

**Quarterly Report**  
**September 30, 2016**  
**(Unaudited)**



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

Rated: **AM2++** by PACRA

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

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## FUND'S INFORMATION

<b>Management Company</b>	MCB-Arif Habib Savings and Investments Limited 24 <sup>th</sup> Floor, Centrepont, Off Shaheed-e-Millat Expressway, Near K.P.T. Interchange, Karachi.	
<b>Board of Directors</b>	Mian Muhammad Mansha Mr. Nasim Beg Mr. Muhammad Saqib Saleem Dr. Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman Vice Chairman Chief Executive Officer Director Director Director Director Director
<b>Audit Committee</b>	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Nasim Beg	Chairman Member Member Member
<b>Human Resource &amp; Remuneration Committee</b>	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir	Chairman Member Member Member
<b>Chief Executive Officer</b>	Mr. Muhammad Saqib Saleem	
<b>Chief Financial Officer</b>	Mr. Muhammad Asif Mehdi	
<b>Company Secretary</b>	Mr. Abdul Basit	
<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 Habib Bank Limited United Bank Limited Meezan Bank Limited Dubai Islamic Bank Pakistan Limited Askari Bank Limited Bank Al-Habib Limited Bank Islami Pakistan Limited	
<b>Auditors</b>	A.F. Ferguson & Co. Chartered Accountants (A Member Firm of PWC Network) State Life Building 1-C I.I. Chundrigar Road, Karachi.	
<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 24 <sup>th</sup> Floor, Centrepont, Off Shaheed-e-Millat Expressway, Near K.P.T. Interchange, Karachi.	
<b>Rating</b>	AM2 ++ Asset Manager Rating assigned by PACRA	

# REPORT OF THE DIRECTORS OF MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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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 quarter ended September 30th, 2016.

## ECONOMY AND MONEY MARKET OVERVIEW

The fiscal year kicked off on a positive note with most of major macroeconomic indicators showing signs of stabilization. Inflation as measured by CPI averaged at 3.9% for 1QFY17 compared to 3.5% witnessed during the preceding quarter. Government decision to maintain petroleum prices helped to contain the inflation in low single digits. Alongside, government's renewed focus towards agricultural sector also assisted in controlling food inflation.

Monetary Policy Committee ("MPC") in its first meeting of the current fiscal year maintained a status quo stance, keeping the discount rate at 5.75%. The MPC highlighted encouraging macroeconomic environment supported by record high foreign exchange reserves behind its decision. However, it raised certain red flags on widening of current account deficit owing to declining exports and rising imports.

Current account ("CA") balance witnessed a deficit of USD 1,316 million in the 2MFY17 compared to USD 686 million witnessed during the same period of last year, on the back of rising imports and falling exports. Alongside, remittances came under pressure as they fell by 5.4% YoY to USD 4.7 billion during the 1QFY17. The slowdown in remittances was inevitable owing to a weak global GDP growth along with poor economic dynamics of gulf economies where most of the Pakistani expatriates are employed. Nevertheless, the hit on current account did not affect foreign exchange reserves as strong financial inflows especially CPEC led inflows, managed to offset the impact of weakening current account. Foreign Exchange Reserves increased by USD 500 million during the quarter, to USD 23.6 billion.

PIB yields during the quarter inched up by ~30 bps for 3 year, 5 year and 10 year bonds. Inflation beat the market expectations during most of the months causing the yield curve to shift upwards. Furthermore, the bearish sentiment was also backed by SBP in its MPS, which highlighted its concerns on external account as exports dwindled, while remittances witnessed a slowdown.

## FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 4.5% as against its benchmark return of 3.63%, registering out performance of 0.87% during the period.

During the period, the fund had been decreasing its exposure in GoP Ijarah Sukuk, which stood at around 47.1% at period-end. The fund was 10.4% invested in Corporate Sukuk while most of the remaining exposure was in cash and bank deposits at relatively attractive rates.

The Net Assets of the Fund as at September 30, 2016 stood at Rs. 1025 million as compared to Rs.968 million as at June 30, 2016 registering an increase of 5.88%.

The Net Asset Value (NAV) per unit as at September 30, 2016 was Rs. 101.8097 as compared to opening NAV of Rs. 100.6677 per unit as at June 30, 2016 registering an increase of Rs.1.142 per unit.

## FUTURE OUTLOOK

With a more stabilized economy now on board, the government has unveiled an ambitious plan to revive the growth of the country. For the current fiscal year, the government is envisaging an ambitious growth target of 5.7% compared to 4.7% witnessed during the preceding year. The prospects of improvement in Pakistan's economy look increasingly promising on the back of improved power situation, rising business confidence, and initiation of projects under the USD 46 billion CPEC program.

The average Consumer Price Index is expected to remain below 5% for the year. Stability in oil prices & exchange rate would allow inflation over the next few quarters to remain well anchored in the range of 4.0%-5.0% thus a stable monetary policy environment looks likely.

As of recent, current account has remained vulnerable owing to weak exports and a slowdown in remittances. While this has been offset by strong financial inflows recently, further deterioration in external account can pose threat to the currency and could result in more than expected PKR depreciation, which we consider the only major risk to economy at this juncture of time.

## REPORT OF THE DIRECTORS OF MANAGEMENT COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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The macro stability along with China Pakistan Economic Corridor is expected to provide impetus to the construction and power space. Furthermore, expansionary cycle along with stable interest rate environment is expected to provide better global positioning compared with other emerging market economies. Construction sector is expected to remain the proxy for infrastructure led economic growth.

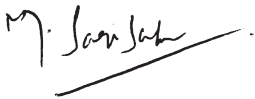
Long term stability in oil prices is expected to provide impetus to exploration & production sector driven by exploration growth. Banks are expected to gain limelight once life after PIB maturity becomes clear and focus is on the attractive Price to Book ratios. The up gradation into the emerging markets index would remain a major impetus for KSE-100 index and could lead to re-rating of market towards higher multiples.

On the fixed income front, market is expected to remain cautious on back of uptick in inflation trajectory and cross border tensions. Visibility on economic front, in particular to balance of payments, would guide further participation towards fixed income markets.

### 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,



**Muhammad Saqib Saleem**  
Chief Executive Officer  
October 21, 2016



بورڈ آف ڈائریکٹرز کی جانب سے 30 ستمبر 2016ء کو اختتام پذیر ہونے والی مدت کے لئے ایم سی بی اسلامک انکم فنڈ کے اکاؤنٹس کا جائزہ پیش خدمت ہے۔

### معیشت اور بازار زر کا جائزہ

مالی سال کا آغاز خوش آئند تھا اور کلاں معیشت کی نشاندہی کرنے والے اہم عوامل استحکام کی علامات ظاہر کر رہے تھے۔ CPI کی پیمائش کردہ افراط زر کا اوسط مالی سال 2017ء کی پہلی سہ ماہی میں 3.9% تھا، جبکہ گزشتہ سہ ماہی میں 3.5% تھا۔ پٹرولیم کی قیمتوں کو مستحکم رکھنے کے حکومتی فیصلے سے بھی افراط زر کے اعداد و شمار پست رکھنے میں معاونت حاصل ہوئی۔ مزید برآں، زراعت کے شعبے کی طرف حکومت کی تازہ توجہ کی بدولت اشیائے خورد و نوش کے افراط زر کو قابو میں رکھنے میں مدد ملی۔

مانیٹری پالیسی کمیٹی (MPC) نے رواں مالی سال کے پہلے اجلاس میں ڈسکاؤنٹ کی شرح کو 5.75% کی سطح پر قائم رکھ کر اپنا سابقہ موقف برقرار رکھا۔ MPC نے کلاں معاشیات کے حوصلہ افزا ماحول اور غیر ملکی زرمبادلہ کے ذخائر کی اب تک کی بلند ترین سطح کو اپنے فیصلے کے خصوصی اسباب قرار دیا، تاہم برآمدات میں کمی اور درآمدات میں اضافے کو خطرے کی گھنٹی قرار دیا۔

کرنٹ اکاؤنٹ (CA) میں مالی سال 2017ء کے (2M) میں 1,316 ملین ڈالر خسارہ ہوا، جبکہ گزشتہ سال اسی مدت کے دوران 686 ملین ڈالر خسارہ ہوا تھا، اور اس کی وجہ درآمدات میں اضافہ اور برآمدات میں کمی ہے۔ مزید برآں، ترسیلات زر پر دباؤ پڑا؛ مالی سال 2017ء کی پہلی سہ ماہی کے دوران ترسیلات زر میں 5.4% YoY کمی ہوئی اور یہ 4.7 بلین ڈالر کی سطح پر آگئیں۔ عالمی سطح پر مجموعی ملکی پیداوار (GDP) کی نجیف ترقی اور خلیجی معاشیات، جہاں بیرون ملک مقیم پاکستانیوں کی اکثریت برسرِ روزگار ہے، کے ناتواں محرکات کی وجہ سے ترسیلات زر میں یہ سُست روی ناگزیر تھی۔ لیکن کرنٹ اکاؤنٹ پر اس ضرب سے غیر ملکی زرمبادلہ کے ذخائر متاثر نہیں ہوئے کیونکہ مضبوط مالیاتی آمدیات، بالخصوص CPEC پر مبنی مالیات، کی بدولت کمزور ہوتے ہوئے کرنٹ اکاؤنٹ کے اثر کو زائل کر دیا۔ غیر ملکی زرمبادلہ کے ذخائر دورانِ سہ ماہی 500 ملین ڈالر اضافے کے ساتھ 23.6 بلین ڈالر کی سطح تک پہنچ گئے۔

پاکستان انویسٹمنٹ بانڈز (PIB) کے 3 سالہ، 5 سالہ اور 10 سالہ بانڈز کی آمدنی میں دورانِ سہ ماہی 30 bps اضافہ ہوا۔ افراط زر کے سبب اکثر مہینوں کے دوران مارکیٹ کی توقعات پوری نہیں ہو سکیں، چنانچہ ختم پیداوار اوپر کی طرف حرکت کر گیا۔ مزید برآں، اسٹیٹ بینک آف پاکستان نے بھی اس غیر ہموار صورتحال کی توثیق کی اور اپنے MPS میں برآمدات میں کمی اور ترسیلات زر میں سُستی کے باعث خارجی اکاؤنٹ پر خدشات کا اظہار کیا۔

## فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ نے 4.5% منافع حاصل کیا، بالمقابل مقررہ معیار 3.63% کے، یعنی دورانِ مدت 0.87% اضافہ ہوا۔

دورانِ مدت فنڈ حکومتِ پاکستان کے اجارہ سٹک میں اپنی شمولیت کو کم کرتا رہا، اور اختتامِ مدت پر یہ شمولیت 47.1% کی سطح پر تھی۔ فنڈ کی سرمایہ کاری 10.4% کارپوریٹ سٹک میں تھی، جبکہ بقیہ کے اکثر حصے کی سرمایہ کاری نقد میں اور نسبتاً پُرکشش شرحوں پر بینک ڈپازٹس میں تھی۔

30 ستمبر 2016ء کو فنڈ کے net اثاثے 1,025 ملین روپے تھے، جبکہ 30 جون 2016ء کو 968 ملین روپے تھے، یعنی 5.88% اضافہ ہوا۔

30 ستمبر 2016ء کو Net Asset Value (NAV) فی یونٹ 101.8097 روپے تھی جبکہ 30 جون 2016ء کو 100.6677 روپے فی یونٹ تھی، یعنی 1.142 روپے فی یونٹ اضافہ ہوا۔

## مستقبل کی صورتحال

معیشت کی صورتحال پہلے کے مقابلے میں مستحکم ہونے پر حکومت نے ملکی ترقی کے احیاء کا پُر جوش منصوبہ ظاہر کیا ہے۔ رواں مالی سال کے لئے حکومت نے 5.7% ترقی کا ہدف مقرر کیا ہے جبکہ گزشتہ برس یہ ہدف 4.7% تھا۔ پاکستانی معیشت میں بہتری کے امکانات بہت اُمید افزا نظر آتے ہیں جس کی بناءً بجلی کی بہتر صورتحال، کاروباری اعتماد میں اضافہ اور 46 بلین ڈالر کے CPEC پروگرام کے تحت پراجیکٹس کا آغاز ہے۔

کنزومر پرائس انڈیکس کے اوسط کے اس سال 5% سے کم رہنے کا امکان ہے۔ تیل کی قیمتوں اور زرِ مبادلہ کی شرح میں استحکام کی بدولت افراطِ زر کو اگلی چند سہ ماہیوں میں 4.0% سے 5.0% کے درمیان قابو میں رکھنے میں مدد ملے گی۔ چنانچہ مانیٹری پالیسی کے لئے ایک مستحکم ماحول کی اُمید کی جاسکتی ہے۔

فی الوقت کرنٹ اکاؤنٹ کو نحیف برآمدات اور سست ترسیلاتِ زر کے باعث خطرہ لاحق ہے، جو اگرچہ حالیہ ہی میں مضبوط مالی آمدات سے زائل ہو گیا ہے، لیکن اگر خارجی اکاؤنٹ میں مزید کمزوری ہوئی تو کرنی کو خطرہ لاحق ہو سکتا ہے اور اس کے نتیجے میں پاکستانی روپے کی قدر میں متوقع سے زیادہ کمی آئے گی، اور اسے ہم وقت کے اس موڑ پر معیشت کو لاحق واحد بڑا خطرہ سمجھتے ہیں۔

مجموعی استحکام اور اس کے ساتھ ساتھ چین پاکستان معاشی راہداری متوقع طور پر تعمیر اور بجلی کے شعبے میں تیزی لائیں گے۔ علاوہ ازیں، توسیعی چکر اور اس کے ساتھ ساتھ انٹریسٹ کی شرح کے مستحکم ماحول سے دیگر ابھرتی ہوئی مارکیٹ کی معیشتوں کے مقابلے میں عالمی سطح پر



بہتر درجہ بندی متوقع ہے۔ تعمیر کا شعبہ متوقع طور پر انفراسٹرکچر پر مبنی معاشی ترقی کے متبادل بنا رہے گا۔  
تیل کی قیمتوں میں طویل المیعاد استحکام متوقع طور پر ایکسپلوریشن اور پیداوار کے شعبے کو ایکسپلوریشن میں ترقی کے ذریعے تحریک فراہم کرے گا۔ بینک متوقع طور پر پاکستان انویسٹمنٹ بانڈز (PIBs) کی maturity واضح ہونے کے بعد منظر عام پر آئیں گے، اور پُرکشش Price to Book ratios پر سب کی توجہ مرکوز ہے۔ اُبھرتی ہوئی مارکیٹس میں پاکستان کی دوبارہ درجہ بندی سے غیر ملکی آمدات کے لئے KSE-100 انڈیکس میں تیزی آسکتی ہے اور مارکیٹ کی شرح کے دوبارہ تعین اور اس میں اضافے کی راہ ہموار ہوگی۔  
مقررہ آمدنی کے میدان میں مارکیٹ متوقع طور پر افراط زر میں اضافے اور سرحدوں پر کشیدگی کے باعث محتاط رہے گی۔ معاشی میدان میں، خاص طور پر ادائیگیوں کے توازن کے حوالے سے، واضح صورتحال سے مقررہ آمدنی کی مارکیٹوں میں مزید شرکت کی طرف راہنمائی حاصل ہوگی۔

### اظہارِ تشکر

بورڈ فنڈ کے گراں قدر سرمایہ کاروں، سکیورٹیز اینڈ ایپینج کمیشن آف پاکستان اور فنڈ کے Trustees کی مسلسل معاونت اور پشت پناہی کے لئے شکر گزار ہے۔ علاوہ ازیں، ڈائریکٹرز مینجمنٹ ٹیم کی کوششوں کو بھی خراج تحسین پیش کرتے ہیں۔

من جانب ڈائریکٹرز

محمد ثاقب سلیم

محمد ثاقب سلیم

چیف ایگزیکٹو آفیسر

21 اکتوبر 2016ء

# CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT 30 SEPTEMBER 2016

	Note	(Unaudited) September 30 2016 (Rupees in '000)	(Audited) June 30 2016
<b>Assets</b>			
Balances with banks	5	338,298	270,361
Investments	6	708,456	720,660
Income and profit receivable		9,843	6,276
Deposit and prepayments		209	237
<b>Total assets</b>		<b>1,056,806</b>	997,534
<b>Liabilities</b>			
Payable to Management Company		694	640
Payable to Central Depository Company of Pakistan Limited - Trustee		160	152
Payable to Securities and Exchange Commission of Pakistan - annual fee		190	837
Accrued expenses and other liabilities	7	31,031	27,800
<b>Total liabilities</b>		<b>32,075</b>	29,429
<b>Net assets</b>		<b>1,024,731</b>	968,105
<b>Unit holders' fund (as per statement attached)</b>		<b>1,024,731</b>	968,105
<b>Contingencies and commitments</b>	11		
		(Number of units)	
<b>Number of units in issue</b>		<b>10,065,168</b>	9,616,837
		(Rupees)	
<b>Net assets value per unit</b>		<b>101.8097</b>	100.6677

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

# CONDENSED INTERIM INCOME STATEMENT (UNAUDITED)

## FOR THE QUARTER ENDED 30 SEPTEMBER 2016

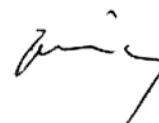
	Note	September 30 2016	September 30 2015
		(Rupees in '000)	(Rupees in '000)
<b>Income</b>			
Capital Gain on sale of investment - net		59	603
Income from government securities		6,058	11,640
Income from unlisted debt securities - term finance certificates		1,983	2,334
Profit on bank deposits		5,293	7,536
Back end load		2	-
Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'		1,128	(1,160)
<b>Total income</b>		<b>14,522</b>	<b>20,953</b>
<b>Expenses</b>			
Remuneration of Management Company		1,452	2,178
Sales tax and federal excise duty on remuneration of Management Company		189	702
Remuneration of Central Depository Company of Pakistan Limited - Trustee		429	548
Sindh Sales tax on remuneration of trustee		56	-
Annual fee - Securities and Exchange Commission of Pakistan		190	235
Amortisation of preliminary expenses and floatation costs		-	50
Auditors' remuneration		163	171
Settlement and bank charges		63	27
Fees and subscription		83	73
Shariah advisory fee		225	-
Allocated expenses	9	287	-
Legal and professional charges		15	-
Printing and related charges		48	49
<b>Total expenses</b>		<b>3,198</b>	<b>4,033</b>
		<b>11,324</b>	<b>16,920</b>
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed:			
- arising from capital gain/ (loss) and unrealised gain / (loss)	3.4	19	(442)
- arising from other income / (loss)		61	(39)
		<b>80</b>	<b>(481)</b>
<b>Net income for the period before taxation</b>		<b>11,404</b>	<b>16,439</b>
Taxation	10	-	-
<b>Net income for the period after taxation</b>		<b>11,404</b>	<b>16,439</b>
<b>Earnings per unit</b>	12		

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE QUARTER ENDED 30 SEPTEMBER 2016**

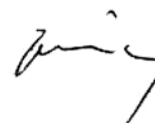
	September 30	September 30
	2016	2015
	----- (Rupees in '000) -----	
Net income for the year after taxation	11,404	16,439
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to income statement</i>		
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'	90	-
<b>Total comprehensive income for the year</b>	<b>11,494</b>	<b>16,439</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)**  
**FOR THE QUARTER ENDED 30 SEPTEMBER 2016**

	September 30	September 30
	2016	2015
	----- (Rupees in '000) -----	
Undistributed income brought forward	6,828	2,919
Net income for the period	11,404	16,439
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - transferred to Distribution Statement	299	(111)
<b>Undistributed income carried forward</b>	<b>18,531</b>	<b>19,247</b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director



**CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UNAUDITED)  
FOR THE QUARTER ENDED 30 SEPTEMBER 2016**

	September 30	September 30
	2016	2015
	----- (Rupees in '000) -----	
Net assets at the beginning of the period	968,105	1,261,060
Issue of 1,795,582 units (2014: 1,252,137 units)	<b>181,620</b>	113,247
Redemption of 1,347,251 units (2014: 1,824,136 units)	<b>(136,407)</b>	(171,041)
	<b>45,213</b>	(57,793)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- Amount representing (income) / loss and realised capital (gains) / losses transferred to the income statement:		
- arising from capital (loss) / gain and unrealised (loss) / gain	(19)	442
- arising from other income	(61)	39
- Amount representing unrealised capital (gains) / losses - transferred to the Distribution Statement	<b>(299)</b>	111
	<b>(379)</b>	592
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to Distribution Statement	<b>299</b>	(111)
Net income for the period (excluding net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss' and capital loss on sale of investments)	<b>10,217</b>	16,996
Capital gain on sale of investments	<b>59</b>	603
Net unrealised appreciation / (diminution) in value of investments classified as 'at fair value through profit or loss'	<b>1,128</b>	(1,160)
	<b>11,404</b>	16,439
Net unrealised appreciation on re-measurement of investments classified as 'available-for-sale'	<b>90</b>	-
Net assets as at the end of the period	<b><u>1,024,731</u></b>	<b><u>1,220,187</u></b>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



**Chief Executive Officer**

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



**Director**

# CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

## FOR THE QUARTER ENDED 30 SEPTEMBER 2016

	September 30	September 30
	2016	2015
	----- (Rupees in '000) -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period before taxation	11,404	16,439
<i>Adjustments for non-cash charges and other items:</i>		
Net unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(1,128)	1,160
Amortisation of preliminary expenses and floatation costs	-	50
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed:		
- arising from capital (loss) / gain and unrealised (loss) / gain	(19)	442
- arising from other income	(61)	39
	(80)	481
Provision for Workers' Welfare Fund	-	-
	10,196	18,130
<b>Decrease / (increase) in assets</b>		
Investments	13,422	(52,805)
Advance against subscription of Corporate Sukuk	-	-
Income and profit receivable	(3,567)	12,284
Deposit and prepayments	28	33
	9,883	(40,489)
<b>Increase / (decrease) in liabilities</b>		
Payable to Management Company	54	(270)
Payable to the Central Depository Company of Pakistan Limited - Trustee	8	24
Payable to Securities and Exchange Commission of Pakistan - Annual fee	(647)	(963)
Dividend payable	-	-
Accrued expenses and other liabilities	3,231	(4,368)
	2,646	(5,576)
<b>Net cash generated / (used in) from operating activities</b>	22,724	(27,935)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from issuance of units	181,620	113,247
Payments on redemption of units	(136,407)	(171,041)
<b>Net cash generated / (used in) financing activities</b>	45,213	(57,793)
Net increase / (decrease) in cash and cash equivalents during the period	67,937	(85,728)
Cash and cash equivalents at beginning of the period	270,361	517,006
<b>Cash and cash equivalents at end of the period</b>	338,298	431,278

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive Officer

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



Director

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2016

## 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 currently situated at 24th Floor, Centre Point, Off. Shaheed-e-Millat Expressway, near KPT interchange, Karachi, Pakistan.

Pursuant to the merger of MCB-Asset Management Company and Arif Habib Investments Limited, the name of the Management Company (Arif Habib Investments Limited being the surviving entity) has been changed from Arif Habib Investments Limited to MCB-Arif Habib Savings and Investments Limited.

The Fund is an open-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 Pakistan Stock Exchange limited (formerly listed on 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 categorised 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++ dated June 08, 2016 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

**2.1.1** This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 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 NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). In case where requirements differ, the provisions of / or directives issued under the Companies Ordinance, 1984, the NBFC Rules and the NBFC Regulations have been followed.

**2.1.2** 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 2016.

**2.1.3** The comparatives in the condensed interim statement of assets and liabilities presented in the condensed interim financial information as at 30 September 2016 have been extracted from the audited financial statements of the Fund for the year ended 30 June 2016, 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.

**2.1.4** The directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the Fund.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2016

**2.1.5** This condensed interim financial information is unaudited and is presented in Pak Rupees, which is the functional and presentation currency of the Fund and has been rounded off to the nearest thousand rupees.

## **3. SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND JUDGEMENTS**

**3.1** The accounting policies and methods of computation adopted in preparation of this financial information are same as those applied in preparation of financial statements of the Fund for the period ended June 30, 2016.

**3.2** 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.

**3.3** In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2016.

**3.4** The element of income arising on issuance and redemption of units is bifurcated into portion attributable to capital gain / losses (realised and unrealised) and other income appearing in book of accounts of the Fund.

## **4. 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 2016.

## **5. BALANCES WITH BANKS**

	(Unaudited) 30 September 2016	(Audited) 30 June 2016
	(Rupees in '000)	
Balances with bank		
- Current account	5,889	186,120
- Savings account	332,409	84,241
	<u>338,298</u>	<u>270,361</u>

## **6. INVESTMENTS**

### **'At fair value through profit and loss'-held for trading**

Government securities	6.1	448,624	558,065
Unlisted debt securities - term finance certificates	6.2	110,262	113,115
		558,886	671,180

### **Loans and receivables**

Term Deposit Receipts	6.3	100,000	-
		658,886	671,180

### **'At fair value through profit or loss' - available for sale**

Government securities	6.4	49,570	49,480
		708,456	720,660

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

**6.1 Government securities - Government of Pakistan Ijara Sukuk**

Issue date	Profit rate (%)	Tenor	Face value			(Rupees in '000)			Balance as at 30 September 2016		Market value as a percentage of net assets	Market value as a percentage of total investments
			As at 1 July 2016	Purchased during the period	Disposed / matured during the period	As at 30 September 2016	Carrying value	Market value	Appreciation / (diminution)			
<i>Government of Pakistan</i>												
<i>Ijara Sukuk</i>												
18 December 2015	5.46%	3 years	212,500	-	109,500	103,000	103,814	104,112	299	10.16	14.70	
25 June 2014	3.89%	3 years	347,500	-	-	347,500	343,886	344,512	626	33.62	48.63	
29 March 2016	5.59%	3 years		110,000	110,000	-						
30 September 2016							447,700	448,624	924			
30 June 2016							559,080	558,065	(1,015)			

**6.2 Unlisted debt securities - term finance certificates**

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

Issue date	Profit rate (%)	Number of Certificates			(Rupees in '000)			Balance as at 30 September 2016		Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2016	Purchased during the period	Disposed / matured during the period	As at 30 September 2016	Carrying value	Market value	Appreciation/ (diminution)			
Engro Fertilizers Limited 30 September 2016	7.81%	23,600	-	-	23,600	110,058	110,262	204	10.76	15.56	
						110,058	110,262	204			
						113,107	113,115	9			
30 June 2016											

**6.3 Term Deposit Receipts - Loans and receivables**

Name of Financial institution	Profit / mark-up rate %	Maturity date	Amount (Rs. in '000)
Bank Islami Pakistan Limited	6.20%	November 24, 2016	100,000
<b>Total as at 30 September, 2016</b>			<b>100,000</b>
Total as at June 30, 2016			-

**6.4 Government securities - Government of Pakistan Ijara Sukuk - Available for sale**

Issue date	Profit rate (%)	Tenor	Face value			(Rupees in '000)			Market value as a percentage of net assets	Market value as a percentage of total investments
			As at 1 July 2016	Purchased during the period	Disposed / matured during the period	As at 30 September 2016	Carrying value	Market value / (diminution)		
<i>Government of Pakistan</i>										
<i>Ijara Sukuk</i>										
25 June 2014	3.89%	3 years	50,000			50,000	49,306	49,570	4.84	7.00
Total as at June 30, 2016							49,366	49,480		114



**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

<b>7. ACCRUED EXPENSES AND OTHER LIABILITIES</b>		<b>(Unaudited) September 30 2016</b>	<b>(Audited) 30 June 2016</b>
Federal excise duty payable and other related taxes on management fee	7.1	<b>8,639</b>	8,639
Federal excise duty payable and other related taxes on sales load	7.1	<b>3,028</b>	3,028
Provision for Workers' Welfare Fund	7.2	<b>11,490</b>	11,490
Zakat payable		<b>403</b>	403
Auditors' remuneration		<b>158</b>	449
Printing charges payable		<b>163</b>	115
Capital gain tax payable		<b>103</b>	287
Withholding tax payable on dividend		<b>-</b>	3,222
Payable Against redemption of units		<b>6,815</b>	-
Others		<b>230</b>	167
		<b>31,031</b>	<b>27,800</b>

- 7.1** The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from June 13, 2013. As the asset management services rendered by the Management Company of the Fund are already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company is of the view that further levy of FED was not justified.

On September 4, 2013, a constitutional petition was filed in Honorable Sindh High Court (SHC) jointly by various asset management companies, together with their representative Collective Investment Schemes through their trustee, challenging the levy of FED.

The Sindh High Court in its decision dated July 16, 2016 maintained the previous order on the FED. The management is however of the view that since the Federal government still has the right to appeal against the order, the previous balance of FED can not be reversed.

Further, the Federal Government vide Finance Act 2016 has excluded asset management companies and other non banking finance companies from charge of FED on their services .

In view of the pending decision and as a matter of abundant caution, the Management Company of the Fund has made a provision for FED in the books of accounts of the Fund with effect from June 13, 2013 to June 30, 2016 aggregating to Rs. 11.7 million (2016: Rs. 11.7 million).

- 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 the 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.

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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

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.

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

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, 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. Management Company, as a matter of abundant precaution, has decided to retain the provision for WWF amounting to Rs. 11.490 million in these financial statements pertaining to period 1 July 2011 to 30 June 2015 and have not recognised any further provision there against. During the quarter ended 30 September 2016 the Fund charged Rs. Nil on account of WWF. Had the said provision of WWF not been recorded in the books of account of the Fund, the Net Asset Value (NAV) of the Fund would have been higher by Rs. 1.14 per unit as at 30 September 2016.

### 8 TOTAL EXPENSE RATIO

The Total Expense Ratio (TER) of the fund including government levies as on September 30, 2016 is 0.32%. Total expense for the period includes 0.05% representing Government levies.

### 9 ALLOCATED EXPENSES

In the current period a statutory notification (S.R.O. No 1160 (1) /2015 dated 25 November 2015 was issued by the Securities and Exchange Commission of Pakistan (SECP), which introduced amendments in Non -Banking Finance Companies and Notified Entities Regulations, 2008. As a result of these amendments, the Management Company may charge fees and expenses related to registrar services, accounting, operations and valuation services related to Collective Investment Scheme (CIS) upto maximum of 0.1% of average annual net assets of the scheme. Accordingly, such expenses have been charged effective from 27 November 2015.

### 10 TAXATION

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account. 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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. The management intends to distribute at least 90% of the income earned during the year by the Fund to the unit holders. Accordingly, no provision has been made in this condensed interim financial statement.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

**11 CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments as at September 30, 2016 and June 30, 2016.

**12 EARNINGS PER UNIT**

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

**13 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES**

Related parties / connected persons of the Fund include the Management Company, its related entities, Central Depository Company of Pakistan Limited (being the Trustee of the Fund), other Funds managed by the Management Company and Directors, Key Management Personnel and Officers of the Management Company, and Unit Holders having more than 10% holding in the Fund.

Transactions with related parties / 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 Trustee is determined in accordance with the provisions of NBFC Regulations, 2008 and the Trust Deed respectively.

**13.1 Details of the transactions with connected**

persons / related parties are as follows:	September 30, 2016	September 30, 2015
	----- (Rupees in '000) -----	
<b>MCB-Arif Habib Savings and Investments limited - Management Company</b>		
Remuneration (including indirect taxes)	1,640	2,880
Allocated expenses (including indirect taxes)	287	-
Shariah advisory fee	225	-
<b>MCB Bank Limited</b>		
Profit on bank deposits	13	147
Bank Charges	13	7
Sale of Securities Face Value 50,000,000 (2015: Nil)		
quarter ended respectively	50,724	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration (including indirect taxes)	485	548
<b>Directors and Executives of the Management Company</b>		
Issue of 55,034 units (2015: 57,051 units)	5,585	5,763
Redemption of 33,357 units (2015: 60,631 units)	3,382	6,118
<b>Adamjee Life Assurance Company Limited* (Amaanat Fund)</b>		
Issue of 400,006 units (2015: 98,465 units)	40,500	10,000
Redemption of 59,021 units (2015: 219,527 units)	6,000	22,000

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

**13.2 Amounts outstanding as at period / year end:**

<b>(Unaudited)</b>	<b>(Audited)</b>
<b>September 30</b>	<b>June 30</b>
<b>2016</b>	<b>2016</b>
<b>(Rupees in '000)</b>	

**MCB Bank Limited**

Balance with bank

<u>7,868</u>	<u>185,341</u>
--------------	----------------

**MCB-Arif Habib Savings and Investments limited - Management Company**

Management fee payable

<u>443</u>	<u>376</u>
------------	------------

Sindh sales tax payable on management fee

<u>57</u>	<u>53</u>
-----------	-----------

Front-end load payable

<u>30</u>	<u>49</u>
-----------	-----------

Sindh sales tax payable on front end load

<u>4</u>	<u>7</u>
----------	----------

Allocated expenses payable

<u>84</u>	<u>79</u>
-----------	-----------

Shariah Advisory fee payable

<u>76</u>	<u>76</u>
-----------	-----------

**Central Depository Company of Pakistan Limited-Trustee**

Remuneration payable

<u>142</u>	<u>133</u>
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Sindh sales tax payable on trustee fee

<u>18</u>	<u>19</u>
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**Directors and executives of the Management Company**

Units held 65,851 units 30 September 2016 (June 2016: 44,175 units)

<u>6,704</u>	<u>4,447</u>
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**Adamjee Life Assurance Company Limited (Amaanat Fund)**

Units held: 1,224,974 as at 30 September 2016 (June 2016 883,989 units)

<u>124,714</u>	<u>88,989</u>
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**14 General**

- 14.1** Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and better presentation. The effect of rearrangement / reclassification is not considered to be material.
- 14.2** This condensed interim financial information has been authorised for issue in the meeting of the Board of Directors of the Management Company held on October 21, 2016.



**Chief Executive Officer**

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



**Director**

Please find us on



by typing: **MCB Arif Habib Savings**

## **MCB-Arif Habib Savings and Investments Limited**

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