

# Quarterly Report

September 30, 2015  
(Unaudited)



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

AM2 Plus by PACRA

**MCB**  
**ISLAMIC INCOME FUND**

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## FUND'S INFORMATION

<b>Management Company</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Board of Directors</b>	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
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib	Chairman Member Member
<b>Human Resource &amp; Remuneration Committee</b>	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
<b>Company Secretary &amp; Chief Financial Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Trustee</b>	Central Depository Company of Pakistan Limited CDC House, 99-B Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
<b>Bankers</b>	MCB Bank Limited Bank Al-Falah Limited United Bank Limited Habib Bank Limited	
<b>Auditors</b>	KPMG Taseer Haidi & Co. Chartered Accountants 1st Floor, Sheikh Sultan Trust Building No. 2, Beaumont Road, Karachi-75530.	
<b>Legal Advisor</b>	Bawaney & Partners 3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area, Phase VI, DHA, Karachi.	
<b>Transfer Agent</b>	MCB-Arif Habib Savings and Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
<b>Rating</b>	AM2 + Management Quality Rating assigned by PACRA	

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

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Dear Investor,

On behalf of the Board of Directors, I am pleased to present **MCB Islamic Income 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 5.42% as against its benchmark return of 4.45%, depicting an outperformance of 0.97%.

During the period, the fund has gradually increased its exposure towards GoP Ijarah Sukuk, which stood at around 55.4% at quarter-end. The fund has kept its remaining exposure in corporate Sukuk, cash and bank deposits at comparatively attractive rates.

The Net Assets of the Fund as at September 30, 2015 stood at Rs. 1,220 million as compared to Rs. 1,261 million as at June 30, 2015 registering a decrease of 3.25%

The Net Asset Value (NAV) per unit as at September 30, 2015 was Rs. 101.5587 as compared to opening NAV of Rs. 100.1908 per unit as at June 30, 2015 registering an increase of Rs. 1.3679 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 THE MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

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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,




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Yasir Qadri  
Chief Executive Officer  
Dated: October 16, 2015

**CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES**  
**AS AT 30 SEPTEMBER 2015**

	Note	(Un-Audited) September 30, 2015 (Rupees in '000)	(Audited) June 30, 2015
<b>Assets</b>			
Balances with banks		431,278	517,006
Investments	7	806,056	754,410
Profit and income receivable		8,624	20,907
Security Deposit and Prepayments		196	229
Preliminary expenses and floatation costs		141	192
<b>Total assets</b>		<b>1,246,295</b>	<b>1,292,744</b>
<b>Liabilities</b>			
Payable to Management Company		1,095	1,365
Payable to Central Depository Company of Pakistan Limited - Trustee		177	153
Payable to Securities and Exchange Commission of Pakistan		235	1,198
Dividend payable		-	-
Accrued expenses and other liabilities	8	24,601	28,968
<b>Total liabilities</b>		<b>26,108</b>	<b>31,684</b>
<b>Net assets</b>		<b>1,220,187</b>	<b>1,261,060</b>
<b>Unit holders' fund</b>		<b>1,220,187</b>	<b>1,261,060</b>
<b>(Number of units)</b>			
<b>Number of units in issue</b>		<b>12,014,595</b>	<b>12,586,594</b>
<b>(Rupees)</b>			
<b>Net assets value per unit</b>		<b>101.56</b>	<b>100.19</b>

The annexed notes from 1 to 12 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 INCOME STATEMENT (UN-AUDITED)**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Note	September 30, 2015	September 30, 2014
		(Rupees in '000)	
<b>Income</b>			
Profit on bank deposits		7,536	13,652
Capital gain / (loss) on sale of investments - net		603	(675)
Income from Corporate Sukuk		2,334	3,240
Income from government securities		11,640	27,690
		<u>22,113</u>	<u>43,907</u>
Net unrealised (diminution) on re-measurement of investments classified as 'at fair value through profit or loss'		<u>(1,160)</u>	<u>(8,568)</u>
<b>Total income</b>		<u>20,953</u>	<u>35,339</u>
<b>Expenses</b>			
Remuneration of Management Company		2,178	4,005
Federal excise duty and Sindh sales tax on remuneration of Management Company		702	1,338
Remuneration of Central Depository Company of Pakistan Limited -Trustee		548	637
Annual fee - Securities and Exchange Commission of Pakistan		235	373
Amortisation of preliminary expenses and floatation costs		50	50
Auditors' remuneration		171	194
Brokerage and settlement charges		7	83
Other Expenses		142	145
<b>Total expenses</b>		<u>4,033</u>	<u>6,825</u>
Net element of (loss) / gain and capital (losses) / gain included in prices of units issued less those in units redeemed			
-Arsing from capital (loss) / Gain and Unrealised (loss) /Gain		(442)	125
Arsing from other income		(39)	(2,605)
Provision for Workers' Welfare Fund	8.2	-	(521)
<b>Net income for the period before taxation</b>		<u>16,439</u>	<u>25,513</u>
Taxation	9	-	-
<b>Net income for the period after taxation</b>		<u>16,439</u>	<u>25,513</u>
<b><u>Other comprehensive income:</u></b>		-	-
<b>Total comprehensive income for the period</b>		<u>16,439</u>	<u>25,513</u>
<b>Earnings per unit</b>	10	-	-

The annexed notes from 1 to 12 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 DISTRIBUTION STATEMENT (UN-AUDITED)**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
Undistributed income brought forward	2,919	670
Total comprehensive income for the period	16,439	25,513
Net element of (loss) and capital (losses) for the period included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(111)	(77)
<b>Undistributed income carried forward</b>	<u><u>19,247</u></u>	<u><u>26,106</u></u>

The annexed notes from 1 to 12 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' FUND (UN-AUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
Net assets at beginning of the period	1,261,060	2,054,563
Issue of 1,252,137 units (2014: 1,862,565 units)	113,247	188,060
Redemption of 1,824,136 units (2014: 4,239,012 units)	(171,041)	(428,261)
	(57,793)	(240,201)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- amount representing accrued loss and realised capital losses / transferred to the Income Statement		
-Arsing from capital (loss) and Unrealised (loss)	442	(125)
Arsing from other income	39	2,605
- amount representing unrealised capital losses transferred to the Distribution Statement	111	77
	592	2,557
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)	16,996	34,756
Capital gain / (losses) on sale of investments	603	(675)
Net unrealised (diminution) on re-measurement of investments classified as 'at fair value through profit or loss'	(1,160)	(8,568)
	16,439	25,513
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	(111)	(77)
<b>Net assets at end of the period</b>	<b>1,220,187</b>	<b>1,842,355</b>

The annexed notes from 1 to 12 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 (UN-AUDITED)**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	September 30, 2015	September 30, 2014
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	16,439	25,513
<b>Adjustments for non-cash and other items:</b>		
Net unrealised diminution / (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss'	1,160	8,568
Amortisation of preliminary expenses and floatation costs	50	50
Provision for Workers' Welfare Fund	-	521
Net element of loss and capital losses included in prices of units issued less those in units redeemed		
- Arising from capital (loss) and Unrealised (loss)	442	2,480
Arising from other income	39	125
	<b>18,130</b>	<b>37,257</b>
<b>Decrease / (increase) in assets</b>		
Investments	(52,805)	345,937
Advance against subscription of Corporate Sukuk		(118,000)
Profit and income receivable	12,284	10,187
Prepayments	33	(80)
	<b>(40,489)</b>	<b>238,043</b>
<b>Increase / (decrease) in liabilities</b>		
Payable against redemption of units	-	-
Payable to Management Company	(270)	(439)
Payable to Central Depository Company of Pakistan Limited - Trustee	24	(22)
Payable to Securities and Exchange Commission of Pakistan	(963)	(1,444)
Dividend payable	-	(31)
Accrued expenses and other liabilities	(4,368)	963
	<b>(5,576)</b>	<b>(973)</b>
<b>Net cash (used in) / generated from operating activity</b>	<b>(27,935)</b>	<b>274,202</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net receipt against issue of units	113,247	188,060
Net (payments) from redemption of units	(171,041)	(428,261)
<b>Net cash (used in) from financing activities</b>	<b>(57,793)</b>	<b>(240,201)</b>
Net (decrease) / increase in cash and cash equivalents during the period	<b>(85,728)</b>	34,001
Cash and cash equivalents at the beginning of the period	517,006	597,684
<b>Cash and cash equivalents at the end of the period</b>	<b>431,278</b>	<b>631,685</b>

The annexed notes from 1 to 12 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

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### 1. LEGAL STATUS AND NATURE OF BUSINESS

MCB Islamic Income Fund ("the Fund") was established under a trust deed executed between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on 25 January 2011 and was executed on 7 March 2011.

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.

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-end mutual fund and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering them to the Fund.

The Fund is listed on the Lahore Stock Exchange. According to paragraph 19.3 of the Trust Deed, the first accounting period of the Fund shall commence from the date on which the trust property is first paid or transferred to the Trustee i.e. 1 May 2011. The Fund has been categorized as "Shariah Compliant (Islamic) 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.

The objective of the Fund is to seek to generate superior risk adjusted returns by investing in short, medium and long-term high quality Shariah Compliant fixed income instruments.

The Pakistan Credit Rating Agency (PACRA) Limited has assigned management quality rating of 'AM2 plus' to the Management Company and 'AA-(f)' as stability rating to the Fund.

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

### 2. BASIS OF PREPARATION

#### 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.

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 asset management company declare that this condensed interim financial information give a true and fair view of the Fund.

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

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 unaudited condensed interim financial information for the period ended 30 September 2015.

### 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 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 risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the Fund as at and for the year ended 30 June 2015.

### 6 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

### 7 INVESTMENTS

	(Un-Audited) September 30, 2015	(Audited) June 30, 2015
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(Rupees in '000)

*'At fair value through profit or loss'*

- GoP Ijara Sukuk	7.1	689,920	635,190
Unlisted debt securities - term finance certificates	7.2	116,136	119,220
		806,056	754,410

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

## 7.1 GoP Ijara Sukuk - 'at fair value through profit or loss' - held for trading

Issue date	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 30 September 2015	Cost	Market value	Appreciation/ (diminution)	as a percentage of net assets	as a percentage of total investments
(Rupees in '000)									
26 December 2011	-	100,000	-	100,000	100,300	100,340	40	8.22	12.45
2 March 2012	100,000			100,000	100,850	100,360	(490)	8.22	12.45
28 June 2012	11,000		-	11,000	11,072	11,042	(30)	0.90	1.37
18 September 2012	435,200			435,200	438,159	437,202	(957)	35.83	54.24
28 March 2013	20,300			20,300	20,428	20,464	37	1.68	2.54
25 June 2014	65,500		45,000	20,500	20,244	20,512	269	1.68	2.54
<b>Totals - September 30, 2015</b>					<b>691,053</b>	<b>689,920</b>	<b>(1,131)</b>		
Totals - June 30, 2015					645,592	635,190	(10,402)		

Name of investee company	Number of Certificates				Balance as at 30 September 2015			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2015	Purchased during the period	Disposed during the period	As at September 30, 2015	Carrying value	Market value	Appreciation / (diminution)		
ENGRO CORPORATION LIMITED - SUKKUK -- Issue Date 09-JUL-14	23,600	-	-	23,600	116,164	116,136	(28)	9.52%	14.41%
<b>Total - September 30, 2015</b>					<b>116,164</b>	<b>116,136</b>	<b>(28)</b>		
Total - June 30, 2015					115,050	119,220	4,170		

## 8 ACCRUED EXPENSES AND OTHER LIABILITIES

	(Un-Audited) September 30, 2015	(Audited) June 30, 2015
(Rupees in '000)		
Federal excise duty payable	8.1 7,753	10,140
Provision for Workers' Welfare Fund	8.2 11,490	11,490
Zakat payable	377	377
Auditors' remuneration	139	394
Printing charges payable	201	152
Capital gain tax payable	78	199
Withholding tax payable on dividend	-	6,201
Payable Against Redemption of units	1,637	-
Others	6	15
Federal excise duty on sale load	2,920	-
	<b>24,601</b>	<b>28,968</b>

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

- 8.1** 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% on the services rendered by assets 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. 0.65 per unit as at 30 September 2015.
- 8.2** 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 (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 2014 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.

However, as per advice of legal counsel the stay granted to CIS remains intact and the constitution petitions filed by the CIS to challenge the WWF contribution have not been affected by the SHC judgment. In view of the afore mentioned developments and uncertainties created by the decision of SHC, management company, as a matter of abundant precaution, has decided to charge the entire provision for WWF in these financial statements.

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.

With effect from July 01, 2015, the Fund stopped making further provision of WWF in pursuance to the said amendment of the Finance Act 2015.. The aggregate amount of WWF charged as on September 30, 2015 is Rs. 11.49 million. If the same were not made the NAV of the fund would have been higher by Rs. 0.96 per unit.

## 9 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 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 realized or unrealized 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, holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements.

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

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 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 2015, effective from 1 July 2015, now includes a specific proviso in 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.

**10 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.

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

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.

Details of transactions with related parties / connected persons and balances with them at period end are as follows:

**11.1 Details of the transactions with related parties / connected persons during the period:**

	<b>(Un-Audited)</b>	
	<b>September 30, 2015</b>	<b>September 30, 2014</b>
	<b>(Rupees in '000)</b>	
<b>MCB Arif Habib Savings and Investments Limited - Management Company</b>		
Remuneration (including indirect taxes)	<b>2,880</b>	5,343
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	<b>548</b>	637
<b>Adamjee Life Assurance Co. Limited (Amaanat Fund)</b>		
Issue of 98,465 units (2014: 976,361 units)	<b>10,000</b>	5,000
Redemption of 219,527 units (2014: Nil units)	<b>22,000</b>	-
<b>Mandate under Discretionary Portfolio Services</b>		
Issue of Nil units (2014: 246,972 units)	-	25,000
Redemption of Nil units (2014: 246,972 units)	-	25,011




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

	(Un-Audited)	
	September 30, 2015	September 30, 2014
	(Rupees in '000)	
<b>Directors and executives of the Management Company</b>		
Issue of 57,051 units (2014: 23,964 units)	5,763	2,419
Redemption of 60,631 units (2014: 23,964 units)	6,118	4,266
<b>MCB Bank Limited</b>		
Profit on bank deposits	147	290
Bank charges	7	23
<b>11.2 Amounts outstanding as at period end</b>	(Un-Audited)	(Audited)
	September 30, 2015	June 30, 2015
	(Rupees in '000)	
<b>MCB Arif Habib Savings and Investments Limited - Management Company</b>		
Management fee payable	579	718
Sindh sales tax payable on management fee	81	178
Front-end load payable	66	321
Sindh sales tax payable on front end load	2,920	48
Legal and professional charges	-	100
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	177	153
<b>Adamjee Life Assurance Co. Limited (Amaanat Fund)</b>		
Units held: 1,227,672.39 (2015: 1,348,733 units)	124,681	135,131
<b>Directors and executives of the Management Company</b>		
Units held: 51.782 (2015: 40,236 units)	5,259	4,031
<b>MCB Bank Limited</b>		
Balance in bank accounts	7,039	47,732
Profit receivable on bank deposits	14	50

**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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