminution)		
----- Rupees in '000 -----										
Market Treasury Bills										
Treasury bills - 2 months	2 Months	-	150,000	150,000	-	-	-	-	-	-
Treasury bills - 3 months	3 Months	-	5,100	5,100	-	-	-	-	-	-
Treasury bills - 6 months	6 Months	-	459,650	294,500	165,150	164,656	164,668	12	6.02	6.12
Treasury bills - 1 Year	1 Year	12,500	694,330	500,000	206,830	205,321	205,435	115	7.50	7.64
						369,977	370,104	127		
Pakistan Investment Bonds										
Pakistan Investment Bonds	10 Years	50,000	-	50,000	-	-	-	-	-	-
Total as at September 30, 2015						369,977	370,104	127	13.52	13.76
Total as at June 30, 2015						62,180	67,838	5,658		

6.2 Debt Securities

Name of the investee company	Issue date	Balance as at July 1, 2015	Purchases during the year	Sales / matured during the year	As at September 30, 2015	Balance as at September 30, 2015			---- Market Value ----	
						Carrying Value	Market value	Appreciation / (diminution)	As a percentage of net assets	As a percentage of total investments
----- Number of certificates -----						----- (Rupees in '000) -----				
Certificates having a face value of Rs. 5,000 each unless stated otherwise										
<u>Listed</u>										
PACE Pakistan Limited (Note 6.2.1)	15-Feb-08	15,000	-	-	15,000	59,620	-	-	-	-
Askari Bank Limited	23-Dec-11	45	-	-	45	45,341	45,341	-	1.66	1.69
Bank Alfalah Limited	20-Feb-13	5,981	-	-	5,981	29,920	30,091	171	1.10	1.12
						134,881	75,432	171		
<u>Unlisted</u>										
Engro Fertilizer Limited	18-Mar-08	12,900	-	5,981	6,919	35,200	35,494	294	1.30	1.32
Bank Alfalah Limited (Floating)	2-Dec-09	9,000	-	-	9,000	46,473	45,952	(521)	1.68	1.71
						81,673	81,446	(227)		
<u>Sukuk Bonds - Unlisted</u>										
Eden Housing Limited (Note 6.2.2)	31-Mar-08	10,415	-	-	10,415	10,252	-	-	-	-
Pak Elektron Limited (Note 6.2.3)	28-Sep-07	8,000	-	-	8,000	14,286	-	-	-	-
						24,538	-	-		
Total as at September 30, 2015						241,092	156,879	(56)		
Total as at June 30, 2015						266,398	187,368	226		

6.2.1 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.

6.2.2 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing debt securities, the security is being carried at zero value as it has been completely provided for.

6.2.3 Owing to continuous default on repayment of coupon by the issuer, the Fund has classified the said investment as non-performing debt security. The fund had completely provided for the security. Recently the company has started making the payments against the same.

6.3 Movement in provision against debt securities

	September 2015		
	Listed debt securities	Unlisted debt securities	Total
----- (Rupees in '000) -----			
Opening balance	57,071	22,185	79,256
Add : Charge for the period	2,549	-	2,549
Less: Reversal of provision	-	2,857	2,857
Reversal for the period - net	2,549	(2,857)	(308)
Closing balance	59,620	19,328	78,948

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)

FOR THE QUARTER ENDED SEPTEMBER 30, 2015

6.4 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	59,620	59,620	-	-	-
Investment in debt securities	Eden Housing Limited	10,252	10,252	-	-	-
Investment in debt securities	Pak Elektron Limited	14,286	14,286	-	-	-

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.

6.5 Government Securities - 'available-for-sale'

Issue date	Tenor	Face value				Balance as at September 30, 2015			Market value as a percentage of net assets	Market value as a percentage of total investments
		Balance as at July 1, 2015	Purchases during the period	Sales / Matured during the period	Balance as at September 30, 2015	Cost	Market value	Appreciation / (Diminution)		
Pakistan Investment Bonds	3 Years	150,000	650,000	245,000	555,000	570,995	576,375	5,380	21.05	21.43
Pakistan Investment Bonds	5 Years	172,200	1,566,300	538,100	1,200,400	1,307,156	1,317,160	10,004	48.12	48.98
Pakistan Investment Bonds	10 Years	125,000	-	125,000	-	-	-	-	-	-
Pakistan Investment Bonds	15 Years	-	18,000	-	18,000	18,427	18,833	405	0.69	0.70

Total as at September 30, 2015

1,896,579 1,912,368 15,789

Total as at June 30, 2015

473,078 468,553 (4,525)

6.6 Loans and receivables

Particulars	Maturity date	Closing balance as at September 30, 2015	Value as a percentage of net assets	Value as a percentage of investment
Rs in '000				
Term deposit receipts	October 29, 2015	250,000	9.1	9.3
Total - September 30, 2015		250,000	9.13	9.30
Total - June 30, 2015		150,000	15.48	17.17

7 ACCRUED EXPENSES AND OTHER LIABILITIES

	Unaudited September 30, 2015	Audited June 30, 2015
	(Rupees in '000)	
Federal excise duty payable on management fee	7.1	7,755
Provision for Workers' Welfare Fund	7.2	18,228
Federal excise duty payable on sales load	1,350	1,195
Auditors' remuneration	126	367
Zakat payable	695	695
Withholding Tax Payable	-	8,281
Brokerage payable	322	184
Capital gain tax payable	110	47
Others	154	112
	30,159	36,864

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

7.1 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% on the services rendered by asset 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 Company 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 case, the suit is decided against the Fund it would be paid to management company, who will be responsible for submitting the same to taxation authorities. Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the Net Assets Value (NAV) of the Fund would have been higher by Re. 0.18 per unit as at 30 September 2015.

7.2 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. Subsequent to the year ended 30 June 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on 8 July 2010 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 the Court.

Subsequent to the year ended 30 June 2011, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. In March 2013 a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity.

Further, in May 2014, the Honourable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the Ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money Bill under the constitution and, hence, the amendments made through the Finance Acts were declared as 'Ultra Vires'.

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. As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs.18.228 million (2015: Rs.18.228 million) in these financial statements. Had the provision not been made, the net asset value per unit of the Fund would have been higher by Re. 0.36 per unit.

Furthermore, in the Finance Act, 2015, the mutual funds have been excluded from the levy of WWF. As this change has been made in the definition of the term 'Industrial Establishment' as defined in the Workers' Welfare Fund Ordinance, 1971, the change may appear to apply prospectively. Accordingly, the management is of the view that this change is applicable from 01 July 2015. Hence, the matter regarding previous years would either need to be clarified by FBR or would be resolved through courts. The Management company, as a matter of abundant precaution, has decided to retain the provision for WWF in these financial statements.

8 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 Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than capital gains to the unit holders. 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.

Certain mutual Funds have received show cause notices and demand orders from tax authorities under Section 122 (1) and 122(5A) of the Income Tax Ordinance for tax years 2008 onwards. In the said notices and orders, the Tax Department considers 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 reasons cited for this view are that tax has not been deducted on bonus units and the bonus issue is only exempt from tax where it results in increase in capital. As clause (99) of Part I of Second Schedule to the Income Tax Ordinance, 2001 which provides for tax exemption in respect of mutual funds does not specifically provides any mode of distribution of profit nor places any restriction on distribution by way of bonus units, whereas under clause (100) which provides for tax exemption for Modarabas it has been specifically specified that distribution by way of bonus shares would not be considered as distribution in calculation of 90% distribution to claim exemption from tax. The mutual fund industry has consistently made distributions by way of issue of bonus units and the issue was never raised before. Finance Act 2014, effective from 1 July 2014, now includes a specific provision clause (99) similar to clause (100) where it has been specified that issue of bonus units would not be considered for calculating 90% distribution required to claim exemption from tax. Several asset management companies on behalf of the mutual funds have filed a petition in the Sindh High Court against the demands raised in this respect and have obtained a stay order against the payment of tax demand.

The management based on the tax advice obtained by Mutual Funds Association of Pakistan considers that if any orders passed by the Department would be incorrect and based on erroneous understanding of the law. These would be annulled at appellate forums and the funds would not be liable to such taxes.

9 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, 2015**

10 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:

10.1 Details of transactions with connected persons are as follows:

	Unaudited	
	September 30	
	2015	2014
	----- Rupees in '000 -----	
MCB - Arif Habib Savings & Investments Limited		
Remuneration of management company including indirect taxes	10,251	8,483
MCB Bank Limited		
Profit on bank deposits	456	593
Bank Charges	11	7
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of Trustee including indirect taxes	746	575
CDS charges	5	2
Key management personnel		
Issue of 27,670 units (2014: 23,812 units)	1,500	1,230
Redemption of 26,742 units (2014: 25,523 units)	1,450	1,326
Adamjee Insurance Company Limited		
Issue of 9,314,488 units (2014: 6,773,107 units)	500,000	350,000
Redemption of Nil units (2014: 3,900,917 units)	-	200,000
Mandate Under Discretionary Portfolio Services		
Issue of 246,905 units (2014: Nil units)	13,402	-
NEXT Capital Limited		
Brokerage*	76	-

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

10.2 Amount outstanding as at period / year end	Unaudited September 30, 2015	Audited June 30, 2015
	----- Rupees in '000 -----	
MCB - Arif Habib Savings & Investments Limited		
Remuneration payable to management company	3,330	1,546
Sindh Sales tax On management fee	466	232
Sales load payable	876	124
Sales Tax on Sales Load	123	19
Legal and professional charges	-	100
NEXT Capital Limited		
Brokerage payable*	12	4
MCB Bank Limited		
Bank balance	13,997	6,717
Profit receivable	25	82
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	258	156
Sindh Sales tax On trustee fee	39	-
Security deposit	200	200
Key management personnel		
Units held: 928 units (June 2015: Nil Units)	51	-
Adamjee Insurance Company Limited		
Units held: 9,314,488 units (June 2015: Nil Units)	509,782	-
Mandate Under Discretionary Portfolio Services		
Units held: 246,905 units (June 2015: Nil Units)	13,513	-

* 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.

11 DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on **October 16, 2015** by the Board of Directors of the Management Company.

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



Chief Executive Officer



Director

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