

**PAKISTAN  
CAPITAL PROTECTED FUND (FIS)**

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## FUND'S INFORMATION

<b>Management Company</b>	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors of the Management Company</b>	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
<b>Company Secretary and Chief Financial Officer of the Management Company</b>	Mr. Muhammad Saqib Saleem	
<b>Audit Committee</b>	Mr. Nasim Beg Mr. Haroun Rashid Mr. Samad A. Habib Mr. Ali Munir	
<b>Trustee</b>	MCB Financial Services Limited 3rd Floor, Adamjee House, I.I. Chundrigar Road, Karachi.	
<b>Bankers</b>	Habib Metropolitan Bank Limited	
<b>Auditors</b>	KPMG Taseer Hadi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Buliding No.1 Beaumont Road Karachi. 75530.	
<b>Legal Advisor</b>	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
<b>Registrar</b>	Gangjees Registrar Services (Pvt.) Limited Room No. 516, 5th Floor, Clifton Centre, Kehkashan, Clifton, Karachi.	
<b>Rating</b>	AM2 (Positive Outlook) – Management Quality Rating assigned by PACRA	

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2011

Dear Investor,

On behalf of the Board of Directors, I am pleased to present accounts review of Pakistan Capital Protected Fund - Fixed Income Securities for the first quarter ended September 30th 2011.

### ECONOMY AND MONEY MARKET OVERVIEW

On the macroeconomic front, inflation has remained lower during the period with CPI inflation averaging 11.5% amid change in CPI methodology as well as high base-effect of last year. Like the major part of last year, external current account has also remained comfortable with a marginal deficit of US\$ 189 million during first two months of FY12. Fiscal side, on the other hand, has remained a cause of concern for the economic managers with FY11 deficit touching a level of 6.6% of the GDP (Rs. 1.2 trillion deficit size in absolute term). The government, however, has been able to keep its borrowing from SBP at lower levels, which coupled with lower inflation and contained current account deficit has compelled the central bank to lower its policy discount rate by 50 bps in Jul'11 monetary policy to bring it down to 13.5%.

In the money market, short term market rates remained on the higher side amid tight liquidity scenario in the system. Due to depletion in net foreign assets (NFA) as well as net retirement in government borrowing from SBP, money supply (M2) has witnessed contraction during the period under review, thereby keeping market liquidity tight almost throughout the period. The SBP has constantly been injecting significant amount of money in the system through OMOs in order to calm down the market.

### FUND PERFORMANCE

During the quarter under review, the fund generated an annualized return of 6.6% as against its benchmark return of 12.8%, an under-performance of 6.2%.

Committed with the objective of providing 100% capital protection, the fund had allocations of 66% in Term Deposit with Habib Metropolitan Bank as capital protection segment of the fund as of quarter-end. 8% of the fund's net assets were invested in Treasury Bills, 7% in Term Finance Certificates and the rest in cash and other assets as of 30th September 2011.

### FUTURE OUTLOOK

Given declining trend in CPI inflation coupled with a comfortable external account position, the Central bank has decided to lower its policy DR further by 150 bps to 12.0% for Oct'11 - Nov'11 period to trigger growth stimulus in the economy. We continue to flag foreign inflow as the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. In our opinion, the absence of foreign flows and government's greater reliance on domestic sources for fiscal funding could result in rebound of inflation and interest rates going forward.

In a fast changing interest rate environment, the fund would continue to maintain its focus on the credit quality of the portfolio while exploiting attractive opportunities in the market.

### 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 26, 2011  
Karachi.

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2011

	<i>Note</i>	Un-Audited 30 September 2011	Audited 30 June 2010
		(Rupees in '000)	
<b>Assets</b>			
<i>Capital Protection Segment</i>			
Term deposit receipts		160,136	162,136
Profit receivable		30,985	26,488
		191,121	188,624
<i>Investment Segment</i>			
Balances with banks		12,829	12,807
Receivable against sale of investment		-	1,678
Profit receivable		669	858
Investments	4.	36,833	36,096
Deposits and prepayments		357	350
		50,688	51,789
Preliminary expenses and floatation costs		350	451
<b>Total assets</b>		242,159	240,864
<b>Liabilities</b>			
Payable to the Management Company		290	292
Payable to MCB Financial Services Limited - Trustee		41	41
Payable to Securities and Exchange Commission of Pakistan		45	188
Accrued expenses and other liabilities		4,413	3,668
<b>Total liabilities</b>		4,789	4,189
<b>Net assets</b>		237,370	236,675
<b>Unit holders' funds (as per statement attached)</b>		237,370	236,675
		(Number of units)	
<b>Number of units in issue</b>		22,944,089	21,439,398
		(Rupees)	
<b>Net asset value per unit</b>		10.35	11.04

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

**For Arif Habib Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	<i>Note</i>	30 September 2011	30 September 2010
(Rupees in '000)			
<b>Income</b>			
Income from term deposit receipts - Capital Protection Segment		4,849	5,438
Income from term finance and sukuk certificates		910	1,544
Income from commercial papers		585	-
Income from government securities		65	34
Unrealised (diminution) / appreciation in fair value of investments- at fair value through profit or loss'	4.4	(1,010)	273
Back-end load income		123	-
Profit on bank deposits		348	408
<b>Total income</b>		<b>5,870</b>	<b>7,697</b>
<b>Expenses</b>			
Remuneration of Arif Habib Investments Limited - Management Company		1,034	934
Remuneration of MCB Financial Services Limited - Trustee		126	176
Annual fee - Securities and Exchange Commission of Pakistan		45	47
Securities transaction cost		2	9
Bank charges		4	-
Fees and subscriptions		103	28
Legal and professional charges		19	19
Auditors' remuneration		99	93
Amortisation of preliminary expenses and floatation costs		101	101
Printing and related cost		31	32
Others		555	591
<b>Total expenses</b>		<b>2,119</b>	<b>2,030</b>
Net element of income / (loss) and capital gain / (losses) for the period included in prices of units issued less those in units redeemed		(12)	65
<b>Net income for the period before taxation</b>		<b>3,739</b>	<b>5,732</b>
Taxation		-	-
<b>Net income for the period after taxation</b>		<b>3,739</b>	<b>5,732</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income for the period		-	-
<b>Total comprehensive income for the period</b>		<b>3,739</b>	<b>5,732</b>
<b>Earning per unit (EPU)</b>	8		

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

**For Arif Habib Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

30 September      30 September  
2011                      2010  
(Rupees in '000)

Undistributed income brought forward	22,286	10,093
Final distribution for the year ended June 30, 2011 Rs 0.8564 (2010: 0.35) Date of distribution: July 04, 2011 (2010: July 05, 2010)	(18,361)	(8,206)
Net element of income and capital gains for the period included in prices of units issued less those in units redeemed - net - amount representing unrealised capital gains - transferred to the Distribution Statement	269	-
Net income for the period	3,739	5,732
Net income less distribution	(14,353)	(2,474)
Undistributed income carried forward	7,933	7,619

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

**For Arif Habib Investments Limited  
(Management Company)**

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**

## CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	30 September 2011	30 September 2010
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	3,739	5,732
<b>Adjustments</b>		
Unrealised diminution / (appreciation) in fair value of investments - 'at fair value through profit or loss'	1,010	(273)
Amortisation of preliminary expenses and floatation costs	101	101
Net element of (income) / loss and capital (gain) / losses for the period included in prices of units issued less those in units redeemed	12	(65)
	4,862	5,495
<b>(Increase) / decrease in assets</b>		
Term deposit receipts	2,000	-
Profit receivable in term deposit receipts	(4,497)	-
Receivable against sale of investments	1,678	-
Profit receivable	189	(6,072)
Investments	(1,747)	(1,386)
Deposits and prepayments	(7)	(4)
	(2,384)	(7,462)
<b>Increase / (decrease) in liabilities</b>		
Payable to Arif Habib Investments Limited - Management Company	(2)	(1,186)
Payable to MCB Financial Services Limited - Trustee	-	-
Payable to Securities and Exchange Commission of Pakistan - Annual Fee	(143)	(19)
Accrued expenses and other liabilities	745	576
	600	(629)
<b>Net cash generated from / (used in) operating activities</b>	3,078	(2,596)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments against redemption of units	(3,056)	-
<b>Net increase / (decrease) in cash and cash equivalents during the period</b>	22	(2,596)
Cash and cash equivalents at the beginning of the period	12,807	19,840
<b>Cash and cash equivalents at the end of the period</b>	12,829	17,244

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

For Arif Habib Investments Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Capital Protected Fund - Fixed Income Securities (the Fund) was established under a Trust Deed executed on 15 June 2009 between Arif Habib Investments Limited (a subsidiary of MCB Bank Limited) as Management Company and MCB Financial Services Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 7 August 2009 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Based on shareholders' resolutions of MCB-AMC and AHI the two companies have merged as of June 27, 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated June 10, 2011). AHI being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to July 30, 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 2011). Since the merger had already taken place and the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable SHC. The honourable SHC has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

Formation of the Fund as an open end fund was authorized by SECP on 7 August 2009. 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 SECP. The registered office of the Management Company is situated at Techno City Corporate Tower, 8th Floor, Hasrat Mohani Road, Karachi, Pakistan.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of 'AM2' (positive outlook) to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund which is expected to be completed in the year 2012.

The Fund is a capital protected fund and has an objective to pay back investors (with certain conditions) whole of their initial investment (net of Front end load) i.e. Rs. 10 per unit over the term of its life in the form of dividend or return of capital on its termination. In addition, the Fund has an objective to maximize the return by investing in fixed income instruments, money and debt market instruments to achieve the investment objective.

The Fund consists of two segments, Capital Protected Segment and an Investment Segment. The Capital Protected Segment aims at protecting investors capital by placing the assets of the segment in bank deposits having at least long term credit rating of AA- (Double A minus) or above at the time of placement. To achieve the objective the Fund has placed 81.85% of Fund property (net of loads and charges, if any) with Habib Metropolitan Bank Limited to ensure that these funds grow to become at least 100% of the total initial investment value (net of all expenses and taxes) at the time of maturity. The remaining assets of the Fund have been allocated to the Investment Segment that will be invested in fixed income instruments, money and debt market instruments with an objective of providing higher return than the minimum protection provided by the capital protection segment.

The duration of the Fund is 30 (thirty) months from the last day of initial offering / launch period. The Fund will cease to operate on 15 August 2012 and shall stand liquidated.

## 2. STATEMENT OF COMPLIANCE

**2.1** These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) 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) and the 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 SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

**2.2** These condensed interim financial statements are unaudited.

**2.3** The directors of the asset management company declare that these financial statements give a true and fair view of the Fund.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2011.



**5 REMUNERATION OF THE MANAGEMENT COMPANY**

During the period, through Sindh Sales Tax on Services Act 2011, General Sales Tax on Fund management services has been imposed @ 16%, effective from July 01, 2011. Management fee charged during the period includes General Sales Tax.

**6 CONTRIBUTION TO 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 adjudication.

Subsequent to the year ended June 30, 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 December 14, 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.

Subsequent to 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. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company. The aggregate unrecognised amount of WWF as at September 30, 2011 amounted to Rs 9.700 million (including Rs 0.075 million for the quarter ended September 30, 2011).

**7 TAXATION**

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company intends to distribute more than 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

**8 EARNINGS PER UNIT**

Earnings / (Loss) per unit has not been disclosed as in the opinion of the management determination of cumulative weighted average number of outstanding units for calculating earnings / (loss) per unit is not practicable.

**9 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

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

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

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

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

	30 September 2011	30 September 2010
<b>9.1 Transactions during the period with connected persons / related parties</b>	<b>(Rupees in '000)</b>	
<i>Arif Habib Investments Limited - the Management Company</i>		
Remuneration for the period	1,034	934
<i>MCB Financial Services Limited - Trustee</i>		
Remuneration for the period	126	176
Other	-	50
<i>Units issued as bonus to:</i>		
Arif Habib Investments Limited - Management Company 10,642 (2010: 4,245)	108	43
Directors / officers and employees of the management company 1,624 (2010: 648)	17	7
Summit Bank Limited - more than 10% unit holder 858,202 (2010: 342,329)	8,736	3,451
<i>Units redeemed by:</i>		
Directors / officers and employees of the management company 5,123 (2010: Nil)	52	-
<b>9.2 Balances outstanding as at the period end</b>	<b>Unaudited 30 September 2011</b>	<b>Audited 30 June 2011</b>
	<b>(Rupees in '000)</b>	
<i>Arif Habib Investments Limited - the Management Company</i>		
Remuneration payable	290	292
<i>MCB Financial Services Limited - Trustee</i>		
Remuneration payable	41	41
<b>Units held by:</b>		
Arif Habib Investments Limited Management Company 137,144 (2010: 126,502)	1,419	1,397
Directors / officers and employees of the management company 15,806 (2010: 19,305)	164	213
Summit Bank Limited - more than 10% unit holder 11,059,617 (2010: 10,201,415)	114,467	112,624

**10 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 26, 2011 by the Board of Directors of the Management Company.

**11 GENERAL**

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

**For Arif Habib Investments Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

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Director