

Quarterly Report

September 30, 2015
(Unaudited)



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

AM2 Plus by PACRA

MCB PAKISTAN SOVEREIGN FUND

(Formerly: Metro-Bank Pakistan Sovereign Fund - Perpetual)

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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 United Bank Limited Allied Bank Limited Faysal 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 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 **MCB Pakistan Sovereign Fund's** (Formerly: MetroBank-Pakistan Sovereign Fund) 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 (September 18, 2015) 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 (September 18, 2015) 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 10.09% as against its benchmark return of 7.51%. The fund remained invested in PIBs and T-bills to hedge fund returns after incorporating stabilization in interest rate outlook and expectation of uptick in inflation. Consequently, the fund reduced exposure from longer dated bonds towards short and medium term where yield premium is better while retaining potential upside from Yield curve movements.

At quarter-end, the fund was 20.3% invested in Treasury Bills, 71.0% in PIBs and 8.7% in cash and other assets.

The Net Assets of the Fund as at September 30, 2015 stood at Rs 7,255 million as compared to Rs 3,193 million as at June 30, 2015 registering an increase of 127.2%.

The Net Asset Value (NAV) per unit as at September 30, 2015 was Rs. 54.41 per unit as compared to opening NAV of Rs. 53.06 per unit as at June 30, 2015 registering an increase of Rs. 1.35 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
October 16, 2015

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 SEPTEMBER 2015

	(Un-Audited) September 30, 2015	(Audited) June 30, 2015
<i>Note</i>	(Rupees in '000)	
Assets		
Balances with banks	562,376	1,382,582
Investments	6. 6,795,744	2,875,829
Profit receivable	81,733	96,842
Advances and prepayments	2,103	2,086
Total assets	7,441,956	4,357,339
Liabilities		
Payable to Management Company	8,522	8,290
Payable to Central Depository Company of Pakistan Limited - Trustee	619	462
Payable to Securities and Exchange Commission of Pakistan	1,163	4,624
Payable against purchase of Investments	-	1,069,911
Accrued expenses and other liabilities	7. 176,643	81,068
Total liabilities	186,947	1,164,355
Net assets	7,255,009	3,192,984
Unit holders' fund	7,255,009	3,192,984
Contingencies and commitments	10	
	(Number of units)	
Number of units in issue	133,342,831	60,180,807
	(Rupees)	
Net assets value per unit	54.41	53.06

The annexed notes from 1 to 12 form an integral part of these financial statements.


Chief Executive Officer


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


Director

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	Note	September 30, 2015	September 30, 2014
		(Rupees in '000)	
Income			
Income from government securities		134,849	72,959
Capital gain/(loss) on sale of government securities		25,014	(2,403)
Profit on bank deposits		4,026	2,880
		<u>163,889</u>	<u>73,436</u>
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		1,135	16,327
Total income		<u>165,024</u>	<u>89,763</u>
Expenses			
Remuneration of Management Company		14,933	8,478
Sindh Sales tax and Federal Excise Duty on Management Fee		4,814	2,831
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,541	705
Annual fee to Securities and Exchange Commission of Pakistan		1,163	516
Brokerage expenses		276	308
Auditor's remuneration		221	198
Other expenses		256	163
Total expenses		<u>23,204</u>	<u>13,199</u>
Net operating income for the period		<u>141,820</u>	<u>76,564</u>
Net element of income and capital gains included in the prices of units issued less those in units redeemed			
- from realized / unrealized capital gain		1,631	1,944
- from other income		17,698	12,994
Provision for workers' welfare fund	7.2	-	(1,830)
Net income for the period before taxation		<u>161,149</u>	<u>89,672</u>
Taxation	8.	-	-
Net income for the period after taxation		<u>161,149</u>	<u>89,672</u>
Earnings per unit	9.		

The annexed notes from 1 to 12 form an integral part of these financial statements.


 Chief Executive Officer


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


 Director

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
Net income for the period after taxation	161,149	89,672
Other comprehensive income:		
Unrealised appreciation in investments classified as 'available for sale' -net	16,048	2,481
Total comprehensive income for the period	177,197	92,153

The annexed notes from 1 to 12 form an integral part of these financial statements.



 Chief Executive Officer

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



 Director

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	September 30, 2015 (Rupees in '000)	September 30, 2014
Undistributed income brought forward	183,855	2,194
Net element of income and capital gain for the period included in prices of units issued less those in units redeemed - transferred to Distribution Statement	226,732	1,095
Total comprehensive income for the period	177,197 403,929	92,153 93,248
Undistributed income carried forward	587,784	95,442

The annexed notes from 1 to 12 form an integral part of these financial statements.



 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, 2015**

	September 30, 2015 (Rupees in '000)	September 30, 2014
Net assets at beginning of the period	3,192,984	2,496,461
Issue of 108,474,155 units (2014: 22,134,302 units)	5,792,447	1,125,635
Redemption of 3,5312,131 units (2014: 6,128,328 units)	(1,888,290)	(309,304)
	3,904,157	816,331
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing income and capital gains arising from capital gain and unrealised gain on investments - transferred to income statement	(1,631)	(1,944)
- amount representing income and capital gains arising from other income - transferred to income statement	(17,698)	(12,994)
- amount representing unrealised capital gains transferred to the Distribution Statement	(226,732)	(1,095)
	(246,061)	(16,033)
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed - transferred to distribution statement	226,732	1,095
Net income for the period (excluding net unrealised appreciation / diminution on re-measurement of investments classified as 'at fair value through profit or loss' and capital gain on sale of investments)	135,000	75,748
Capital gain on sale of investments	25,014	(2,403)
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'	1,135	16,327
Net unrealised appreciation in fair value of investments classified as 'at available-for-sale'	16,048	2,481
	177,197	92,153
Distribution during the period	-	-
Net assets at end of the period	7,255,009	3,390,007

The annexed notes from 1 to 12 form an integral part of these financial statements.


Chief Executive Officer


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


Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	161,149	89,672
Adjustments for non-cash and other items:		
Net unrealised (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss'	(1,135)	(16,327)
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed		
- arising from Capital gain and unrealised gain on investments	(1,631)	(1,944)
- arising from other income	(17,698)	(12,994)
	(20,464)	(31,265)
(Increase) / decrease in assets		
Investments	(3,902,732)	(1,375,552)
Profit receivable	15,109	31,782
Advances and prepayments	(17)	31
	(3,887,640)	(1,343,739)
Increase / (decrease) in liabilities		
Payable to Management Company	232	1,545
Payable to Central Depository Company of Pakistan Limited - Trustee	157	41
Payable to Securities and Exchange Commission of Pakistan	(3,461)	(378)
Payable against purchase of Investments	(1,069,911)	-
Accrued expenses and other liabilities	95,575	2,891
	(977,408)	4,099
Net cash (used) in operating activities	(4,724,363)	(1,281,233)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	5,792,447	1,125,635
Payments against redemption of units	(1,888,290)	(309,304)
Cash distribution	-	-
Net cash generated from financing activities	3,904,157	816,331
Net (decrease) in cash and cash equivalents during the period	(820,206)	(464,902)
Cash and cash equivalents at the beginning of the period	1,382,582	684,905
Cash and cash equivalents at the end of the period	562,376	220,003

The annexed notes from 1 to 12 form an integral part of these 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 (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2015

1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Pakistan Sovereign Fund (Formerly: MetroBank Pakistan Sovereign Fund - Perpetual) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on 24 December 2002 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7 January 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by the Non - Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules)].

The Board of Directors have approved that the Fund should be categorised as "Income Scheme" as per the categories defined by the Securities and Exchange Commission of Pakistan Circular 7 of 2009 dated 6 March 2009.

During the year ended 30 June 2010, Habib Metropolitan Bank Limited retired as the Trustee of the Scheme and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from 23 November 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated 3 November 2009.

Accordingly, the Trust Deed of the Scheme was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.

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

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

MCB Pakistan Sovereign Fund (Formerly: MetroBank - Pakistan Sovereign Fund - Perpetual) has a policy of investing in Pakistani rupee denominated debt securities issued by the government of Pakistan, reverse repurchase transaction in government securities and any otherwise un-invested funds in deposits with banks and financial institutions. In addition, the Fund can also invest in sub-scheme of the Fund.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis.

The units of the fund can be transferred to / from the funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The Fund is listed on the Islamabad Stock Exchange.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM 2+ (AM two plus) to the MCB-Arif Habib Savings and Investments Limited, the Asset Management Company and has assigned stability rating of "A+(f)" to the Fund.

The Fund consists of a 'Perpetual' (the scheme). In addition, the Fund had also issued other sub-scheme which matured as follows:

Name of sub-scheme

MCB Pakistan Sovereign Fund - (December 2012)
MCB - Pakistan Sovereign Fund - (December 2007)
MCB Pakistan Sovereign Fund - (December 2005)
MCB- Pakistan Sovereign Fund - (December 2003)

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

2. BASIS OF PRESENTATION

2.1 Statement of compliance

This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed.

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

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.

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

The comparative in the 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 comparatives in the condensed interim income statement, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' funds are stated from unaudited condensed interim financial information for the quarter ended 30 September 2015.

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

3.1 The accounting policies and methods of computation followed in 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 AND 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 end for the year ended 30 June 2014.

6. INVESTMENTS

		(Unaudited) 30 September 2015	(Audited) 30 June 2015
		----- (Rupees in '000) -----	
6.1	'At fair value through profit or loss' - held for trading		
	Pakistan investment bonds	6.1.1 2,183	2,156
	Market treasury bills	6.1.1 1,510,890	247,687
		<u>1,513,073</u>	<u>249,843</u>
6.2	Available-for-Sale		
	Pakistan investment bonds	6.2.1 5,282,671	2,625,986
		<u>5,282,671</u>	<u>2,625,986</u>
		<u><u>6,795,744</u></u>	<u><u>2,875,829</u></u>

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

6.1 'Investments at fair value through profit or loss'

6.1.1 Government Securities

	Face value			Balance as at 30 September 2015			Market value	
	As at 1 July 2015	Purchases during the period	Sales / Matured during the period	As at September 30, 2015	Cost	Market value	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)								
Pakistan Investment Bond 'at fair value through profit or loss'								
PIB - 5 year	1,975	-	-	1,975	2,156	2,183	0.03	0.03
Totals - September 30, 2015					<u>2,156</u>	<u>2,183</u>		
Totals - June 30, 2015					<u>2,024</u>	<u>2,156</u>		
Market Treasury Bills								
Treasury bills - 2 months	250,000	355,000	605,000	-	-	-	-	-
Treasury bills - 3 months	-	1,082,900	450,000	632,900	630,683	630,814	8.69	9.28
Treasury bills - 6 months	-	3,350,100	2,900,100	450,000	444,975	445,215	6.14	6.55
Treasury bills - 12 months	-	1,800,000	1,350,000	450,000	434,142	434,861	5.99	6.40
Totals - September 30, 2015					<u>1,509,800</u>	<u>1,510,890</u>		
Totals - June 30, 2015					<u>247,706</u>	<u>247,687</u>		
Total of investments in Government Securities - 30 September 2015					<u>1,511,956</u>	<u>1,513,073</u>		
Total of investments in Government Securities - 30 June 2015					<u>249,730</u>	<u>249,843</u>		

6.2 'Investments classified as available for sale'

6.2.1 Government Securities

	Face value			Balance as at 30 September 2015			Market value	
	As at 1 July 2015	Purchases during the period	Sales / Matured during the period	As at September 30, 2015	Cost	Market value	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)								
Pakistan Investment Bond 'available-for-sale'								
PIB - 3 year	363,770	1,707,300	134,900	1,936,170	2,010,260	2,015,794	27.78	29.66
PIB - 5 year	786,550	2,225,000	860,000	2,151,550	2,305,373	2,336,535	32.21	34.38
PIB - 7 year	101,000	-	92,000	9,000	9,414	9,413	0.13	0.14
PIB - 10 year	1,219,450	50,000	394,600	874,850	908,561	915,216	12.61	13.47
PIB - 20 year	5,500	-	-	5,500	5,612	5,713	0.08	0.08
Totals - September 30, 2015					<u>5,239,220</u>	<u>5,282,671</u>		
Totals - June 30, 2015					<u>2,598,478</u>	<u>2,625,986</u>		

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

7. ACCRUED EXPENSES AND OTHER LIABILITIES		(Un-Audited) September 30, 2015	(Audited) June 30, 2015
		(Rupees in '000)	
Auditors' remuneration payable		126	368
Brokerage payable		538	1,199
Provision for Federal Excise Duty and related taxes	7.1	17,614	14,891
Provision for Workers' Welfare Fund	7.2	42,253	42,253
Provision for Federal Excise Duty on sales load		2,162	1,708
Withholding tax payable (deducted on dividend distribution)		-	9,733
Withholding tax payable (deducted on capital gains)		5,303	10,819
Advances against sales of units		108,500	-
Others		147	97
		176,643	81,068

- 7.1** The Finance Act, 2013 introduced an amendment to Federal Excise Act 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% of the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the levy of Federal Excise Duty on Asset Management Services after the Eighteenth Amendment .

The SHC in its short order of September 2013 directed the FBR not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED and related taxes in these financial statements aggregating to Rs. 19.78 million as at 30 September 2015. In case the suit is decided against the fund the same would be paid to management company, who will be responsible for submitting the same to authorities. Had the said provision of FED not been recorded in the books of account of the Fund, the NAV of the Fund would have been higher by Re. 0.15 per unit.

- 7.2** 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.

On 15 July 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income.

However on 14 December 2010, the Ministry filed its response against the Constitutional Petition requesting the court to dismiss the petition. According to the legal 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.

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

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. During the quarter the Fund charged Rs. Nil on account of WWF. The aggregate amount of WWF charged as on September 30, 2015 is Rs. 42.253 million, if the same were not made the NAV of the fund would have been higher by Re. 0.32 per unit.

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 by way of cash dividend. 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 intends to distribute 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.

The income tax returns till the tax year 2014 have been filed under self assessment scheme and are deemed to be assessed under section 120 of the Income Tax Ordinance except for tax year 2012 for which Order under section 122(1) of the Ordinance has been received that the Fund is not entitled to the exemption from income tax. The Tax Department considers that distribution of bonus units should not be included in calculation of distribution of 90% of declared profit required to claim exemption from income tax. The Fund filed an appeal before Commissioner (Appeals) which was decided in Fund's favor. However, as a matter of abundant caution the fund has also obtained stay against the said orders.

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 considers that if any orders are passed by the department those would be incorrect and based on erroneous understanding of the law. Therefore, no provision is required to be made in these financial statements.

9. EARNINGS PER UNIT

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

10. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments as at September 30, 2015 and June 30, 2015.

11. TRANSACTIONS WITH CONNECTED PERSONS / 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 the holding company of the Management Company, the Trustee, directors and key management personnel, other associated undertakings and unit holders holding more than 10% units of the Fund.

The transactions with related parties / connected persons are in the normal course of business and are carried out at contracted rates / agreed terms.

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

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

11.1 Details of transactions with the connected persons / related parties during the period are as follows:

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
MCB Arif Habib Savings and Investment Limited		
Remuneration to the Management Company (including indirect taxes)	19,747	11,309
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	1,541	705
Arif Habib Limited - Brokerage House		
Brokerage Expense	13	-
Next Capital - Brokerage House		
Brokerage Expense	125	-
MCB Bank Limited		
Profit on bank deposits	2,326	1,768
Bank charges	23	8

11.2 Balance outstanding as at the period end are as follows:

	September 30, 2015	June 30, 2015
	(Rupees in '000)	
MCB Arif Habib Savings and Investment Limited		
Management fee payable	6,349	4,994
Sindh sales tax payable on management fee	889	748
Sales load payable	1,284	2,448
Central Depository Company of Pakistan Limited		
Remuneration payable	619	462
MCB Bank Limited		
Bank deposits	1,656	1,213,765
Profit receivable	241	1,885
Arif Habib Limited - Brokerage House		
Brokerage Payable	13	-
Next Capital - Brokerage House		
Brokerage payable	54	-

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

11.3 Transactions during the period with connected persons / related parties in the units of the Fund:

	For the period ended September 30, 2015		For the period ended September 30, 2014	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Units sold to:				
MCB Arif Habib Savings and Investment Limited	8,508,074	460,000	488,950	25,000
Adamjee Insurance Company Limited	16,283,741	870,529	7,388,369	375,000
Adamjee Insurance Company Limited ISF II	315,399	17,000	-	-
Key management personnel	55,498	3,000	-	-
Mandate under Discretionary Portfolio Services	1,620,247	86,700	342,384	17,616
Bonus units issued to:				
MCB Arif Habib Savings and Investment Limited	-	-	-	-
Adamjee Insurance Company Limited				
Units redeemed by:				
MCB Arif Habib Savings and Investment Limited	2,447,769	132,000	-	-
Adamjee Insurance Company Limited - Investment Department	-	-	4,478,503	225,000
Key management personnel	61,215	3,315	4,949	250
Mandate under Discretionary Portfolio Services	-	-	93,393	4,763

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

11.4 Balance outstanding as at the period end are as follows:

	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
	Units		(Rupees in '000)	
Units held by:				
MCB Arif Habib Savings and Investment Limited	<u>6,060,305</u>	-	<u>329,741</u>	-
Adamjee Insurance Company Limited - Investment Department	<u>16,283,741</u>	-	<u>885,998</u>	-
Adamjee Life Assurance Company Limited (IMF)	<u>376,932</u>	376,932	<u>20,509</u>	20,000
Adamjee Life Assurance Company Limited (ISF)	<u>4,839,388</u>	4,839,388	<u>263,311</u>	256,778
Adamjee Life Assurance Company Limited (ISF-II)	<u>2,528,738</u>	2,213,339	<u>137,589</u>	117,440
Adamjee Life Assurance Company Limited Employees Provident Fund	<u>1,521,455</u>	-	<u>80,728</u>	-
Adamjee Life Assurance Company Limited - NUIL Fund	<u>3,462,102</u>	3,462,102	<u>188,373</u>	183,699
Gul Ahmed Energy Limited *	<u>12,769,694</u>	12,769,694	<u>694,799</u>	677,560
Key management personnel	<u>194,118</u>	134,305	<u>10,562</u>	7,126
Mandate under Discretionary Portfolio Services	<u>5,387,407</u>	3,767,160	<u>293,129</u>	199,886

12. DATE OF AUTHORISATION FOR ISSUE

These 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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